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FISCAL POLICY AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

The study examines the impact of Fiscal Policy on Economic Growth in Nigeria over the period of 1991 to 2023 using Autoregressive Distributed Lag (ARDL) Bound Test approach. The dependent variable is real Gross Domestic Product while, the independent variables are government capital expenditure (GCEX), Government total domestic debt (GTDD) and Government transfer payment (GTP). The result of the bound test shows that there is long run relationship among the variables employed. Also, in the longs run, government capital expenditure, Government total domestic debt and Government transfer payment do not impact significantly on economic growth in Nigeria. The study therefore recommends among others that Government of Nigeria should prioritize and increase her expenditure on capital infrastructure in some critical sectors like electricity and road in the economy that are fundamental which can trickle down to economic growth and development in Nigeria.

Introduction

Economic growth is an increase in the production of goods and services over a specific period (Joel and Onuora, 2024). Achieving economic growth is an essential demand of every nation in the world and therefore, achieving a sustained economic growth is a macro-economic objective that every nation ensures to accomplish. Admittedly, Ijuo and Andohol (2020) observed that ensuring a rapid and sustainable economic growth and development is a major goal of most economies of the world most especially the developing countries, like Nigeria. One of the macroeconomic policies for revamping and stabilization of an economy that is faced with economic misfortune or distortions, is the fiscal policy as it plays a significant role in the achievement of macroeconomic goals of nations such sustainable economic growth, full employment of resources, poverty reduction, control of inflation (price stability), exchange rate stability among others. This has been opposed by the Classical economists supported by, the Keynesian economists (Agbarakwe, 2018).

However, several empirical studies carried out by different researchers on the impact of fiscal policy instruments on economic growth have conflicting conclusions. There are a lot of mixed findings and inconclusive result on the impact of fiscal policy on economic growth, for instance, Oluwunmi and Ayinla (2007), Omodero, Ihendinihi, Ekwe, and Azubuike (2016), Ajayi and Edewusi (2020), Joel and Onuora (2021) and Ekpo and Udoh (2022) on their research found that fiscal policy has not be effective in stimulation and in the area of promoting sustainable economic growth in Nigeria during the period under review. On the other hand, some researchers such as Agu et al, (2015), Agbarakwe (2018) and Okpabi, Ijuo and Akiri (2021) believe that fiscal policy is effective in achieving economic growth. In the same way, on their part, the result of Agbarakwe (2018) and Joel and Onuora (2021) shows that government tax revenue and debt are effective in the achieving and stabilizing economic growth in the country.

From the aforementioned empirical evidences, it can be observed, there exist inconclusive and inconsistent results and the various researchers have not established clear cut direction of the relationship between fiscal policy and economic growth. Thus, the impact of fiscal policy component on economic growth is still not clear in the literature and there is no consensus on the subject matter. Despite the various researches and fiscal policy measures taken by the government, sustainable economic growth is yet to be achieve in Nigeria. Hence, the relationship needs to be investigated further and based on this background, the study investigated the impact of fiscal policy on economic growth in Nigeria, given the importance of fiscal policy in macroeconomic management.

The general objective of this study is to examine the impact of fiscal policy on economic growth in Nigeria. While the specific objectives include: to investigate the impact of government capital expenditure on economic growth in Nigeria; to examine the impact of total government domestic debt on economic growth in Nigeria; to investigate the impact of government transfer payment on economic growth in Nigeria. The study focused on determination of the impact of fiscal policy in achieving and sustaining economic growth as a necessity in Nigeria for the period from 1991 to 2023.

Literature Review

Economic Growth

According to Jhingan (2003), economic growth is defined as "a continuous quantitative increase in a country's per capital income or output accompanied by expansion in its work force, consumption, capital, and trade volume." And furthermore, it is important to note that economic growth involves “an expansion of the system in one or more dimensions without a change in its structure”. Economic growth refers to an increase in aggregate production in an economy. It is an increase in the production of economic goods and services, compared from one period of time to another (Potters, 2021). Cornwell (2019) sees economic growth as the process by which a nation’s wealth increases over time.

Fiscal policy

According to Morakinyo, David, & Alao (2018), Fiscal policy is associated with the use of government expenditure and taxation to influence the economic activities of a country. Fiscal policy involves government deliberate actions in levying taxes and spending money with the view of influencing targeted macroeconomic variables to move in a desired direction. Central Bank of Nigeria (2011) defined fiscal policy as the use of government expenditure and revenue collection through tax and amount of government spending to

influence the economy. Fiscal policy is the use of government taxation and expenditure to control the economy in order to achieve the macroeconomic objectives of a nation. In a contemporary economy, the government play a vital role in economic activity using taxation and expenditure as the two primary fiscal instruments used by governments to affect private economic activity. Other tactics may include public debt, public works, and so on (Udoh, Akpan and Akpan, 2022).

Keynesian Aggregate demand Theory

Fiscal policy is based on the theories of British economist John Maynard Keynes whose theory basically states that governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence, in turn, curbs inflation, increases employment, and maintains a healthy value of money (Reem, 2009). The basic premise of the Keynesian approach is that the private sector is inherently unstable and therefore recommends active fiscal and monetary policies which involves setting fiscal and monetary variables in each time period at the values which are deemed relevant to achieve government macroeconomic objectives (Levacic and Rebmann, 1982). Keynesian theory basically posits that economic activities cannot only be regulated by invisible free hands but requires government interventions through taxation, expenditures and borrowing in order to regulate the economy on the part of achieving sustainable economic growth of a country.

Empirical Review

Ekpo and Udoh (2022) examined the impact of fiscal policy on economic growth employing Ordinary Least Square (OLS). The dependent variable is Gross Domestic Product growth rate while, the independent variables are tax revenue, government recurrent expenditure and government capital expenditure. The major findings are that, Tax revenue recorded a negative though statistically insignificant relationship with economic growth in Nigeria; Government recurrent expenditure showed a positive but statistically insignificant relationship with economic growth in Nigeria. Government capital expenditure shows an insignificant negative relationship with economic growth in Nigeria. Based on the findings, the study recommended among others that government should close all loopholes (leakages) in tax collection to ensure that tax proceeds are remitted in full to respective tax authorities, concerted effort to channel tax proceeds to development-oriented projects should made so that both short and long-term gains would be achieved by the government.

Employing multiple regression method of analysis, Joel and Onuora (2021) investigated the impact of fiscal policy on the growth of Nigerian economy using real Gross Domestic Product growth as the dependent variable while, government expenditure and company income tax revenue as explanatory variables. The findings show that Companies Income Tax (CIT) revenue impact significantly and positively on Economic Growth (EG) measured using Gross Domestic Product (GDP). Also, study found there is insignificant and negative impact of Government Expenditure on Economic Growth in Nigeria. The study recommends that workable fiscal policy options which can ensure economic growth should be formulated and implemented by the government of the nation.

Okpabi, Ijuo, and Akiri (2021) examined the impact of government expenditure on economic growth in Nigeria using Error Correction Model (ECM) taking Gross Domestic Product as the dependent variable while, total capital expenditure and total recurrent expenditure on various sectors as the independent variables. The results of the finding

showed that, in the long run, each total expenditure of government (the recurrent and the capital expenditure) impact on the economic growth significantly and positively and impact insignificantly and negatively on economic growth in the short run. The study therefore recommends that government of Nigeria should prioritize her expenditure on capital infrastructure and recurrent into some critical sectors of the economy that are fundamental to maximizing government expenditure in Nigeria.

Agbarakwe (2018) using vector error correction model, evaluated the impact of fiscal policy on economic growth in Nigeria and Gross Domestic Product as the dependent variable while government expenditure, government tax revenue and total debt stock as independent variables. The result shows that government expenditure impacts significantly and positively on economic growth while, government tax revenue and total debt stock impact significantly and negatively on economic growth. Based on the findings, the study recommends that expenditure on capital project like infrastructure by government should be increase and government borrowed finance should be properly invested and put proper policy against corruption as possible ways of achieving rapid economic growth and development.

Ajayi and Edewusi (2020) examined the effect of public debt on economic growth in Nigeria employing Vector Error Correction Model. The study used Gross Domestic Product as the dependent variable while, external debt and domestic debt were used as independent variables. The result of the study revealed that external debt exerts a negative and insignificant impact on economic growth and domestic debt exerts positive and insignificant impact on economic growth both in short and long run in Nigeria. Based on the findings, the study recommends among others that appropriate measures towards ensuring suitable management of domestic debts should be employed by policy makers and government should ensure that contracted national debts are directed towards encouraging investment in Nigeria to attain economic growth.

Omodero, Ihendinihi, Ekwe, and Azubuike (2016) examined the impact of fiscal policy on the economy of Nigeria between 1994 and 2014 using multiple regression of ordinary least square (OLS). The real GDP as the dependent variable while, government capital expenditure, recurrent expenditure, tax revenue and external debts as independent variables. The result of the study shows that, there is no significant relationship between capital expenditure, recurrent expenditure, tax revenue and the real GDP representing the economy. However, the study found a significant negative relationship existing between external debts and the real GDP. This supports the Keynesian view of government active intervention in the economy using appropriate various policy instruments. The study therefore recommends that: Government should use fiscal policy to complement the adoption of effective monetary policy and maintain the rule of law to promote stability in the Nigerian economy. Government should ensure that capital expenditure and recurrent expenditure are properly managed in a manner that it will raise the nation's production capacity and accelerate economic growth even as it reduces external borrowing.

Methodology

For the purpose of this study, the expos facto research design was adopted. The data for this study is secondary data and was collected from the Central Bank of Nigeria Statistical Bulletin (2023). The period covers for the study ranges from 1991 to 2023 which is about 33 years under study

Model Specification

The study was anchored on the **Keynesian Aggregate demand Theory and t**he model is specified based on the technical relationship between dependent and explanatory variables and specified as follow:

RGDR = f(GCEX, GTDD, GTP) 3.1

$RGDR = a_0 + a_1GCEX + a_2\ GTDD, + a_3GTP + U$, where, 3.2

RGDR = Real Gross Domestic Product

GCEX = Government Capital Expenditure

GTDD = Total Government Domestic Debt

GTP = Government Transfer Payment

U = Error term

The analysis begins with stationarity test using the Phillip Perron (PP) Test. From the result of the unit root test, the Autoregressive Distributed Lag bound test was employed to determine the impact of independent variables on the dependent variable, as the unit root is stationery at 0 and 1. Also, model was evaluated based on theoretical, statistical and econometric measures

Result and Discussion

Table 4.1: Phillip Perron (PP) Unit Root Test Result

Variable	Test Equation	Level		First Difference		Order of Integration
		Stat.	P.V	Stat.	P.V	
RGDR	I	-5.4506	0.0001	-5.4308	0.0001	I(1)
	I & T	-1.4638	0.8211	-9.8097	0.0000	
	N	1.6291	0.972	-5.1019	0.0000	
GTP	I	-5.3129	0.0001			I(0)
	I & T	-5.1967	0.0010			
	N	-1.9503	0.500			
GTDD	I	-2.2074	0.2076	-3.1713	0.0315	I(1)
	I & T	-5.5701	0.0004	-1.5383	0.7939	
	N	4.6672	1.0000	-2.0106	0.0441	
GCEX	I	1.7327	0.4058	-6.5910	0.0000	I(1)
	I & T	-2.8765	0.1829	-6.5714	0.0000	
	N	2.5414	0.9964	-5.4663	0.0000	

Source: Author's Computation

From table 4.1 above, the result of the unit root test revealed that RGDR, GTDD and GCEX are stationary at first difference (I(1)). This is because the probability values of RGDR, GTDD and GCEX are not greater than 0.05 and this is found under the PV column of unit root test at first difference. This shows that the null hypothesis that the variables (RGDR, GTDD and GCEX) are non-stationary at level is rejected. Also, GTP is stationary at Level as the probability value under level is not greater than 0.05. Therefore, the null hypothesis that the variable (GTP) is non-stationary at level is accepted. It means that the unit root test result showed mixed order of integration; GTP is I(0) and others I(1). Therefore, ARDL and the bound test is estimated as the unit root result satisfies the condition.

Bounds Tests for the Existence of Cointegration

The bound test was carried out to find out if there is a long run relationship among the variables employed in the study and the result is presented below in table 4.2.

Table 4.2: Bounds Tests Result

F-Bounds Test — Null Hypothesis: No levels relationship

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	4.967273	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Author's computation

From table 4.2 above, the bound test which is the test of cointegration showed that the computed F-statistic (4.97) is greater than both the lower and the upper bounds critical values of 3.67, at 5 percent significance level of significance. Using Pesaran *et al* (2001), thus, the null hypothesis of no cointegration is rejected, indicating there is a long run relationship among the variables employed which are RGDR, GPT, GTDD and GCEX in the study. This is a necessary condition for the existence of long run relationship among the variable employed in the study. Hence, there is need for error correction model.

Table 4.3: Error Correction Model

ARDL Error Correction Regression
Dependent Variable: D(LRGDR)

ECM Regression
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LRGDR(-1))	-0.377044	0.133799	-2.817983	0.0145
D(LGTP)	-0.054554	0.021728	-2.510757	0.0261
D(LGTP(-1))	-0.036044	0.017130	-2.104204	0.0554
D(LGTDD)	-6.040007	2.148180	-2.811686	0.0147
D(LGTDD(-1))	11.46113	2.667213	4.297043	0.0009
D(LGTDD(-2))	14.70067	3.739344	3.931350	0.0017
D(LGTDD(-3))	-12.17727	2.593866	-4.694640	0.0004
D(LGCEX)	-0.139528	0.166790	-0.836550	0.4180
D(LGCEX(-1))	0.244244	0.164086	1.488506	0.1605
D(LGCEX(-2))	0.138425	0.159994	0.865189	0.4026
D(LGCEX(-3))	-0.817953	0.172034	-4.754603	0.0004
ECT(-1)*	-0.231329	0.040591	-5.698976	0.0001

Source: Author's computation

From table 4.3 above, in the short run, the coefficient of the error correction term is -0.23 and its probability value is 0.001. The result revealed that the error correction term is highly significant at 5% level since the probability value is less than 5%. The coefficient has a negative sign as required. The value (-0.23) in absolute term indicates that about 23% of disequilibrium in real gross domestic growth rate in Nigeria can be corrected annually by the combined effect of GTP, GTDD, and GCEX which suggests that in the long-run, short-run

disequilibrium is corrected to equilibrium. Similarly, the error correction term result indicates that the relationship between the variables met the a'priori expectation and satisfied the three conditions such negative coefficient and probability value less than 0.05. The error correction term from the result satisfies the necessary condition for the existence of long run, hence the estimation of long run coefficient.

Table 4.4 Estimated Coefficients of the Long-Run Model
Dependent Variable: RGDR

Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGTP	0.379470	0.384238	0.987591	0.3414
LGTDD	-10.25614	7.672878	-1.336675	0.2043
LGCEX	2.390012	1.380696	1.731020	0.1071
C	12.94616	7.065514	1.832302	0.0899

RGDR = 12.946 + 0.3794GTP – 10.256GTDD + 2.390GCEX
Source: Author's computation

Table 4.4 represents the results of ARDL long-run coefficients tests between Fiscal policy variables and economic growth in Nigeria. From the results, in the long run, the coefficients of GTP, GTDD, and GCEX are 0.379, -10.256, and 2.390 respectively and their respective probability values are 0.3414, 0.204, and 0.107. This indicates that in the long run, Government transfer payment, government domestic debt and Government capital expenditure are not statistically significant at 5% level as their respective probability is greater than 5%. This revealed that all the explanatory variables employed in the study are not the major determinants of economic growth in Nigeria. However, GTP and GCEX impact positively on economic growth in Nigeria, but not statistically significant and it implies that any change in Government transfer payment, and Government capital expenditure will result to 0.379 and 2.390 unit respectively, change in real gross domestic product (RGDR). Also, GTDD impact negatively on economic growth in Nigeria, but not statistically significant and it implies that any change in Government total domestic debt will result to 10.256 change in real gross domestic product (RGDR).

Post Estimation Diagnostic Tests

The post estimation tests carried out in the study were tests for serial correlation, normality and stability below.

Table 4.5: Breusch-Godfrey Serial Correlation LM Test
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.766883	Prob. F(2,11)	0.2161

Obs*R-squared	7.051111	Prob. Chi-Square(2)	0.2094

Source: **Author's computation**

From Breusch Godfrey serial correlation LM test conducted as presented in table 4.5 above revealed that observed R-squared value of 7.05 with prob. Chi-square of 0.21. Since the p-value is more than 5% level of significance, the study therefore accepts the assertion that there is no serial correlation in the model. Thus, the null hypothesis that there is no serial correlation in the model is accepted. This implies that the model shows the absence of autocorrelation.

Table 4.6: Heteroskedaticity Test Result

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.555071	Prob. F(15,13)	0.8625
Obs*R-squared	11.32210	Prob. Chi-Square(15)	0.7294
Scaled explained SS	3.522907	Prob. Chi-Square(15)	0.9989

Source: Author's computation

From Table 4.7, the Prob. Chi-Square (15) is 0.73 and this is greater than 5% (0.05) significance level. This shows that the null hypothesis is accepted, which implies the absence of heteroscedasticity in the model

Stability Test

The stability test was carried out below using CUSUM test to determine if the estimated model is stable or not in the study

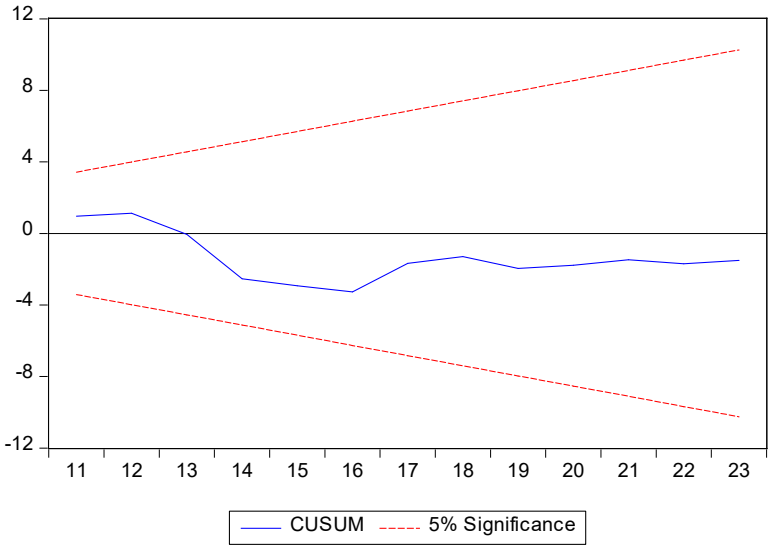

Figure 4.1: CUSUM Test Result

Figure 4.1 above, revealed that there is stability in the estimated model or the series associated with it. This is because, as shown in the plot, the blue line lies perfectly between the upper and lower 5% critical bounds denoted by the two red lines. This also confirmed that there are no outliers in the estimated ECM, thereby making it fit for making policy recommendations and predictions.

Discussion of Findings

Objective one: To investigate the impact of government capital expenditure on economic growth in Nigeria.

Findings from the analyzed data showed that government capital expenditure (GCEX) has no statistically significant impact on Economic growth in the long run in Nigeria. This is in line with Ekpo and Udoh (2022), Joel and Onuora (2021), Okpabi, Ijuo and Akiri (2021), Omedero, Ihendinihi, Ekwe and Azubuike (2016), and Olawunmi and Ayinla (2007) contrary to expectation and contrary to the findings of Agbarakwe (2018). This is according to expectation.

Objective two: To determine the impact of total government domestic debt on economic growth in Nigeria.

For the impact of total government domestic debt on economic growth in Nigeria, it was observed that government domestic debt has no statistically significant impact on economic growth during the study period in the long run in Nigeria. This is inline with the findings of Ajayi and Edewusi (2020) and Olawunmi and Ayinla (2007) and contrary to the finding of Agbarakwe (2018). This result of the study also revealed that government domestic debt is not one of the major determinants of Economic growth in Nigeria under the period under review.

Therefore, from the result of the study, it was found that fiscal policy has not been effective in the area of promoting sustainable economic growth in Nigeria. Factors such as wasteful spending, poor implementation of policy and budget, and lack of feedback mechanism for implemented fiscal policy evident in Nigeria, which are indeed capable of hampering the effectiveness of fiscal policy, which has made it impossible to achieve economic growth and development in Nigeria.

Conclusion

This study investigated the impact of fiscal policy on economic growth in Nigeria between 1991 and 2023. To achieve its objectives, secondary data for real Gross Domestic Product growth rate and the selected fiscal policy variables data were sourced from Central Bank of Nigeria Statistical bulletin (several issues), 2023. The data were analysed using the Autoregressive Distributed Lag (ARDL) model. Also, several diagnoses were conducted on the estimated model. Based on the finding the study concludes that:

1. The study revealed that government capital expenditure (GCEX) does not significantly impact on economic growth in Nigeria in the long run.
2. It also found that Government transfer payments (GTP) do not have significant impact on economic growth in Nigeria in the long run.
3. Finally, Government total domestic debt (GTDD) impacts negatively and not significant on economic growth in Nigeria in the long run. This also implies that non of the explanatory variables employed is a key variable that determines economic growth in Nigeria during the period under review.

Recommendations

Based on the findings of the study, the following recommendations were made for policy:

1. Government of Nigeria should prioritize and increase her expenditure on capital infrastructure in some critical sectors like electricity and road in the economy that

are fundamental which can trickle down to economic growth and development in Nigeria.

2. Government should ensure transfer payments be properly manage and directed to the desired direction which will make it have significant impact in stimulating economic activities which is one of the sources of economic growth in Nigeria. The idea of government officials directing the payments to their personal pocket or relations unjustly should be checked by government, for it to make a significant impact on the economy in stimulating sustainable economic growth and reduce poverty and dependency in the country, Nigeria.
3. Government borrowed finance should be properly invested in productive sectors such as manufacturing industries and put proper policy against corruption as possible ways of achieving significant economic growth and development and not for immediate and unfruitful consumption.

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