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## Fiscal Policy Measures and its Implication on Economic Growth in Nigeria (2007-2017)

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### Abstract

The study analysed the impact of fiscal policy measures on the Nigeria economy. The broad objective of the study is to ascertain the impact of Fiscal Policy measures on economic growth in Nigeria from 2007 to 2017. Data used for the study were obtained from the Central Bank of Nigeria statistical bulletin. The data was subjected to pre-estimation test using the augmented dickey fuller technique. Ordinary least square regression technique was used in analysing the data. The findings of the study revealed that, there is an indirect relationship between total government expenditure and gross domestic product in Nigeria, just as there is also direct relationship between total government revenue and gross domestic product in Nigeria. The t-test conducted at five percent level showed that total government expenditure is statistically insignificant while fiscal deficit is statistically significant. The study recommended that fiscal deficits can be reduced if governments at all levels should step up their internal revenue generating capacity, reduce external borrowing, seek for debt reduction, repudiation, relief and

outright cancellation. This should be followed by efforts of governments to develop their respective domains in terms of productive public investments and policies that stimulate the private sector.

**Key Words:** Total Government Revenue, Total Government Expenditure, Fiscal Policy.

**Introduction**

All government have a variety of economic objective, such as full employment, sustainable economic growth, balance of payment equilibrium, exchange rate stability and low inflation which contribute toward or are necessary to achieve the ultimate economic objective of increased welfare and living standard. without doubts, macroeconomic policy plays a fundamental role in providing as well as maintaining sustainable and acceptable economic environment which makes it possible for an economy to achieve a faster, stable and sustainable growth. The goal of fiscal policy is the stimulation of economic growth and development that would translate into improved standard of living for the people. The expectation is that fiscal policy would reduce poverty through the stimulation of economic activities that provide public goods and ensure increase in output, employment, income, and the maintenance of a favourable balance of payments (Ariyo, 1997).

In Nigeria, the continuous increase of fiscal deficits has been blamed for much of the economic crisis that beset them about two decades ago resulting in over indebtedness and debt crisis, high inflation, poor investment and growth (Chimobi and Igwe, 2010). For instance, the country recorded an increase in budget deficits fromN3,902.10 million in 1981 to N8,254.30 million in 1986 to N15,134.70 million in 1989 but catapulted toN133,389.30 million and N301,401.60 million in 1998 and 2002 respectively (CBN, 2012). As of 2003-2006, government fiscal deficits witnessed a moderate declined from N202,724.70 million in 2003, N172,601.30 million in 2004, N161,406.30 million in 2005, to N101,397.50 million in 2006 (CBN, 2012). The causes of the persistent annual increase of fiscal deficits are bloating of government bureaucracy, cost of providing critical infrastructures and shortage of revenue generation, etc. (Umeora, 2013). For example; a run-down of government annual expenditure from 1970 (at the end of the Nigeria – Biafra War) to 2011 shows that the government ran annual deficits for 37 years.

Additionally, the issue of fiscal deficit is not only persistent to developing countries but also developed nations, though not severe in regards to the third world nations. In the early millennium, budgetary balances of both Europe and United States deteriorated, whereas, many European countries including large economies like Germany and France surpassed the 3% of GDP reference value stipulated by the Maastricht Treaty on government deficits (OECD, 2003). In 2002, United States faces significant deficits of about 3.7% in GDP (OECD, 2003). In Nigeria case, fiscal deficits as a percentage of GDP (at 1990 factor cost), deteriorated from -3.8 percent in 1981 to -5.7 percent in 1986 and further to -9.5 percent in 1993 (Appah and Chigbu, 2013). He further illustrated that the value of deficits as a percentage of GDP declined to -0.1 percent in 1997 only to rise to -5.9 percent in 1999. Furthermore, the share of deficits in total GDP has been declining, from -2.0 percent in 2003 to -1.1 percent and -0.6 percent in 2005 and 2006, respectively. On this note, this study examines the impact of fiscal policy measures on economic growth of the Nigerian economy from 2007 to 2017.

**Statement of the Problem**

In Nigeria, government expenditure has continued to rise due to the huge receipts from production and sales of crude oil, and the increased demand for public (utilities) goods like roads, communication, power, education and health. Besides, there is increasing need to provide both internal and external security for the people and the nation.

Despite all these, there is a mixed feeling depicting whether increasing government spending induces economic growth or not as Nigeria ranks among the poorest countries in the world. In addition, many Nigerians have continued to wallow in object poverty, while more than 50 percent live on less than US$2 per day. Coupled with this, there is dilapidated infrastructure (especially roads and power supply) that has led to the collapse of many industries, including high level of unemployment (Igwe, 2018). Moreover, macroeconomic indicators like balance of payments, import obligations, inflation rate, exchange rate, and national savings reveal that Nigeria has not fared well in the last couple of years. (Olugbenga and Owoye, 2007). Researchers have identified some of these challenges as: gross mismanagement/ misappropriation of public funds, corruption and ineffective economic policies; lack of integration of macroeconomic plans and the absence of harmonization and coordination of fiscal policies, inappropriate and ineffective policies. Imprudent public spending and weak sectoral linkages and other socioeconomic maladies constitute the bane of rapid economic growth and development. Given the issues raised above, the central problem of this study is how effective fiscal policy measures have promoted sustainable economic growth in Nigeria.

## Objectives of the Study

The broad objective of the study is to ascertain the impact of Fiscal Policy measures on economic growth in Nigeria from 2007 to 2017. The specific objectives of this work include;

- ❖ Evaluate the effect of total government expenditure on economic growth in Nigeria.
- ❖ Investigate the impact of total government revenue on economic growth in Nigeria.
- ❖ Analyze the effect of fiscal deficit on economic growth in Nigeria.

## Concept of Fiscal Policy

The term fiscal policy has conventionally been associated with the use of taxation and public expenditure to influence the level of economic activities. The implementation of fiscal policy is essentially routed through government's budget. The budget is, therefore, more than a plan for administering the government sector as it reflects and shapes a country's economic life. In fact, the most important aspect of a public budget is its use as a tool in the management of a nation's economy.

In designing and implementing fiscal policy, government plans for budget deficit, budget surplus or balanced budget. Budget deficit is a type of budget plan in which government expenditure outweighs its revenue while budget surplus is a budget plan where government revenue is proposed to be greater than government expenditure. Balanced budget, however, arises when government expenditure equals government revenue.

When there is economic recession or depression, government plans for budget deficit which is often referred to as expansionary fiscal policy. In this situation, taxes (i.e. compulsory levies imposed by the government on individuals and corporate bodies) are reduced and government expenditure is increased. The implication of this is that by reducing taxes, the purchasing power of individuals is enhanced and the cost of production by corporate bodies reduces thereby improving their scale of operations. Similarly, increases in public expenditure if

efficiently utilized could translate into improved infrastructural developments and consequently enhance general welfare and also put the economy on the path of growth.

Fiscal policy entails government's management of the economy through the manipulation of its income and spending power to achieve certain desired macroeconomic objectives (goals) amongst which is economic growth. Akpakpan (1994) described it as the deliberate use of government income and expenditure to influence the level of economic activities in the country. According to Gbanador (2007), "Fiscal policy is a deliberate action undertaken by the government to achieve its economic objectives using the fiscal instruments of taxation, government spending and the budget deficit". For Onuchuku and Adoghor (2000), fiscal policy is changes in government expenditure and/or taxes designed to achieve macroeconomic stability or objectives. They also described it as changes in government expenditure and /or taxes geared towards increasing income and employment as well as promoting price stability. Supporting this, Ekine (2013) stated that, "Fiscal policy is concerned with the action of the government to spend money or to collect money in taxes, with the purpose of influencing the condition of the national economy".

Nevertheless, Fiscal Policy can be expansionary or contractionary in nature. Expansionary fiscal policy involves increase in government expenditure and/or decrease in taxes with the aim of stimulating aggregate demand and hence the economy. Moreover, expansionary fiscal policy can be employed to tinker with the problem of unemployment.

The broad objectives of Keynesian macroeconomic policy are not in dispute, these objectives are full employment, a stable price level, the absence of significant deviations of output from its equilibrium time path, a satisfactory rate of economic growth, an equitable distribution of income, and balance of payment equilibrium. There exist, however, differing opinions, regarding the priorities accorded to these objectives. In fact, there is an even greater divergence of views on the means by which such objectives can be actualized.

## Concept of Economic Growth

Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy overtime; it is conventionally measured as the percent rate of increase in a real Gross Domestic Product or real GDP Development of new goods and services also create economic growth.

## Instruments of Fiscal Policy in Nigeria

Some fiscal policy tools are used regulate economic growth and stability in Nigeria include. Ogar et al (2014) stated them as tax incentives (capital allowance, income tax relief, the construction tax exemption, etc) relief from import duties, tariff measures and budgeting allowances

### 1. Capital Allowance

This is the amount granted to companies in lieu of depreciation of fixed assets for tax purpose. The initial and annual capital allowance granted to the companies enable them to write-off their asset for tax purposes. In the process, the companies found themselves in a situation of enhanced profitability, liquidity and reduced risk. According to Uduebo (1985), the pursuit of rapid industrialization and the need to encourage foreign investors to invest in the country led to the introduction of various types of tax and other incentives since 1985 and this had helped in the development to the economy.

### 2. Company Income Tax

The Companies Income Tax Act of 1979 gives the Federal Board of Inland Revenue the powers to assess and collect taxes from all limited liability companies that operate from or within Nigeria. The rate of Company Income Tax has remained relatively stable, fluctuating between 40 and 50 percent. In 1958, the rate was fixed at 45 percent, increases to 50 percent in 1978 but reduce to 45 percent the following year (1979) and has remained at that level till date.

### 3. Budgeting measures

Budgeting measures have also been used regularly to stimulate economic growth and stability in Nigeria. Ojo and Okunrounmy (1992) said effective fiscal management in many African countries could only be built on a viable and creditable budgetary and planning system. A-system does, exist in most if not, in all cases, but it is typically not efficient. Some of the elements of an efficient budgetary system are consistency in public investment.

**Challenges of Internal Revenue Generation in Nigeria: The Fiscal Deficit Factor**

Nigeria's fiscal system at federal and state levels has been characterized by a lopsided dependence on oil revenues. Given the volatility of oil export revenue arising from global oil price shocks and crude oil being an exhaustible resource, this overdependence on oil income has resulted in high fiscal deficits. This, if not checked and tackled, could deter Nigeria's growth and development. Clearly, there is a looming danger if states of the federation do not begin to refrain from the precarious life support of an oil economy which came with its indolent (lazy) entitlement culture that promotes consumption rather than production that broadens tax base. Most states in Nigeria have had to take short-term bank loans and bail-out credits (especially by heavily indebted states) to settle wages whenever there were delays or shortfalls in the monthly disbursements by the Federation Accounts Allocation Committee (FAAC). State governments became weak in generating revenues internally because of the free oil money that flows every month from the Federation Accounts in Abuja. As a result, the states have, over the years, failed to look inward to exploit and develop their productive base and refused to utilize their capacities in areas of their separate comparative advantage capable of making them sustainable and self-reliant economies that will drive innovation and industrialization for better internal revenue diversification. Nigeria has huge but untapped potentials in agriculture, mining, manufacturing, power generation, water resources, land and real estate.

A focus on these sectors would put the country on the path of sustainable growth and development. In the mining sector, for example, Plateau, Kogi, Nasarawa and other North Central states have enormous reserves of tin, columbite, coal, barite, and more than 25 mineral resources to cater for the needs of the entire country for the next 400 years (Gushibet, Ali & Anga, 2015). There are endless lists of mineral resources across the country which are found in different locations, local government areas (LGAs), states and geographical regions that if harnessed and developed, the resources are capable of developing and empowering the people and the states of their endowments. However, deficiencies in the tax administration and tax collection system occasioned by complex, weak but unenforceable tax legislations, widespread corruption amongst tax authorities and collectors, and apathy on the part of those outside the tax net are some of the root causes of low productivity of the tax system in Nigeria. These have adversely affected internal revenue generation negatively.

In view of the foregoing, restructuring the tax system and enforcing tax collection machinery towards higher revenue generation at the federal and state levels would not only improve the

revenue elasticity and buoyancy of the tax system to reduce fiscal deficits and borrowing, but would also facilitate growth and development in the country. It is a sad phenomenon that each of the 36 states of Nigeria pay yearly salaries in two-digit billions but almost all of the states make internally generated revenue (IGR) in single-digit billion annually. According to a report by the *Daily Trust* (2013), it is only Lagos state that generated N219 billion in 2012 which is three times its annual wage bill of N76.5 billion. Rivers state which generated the second highest IGR of N66.2 billion, has an annual wage bill of N96 billion (an amount not enough to pay salaries of civil servants). Kaduna state had in the same period earned N11.5 billion IGR which is less than half its N27.4 billion annual wage bills. Again, Plateau state generated an IGR of N7 billion which is far less than its annual salaries of N20.7 billion in 2012.

The situation was and is still virtually similar in other states of the federation. If states cannot afford to pay salaries of civil servants on their own internal strength, it portends serious danger for present and future generations. This paper is thus a wake-up call on both the federal and the state governments to rise up to the challenge before it is too late. It should be noted that almost all the states in Nigeria have not diversified their revenue sources; a major reason for huge fiscal deficits and the accompanying debt burden. Worst still, the states cannot afford salaries payment without federal funds, not to talk of executing public projects on their own revenue strength. This implies that the states are grossly unviable. The current structure and the practices they have encouraged have been major impediments to the economic and political development of the country. In light of the economic and governance challenges therefore, it seems plausible to suggest that the states of the federation be collapsed into six regions in order to reflect the regional system which was once viable in the 1960s. It means that the six existing geo-political regions be made to legally become the federating units of Nigeria. This might be necessary because Nigeria once operated a federal system at independence that allowed the regions to retain their autonomy, raise and retain revenues, promote development, and conduct their affairs as they deemed fit, while engaging in healthy competition with others.

**Significance of Fiscal Policy on the Economy**

If the economy faces a recession, the government is supposed to cut taxes and increase spending. When it does this, people have more money and can buy more goods and services. This will lead to more jobs for people who make those goods and services. By contrast, if the government fears inflation, it is supposed to raise taxes and cut spending. This decreases the amount of disposable income that people have and so they spend less and prices do not rise. Fiscal policy deals with the decisions of government on taxing and spending programmes. Most economists believe that a blend of fiscal policy with monetary policy is the most important means of regulating the rate of inflation in an economy and preventing or controlling economic depression. A government can use fiscal policy to reduce the demand for goods and services. It can prevent depressions by encouraging spending, while rate of inflation can be controlled by discouraging spending. Tax rates, which are determined by fiscal policy, influence the level of spending by controlling the amount of money people have for spending. It implies that government can decrease or increase its own spending to manage inflation and depression, manipulate aggregate demand and facilitate the growth of output, income and employment in the economy.

**Literature Review**

1. **Ricardian Theory**

Ricardian theory which argues that fiscal deficits not withstanding how they are financed, would have no effect on private consumption and interest rates based on the assumptions that individuals internalise both the government's budget constraint and the utility of their offspring, the efficiency of the capital market in which the interest rate is the same for borrowers and lenders, and without distorting taxes (Frish, 2003). While the Keynesian model supports the expansion of government expenditure (expansionary fiscal policy) in accelerating economic growth, endogenous growth model such as the Ricardian equivalence theory does not assign any importance to the role of government in the growth process.

## 2. Keynesian Theory

In the Keynesian t h e o r y o f Macroeconomics, which argues that an increase in government spending would enhance the growth of domestic output. Proponents or protagonists of this theory such as Okpanachi and Abimiku (2007), Chakraborty and Chakraborty (2006), would argue that deficit spending by the government stimulates the economy in the short-run by making households feel wealthier, thereby raising total private and public consumption expenditure. Budget deficits stimulate economic activity such as aggregate demand, savings and capital formation. The Keynesians believe that government spending would crowd out private investment spending through increased cost of credit (cost of borrowing) known as interest rate. However, they recommend that fiscal deficit should be implemented only in periods of depression when interest rates are likely to be unresponsive in order to avoid the dampening effect of rising interest rates on private investment expenditure. The Keynesian theory further posits that fiscal deficits could have a negative impact on the external sector, reflected through trade deficit, but only if the domestic economy is unable to absorb the additional liquidity through an expansion in output. It implies that if the supply of output does not expand in response to the deficit, the surplus expenditure would only increase the level of imports thereby resulting in trade deficits and subsequent fall in exchange rate of the domestic currency (naira). This is called the 'twin-deficits' hypothesis (Monacelli and Perotti 2006; Neaime 2008; as cited in Gadong, 2010).

According to Ogar et al (2014), Fiscal policy plays important activities at its increase per capital income of individual in the economy. It plays a vital role in reducing regional disparities by the government shifting more expenditure to areas that have less development and less to regions with high level of development. This can take the form of development social overheads, creation of infrastructure in the form of transportation, education, communication facilities growth in capital goods etc. In developing economy, capacities are still below the full employment level and generally characterized by low level of savings and investment activities, the deficiency in demand and production may easily be remedied by stimulating private saving and or both. Since in the developing economies there is shortage of social overheads, skilled labour, capital equipment and machinery, fiscal policy can be used to achieve increased capacities through expending both private and public sector.

Agu (2014) determined the impact of various components of fiscal policy on the Nigerian economy. He simply used descriptive statistics to show contribution of government fiscal policy to economic growth, ascertain and explain growth rates, and oils in a multiple form to ascertain the relationship between economic growth and government expenditure components after ensuring data stationary. findings reveal that total government expenditures have tended to increase with government revenue, with expenditures peaking faster than revenue. Also, an increase in budgetary allocation to economic services will lead to an enhancement in economic stability. therefore, in public spending, it is important to note that the effectiveness of the private

sector depends on the stability and predictability of the public incentive framework, which promotes or crowds in private investment.

Gushibet (2016) empirically examined the impact of fiscal deficits on economic growth in Nigeria from 2000 to 2015. Using the ordinary least squares regression technique of econometrics, it was revealed that fiscal deficits have affected economic growth negatively in Nigeria. The findings also show that government revenue and government expenditures have impacted insignificantly on growth. Based on the findings, the paper recommends that; to curb all forms of corruption, stiff penalties should be introduced. This may include imprisonment, public disgrace (naming and shaming) and confiscation of looted properties, and retrieval and repatriation of stolen funds amongst other policy recommendations.

Ogbole, Amadi and Essi (2011) examined Fiscal Policy and Economic Growth in Nigeria: A Granger-Causality Analysis. We use time series data (1970-2006) in respect of the independent/explanatory variable [Fiscal Policy, measured using government expenditure (GE)] and the dependent/response variable [Economic Growth, measured using gross domestic product (GDP)], sourced from the Central Bank of Nigeria, were tested and found to be stationary (using Augmented Dickey-Fuller test) and co-integrated (using Johansen's Co-integration test). The result of the analysis shows the existence of causal relationship between them with a unidirectional causality running from GE to GDP, which is in line with apriori expectation. The study recommends refocusing Fiscal Policy to ensure: appropriate policy mix, refocusing GE to increase output, increasing government capital/investment expenditure to exceed consumption expenditure, increasing punitive measures against fraud and mismanagement of public funds and raising Nigeria to the status of a producer and exporting nation.

Imoisi (2013) examined problems surrounding procedures of fiscal policy and their influence on economic growth in Nigeria from 1970-2009. The research was conducted using an Ordinary Least Squares (OLS) technique of multiple regression models using statistical time series data from 1970-2009. The estimated result shows a positive relationship between the dependent variable (real gross domestic product) and the Independent variables (Government Expenditure and Taxes). Based on the results, it was therefore suggested that there should be a total renovation of the tax system in Nigeria and the federal government of Nigeria should intensify her spending especially in the productive sectors of the economy that has the capability to contributes to economic growth in the country.

Owolabi (2011) made an econometric analysis of the relative effectiveness of fiscal policy management in Nigeria, between 1970 and 2007. It employed reduced forms model in addition to Beta coefficient, Theil's inequality and Root Means Square Error (RMSE) techniques to investigate the satiability and effectiveness of the estimated fiscal model which represent government spending, during and after estimation periods. The results reveal stability of the models and further confirmed the fact that government spending is the major determinant which influences and predict Nigeria macro-economic activity. There is what appears to be a manifestation of the so-called 'crowding out' effects of fiscal policy actions in Nigeria. These are associated with the negative sings assumed by coefficients of the lagged fiscal policy variables (except recurrent expenditures).

Elizabeth (2013) examined the relationship between fiscal deficit and macroeconomic performance in Nigeria over the period 1980 to 2010. The study employed the Ordinary Least Square in estimating the equation. Preliminary test of stationarity and co-integration of

variables using the Augmented Dickey. Fuller (ADF) test and the co-integration test using the Engle Granger procedure were conducted respectively. However, empirical findings showed that fiscal deficits even though that it met the economic a prior in terms of its negative coefficients yet, did not significantly affect macroeconomic output. The result also shows a bilateral causality relationship between government deficit and unemployment. Based on these findings, appropriate recommendations were made.

## Methodology

For the purpose of this study, the ex-post factor research design is used. The annual time series data were collected from secondary source from 2007-2017. The data were collected principally from annual report of Central Bank of Nigeria (CBN) statistical bulletin and relevant journals.

## Model Specification

Model specification is concerned with the mathematical relationship that exists between the dependent variables and the independent variables in the model.

GDP = F (TOTEX, TOTRE, FISDE)

$GDP = \beta_o + \beta_1 TOTEX + \beta_2 TOTRE + \beta_3 FISDE + Ut$

Where;

GDP = Real Gross Domestic Product

TOTEX = Total Government Expenditure

TOTRE = Total Government Revenue

FISDE = Fiscal Deficit

U = Stochastic Disturbance Term

$\beta_o$ = Intercept

$\beta_1$, $\beta_2$ and $\beta_3$, = Coefficient of the explanatory variables.

❖ **A priori Expectations:** $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$

**Data Presentation, Analysis and Discussion of Findings Data Presentation**

**Table** 1: Data on Real Gross Domestic Product (GDP), Total Government Expenditure (TOTEX), Total Government Revenue (TOTRE) and Fiscal Deficit (FISDE) in Nigeria from 2007 to 2017.

| YEAR | GDP | TOTEX | TOTRE | FISDE |
|------|-----|-------|-------|-------|
| 2007 | 72918.13 | 77510.07 | 5727.5 | -50732.9 |
| 2008 | 77487.4 | 11725.45 | 7866.59 | -47402.6 |
| 2009 | 82043.04 | 13655.97 | 4844.59 | -186239.8 |
| 2010 | 86820.13 | 11948.21 | 7303.67 | -258477.2 |
| 2011 | 89351.68 | 12499.49 | 11116.85 | -310865.5 |
| 2012 | 95341.96 | 120713.7 | 10564.75 | -1173626.4 |
| 2013 | 98141.85 | 12797.27 | 9759.79 | -1500789.4 |
| 2014 | 102333 | 12211.62 | 10068.85 | -2759578.6 |
| 2015 | 106137 | 14766.17 | 9940.02 | -1932149.3 |
| 2016 | 110496 | 14650.78 | 10324.65 | -1964078.4 |
| 2017 | 121383 | 15061.34 | 11294.56 | -1992321.6 |

**Source:** Central Bank of Nigeria (CBN) Statistical Bulletin (2017)

**Table 2:** At Level

| Variables | ADF Statistics | Critical Value (5%) | Critical Value (10%) | Conclusion |
|-----------|----------------|---------------------|----------------------|------------|
| GDP | 1.194481 | -3.212696 | -2.747676 | Non-stationary |
| TOTEX | -3.698605 | -3.212696 | -2.747676 | Stationary |
| TOTRE | -1.711864 | -3.212696 | -2.747676 | Non-stationary |
| FISDE | -0.955340 | -3.212696 | -2.747676 | Non-stationary |

**Source:** Researcher's Computation

The result of the ADF unit root test at level is shown in the table above. The result of the ADF unit root test at level revealed that, all the variables were non-stationary except Gross Domestic Product Growth Rate (GDP).

**Table 3:** At first difference

| Variables | ADF Statistics | Critical Value (5%) | Critical Value (10%) | Conclusion |
|-----------|----------------|---------------------|----------------------|------------|
| GDP | -1.799194 | -3.259808 | -2.771129 | Non-stationary |
| TOTEX | -4.601206 | -3.259808 | -2.771129 | Stationary |
| TOTRE | -3.895733 | -3.320969 | -2.801384 | Stationary |
| FISDE | -3.481401 | -3.259808 | -2.771129 | Stationary |

**Source:** Researcher's Computation

The result of the ADF unit root test at first difference is shown in the table above. The result of the ADF unit root test at first difference revealed that, all the variables were stationary except Gross Domestic Product (GDP).

**Table 4**: At Second Difference

| Variables | ADF Statistics | Critical Value (5%) | Critical Value (10%) | Conclusion |
|-----------|----------------|---------------------|----------------------|------------|
| GDP | -3.118292 | -3.100969 | -2.801384 | stationary |
| TOTEX | -5.338176 | -3.320969 | -2.801384 | Stationary |
| TOTRE | -4.400374 | -3.320969 | -2.801384 | Stationary |
| FISDE | -5.607393 | -3.320969 | -2.801384 | Stationary |

**Source:** Researcher's Computation

The result of the ADF unit root test at second difference is shown in the table above. The result of the ADF unit root test at second difference revealed that, all the variables were stationary.

**Table 5:** Dependent Variable: GDP

Method: Ordinary Least Square

Included Observation: 11

| Variables | Coefficients | standard error | t-values | Prob | VIF |
|-----------|--------------|----------------|----------|------|-----|
| CONSTANT | 64429.36 | 11055.00 | 5.828074 | 0.0006 | |
| TOTEX | -0.049350 | 0.065943 | -0.748374 | 0.4786 | 1.033451 |
| TOTRE | 2.409271 | 1.427166 | 1.688151 | 0.1352 | 1.811750 |
| FISDE | -0.009144 | 0.003264 | -2.801301 | 0.0265 | 1.854975 |

**Source:** Researcher's Computation

Coefficient of determination ($R^2$) = 0.824595

Adjusted Coefficient of determination ($R^2$) = 0.749421

Durbin Watson statistics = 1.509102

F- Statistics = 10.96920

**Results and Discussion**

This paper investigated the impact of fiscal policy on economic growth in Nigeria. Empirical analysis was conducted by applying the multiple regression of the ordinary least square technique to the annual data on the Nigeria economy for the period 2007 -2017. The findings are summarized below.

There is an indirect relationship exist between total government expenditure and gross domestic product in Nigeria. It further indicates that 1-unit increase in total government expenditure will cause gross domestic product to depreciate by -0.049350units. The coefficient of total government revenue is 2.409271. This result suggests that a direct relationship exist between total government revenue and gross domestic product in Nigeria. It further indicates that 1-unit

increase in total government revenue level will cause gross domestic product to appreciate by 2.409271 units. The coefficient of fiscal deficit is -0.009144. This result suggests that an indirect relationship exist between fiscal deficit and gross domestic product in Nigeria. It further indicates that 1-unit increase in fiscal deficit will cause gross domestic product to depreciate by 0.009144units.

The t-test was used to test the significance of the parameter estimates. The t-test conducted at five percent level showed that, the probability value of 0.4786is greater than 0.05 thus, total government expenditure is statistically insignificant. Also, total government revenue is statistically insignificant because the probability value of 0.1352is greater than 0.05 while fiscal deficit is statistically significant. The probability value of 0.0265is less than 0.05 thus;

The F- statistic of 10.96920 (0.004889) is high enough, this shows the overall significance of the model and this indicates that collectively, all the explanatory variables (total government expenditure, total government revenue and fiscal deficit) are important determinants of economic growth. This model can be used for further policy making and forecasting.

The value of the adjusted R-square ($R^2$) for the model is fairly high and is pegged at 0.75 which implies that total government expenditure, total government revenue and fiscal deficit explained about 75 percent systemic variations of gross domestic product. The remaining 25 per cent could be attributed to some other forces affecting real gross domestic product outside the model. 75 percent indicates a good fit for the model.

The value of Durbin-Watson is 1.509102for the model. This does falls within the determinate region and this implies that the model no autocorrelation problem. From the table above, we can deduce that variance inflation factors value of TOTEX {1.033451}, TOTRE {1.811750}, and FISDE {1.854975} are less than 10 implying that, there is no multicollinearity among the explanatory variables.

## Conclusion

Evidently, the achievement of sustainable economic growth through fiscal policy in Nigeria has remained a mirage. Despite the substantial increases in government expenditure over the years (1980-2004), the rate of economic growth has been very low and sluggish. The poor performance of fiscal policy has been ostensibly blamed on the problems of policy inconsistencies, high level of corruption, wasteful spending, poor policy implementation and lack of feedback mechanism for implemented policies. Thus, the conclusion of the paper is that to put the Nigerian economy, along the path of sustainable growth and development, the government must put a stop to the unproductive foreign borrowing, wasteful spending and uncontrolled money supply and embark upon specific policies aimed at achieving increased and sustained productivity in all sectors of the economy. In general, until macroeconomic policies are effectively implemented and particularly geared towards enhancing the overall productivity of the economy only then can their potential beneficial effects be appreciably felt in the country.

## Recommendations

- Since fraud and public funds embezzlement (among other factors) have become the bane of Nigeria's economic growth and development over the years, public funds embezzlement should attract a more severe penalty as a disincentive to those who see public office as a springboard to leap fast to a height of wealth and self-actualization at the expense of the impoverished majority.

- Government should also consider harnessing its revenue potentials by expanding its revenue base via effective and efficient taxation system, diversification of Nigeria's revenue base by tapping into our solid minerals and agricultural potentials.

- The consumption-based economy of the country has made it to be largely import-dependent resulting in prolonged periods of balance of payment deficits. Thus, fiscal policy should refocus making Nigeria a producer, oil and non-oil exporting nation that de-emphasizes importation.

- Fiscal deficits should be controlled through greater control of unproductive expenditure via stiff imposition of cost effective and benefit-cost ratio analysis as prudently as applicable. Extra-budgetary payments in the form of transfer payments and administrative expenses should be reduced by governments at all levels in Nigeria.

- There is need to drastically reduce imports especially of luxury and semi luxury goods, impose local sourcing of raw materials and finished goods, and encourage the importation of machinery(equipment) whose raw materials can be sourced locally.

- Fiscal deficits can be reduced if governments at all levels should step up their internal revenue generating capacity, reduce external borrowing, seek for debt reduction, repudiation, relief and outright cancellation. This should be followed by efforts of governments to develop the irrespective domains in terms of productive public investments and policies that stimulate the private sector.

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