FISCAL AND MONETARY POLICY OUTCOMES OF THE TREASURY SINGLE ACCOUNT POLICY IN NIGERIA

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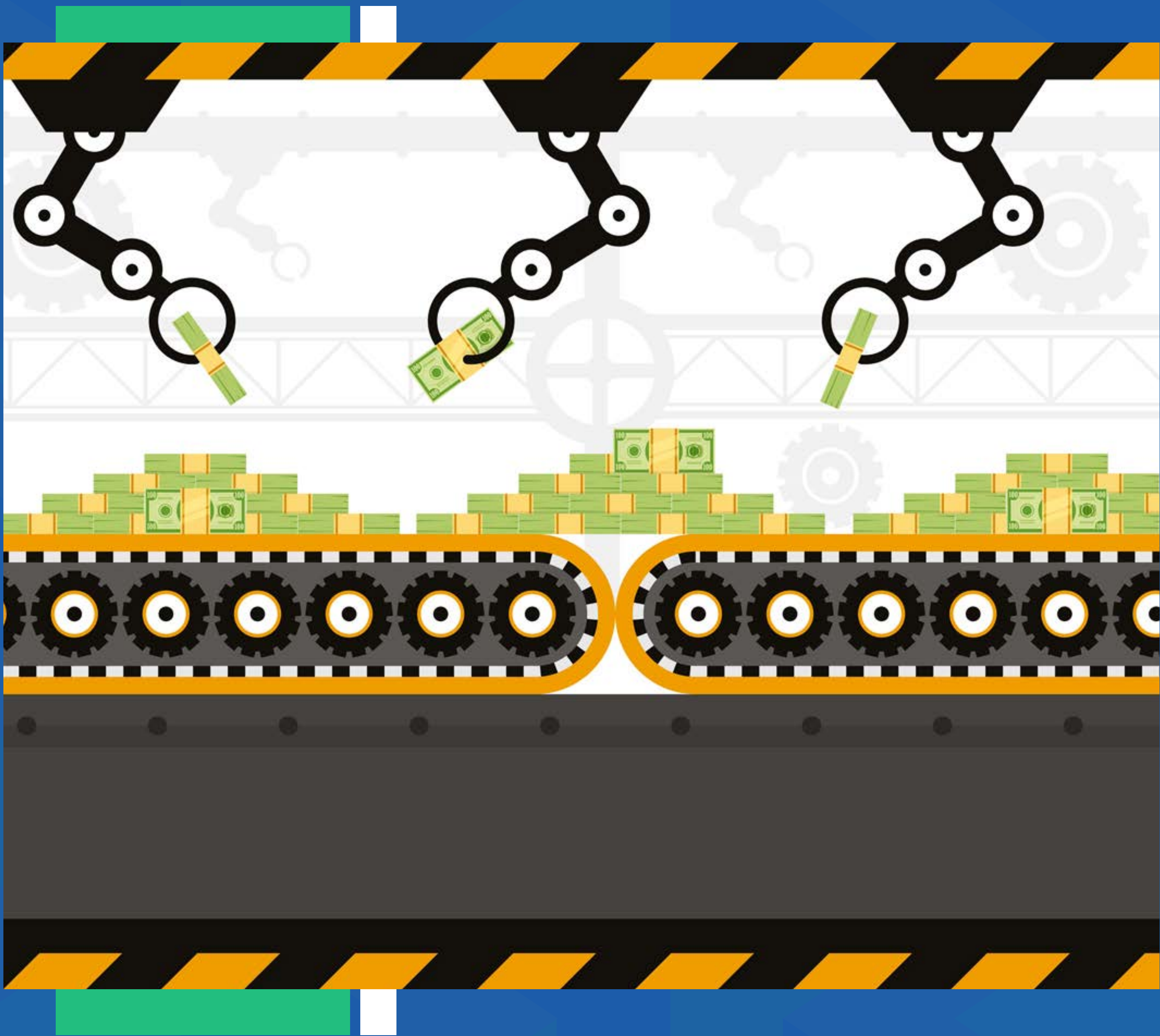


Abstract

The pervasive corruption and public fund mismanagement led to the introduction and implementation of Nigeria's Treasury Single Account (TSA) policy. This policy, however, has implications for macroeconomic performance. Hence, this study assessed the behaviour of selected monetary and fiscal policy indicators in the pre- and post-TSA implementation eras. Findings revealed that government revenue and expenditure increased post-TSA policy implementation. However, even though the TSA policy narrowed fiscal gaps, it failed to lower Nigeria's public debt. Saving and lending rates soared while government deposits in deposit money banks (DMBs) plummeted post-TSA implementation. The TSA policy was not potent enough to curb corruption in Nigeria. Thus, the Nigerian government needs to deploy more stringent policies to curb corruption and diversify its revenue portfolio to sufficiently finance its burgeoning fiscal responsibilities.

Introduction

Effective fiscal policy administration and management of public funds are critical for fostering development agenda. One of the notable modern policies in this regard is the Treasury Single Account (TSA) policy, adopted by various developed and emerging economies. Nigeria introduced the TSA policy in 2012 but fully implemented it in 2015 (Effiong and Obun, 2020). The policy, which is one of the few policies blending the interplay of fiscal and monetary policies, is primarily aimed at effective control of government revenue and facilitation of better coordination with the monetary authorities. The pervasive corruption and mismanagement of public funds in Nigeria make the TSA policy implementation imperative. Before the implementation, government revenue kept in multiple deposit money banks (DMBs) accounts by government ministries, agencies and departments (MDAs) hamper transparency and effective public fund management. The TSA policy implementation mandates MDAs to make all payments into the Consolidated Revenue Account (CRA) kept with the Central Bank of Nigeria (CBN) in line with the provision of the Nigerian 1999 constitution (Oloba et al., 2017).

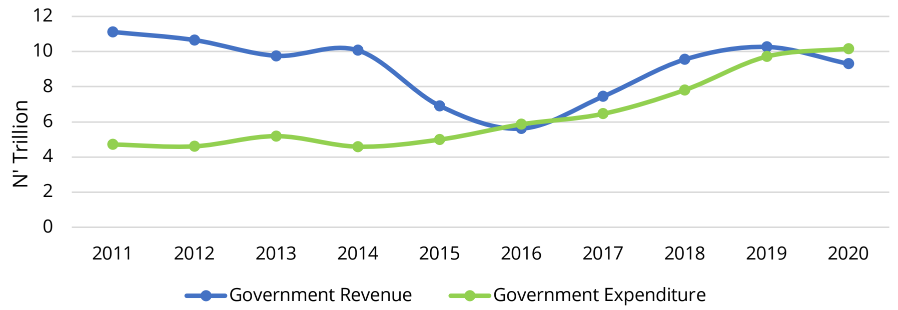
The implementation of TSA policy has implications for development imperatives in the country. It instigates financial resource reallocation as more financial resources move from the purview of DMBs to the CBN. A large chunk of public sector funds, totalling N3.4 trillion in 2015Q2 and constituting about 19.3 percent of total DMBs' deposits, was previously domiciled in DMBs (CBN, 2021). The TSA policy implementation led to a reduction in DMBs' liquidity while more funds were available to the CBN, the new custodian of the government's funds. This further empowered the CBN to manage monetary policy and make funds available to the government to finance its budget. A reduction in liquidity paralyses some traditional activities of DMBs and reduces their capacity to create credits, which could, in turn, lead to an increase in lending rate, a significant deterrent to investment borrowing (Oloko and Yusuf, 2021). This could crowd out private investment and limit employment prospects, which is capable of worsening welfare and stifling economic growth. On the other hand, this situation could increase saving rates to attract savers and augment the remaining financial resources left with DMBs after the withdrawal of government funds. Intuitively, the TSA policy simultaneously serves as a fiscal and monetary policy instrument.

Existing studies focused on the effect of TSA policy on government revenue, bank lending rate and economic growth, among others (Oloba et al., 2017; Ofurum et al., 2018; Effiong and Obun, 2020; Oloko and Yusuf, 2021), however, studies on its effect on macroeconomic performance are rare, including those conduced for Nigeria. Economic theories have shown that monetary and fiscal policies have diverse effects on growth imperatives and their multiplier effects on certain macroeconomic variables differ. Thus, this study contributes to the literature by assessing the behaviour of selected monetary and fiscal policy indicators in pre- and post-TSA implementation. This analysis is important to evaluate the efficacy of the TSA policy in fulfilling its intended purposes, and its outcome will inform policies geared towards ameliorating the current economic trajectory in Nigeria. It will also provide a basis for implementing future fiscal and monetary policies.

Nigeria's Fiscal and Debt Profile and the Role of TSA

Pre-TSA implementation, government revenue was high but dwindling in line with the oil price movement on the international market, given that Nigeria is an oil-dependent country. During this period, Nigeria experienced episodes of fiscal surplus even though the gap between government revenue and expenditure narrowed over time (see Figure 1). However, Nigeria recorded its first fiscal deficit of the decade one year after the TSA implementation and in 2020 due to the outbreak of COVID-19. In addition, fiscal gaps became narrower after implementing TSA as government expenditure soared while government revenue increased slightly but shrunk in 2020. The fall in government revenue in 2016 and its subsequent increase implies that TSA did not have an immediate impact on government revenue but contributed to revenue growth from 2017 onward. Overall, TSA implementation coincides with the period of reduction in fiscal gaps in Nigeria.

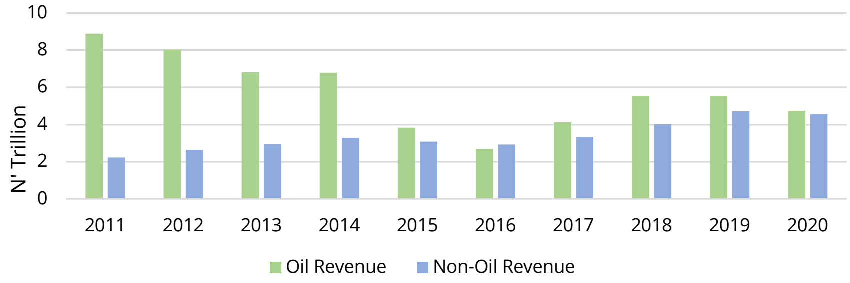
Figure 1: Nigeria's Fiscal Profile (Pre- and Post-TSA Era)



Source: Authors' Compilation from CBN Statistical Bulletin (2020)

The government revenue profile in Figure 2 shows that proceeds from crude-oil export were the Nigerian government's dominant revenue source, especially before implementing TSA (see Figure 2). However, non-oil revenue toppled oil revenue in 2016, a year after TSA implementation, although oil revenue dominated again afterwards but below its level in the pre-TSA implementation era. It is noteworthy that oil revenue was higher in the pre-TSA implementation era than in its post-implementation period, while non-oil revenue was greater in the post-TSA implementation era than in its pre-implementation era. On the whole, the gap between Nigeria's oil and non-oil revenue narrowed after TSA implementation.

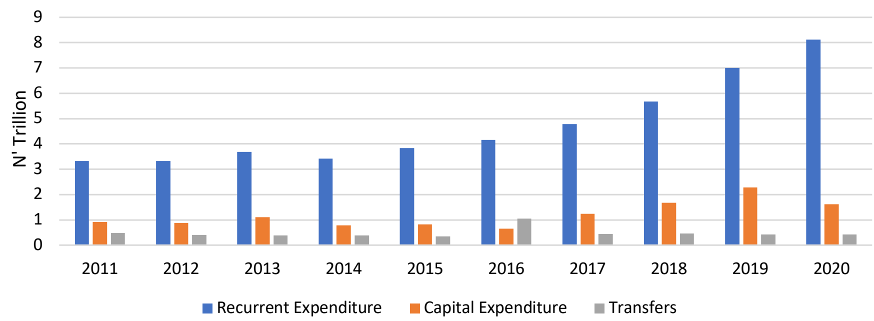
Figure 2: Component of Government Revenue in Nigeria (Pre- and Post-TSA Era)



Source: Authors' Compilation from CBN Statistical Bulletin (2020)

Regarding the composition of government expenditure in Nigeria, recurrent expenditure dominates capital expenditure throughout the period under consideration (see Figure 3). This explains Nigeria's pervasive infrastructural deficits and low economic competitiveness as the share of capital expenditure in total government expenditure is low. While recurrent expenditure grew markedly throughout the review period except in 2014, capital expenditure fluctuated during the period. Nonetheless, both capital and recurrent expenditure maintained an upwards trend in the post-TSA implementation era, except in 2020, when capital expenditure plummeted due to the disruptions caused by COVID-19.

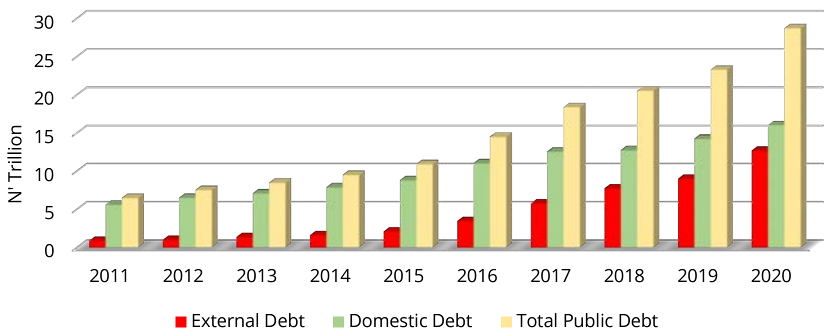
Figure 3: Component of Government Expenditure in Nigeria (Pre- and Post-TSA Era)



Source: Authors' Compilation from CBN Statistical Bulletin (2020)

Nigeria borrows from domestic and external creditors to augment its revenue and finance budget deficits (Ogunjimi, 2019). Figure 4 shows that domestic debt dominates Nigeria's debt profile as Nigeria borrows more from domestic creditors than external creditors. This has implications for domestic resource mobilization and investment as it could mop up domestic resources and crowd-out private investment. It is noteworthy that both domestic and external debts rose continuously during the period under consideration, implying that Nigeria's total debt had an upward trend throughout the review period. This suggests that despite the quest to increase government revenue through operating a consolidated revenue account under the TSA policy, Nigeria's revenue falls short of the economy's financial need; hence, the government constantly resort to domestic and external borrowing. More so, the implementation of the TSA policy is expected to reduce government borrowing, translating to the reduction of the costs incurred in servicing debt. However, the growing spate of public debts suggests that the TSA policy has not performed up to expectation with respect to this quest. Overall, even though the TSA policy narrowed fiscal gaps, it failed to lower Nigeria's public debt.

Figure 4: Nigeria's Debt Profile (Pre- and Post-TSA Era)

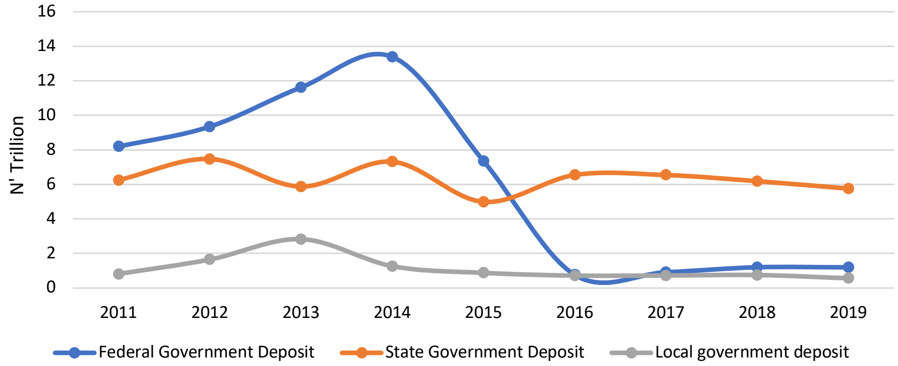


Source: Authors' Compilation from CBN Statistical Bulletin (2020)

Profile of Selected Nigeria's Monetary Variables and the Role of TSA

Before the TSA policy implementation, federal, state and local governments operate multiple deposit accounts with DMBs. The share of deposits among these three tiers of government corresponds to their sizes. However, the TSA policy implementation led to the withdrawal of government deposits from DMBs. Figure 5 shows that governments' deposits in DMBs grew steadily pre-TSA implementation, with the federal government deposits outstripping both the state and local governments' deposits. However, federal government deposits reduced drastically after the TSA policy implementation. However, a similar pattern was observed for local government deposits at a less-pronounced level. However, state government deposits witnessed a slight increase post-TSA policy implementation, and the growth stagnated for the first two years, after which it dwindled in 2018 and 2019. This implies that the policy implementation had an instantaneous effect on federal government deposits but not state government deposits. In sum, deposits in DMBs nosedived drastically as a result of TSA implementation, and this has implications for private investment and economic growth.

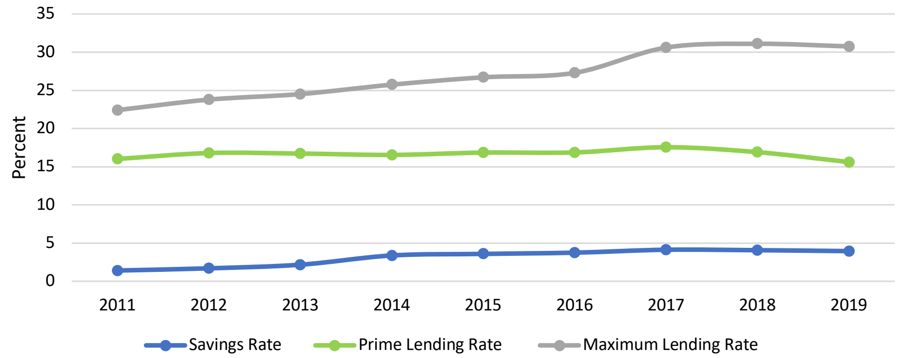
Figure 5: Government Deposits in DMBs (Pre- and Post-TSA Era)



Source: Authors' Compilation from CBN Statistical Bulletin (2020)

The pattern of savings and lending rates illustrated in Figure 6 shows that pre-TSA policy implementation, the savings rate was growing steadily. Still, it increased slightly in 2015 (the year of the policy implementation), and the increment was sustained afterwards. This indicates that one of the responses of DMBs to their low liquidity was to raise the saving rate to incentivize savers and attenuate the impact of government deposits withdrawal on DMBs. This becomes necessary to fill the substantial financial void created by the withdrawal of government deposits. On the other hand, the lending rates, particularly the maximum lending rate, which is the cost of borrowing, soared in the post-TSA policy implementation era. The prime lending rate also slightly increased in the post-TSA implementation period. This signals the quest of DMBs to close the exacerbated saving-investment gaps resulting from TSA implementation. Overall, TSA policy implementation engendered an increase in the savings rate and lending rates in Nigeria.

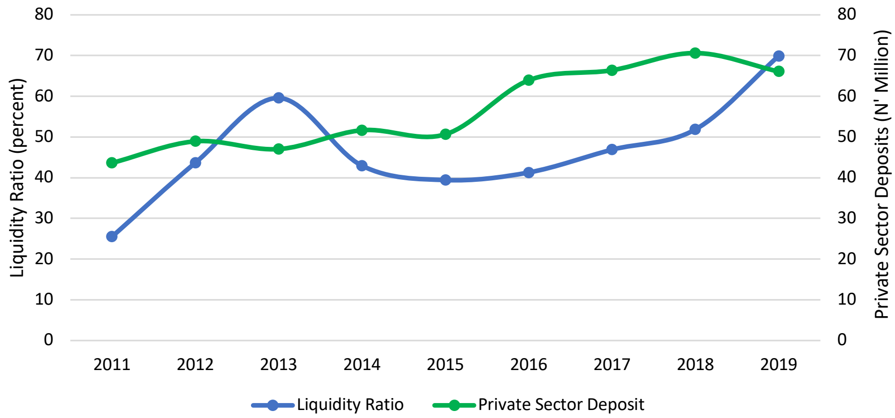
Figure 6: Savings and Lending Rates in Nigeria (Pre- and Post-TSA Era)



Source: Authors' Compilation from CBN Statistical Bulletin (2020)

Figure 7 shows that the bank's liquidity ratio grew steadily pre-TSA policy implementation, except in 2014 when it reduced sharply. It declined further in 2015, the year of TSA implementation, but grew afterwards. The increase in liquidity ratio could be partly attributed to the rise in private sector deposits in DMBs during this period, which may have been orchestrated by the strategies adopted by DMBs (such as an increase in saving rate) to cushion the shock of government deposit withdrawal. It is important to note that the liquidity ratio peaked in 2019, exceeding its initial values in the pre-TSA policy implementation era and indicating that the strategies of the DMBs yielded the expected outcome.

Figure 7: Bank Liquidity Ratio and Private Sector Deposits (Pre- and Post-TSA Era)



Source: Authors' Compilation from CBN Statistical Bulletin (2020)

One of the key objectives of the TSA policy was to simultaneously curb corruption and enhance transparency and accountability in public funds management in Nigeria. However, corruption remains pervasive in the post-TSA implementation era in Nigeria. According to Transparency International, an international organization that computes the global corruption perception index (CPI) annually, Nigeria's score on the CPI was 27 in 2012, ranking 139 out of 176 countries (see Table 1). However, Nigeria's score rose to 28 one year after the TSA implementation, ranking 136 out of 180 countries. It became worse as Nigeria ranked 148 and 149 out of 180 countries in 2017 and 2020, respectively. Overall, the corruption level in Nigeria is not significantly different in the pre- and post-TSA implementation era, suggesting that the policy has not lived up to the expectation of curbing corruption in Nigeria. This implies that the TSA policy implementation is either being sabotaged or there are other more dominant channels through which corruption is perpetrated in Nigeria.

Table 1: Nigeria's Performance on the Global Corruption Perception Index (Pre- and Post-TSA Era)

Year	Score	Ranking	Number of Countries surveyed
2012	27	139	176
2013	25	144	177
2014	27	136	175
2015	26	136	168
2016	28	136	176
2017	27	148	180
2018	27	144	180
2019	26	146	180
2020	25	149	180

Source: Authors' Compilation from Transparency International (various years)

Conclusion and Policy Recommendation

This study assessed the behaviour of selected monetary and fiscal policy indicators in the pre- and post-TSA implementation era. Findings revealed that the TSA policy implementation has tremendous implications for macroeconomic performance in Nigeria. The conclusion, therefore, is that the TSA lowered fiscal gaps and raised interbank rate. However, it is not potent enough to curb corruption in Nigeria. Based on this, the following recommendations are made to ameliorate the macroeconomic impact of the Nigerian TSA policy:

- To cushion the effects of government's deposits withdrawal on DMBs, measures should be put in place to attract private sector deposits in DMBs. This can be achieved through a further increase in the savings rate by the monetary authorities. This will stimulate investment and engender economic expansion.

- The inability of the TSA policy to attenuate corruption in Nigeria suggests the need to explore other channels through which corruption can be abated. The government should enforce more stringent policies to curb corruption in the economy, as the TSA policy alone is insufficient.

- Through the monetary authorities, the government can reduce the constraints on bank liquidity prompted by the implementation of the TSA policy by adopting counteractive measures such as the reduction of cash reserves ratio.

- Despite the increasing government revenue, the growing public debt signals the inadequacy of the government's revenue portfolio to finance the burgeoning fiscal responsibilities in Nigeria. Thus, it is expedient for the Nigerian government to expand its revenue portfolio through economic and export diversification.

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