Stabilisation Of An Economy In Recession:
The Role Of Taxation Stakeholders

Economic Recession – Taxation as a survival Roadmap

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Outline

- Introduction
- Causes and indicators of Nigeria's Recession
- Recession: A macroeconomic problem
- The Larger Pie Effect
- Taxation as a survival Roadmap

Introduction

- **What is a Recession?**
  - *'a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP).'*

- **Key Indicators**
  - Growth in GDP
  - Unemployment rate
  - Trade activities
  - Rate of Inflation
  - Balance of Trade
  - Shock Factor – creating unnecessary austerity

Historical Recessions

- Economic recessions date as far back as 1910 B.C in the Genesis account of Joseph in the Bible.
  - Joseph's **prediction** of impending recession and **savings programme** - as critical factors in preventing the ancient Egypt recession.
  - Lack of success in following simple ancient model in contemporary times

- Thirty different economic recessions in the twentieth Century; the most significant being the Great Depression of 1929.

Causes and Indicators of the Present Recession

- **The Global Drop in the Crude Oil Prices.**
  - Drop from US$83.50 per barrel in October 2014, US$47.43 in October 2016.
  - Accounts for significant contraction of government revenue, FX shortages and decline in GDP.
- **Import Driven Economy**
  - Trade deficits at 484 Billion Naira trade deficit by third quarter of 2016, from a NGN 197,188,000 surplus in 2015
  - Major contributor to forex market illiquidity.
- **Unemployment rate**
  - 1.7 million jobs lost to recession.
  - Unemployment rate up to 13.9% in the third quarter of 2016.
- **Inflation rate**
  - Inflation rate hit a fresh eleven-year high of 18.3%.

Recession: A Macroeconomic Problem?

- Economists measure macroeconomic indices.
  - High-level assessment leads to condensed account of the economy - not representative of the true state of the economy.
  - Indices – GDP, employment level, stock prices, currency strength, interest rates, and inflation rates may not reflect a comparable reality for individual sections of the economy.
  - For proper understanding, segregate sectoral components.

Advantages of Sectoral Analysis

- Sectoral analysis would proffer the following advantages:
    - Gives a clear indication with regard to which sectors of the economy is flourishing, developing or experiencing a decline.
    - Reveals the value and performance of each economic sector
    - Reveals the vulnerability (level of concentration) of the general economy (In our case the oil and gas sector)
    - Correctly identifies each fundamental issue which a given sector experiences;
    - Accounts for the comparative advantages which a given sector experiences (such as tax incentives) and assesses its utility.
    - Sectoral analysis should often tracked against national trends, since this may reveal whether, for example, a recession is a local phenomenon or a reflection of a wider trend experienced at the national level.

Baking a Larger Pie

- Temptation for countries to resort to increased taxation.
  - Posture of Nigerian revenue authorities – potential to discourage FDI/FPI
  - Potential to exacerbate problem and further contract economy
  - Government to instead pursue fiscal policies which stimulate aggregate demand – i.e. lower tax rates, tax breaks/waivers targeted at investments, income and export promotion tax incentives.

Taxation as a survival roadmap: Recommendations for Government

- Government has primarily responsibility to drive tax policy.
  - Government to carry out comprehensive assessment all existing tax incentives and their impact on economy. Review efficacy of incentives in driving additional FDI into the economy. Overhaul incentives which do not provide desired effect.
  - Government aggressive stance directed at developing oil industry stimulated significant growth. Growth experienced in:
    - Exploration activity: By 1992, nearly 1.2 million feet of wells had been drilled compared to about 500 thousand as at 1986.
    - Investments: Sharp rise in the five year contract period (1985 - 1990). Total seismic acquisition increased from 9,783 km in 1985 to 94, 036 km by 1990.
    - Growth in Oil Reserves – By the end of 1990, oil reserves had built up to 17.1 billion barrels from 15.36 billion barrels in 1984.

Taxation as a survival roadmap: Recommendations for Government

- Incentives need to be carefully designed to achieve a specific policy goal.
  - Pioneer status as a poorly targeted incentive.
  - Incentives are wrongly applied to counteract effect of government-created obstacles such as deficient infrastructure, regulatory compliance costs, political and social instability.
- Tax policy should be oriented to tax consumption (purchases) rather than savings (income). Government may also consider reducing tax rates on small local businesses.
- Increase capacity for enforcement at a broader tax base;
  - Address the ever increasing schemes for tax evasion.
- Incentivize large businesses for new investment in machinery, equipment and R&D.
- Eliminate bureaucracy in business

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