FISCAL POLICY AND ECONOMIC GROWTH IN NIGERIA (1999 – 2018)

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Abstract

This study examines how fiscal policy affects economic growth between 1999 and 2018 in Nigeria. The study made use of secondary data sourced from the Central Bank of Nigeria statistical bulletin and the National Bureau of Statistic. The model for the study has Economic growth as the dependent variable proxied by the gross domestic products (GDP) while its explanatory variables were the annual Recurrent Expenditure, Current Expenditure, Public External Debt and Public Domestic Debt. Using the Ordinary Least Square (OLS) multiple regression techniques; the study revealed that fiscal policy do not affect the GDP in Nigeria. This implies that the value of the fiscal policy with regard to the selected variables whether high or low is not a determinant of the GDP growth in Nigeria. That is, GDP growth rate are not often moved by the level of the budgetary provisions or allocation to determine their growth level. As such, the study concludes that the budgetary allocations notwithstanding the GDP may grow or not grow bearing other factors other than budgetary provisions and allocations level. The study, therefore recommended that more appropriate measure be taken to design the fiscal policy in a way and manner to an extent that it can help to grow for the nation a robust economy with such targets as job creation, inflation control and a favourable balance of payment.

Keywords: Fiscal Policy, Recurrent Expenditure, Budget Gross Domestic Product

Introduction

Issues' relating to fiscal policy with regard to budgeting has become a concern in Nigeria lately because year in year out different governments over the years often come up with their possible year plan through the instrumentality of budget. Contained in these annual budgets are bogus figures juxtaposed with intended project plan of the government of the day. Yet attaining all round development has remained a mirage in the country.

Basically, there are key issues that a budget is often designed to address like cutting down on unemployment rate so as to attain full employment through job creation drive; checking inflation rate through effective inflation targeting policy designs for price stability, reduction of poverty levels, high and sustainable economic growth, favorable balance of payment, and reduction in a nation's debt, including the issue of food security are all supposed to well tackled through the instrumentality of budget. However, the debate on the effectiveness of fiscal policy according to Adeoye (2006), as a tool for promoting growth and development remains inconclusive, given the conflicting results of current studies. In the words of (Onwe, 2014) "the role of fiscal policies in the development of emerging economies has been a major source of concern in economic literature. Majority of studies in this area have however, concentrated on the industrialized countries of the Western World, with little or no reference to the emerging economies of the developing countries". According to Agu, Idike, Okwor & Ugurunta (2014) a review of Nigeria's macroeconomic indices shows that inflation has accelerated to double-digit levels (from 6.94 in 2000 to 18.87 in 2001), (IMF, 2001). This double digit inflation continued up to 2005, and decreases to single digit in 2006 and 2007. In 2008 the inflation rate reverted to double digit - 11.58 and continued to increase and in 2010 it was 13.72% (IMF, 2011).

Since the return to democratic governance in Nigeria in 1999, there has been an annual budget for each year up till the year 2017; whereas the fiscal policy intentions of the government are the major reasons for the design of such budgets over these periods mainly for the overall growth and development of the Nigerian economy. Hence, this study seeks to investigate the relevance of fiscal policy to economic growth in Nigeria.

Literature Review

Different researchers have attempted in their various studies to conceptualize the term 'fiscal policy'; Peter and Simeon (2011) define fiscal policy as the process of government management of the economy through the manipulation of its income and expenditure and to achieve certain desired macroeconomic objectives. 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. In finance, fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are government taxation and expenditure. Geoff (2012) contended that fiscal policy involves the use of government spending, taxation and borrowing to affect the level and growth of aggregate demand, output and jobs creation. It is the government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy (Reem, 2009). Fiscal policy is a major economic stabilization weapon that involves measure taken to regulate and control the volume, cost and availability as well as direction of money in an economy to achieve some specified macroeconomic policy objective and to counteract undesirable trends in the Nigerian economy (Gbosi, 1998).

Economic growth

The concept of economic growth is viewed as an increase in the net national product in a given period of time (Dewett, 2005). He explained that economic growth is generally referred to as a quantitative change in economic variables, normally persisting over successive periods. Todaro and Smith (2006) defined economic growth as a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. Jhingan (2006) viewed economic growth as an increase in output. He explained further that it is related to a quantitative sustained increase in the country's per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade. The main characteristics of economic growth are high rate of growth of per capita income or output, high rate of productivity, high rate of structural transformation, international flows of labour, goods and capital (Ochejele, 2007). Economic growth can also be measured in terms of Gross Domestic Product (GDP) and Human Development Index (HDI), which is an index that measures national growth based on measures of life expectancy at birth, education attainment, literacy and adjusted real per capita income. Looking at the above definition we can conclude that economic growth is when there is a sustained increase in the actual output of goods and services per head (Adekola, 2016).

As observed by Amadi and Essi (2006) the Nigerian economy has been plagued with several challenges over the years. Nigeria's potential for growth and poverty reduction is yet to be realized. Researchers have identified some of these challenges as: gross mismanagement/ misappropriation of public funds, (Okemini and Uranta, 2008), corruption and ineffective economic policies (Gbosi, 2008); lack of integration of macroeconomic plans and the absence of harmonization and coordination of fiscal policies (Onoh, 2007); inappropriate and ineffective policies (Anyanwu, 2007). Imprudent public spending and weak sectoral linkages and other socioeconomic maladies constitute the bane of rapid economic growth and development (Amadi and Essi, 2006). It is believed that fiscal policy as an instrument for stabilization can bring correction to the Nigerian economic woes.

Empirical Studies

A few previous studies are reviewed as thus; Morakinyo, David and Alao, (2018) examined the impact of fiscal policy instrument on economic growth in Nigeria using time series annual data from 1981-2014 which constitutes 34 years observations. This study used secondary data obtained from the CBN annual statistical bulletin. Fiscal policy instrument was proxied with government recurrent expenditure, government capital expenditure, public domestic debt, and public external debt while economic growth was proxied with Gross Domestic Product (GDP). The data were analysed using Ordinary Least Square method and vector error correction mechanism was conducted. The study found that recurrent expenditure and public domestic debt exert negative relationship while the capital expenditure and external debt exert positive relationship in the long run on the economic growth (GDP) and in the short-run the entire variables are having positive influence except REC (recurrent expenditure) on the economic growth (GDP). The study recommends that the government should put in place effective debt management strategies and fight the problem of corruption because without a reduction of the level of corruption in the country, fiscal policy components will not achieve the required level of economic growth in Nigeria.

In a similar vein, a study by Ogunbiyi and Okoye (2016) investigated the relationship between fiscal policy and economic growth of the Nigerian economy, for the period 1970 to 2014. The relationship between economic growth proxied by percentage changes in gross domestic product and fiscal policy (percentage changes in government expenditure, tax revenue and fiscal deficit) were modelled and analysed with the aid of ordinary least square method (OLS), Johansen co-integration, and error correction model. Government expenditures were segregated into four major sectors of administration, economic service, social and community service, and transfer sectors, and the result revealed that government expenditure on economic service (GEXPE) and fiscal deficit (FD) are positively and insignificantly related to gross domestic product, while government expenditure on social and community service (GEXPS) and tax revenue (TR) relates positively and significantly with gross domestic product, also government expenditure on administration and transfer were revealed to be related negatively and insignificantly with economic growth. Unit root test results indicate that all the variables were stationary at level, while Co-integration result revealed that there exist a long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria. The estimated ECM model which is rightly signed and statistically significant indicates that 92% disequilibrium in our explained variable can be corrected with changes in our explanatory variables over a year. As such, the study recommends among others that; Government should adopt fiscal mechanism that will encourage increment in revenue through tax instead of borrowing and over dependent on oil revenue.

Cyril (2016) investigated the effect of fiscal policy on economic growth in Nigeria. The main objective is to analyse how various components of fiscal policy have contributed to the growth rate of the Nigerian economy. This study uses secondary data which were obtained from the Statistical Bulletin of the Central Bank of Nigeria (CBN) covering the period from 1985 to 2015. Descriptive statistics and the ordinary least square (OLS) multiple regression analytical method was used for the data analysis after ensuring data stationarity. The results from the analysis revealed that total government expenditures is significantly and positively related to government revenue, with expenditures climaxing faster than revenue. Investment expenditures were much lower than recurrent expenditures evidencing the poor growth in the country’s economy. Consequently, it is recommended that government should formulate and implement viable fiscal policy options that will stabilize the economy. This could be achieved through the practice of true fiscal federalism and the decentralization of the various levels of government in Nigeria.

Methodology

The study adopts a quantitative type of research design. There are two variables in the model for this study, they are: independent and dependent. The dependent variable is commercial bank deposits in Nigeria. The independent variables are Recurrent Expenditure, Current Expenditure, Public External Debt and Public Domestic Debt.

Based on the nature of the study, data collection will be based on secondary data. The study will source data from Statistical Bulletin of the Central Bank of Nigeria (CBN) and Annual Abstract of Statistic of the National Bureau of Statistic (NBS). The source of data for the study is secondary source because it requires the time series data of the GDP and the Recurrent Expenditure, Current Expenditure, Public External Debt and Public Domestic Debt for the period between 1999 and 2018.

In specifying model for this study, we reference the specification of Adeoye (2006) as used by Morakinyo, David and Alao (2018). Therefore, our multiple regressions model can be specified as thus;

The model of this study is specified below:
$Y=\beta_0 + \beta_1X_1 + \beta_2 X_2 + \beta_3X_3 + \beta_4X_4+U$.................................. (1)
$GDP = \beta 0 + \beta_1RE + \beta_2CE + \beta_3PED + \beta_4PDB + U$........................ (2)
Where;
Y= Dependent Variable,
RE=Recurrent Expenditure,
CE= Current Expenditure,
PED= Public External Debt and
PDB= Public Domestic Debt

Where β_0 is intercept or constant term, β_1, β_2, β_3 and β_4 are Coefficient of the regressors and U is random disturbance/error term. The error term takes care of the measurement errors that would have resulted in the collection and processing of the data.

We shall use the Ordinary Least Square (OLS) technique to estimate the values of the parameters Bo, B_1 B_2 B_3 and B_4. Besides, we will use the student's t-values obtained to determine the statistical significance of the parameter estimates and the test of goodness of fit for the model using the R^2 technique. This will enable us to know the percentage of variations between the dependent variable and the explanatory variables. Then, the f-statistic test to determine the overall significance of the multiple regression models and the Durbin –Watson test for the presence or absence of auto-correlation.

Data Analyses and Discussion

Ordinary Least Square (OLS) results

The OLS multiple regression result is as presented below:

GDP = β_0 + β_1RE + β_2CE + β_3PED + β_4PDB

GDP = 40202733 - 1398136 RE + 0.51 CE 3.65 PED + 1.78 PDB

S.E (13634147) (719357.2) (0.28) (4.91) (2.7)

t-stat. 2.95 1.94 1.81 1.83 0.86

R^2 = 0.87, F-stat = 45.65, d-w = 1.98, N = 19

Analysis of results and Discussion

The study results generated from the ordinary least square multiple regressions as presented above shows that the Recurrent Expenditure has a negative relationship with the GDP while the Current Expenditure has a positive relationship with the GDP. In spite of being negatively signed the Recurrent Expenditure was also not statistically significant using the rule of thumb of 2. Furthermore, the Current Expenditure, Public External Debt and Public Domestic Debt were also found not to have impacted on the GDP since its t-value was also not statistically significant. This explained the nature of relationship between fiscal policy and the GDP in Nigeria.

Findings

Based on the multiple regression result, it suggested that fiscal policy do not affect the GDP in Nigeria. This implies that the value of the fiscal policy with regard to the selected variables whether high or low is not a determinant of the GDP growth in Nigeria. That is, GDP growth rate are not often moved by the level of the budgetary provisions or allocation to determine their growth level. As such, the budgetary allocations notwithstanding the GDP may grow or not grow bearing other factors other than budgetary provisions and allocations level.

Intuitively therefore, it can be said that there is no statistically significant relationship between fiscal policy and the gross domestic product (GDP) in Nigeria.

Conclusion and Recommendations

This research is on the impact of fiscal policy on the gross domestic product (GDP) in Nigeria (1999-2018). Our main aim is to investigate what has been the influence of fiscal policy on the gross domestic product (GDP) in Nigeria. Using the Recurrent Expenditure, Current Expenditure, Public External Debt and Public Domestic Debt as the explanatory variables; our study by the results obtained shows that there has been no corresponding impact of fiscal policy on gross domestic product (GDP) in Nigeria. This suggests that the level of the fiscal policy notwithstanding the growth of the GDP is made possible by other factors aside the fiscal policy variables.

Based on the finding of the study, the following recommendations were made: a) that more appropriate measure be taken to design the fiscal policy in a way and manner to an extent that it can help to grow for the nation a robust economy with such targets as job creation, inflation control and a favourable balance of payment and b) that wasteful budgetary spending should be corrected as it may go a long in making the fiscal policy framework ineffective on the economy.

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