



Fiscal Policy And Economic Growth In Nigeria: 1981 To 2021

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ABSTRACT

The study evaluated the relationship between fiscal policy and economic growth in Nigeria using time series data spanning from 1981 to 2021. The specific objectives include: to ascertain the extent of relationship between oil revenue and economic growth in Nigeria; to determine the degree of relationship between non-oil revenue and economic growth in Nigeria; to evaluate the extent of relationship between capital expenditure and economic growth in Nigeria; to find out the extent of relationship between recurrent expenditure and economic growth in Nigeria; to ascertain the degree of relationship between domestic debt and economic growth in Nigeria; to investigate the extent of relationship between external debt and economic growth in Nigeria; and to investigate the degree of relationship between fiscal deficit and economic growth in Nigeria. Relevant conceptual, empirical and theoretical literatures were reviewed. Endogenous growth theory was adopted for the study. The study adopted longitudinal research design. Capital expenditure, recurrent expenditure, oil revenue, non-oil revenue, domestic debt, external debt, and fiscal deficit were employed as the independent variables while real gross domestic product, a proxy for economic growth served as the dependent variables. Data were sourced on these variables from the Central Bank of Nigeria Statistical Bulletin, 2021. The statistical tools employed in analyzing the data include descriptive statistics, Augmented Dickey Fuller unit root test, Johansen Cointegration test and Error Correction Model (ECM). The result of the descriptive statistics indicates that all the variables were normally distributed. Augmented Dickey-Fuller (ADF) test statistics showed that all the variables used in this study were stationary at first difference. Johansen Cointegration test indicate that there is a long run relationship between the variables used in the study. The estimation result indicates that non-oil revenue, capital expenditure and recurrent expenditure had significant positive relationship with economic growth. Oil revenue was found to have insignificant positive relationship with economic growth in Nigeria while domestic debt, external debt and fiscal deficit were found to have negative relationship with economic growth within the period under review. The study therefore concludes that fiscal policy has significant relationship with economic growth in Nigeria. The study recommends that amongst others that government should ensure the diversification of the nation's economic base and be prudent public spending by concentrating its public expenditure on the productive sector of the economy in order to create more jobs to its citizenry.

Keywords: Fiscal Policy, Economic Growth

INTRODUCTION

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 government revenue and expenditure profiles in an economy to achieve certain macroeconomic policy objectives in the economy. Invariably, the attainment of these macroeconomic objectives cannot be left to the market forces of demand and supply as well as other instruments of stabilization such as monetary and exchange rate policies among

others. The cyclical fluctuations in the country's economic activities has led to the periodic increases in Nigeria's continuously rising unemployment and inflation rates as well as the external sector disequilibria (Titiloye & Ishola, 2020). There is no gainsaying the fact that fiscal policy is a major economic stabilization weapon which involves measures taken to enhance government revenue thereby providing adequate funds for the financing of government expenditures in order to put the economy on the path of rapid and sustainable economic growth.

The question of whether changes in government revenue, expenditure, borrowing and fiscal deficit can affect growth has been widely explored in the literature. However, most of such studies paid more attention to developed economies and some include developing countries in case of cross-country studies. There is a popular assertion in the empirical literature that public spending is negatively correlated with economic growth due to inefficiency of the public sector especially in the developing countries where large proportion of public spending is attributed to non development expenditure like defence and interest payments on debt (Benimana, 2020) and Nigeria is not an exception.

Fiscal policy is a tool to direct firmly towards maintaining sound public finances over the medium term, based on strict rules. Ghulam and Noman (2017) noted that sound fiscal policy together with a monetary policy frameworks provide the platform of stability necessary for achieving the Government's central economic goal and sustainable levels of employment. The key to successful public finance management is a matter of governance to balance the economic, managerial, and political roles of public finances. When fiscal governance is poor has a little chance of succeeding the fiscal policy objectives. Fiscal governance is strong only when a Government can deliver their fiscal policy in a sustainable way, and are efficiently applied to the provision of public goods and services. When the government's fiscal position is unsustainable that may lead to a higher cost of borrowing and/or credit rationing, this process is costly and it makes less attractive foreign borrowing to fund government investment (Naser & Hayelom, 2021).

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. A key constraint has been the recent conduct of macroeconomics, particularly fiscal policies which has led to rising inflation and decline in real incomes (Amusa, Nwagwu, Yusuf & Sokunbi, 2019). Other challenges includes 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. Furthermore, imprudent public spending and weak sectoral linkages and other socioeconomic maladies constitute the bane of rapid economic growth and development.

Experience in Nigeria illustrates the difficulties of implementing fiscal policy in an environment with highly volatile revenue flows (Nwamuo, 2020). Over the years, there have been a strong deficit bias and inconsistencies in physical policy, driven largely by oil price developments. The current revenue-sharing arrangement, whereby about half of oil revenue is allocated to state and local governments, has facilitated an expansion of expenditure programs at the subnational level, a tendency that has further constrained the ability of the federal government to stabilize overall expenditure. As a result, fiscal volatility has been transmitted to the rest of the economy, with negative implication for, in particular, the real exchange rate and growth performance (Onifade, Çevik, Erdoğan, Asongu & Bekun, 2020).

Despite the substantial oil resources that have been spent during the last thirty years, there is little to show in terms of economic development and poverty alleviation. This reflects the key challenges to fiscal management from the inefficient use of public resources. The overriding concern now must be to break this pattern; however, this will remain a challenge since the fundamental drivers of the process remains the same and unchanged. Furthermore, the debate on the effectiveness of fiscal policy as a tool for promoting growth and development remains inconclusive, given the conflicting results of current studies. The existing empirical studies revealed conflicting empirical findings. The conflicting results from existing empirical studies on fiscal policy and growth might be due to inconsistency in definitions and variations in the countries studied; differences in periods of study and method of estimation; data quality based on country's convention for the measurement of public sector size (i.e. re-basement) and limited

data at the required level of disaggregation may imply measurement errors. Also, there could be modeling error of dynamic effects of fiscal policy on economic growth. Secondly, there seems not to be recent holistic study disaggregating expenditure, public debt revenue and fiscal deficit to include explanatory variables unique and home to Nigeria's economic features. Most studies, excluded fiscal deficit in the study of fiscal policy and economic growth. Finally, available studies, seemingly, did not include analysis of country's debt sustainability as a measure of welfare from fiscal deficit. Based on the foregoing, the study examined fiscal policy and economic growth in Nigeria. In this work, we disaggregate policy fiscal policy into government expenditure, government borrowing and government revenue and examined its relationship with economic growth in Nigeria using time series data from 1981 to 2021.

Research Questions

The following research questions were formulated to guide this study.

- i. What is the extent of relationship between oil revenue and economic growth in Nigeria?
- ii. How significant is the relationship between non-oil revenue and economic growth in Nigeria?
- iii. What is the extent of relationship between capital expenditure and economic growth in Nigeria?
- iv. How significant is the relationship between recurrent expenditure and economic growth in Nigeria?
- v. What is the extent of relationship between domestic debt and economic growth in Nigeria?
- vi. To what extent does external debt relates to economic growth in Nigeria?
- vii. What is the extent of relationship between fiscal deficit and economic growth in Nigeria?

Research Hypotheses

The following null hypotheses were postulated to guide this study:

- i. Oil revenue has no significant relationship with economic growth in Nigeria.
- ii. Non-oil revenue has no significant relationship with economic growth in Nigeria.
- iii. Capital expenditure has no significant relationship with economic growth in Nigeria.
- iv. Recurrent expenditure has no significant relationship with economic growth in Nigeria.
- v. Domestic debt has no significant relationship with economic growth in Nigeria.
- vi. External debt has no significant relationship with economic growth in Nigeria.
- vii. Fiscal deficit has no significant relationship with economic growth in Nigeria.

LITERATURE REVIEW

Fiscal Policy

Fiscal policy refers to government's efforts to influence the direction of the economy through changes in taxes or expenditures. Uffie and Aghanenu (2019) viewed it as the planning of revenue and expenditure levels and pattern by government to influence the circular flow, or specifically to promote full employment production, price stability and national welfare. Generally, Fiscal Policy (FP) is the economic term that defines the set of principles and decisions of government in setting the level of public expenditure and how the expenditure is funded (Badreldin, 2013). Reem (2009) defined fiscal policy as the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy. The policy is used along with monetary policy in different combinations to direct a country's goals. According to Reem (2009) fiscal policy is based on the theories of British economist John Magnard 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. For the Keynesians, fiscal policy refers to the manipulation of taxes and public spending to influence aggregate demand.

Musgrave and Musgrave (2004) identify the following as the objectives of fiscal policy;

1. The provision of social goods, or the process by which total resource use is divided between private and social goods and by which the mix of social goods is chosen. They referred to this as allocation function.
2. Adjustment of the distribution of income and wealth to ensure conformance with what society considers as "fair" or "just" state of distribution. This is referred to as distribution function.

3. The use of budget policy as a tool for maintaining high employment, a reasonable degree of price level stability, and an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payment. This is referred to as the stabilization function.

Fiscal policies often come in either of expansionary or contractionary forms when the government wishes to effectively regulate or manage the level of aggregate demand in any economy (Onifade, et al, 2020). The expansionary fiscal policy is applied when the government wishes to stimulate aggregate demand and this is often visible when the government increases expenditures on projects in the various sectors of the economy or when it lowers tax burdens while paving the way for higher disposable income for its citizens in addition to some transfer payments. The major rationale behind this is the multiplier effect which holds that public spending could help to stimulate private spending and tackle the challenges associated with economic recession thereby boosting economic growth as popularly demonstrated by the Keynesian economic school of thought (Jaramillo & Cottarelli, 2012). However, there are concerns about the opinion that the expansionary fiscal policy could exacerbate inflationary pressure and in some situations, higher government spending may not create the desired stimulus on economic growth, but rather lead to an undesirable or negative impact on growth: a scenario often referred to as the crowding out effect. The public sector can exercise undue advantage over the private sector in capital accumulation and when the government aims at expanding expenditure by boosting tax revenue via higher taxes, this may become a disincentive to private sector investment (Afonso & Sousa, 2011). Furthermore, expansionary policies may also pave the way for excessive deficit financing since experiences have shown that several nations resort to borrowing in order to sustain the execution of various public projects. Shonchoy (2010) noted that higher public debt could reduce private sector confidence due to the need for debt servicing which might exacerbate tax burden on the private sector and thus engender a detrimental effect on economic growth and productivity in the long run. Sawyer (2012) noted that future generations should be prevented from the burden of unsustainable debt by tackling the deficit in public finance and strengthening private sector confidence thereby helping to sustain growth and employment in the medium term.

The contractionary fiscal policies are geared towards downsizing and regulating excess in aggregate demand. They are often applied when inflationary pressure is seen to be posing a dangerous threat to economic stability and in some circumstances when prevailing levels of public expenditures have risen to the point of crowding out the private sector efficiency. In such situations, government expenditures are generally scaled-down with the implementation of various austerity measures especially to reduce the overall recurrent expenditures and transfer payments with a possible increase in tax revenue. However, there are also arguments indicating that some contractionary fiscal policies may not produce the expected results as they could also exacerbate economic crisis by creating more disruptions on the growth path (Dellepiane-Avellaneda, 2015).

Economic Growth

Economic growth is the increase in the amount of the goods and services produced by economy overtime (Wikipedia, 2015). It is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another (Investopedia, 2015). It is measured as a percentage of gross domestic products GDP of a country. Economic growth is regarded as a major goal of national policy in any given economy. Ayres and Warr (2006) define economic growth as 'a rise in the total output (goods or services) produced by a country'. It represents an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth refers only to the quantity of goods and services produced. Economic growth can be measured in nominal terms including inflation, or in real terms, which are adjusted for inflation like by the percent rate of increase in the gross domestic product (GDP). Economic growth measures growth in monetary terms and looks at no other aspects of development (Illyas & Siddiqi, 2010).

Schiller (1999) sees economic growth as an increase in output (real GDP), as depicted by expansion in product possibility curve. His view was not different from that of Dolan and Lindsey (1991) who sees Gross Domestic Product (GDP) as a measure of economic growth most frequently expressed in terms of

total output of goods and services. Lipsey (1986) supported this idea by describing a positive trend in the nation's total output of goods and services over a long period of time as economic growth. This implies a sustained increase in production and the capacity to produce for a long time. Economic growth is a rise in the productive capacity of a country on a per capita basis. It is the increase in the national output or GDP of the nation (Hogendorn, 1992). Economic growth can be either positive or negative. Negative growth can be referred to by saying that the economy is shrinking. Negative growth is associated with economic recession and economic depression (King & Levine, 1993).

Fiscal Policy And Economic Growth

Whether fiscal policy stifles or promotes growth has been a hot debate since Adam Smith's era. The Neoclassical economists are of the view that fiscal policy cannot affect output growth in the long-run. However, they believe that it may affect its level. On the other hand, proponents of public policy endogenous growth model hold the contrary view. According to them fiscal policy can affect level of output as well as its long-run growth (see for example, (Barro, 1990; Barro & Sala-i-Martin, 1992).

The International Monetary Fund (2009) and CBN (2010) stated that economic growth is the increase in the amount of the goods and services produced in an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP (RGDP). Growth is usually calculated in real term i.e. inflation- adjusted terms, in order to net out the effect of inflation on the price of the goods and services produced. The drivers of economic growth in an economy as posited by Dwivedi (2008) are the quality of the labour force, natural resources, capital formation, technological development and political and social factors while Riley (2012) noted that the determinants are growth in physical capital stock; growth in the size of active labour force available for production; growth in the quality of human capital; technological progress and innovation; institutions including stable democracy, maintaining rule of law and macroeconomic stability; and rising demand for goods and services either led by domestic demand or from external trade. Therefore, for fiscal policy to impact on economic growth, the management of the fiscal instruments will be directed to affect each or some of the drivers of growth as the case may be so as to impact on the overall growth of the economy.

The measure and potency of fiscal policy to achieve economic growth will inter alia depend on the transparency and accountability of the fiscal institutions, appropriate combination of fiscal strategy and suitable mix of monetary policy, political stability, socio-political inclination of the society, state of nature of the economy and response of the market forces. The practicality of fiscal policy through variations of its instruments to impact on economic growth will depend on the state of nature of the economy at a particular period of time as the management and adaptability of the instruments during each of the state of nature will vary from one period to another. The fiscal policy thrust will be different at each of the economic cycles since at each cycle, the economy will be at different level of equilibrium position.

A variation in the fiscal instruments by way of increases in government expenditure through deficit budgeting and reduction in taxes will positively affect aggregate demand, employment, output and income within the economy. This is referred to as expansionary fiscal policy. However, if government desire to reduce aggregate demand, the above measure would be reversed. This is referred to as contractionary fiscal policy. Musgrave and Musgrave (2004) noted that budget policy affects the division of total output between consumption and capital formation and thereby the rate of economic growth. Nevertheless, increase in government expenditures through deficit financing by way of issue of treasury bills, certificates or bonds or tax cut will cause crowding effect of private investments. Jhingan (1997) argued that government can also use discretionary fiscal policy by changing taxes and keeping its expenditure constant, changing its expenditure with constant taxes and vary both expenditure and taxes simultaneously.

There are controversies over the net effect of fiscal policy on economic growth. This can be seen from the theoretical exposition of different schools of thought, mainly: (i) The Classical (Monetarists) School (ii) The Keynesian School and (iii) The Neo-classical School. The arguments and disagreements among the schools centered on deficit financing of budget as effective instrument for economic development.

The classical school led by Adam Smith is the basis for Monetarism as emphasized by Milton Friedman (IMF, 2014), which concentrates on managing the money supply, through monetary policy. Crowding out and aggregate supply are the centerpiece of their contention. As a school of thought, they assert that variations in money supply have major influence on national output in the short run and on price levels over longer periods. They generally stress the importance of controlling money supply to keep inflation low. They believe that with effective management of money supply, there will be automatic adjustment of the market forces which will enhance purchasing power. This sends signal to increase manufacturing capacity through employment of more factors (including labour). For labour to be employable, it trains and develops itself. So, this policy effect will rob-off on employment, increase manufacturing capacity, increase actual output, lead to human capacity development and enhance the nations standard of living through enhanced income.

On fiscal policy, monetarists are generally critical of expansionary fiscal policy. The school argues that deficit financing can adversely affect macroeconomic performance. They believe that funding fiscal deficit through debt will put pressure on interest rate, which over time will be so high that only government and its agencies can afford to borrow, while individual entrepreneurs and firms are unable to compete and hence crowded-out of the market (Abdullahi, Abu Bakar & Hassan, 2017). The above was the general view until the 1940s when the Keynesian doctrine countered it.

The Keynesian School of thought, led by the British economist John Maynard Keynes, with centerpiece on multiplier and short run effect, theorized that government changes in the levels of taxation and government spending influences aggregate demand and the level of economic activity. Therefore, fiscal policy can be perceived as an important tool for achieving a level of aggregate demand consistent with full employment and price stability. Thus, the natural flow of their argument i.e. during recession, the government through debt financing increases consumers' disposable income. The effect is to increase aggregate demand which causes production capacity to be maximized or enhanced in order to meet the aggregate demand. With these adjustments, more factors will be employed, and there will be returns to factors including income to households and profit to entrepreneurs and as well, revenues to the government, thus creating a win-win situation that results in a higher standard of living. On the adverse effect of cost of funds on the economy, Keynesians argued that since resources are not fully utilized (since government is merely spending unused resources) individual entrepreneurs and firms will not be crowded-out by high interest rate (Anyanwu & Oaikhenam, 1995). This he explained with the Investment/Savings-Liquidity Preference/Money supply (IS-LM) model otherwise called the Hicks-Hanson model.

The Neo-classical economist arose in response to Keynesian doctrine. Led by British Economist Alfred Marshall, they outline how a steady economic growth rate results from a combination of three driving forces – labour, capital and technology. Emphasized by Robert Solow and Trevor Swan in 1956 (Investopedia, 2020), the theory states that economic growth is the result of three factors- labour, capital and technology. While an economy has limited resources in terms of capital and labour, the contribution from technology to growth is boundless. They believe in a more passive fiscal policy approach of low tax rates and limited government spending that will not crowd-out private sector. They challenged the Keynesians for not taking into consideration the effect of taxation or government borrowings on private spending and the manner of deficit financing.

The Ricardian Equivalence argues that attempt to stimulate an economy by increasing debt-financed government spending is bound to fail because demand will remain unchanged. The hypothesis holds that consumers are forward looking and looks at government budget constrains when making consumption decisions. The theory states that consumers foresee that tax cuts today paid by deficit financing, will ultimately lead to tax increases in future. That being the case, they will save the income from tax cuts rather than spend it. This position is supported by the permanent income hypothesis which suggests that current consumption be determined by the present value of future income, which implies that both present and future taxes will affect current consumption. If Ricardian equivalence holds, then, government policies to reduce fiscal deficit may not achieve its goals. The Nigerian government applies variants of the

above theoretical models towards achieving her macroeconomic objectives, but its effectiveness is the main objective for this research. The theoretical controversy has also been extended to conflicting set of empirical findings as discussed below.

THEORETICAL FRAMEWORK

This research study is anchored on endogenous growth theory. Endogenous growth theory advocates the stimulation of level and growth rate of per capita output through within the model using policies like fiscal (e.g. government spending). More specifically, models of the growth effects of fiscal policy are usually built on the basis of Barro (1990) framework and subsequently Barro and Sala-i-Martin (1995). The basic hypothesis of Barro's model (1990) is that the government purchases a constant share of private output: $g(t) = \tau y(t)$ and uses it to provide free public services to private producers. Barro considers all public expenditures that produce externalities generalised to the firms' system, such as the defence of property rights, spending on justice, national defence, education, and so on. This public spending affects the constant returns to scale production function in two productive factors, $k(t)$ and $g(t)$. On maximising households' utility, one obtains a steady-state growth rate which is influenced by public spending on production services. An increase in the tax rate τ reduces the income available for consumption and private investment, but it increases public services $g(t)$ to firms. Which of the two effects will prevail depends on the form of the production function.

A natural extension of this important result has been described by Barro (1990) himself.: "We could also allow for public consumption services as an influence on households' utility." ...: "The growth rate lies uniformly below the value γ , shown by the solid curve, that would have been chosen if $\tau_h = 0$ ". However, the growth rate obtained by Barro (1990) (equation 25) does not consider the weight β that the households give to public consumption as an alternative to private consumption. Then β close to zero or β close to unity would be the same! But, if $\beta=0$ (why it would be excluded ? , as in Barro (1990), which would mean that public consumption services are entirely wasted resources, a lower rate of growth due to such a squandering of resources would be justified. If instead $\beta=1$, then households want public services only and save and invest all their disposable income, with obvious positive effects on growth.

Equation (25) in Barro (1990) shows no evidence of this, in that it considers only the effects of public spending on the productivity of the global (public and private) capital stock, net of income tax. Nor does it consider that the presence of public consumption in the households' utility function modifies the intertemporal elasticity of substitution. This latter cannot be the elasticity of substitution relative to private consumption alone; it must also evaluate the elasticity of substitution relative to public consumption. Consequently, households' consumption and saving choices are modified, with important effects on private investments.

Barro and Sala-i-Martin (1995) model is an extension of the Cass-Koopmans model to include human capital. It is one-sector model in that new physical capital, new human capital and consumer goods are all produced with the same technology. The setting is a small open economy that can borrow from the rest of the world up to the quantity of physical capital. Barro and Sala-i-Martin (1995) model show that with a share of physical capital of 30% and a share of human capital of 45%, it implies a convergence rate of 2.5%, a rate that conforms well to empirical estimates of convergence coefficients. The coefficient on initial income implied by the modern depends on the variables used to control for differences in steady-state income paths. But the human capital stock does not purely reflect the steady-state path. It also contains information about the deviation from that path. If steady-state income paths were the same, the model would actually imply that a lower stock of human capital would lead to fast growth, because income convergence in this model is driven entirely by convergence in human capital.

This study draws inspiration from these studies by employing a Cobb-Douglas production function in which government expenditure enters as input. However, endogenous growth models incorporate channels through which fiscal policy can affect long-run growth (Barro & Sala-i-Martin, 2004). Barro and

Sala-i-Martin (2004) employed AK model. The AK model production function is a special case of a Cobb–Douglas production function:

$$Y = AK^\alpha L^{1-\alpha}$$

This equation shows a Cobb-Douglas function where Y represents the total production in any economy. A represents total factor productivity, K is capital, L is labour, and the parameter α measures the output elasticity of capital. For the special case in which $\alpha = 1$, the production function becomes linear in capital thereby giving constant returns to scale:

$$Y = AK.$$

Endogenous growth models are widely used in macroeconomics mainly because they are consistent with the fact that the growth rate of output, the capital-output ratio, the real interest rate etc. are constant over time.

Endogenous growth models classify generally the fiscal policy instruments into:

- a) distortionary taxation, which weakens the incentives to invest in physical/human capital, hence reducing growth;
- b) non-distortionary taxation which does not affect the above incentives, therefore growth, due to the nature of the utility function assumed for the private agents;
- c) productive expenditures that influence the marginal product of private capital, henceforth boost growth;
- d) unproductive expenditures that do not affect the private marginal product of capital, consequently growth.

This theory was adopted for this study because it incorporates channels through which fiscal policy can affect long-run growth. Endogenous growth models classify generally the fiscal policy instruments into: distortionary taxation, which weakens the incentives to invest in physical/human capital, hence reducing growth; non-distortionary taxation which does not affect the above incentives, therefore growth, due to the nature of the utility function assumed for the private agents; productive expenditures that influence the marginal product of private capital, henceforth boost growth; unproductive expenditures that do not affect the private marginal product of capital, consequently growth.

The endogenous growth models predict that an increase in productive spending financed by non-distortionary taxes will increase growth, whilst the effect is ambiguous if distortionary taxation is used. In the latter case, there is a growth-maximizing level of productive expenditure, which may or may not be Pareto efficient. Also, an increase in non-productive spending financed by non-distortionary taxes will be neutral for growth, while if distortionary taxes are used the impact on growth will be negative. Put together, endogenous growth models, while classifying fiscal policy instruments into distortionary taxation, non-distortionary taxation, productive expenditures and unproductive expenditures predict that an increase in productive spending financed by non-distortionary taxes will encourage research that enables technological development and ultimately, economic growth. The effect is ambiguous if distortionary taxation is used.

EMPIRICAL REVIEW

Titiloye and Ishola (2020) carried out a time series analysis on the effect of Fiscal Policy and Monetary Policy on Economic Growth in Nigeria from 1989 to 2018. Variables such as government total expenditure, government total revenue, inflation, gross domestic product, interest rate, unemployment rate, and broad money supply were adopted. The data used in this study were data obtained from the World Development Indicators (WDI) and Central Bank of Nigeria Statistical Bulletin. The Autoregressive Distributed Lag Model (ARDL) was adopted as the estimation technique. The results indicate that money supply and government total expenditure and revenue has a significant impact on economic growth in Nigeria.

Amusa, Nwagwu, Yusuf and Sokunbi (2019) examined the relationship between fiscal policy and economic growth in Nigeria using time series data from 1990 to 2017. In this study, RGDP proxy's economic growth was employed as the dependent variable while inflation rate, government capital

expenditure, government recurrent expenditure and total government revenue were employed as the explanatory variables. Autoregressive Distributed Lag (ARDL) model and Error Correction Model (ECM) were employed in analyzing the data. The estimated result shows that economic growth and government revenue have a significant positive relationship in Nigeria in the short run but the relationship becomes negative in the long run. However, recurrent expenditure has a significant negative relationship with economic growth in the short run but the relationship becomes insignificant in the long run. However, inflation rate has a significant positive relationship with economic growth in both short run and long run.

Nwamuo (2020) investigated the impact of fiscal policy on the economic growth in Nigeria using time series data from 1981 to 2018. Government domestic debt, government external debt, government recurrent expenditure, government capital expenditure and non-oil revenue were employed as the explanatory variables while gross domestic product was employed as a proxy for economic growth. Augmented Dickey-Fuller test technique, Johanssen co-integration test and vector error correction were employed in analyzing the data. The vector error correction estimate of short run relationship showed that domestic debt, external debt and non-oil revenue have a positive and significant impact on economic growth while recurrent expenditure and capital expenditure have a negative and significant impact on economic growth. The vector error correction estimate of long run relationship revealed that domestic debt and external debt have a negative and insignificant impact on while recurrent expenditure has a negative and significant impact on economic growth. The result showed that capital expenditure has a negative and insignificant impact on economic growth while non-oil revenue has a positive and significant impact on economic growth.

Onifade et al (2020) carried out an empirical retrospect of the impacts of government expenditures on economic growth in Nigeria from 1981 to 2017. Real gross domestic product was employed as the dependent variable while total government recurrent expenditures as a percent of GDP, total government capital expenditures as a percent of GDP, total public debt as a percent of the GDP, private consumption expenditure and annual growth of gross capital formation were employed as the independent variable. Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests, Granger Causality Test and Pesaran's ARDL approach were employed in analyzing the data. The result indicates that recurrent expenditures of government has significant negative impact on economic growth while the public capital expenditures has insignificant positive impact on economic growth. The Granger Causality Test reveal that fiscal expansion of the government that is hinged on debt financing is strongly granger causing public expenditures and domestic investment with the latter also Granger causing real growth in the economy.

Uffie and Aghanenu (2019) investigated fiscal policy and manufacturing sector output in Nigeria from 1981 to 2016. Government expenditure and tax on company income were employed as the exogenous variables while manufacturing output was employed as the endogenous variable. Augmented Dickey-Fuller unit root test and Autoregressive Distributed Lag (ARDL) Bounds test were employed in analyzing the data. It established that government expenditure upwardly drove manufacturing output which can be underscored by increased government expenditure on capital infrastructure while company income tax dampened output owing to multiplicity of taxes.

Imide (2019) carried out an empirical review of the impact of fiscal policy on the manufacturing sector of the Nigerian economy from 1980 to 2017. Index of manufacturing sector was employed as the dependent variable while government expenditure, company income tax rate and federal government domestic debt outstanding were employed as the explanatory variables. Ordinary least square techniques were employed in analyzing the data. The result results reveals that the Government expenditure and company income tax rate have positive relationship with the Index of manufacturing sector while federal government domestic debt outstanding has negative linear relationship with the Index of Manufacturing Sector.

Benimana (2020) evaluated the impact of fiscal policy on economic growth for the period 1999 to 2017 in Rwanda. The growth domestic product was employed as the dependent variable while government expenditures, public debt and taxes were employed as the independent variables in the estimation. Multiple linear regression and least squares method (OLS) were employed in analyzing the data. The

study found that government expenditure, public debt and government revenues have a positive and significant impact on the Rwandan GDP growth.

Ghulam and Noman (2017) carried out an analysis on the impact of fiscal policy on economic growth in Pakistan using time series data period from 1980 to 2014. Distortionary taxation, non-distortionary taxation, labor force participation rate, interest rate, defense expenditures and trade openness were applied as the independent variables while gross domestic product was employed as the dependent variable. Johansen Co-integration test and VECM were employed in analyzing the data. The study revealed that there is positive relation between gross domestic product, distortionary taxation and non-distortionary taxation in short run. The causality test found that gross domestic product does not cause by defense expenditure and defense expenditures is granger cause by interest rate.

Naser and Hayelom (2021) carried out a nonlinear ARDL model analysis of the effect of fiscal policy on economic growth in South Africa using time series data from quarter two 2014 to quarter one 2018. The results exhibit the negative change effect of government spending is found to be greater than the positive change effect of government spending on economic growth. Real effective exchange rate is found to have a positive and significant effect on economic growth both in the short run and long run. Whereas, inflation rate affects economic growth negatively and significantly in the short run and long run.

Fakhri, Fuad and Navef (2018) evaluated the effect of fiscal policy on non-oil economic growth in Azerbaijan. Unit root test, Johansen co integration test and VAR were employed in analyzing the data. The results show that fiscal policy has a statistically significant positive impact on the non-oil sector both in the long and short run.

Tasnia (2018) investigated the impact of fiscal policy on economic growth using empirical evidence from four South Asian countries: Bangladesh, India, Pakistan, and Sri Lanka from 1980 to 2016. Government expenditure, tax revenue, real investment, population, trade openness and political stability were employed as the independent variables while real gross domestic product growth was employed as the dependent variable. Error Correction Model (ECM) and Autoregressive Distributed Lag (ARDL) model was employed in analyzing the data. Empirical results show that both government expenditure and tax revenue have no significant impact on real GDP growth in those South Asian countries. Moreover, real investment is strongly positively correlated with real GDP growth in these countries.

METHODOLOGY

The study adopted longitudinal research design. The data of this research work was a time series from the year 1981 to 2021. Data on real gross domestic products, oil revenue, non-oil revenue, capital expenditure, recurrent expenditure, domestic debt, external debt and fiscal deficit were collected from Central Bank of Nigeria Statistical Bulletin 2021 and World Bank Development Index. Descriptive statistics, unit root tests, cointegration test and error correction model. Model was developed to measure the relationship between fiscal policy and economic growth. The functional form of the model used in this study is specified as follows:

$$RGDP = f(OR, NOR, CE, RE, DD, ED, FD)$$

Where

RGDP = Real Gross Domestic Product

OR = Oil Revenue

NOR = Non-oil Revenue

CE = Capital Expenditure

RE = Recurrent Expenditure

DD = Domestic Debt

ED = External Debt

FD = Fiscal Deficit

From functional form, the econometric form is stated thus:

$$RGDP = \beta_0 + \beta_1OR + \beta_2NOR + \beta_3CE + \beta_4RE + \beta_5DD + \beta_6ED + \beta_7FD + \mu \quad (1)$$

Where

- β_0 = Autonomous or intercept
- β_1 = Coefficient of Parameter Oil Revenue
- β_2 = Coefficient of Parameter Non-Oil Revenue
- β_3 = Coefficient of Parameter Capital Expenditure
- β_4 = Coefficient of Parameter Recurrent Expenditure
- β_5 = Coefficient of Parameter Domestic Debt
- β_6 = Coefficient of Parameter External Debt
- β_7 = Coefficient of Parameter Fiscal Deficit

To linearize equation 1, we apply logarithm to equation 2 which gives:

$$LRGDP = \beta_0 + \beta_1OR + \beta_2NOR + \beta_3LCE + \beta_4LRE + \beta_5LDD + \beta_6ED + \beta_7FD + \mu \quad (2)$$

Where

- LRGDP = Log of Real Gross Domestic Product
- LOR = Log of Oil Revenue
- LNOR = Log of Oil Revenue
- LCE = Log of Capital Expenditure
- LRE = Log of Recurrent Expenditure
- LDD = Log of Domestic Debt
- LED = Log of External Debt
- LFD = Log of Fiscal Deficit

RESULTS

Descriptive Statistics

Descriptive statistics measure the individual characteristics of the variables used in this study. It shows the mean, median, standard deviation, Jarque-Bera and its probability value (Used to measures normality of the data). The result of the descriptive statistics is presented in the table below.

Table 1 Descriptive Statistics

	RGDP	CE	RE	OR	NOR	DD	ED	FD
Mean	34692.62	473.9831	1428.311	2430.350	1039.707	2874.888	1698.216	628.2285
Median	23688.28	309.0200	461.6000	1230.850	314.4800	898.2500	633.1400	103.7800
Maximum	71387.83	2289.000	6997.390	8878.970	4725.600	14272.64	9022.420	4813.820
Minimum	13779.26	4.100000	4.750000	7.250000	2.980000	11.19000	2.330000	1.000000
Std. Dev.	20241.02	528.2971	1842.588	2723.421	1351.774	4124.112	2195.768	1148.640
Jarque-Bera	4.986798	19.57516	12.02124	4.756112	8.991322	16.88934	31.06770	68.88354
Probability	0.082629	0.276156	0.212453	0.092731	0.211157	0.341215	0.376152	0.092345

Source: Author's Computation from E-view 9.

Table 1 above reveals the individual characteristics of the variables used in this study highlighting their median, mean, maximum and minimum values, standard deviation and Jarque-Bera statistics (normality Test). Real gross domestic product (RGDP) has a mean value of 34692.62 with maximum value of 71387.83 and minimum value of 13779.26. Real gross domestic product recorded a standard deviation of 20241.02 which is lower than its mean. This indicates that real gross domestic product recorded a slow growth within the period under review. Real gross domestic product also recorded a Jarque-Bera value of 4.986798 with a probability value of 0.082629 which is within the acceptable threshold indicating that real gross domestic product is normally distributed.

Capital expenditure (CE) and recurrent expenditure (GE) recorded mean values of 473.9831 and 1428.311 with maximum values of 2289 and 6997.390 and minimum values of 4.10 and 4.75 respectively. They recorded standard deviation values of 528.2971 and 1842.588 respectively which are higher than their respective means. This indicates that capital expenditure and recurrent expenditure had a fast growth within the period under review. Capital expenditure and recurrent expenditure also recorded a Jarque-Bera value of 19.57516 and 12.02124 with probability values of 0.276156 and 0.212453 respectively indicating that they are normally distributed.

Oil revenue (OR) and non oil revenue (NOR) recorded mean values of 2430.350 and 1039.707 with maximum values of 8878.970 and 4725.600 and minimum values of 7.25 and 2.98 respectively. They recorded standard deviation values of 2723.421 and 1351.774 respectively which are higher than their respective means. This indicates that they had a fast growth within the period under review. They also recorded a Jarque-Bera value of 4.756112 and 8.991322 with probability values of 0.092731 and 0.211157 respectively indicating that they are normally distributed.

Domestic debt (DD) and external debt (ED) recorded mean values of 2874.888 and 1698.216 with maximum values of 14272.64 and 9022.420 and minimum values of 11.19 and 2.33 respectively. They recorded standard deviation values of 4124.112 and 2195.768 respectively which are higher than their respective means. This indicates that they had a fast growth within the period under review. They also recorded a Jarque-Bera value of 16.88934 and 31.06770 with probability values of 0.341215 and 0.376152 respectively indicating that they are normally distributed. Fiscal deficit (FD) recorded mean value of 628.2285 with maximum values of 4813.820 and minimum values of 1.0. It also recorded a Jarque-Bera value of 68.88354 with probability values of 0.092345 respectively indicating that they are normally distributed.

Unit Root Test

Establishing stationarity is essential because if there is no stationarity, the processing of the data may produce biased result. The consequences are unreliable interpretation and conclusions. We test for stationarity using Augmented Dickey-Fuller (ADF) tests on the data. The ADF tests are done on level series, first and second order differenced series. The decision rule is to reject stationarity if ADF statistics is less than 5% critical value, otherwise, accept stationarity when ADF statistics is greater than 5% criteria value. The result of regression is presented in appendix 2 and the summary is shown in table 2 below.

Table 2: Summary of Unit Root Test for Stationarity

Variables	At Level 1(0)	At First Difference 1(1)	At Second Difference 1(2)	Order of Integration	Alpha Value
Real Gross Domestic product (LRGDP)		-7.808418		1(1)	0.0000
Capital Expenditure (LCE)		-6.323821		1(1)	0.0000
Recurrent Expenditure (LRE)		-8.209865		1(1)	0.0000
Oil Revenue (LOR)		-6.171975		1(1)	0.0000
Non Oil Revenue (LNOR)		-7.583600		1(1)	0.0000
Domestic Debt (LDD)		-4.566296		1(1)	0.0008
External Debt (LED)		-4.726482		1(1)	0.0005
Fiscal Deficit (LFD)		-10.26688		1(1)	0.0000

Source: Researcher’s Compilation E-views 9.0

Evidence from unit root table above shows that capital expenditure, recurrent expenditure, oil revenue, non-oil revenue, domestic debt, external debt, fiscal deficit, and real gross domestic products is stationary at first difference. Since the decision rule is to reject stationarity if ADF statistics is less than 5% critical value, and accept stationarity when ADF statistics is greater than 5% criteria value, the ADF absolute value of each of these variables is greater than the 5% critical value at their first difference but less than 5% critical value in their level form (*see*, appendixes). Therefore, all the variables are all stationary. The implication is that the most suitable tool of analyses for the model is Error Correction Mechanism since all the variables used in these models were stationary at first difference.

Cointegration Test

Since the unit root test shows that all the variables are stationary, we go further to carry out the cointegration test. The essence is to show whether the variables have a long term relationship or equilibrium among them. That is, the variables are cointegrated and will not produce a spurious regression. Johansen cointegration test was applied and the result is presented below.

Table 3 Johansen Multivariate Cointegration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.994519	656.0563	239.2354	0.0000
At most 1 *	0.977175	463.4204	197.3709	0.0001
At most 2 *	0.936353	323.5640	159.5297	0.0000
At most 3 *	0.843435	221.6508	125.6154	0.0000
At most 4 *	0.807684	153.0422	95.75366	0.0000
At most 5 *	0.638704	92.04341	69.81889	0.0003
At most 6 *	0.423797	54.37526	47.85613	0.0108
At most 7 *	0.358516	33.97735	29.79707	0.0156
At most 8 *	0.272692	17.55043	15.49471	0.0242
At most 9 *	0.144382	5.769458	3.841466	0.0163

Trace test indicates 10 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.994519	192.6359	64.50472	0.0001
At most 1 *	0.977175	139.8564	58.43354	0.0000
At most 2 *	0.936353	101.9131	52.36261	0.0000
At most 3 *	0.843435	68.60856	46.23142	0.0001
At most 4 *	0.807684	60.99883	40.07757	0.0001
At most 5 *	0.638704	37.66815	33.87687	0.0168
At most 6	0.423797	20.39791	27.58434	0.3143
At most 7	0.358516	16.42692	21.13162	0.2009
At most 8	0.272692	11.78097	14.26460	0.1191
At most 9 *	0.144382	5.769458	3.841466	0.0163

Max-eigenvalue test indicates 6 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: E-view 9.

Table 3 indicates that trace have 10 cointegrating variables in the model while Maximum Eigenvalue indicated 6 cointegrating equation. Hence, the trace statistics and Eigenvalue statistics reveal that there is a long run relationship between the variables in the model. The implication of this result is a long run relationship between dependent and the explanatory variables used in the model.

ESTIMATION RESULTS

The model was estimated using Error Correction Model (ECM) and the result is presented below.

Table 4 Error Correction Model (ECM) Estimate

Dependent Variable: LRGDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.987024	0.362051	13.77436	0.0000
LFD	-0.069576	0.018845	-3.691940	0.0010
LDD	-0.320955	0.067817	-4.732687	0.0001
LED	-0.094144	0.018765	-5.017024	0.0000
LCE	0.176643	0.044869	3.936898	0.0005
LRE	0.329055	0.110818	2.969321	0.0062
LNOR	0.250807	0.064668	3.878369	0.0006
LOR	0.033653	0.055403	0.607414	0.5487
ECM(-1)	-0.469432	0.121871	-2.321238	0.0271
R-squared	0.772110	Mean dependent var		3.824044
Adjusted R-squared	0.724743	S.D. dependent var		0.224308
S.E. of regression	0.093904	Akaike info criterion		-1.655894
Sum squared resid	0.238084	Schwarz criterion		-1.181856
Log likelihood	42.46198	Hannan-Quinn criter.		-1.487235
F-statistic	18.41185	Durbin-Watson stat		2.062011
Prob(F-statistic)	0.000000			

Source: E-view 9.0

Using the estimated result of the fitted regression line in table 4, the following were observed

Capital Expenditure: The result showed that the regression coefficient of capital expenditure is 0.176643 with a t-statistics value of -3.936898 and a probability value of 0.0000 which is highly significant. This implies that capital expenditure had a significant positive relationship with economic growth in Nigeria within the period under review.

Recurrent Expenditure: The result showed that the coefficient of recurrent expenditure is 0.329055 with a t-statistics value of 2.969321 and a probability value of 0.0062 which is statistically significant. This implies that recurrent expenditure had a significant positive relationship with economic growth in Nigeria within the period under review.

Oil Revenue: Table 4 showed that the regression coefficient of oil revenue is 0.033653 with a t-statistics value of 0.607414 and a probability value of 0.5487 which is statistically insignificant. This implies that oil revenue had a positive and insignificant relationship with economic growth in Nigeria within the period under review.

Non Oil Revenue: The result showed that the coefficient of non oil revenue is 0.250807 with a t-statistics value of 3.878369 and a probability value of 0.0006 which is highly significant. This implies that non oil revenue had a significant positive relationship with economic growth in Nigeria within the period under review.

Domestic Debt: Table 4 showed that the regression coefficient of domestic debt is -320955 with a t-statistics value of -4.732687 and a probability value of 0.0001 which is statistically significant. This implies that domestic debt had a significant negative relationship with economic growth in Nigeria within the period under review.

External Debt: The result showed that the regression coefficient of external debt is -0.094144 with a t-statistics value of -5.017024 and a probability value of 0.0000 which is statistically significant. This implies that external debt had a negative and significant relationship with economic growth in Nigeria within the period under review.

Fiscal Deficit: Table 4 showed that the regression coefficient of fiscal deficit is -0.069576 with a t-statistics value of -3.691940 and a probability value of 0.0010 which is statistically significant. This implies that fiscal deficit had a negative and significant relationship with economic growth in Nigeria within the period under review.

Coefficient of Determination (R²)/Adjusted R²: From table 4, the coefficient of determination (R²) is 0.772110 with adjusted R² value of 0.724743, which shows that the explanatory power of the variables is high. This implies that 72.5% of the variations in economic growth in Nigeria are explained by the variations in oil revenue, non-oil revenue, capital expenditure, recurrent expenditure, domestic debt, external debt and fiscal deficit.

F-statistics: The F-test was applied to check the overall significance of the model. The F-statistic is instrumental in verifying the overall significance of an estimated model. Table 4 shows f-statistics value of 18.41185 which is highly significant. This indicates that fiscal policy variables used in this study (oil revenue, non-oil revenue, capital expenditure, recurrent expenditure, domestic debt, external debt and fiscal deficit) has significant effect on economic growth in Nigeria all thing being equal.

Durbin-Watson (DW) Statistics: From the regression result, the Durbin Watson D-Statistic obtained was 2.062011 which can be approximated to 2. This means that there is no autocorrelation in the model. Hence, the model can be used for realistic forecasts.

Error Correction Mechanism: From the result obtained in table 4, the coefficient of ECM is negative which is theory consistent. The ECM is significant with the speed of convergence to equilibrium at 46.9% of the past years deviation from equilibrium. The adjustment is essential for maintaining a long-run equilibrium to reduce disequilibrium overtime.

Test of Hypotheses

In this section, the hypotheses formulated earlier in the study were tested for empirical significance and the results are presented below.

Test of Hypothesis One

Ho: Oil revenue has no significant relationship with economic growth in Nigeria.

Based on the t-Statistics value of 0.607414 and its probability value of 0.5487 in Table 4 which is statistically significant, we accept the null hypothesis and reject the alternative hypothesis. This implies that oil revenue has significant relationship with economic growth in Nigeria.

Test of Hypothesis Two

Ho: Non-oil revenue has no significant relationship with economic growth in Nigeria.

Based on the t-Statistics value of 3.878369 and alpha value of 0.0006 in Table 4.4 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that non-oil revenue has significant relationship with economic growth in Nigeria.

Test of Hypothesis Three

Ho: Capital expenditure has no significant relationship with economic growth in Nigeria.

Based on the t-Statistics value of 3.936898 and its probability value of 0.0005 in Table 4 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that capital expenditure has significant relationship with economic growth in Nigeria.

Test of Hypothesis Four

Ho: Recurrent expenditure has no significant relationship with economic growth in Nigeria.

Based on the t-Statistics value of 2.969321 and its probability value of 0.0062 in Table 4 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that recurrent expenditure has significant relationship with economic growth in Nigeria.

Test of Hypothesis Five

Ho: Domestic debt has no significant relationship with economic growth in Nigeria.

Based on the t-Statistics value of -4.732687 and its probability value of 0.0001 in Table 4 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that domestic debt has significant relationship with economic growth in Nigeria.

Test of Hypothesis Six

Ho: External debt has no significant relationship with economic growth in Nigeria.

Based on the t-Statistics value of -5.017024 and its probability value of 0.0000 in Table 4 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that external debt has significant relationship with economic growth in Nigeria.

Test of Hypothesis Seven

Ho: Fiscal deficit has no significant relationship with economic growth in Nigeria.

Based on the t-Statistics value of -3.691940 and alpha value of 0.0010 in Table 4 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that fiscal deficit has significant relationship with economic growth in Nigeria.

DISCUSSION OF FINDINGS

The study evaluated the relationship between fiscal policy and economic in Nigeria. The data generated were subjected to empirical analysis and the following became evident. The study found that oil revenue had insignificant positive relationship with economic growth in Nigeria. This implies that oil revenue made insignificant contribution to economic growth in Nigeria. Hence, the phenomenal increase in oil revenue has not translated into meaningful development of the real sector of the economy thereby affecting economic growth negatively. This agrees with the position of Sotubo (2013) that Nigeria's over-dependence on crude oil is dangerous for two reasons one being that crude oil is a wasting asset with a proven reserve which would eventually become depleted and secondly, the vagaries of the oil market has resulted in a significant decline in the earnings because of the exogenously determined price of crude oil. This disagrees with the findings of Efanga, Ugwuanyi and Ogochukwu (2020) that oil revenue impacted positively and significantly on economic growth of Nigeria. Similarly, it disagrees with the findings of Nweze and Greg (2016) that oil revenue exerted significant impact on economic growth in Nigeria.

The study also found that non-oil revenue had significant positive relationship with economic growth in Nigeria. This implies that revenue from non oil sector contributed positively to economic growth within the period under review. Therefore, the need to expand the non-oil revenue base of Nigeria remains non-negotiable in bringing about the desired increase earning and greater sustainable growth. This agrees with the position of Ozurumba and Chigbu (2013) that the non-oil sector has huge potentials for foreign exchange earnings and can bring about huge employment generation and poverty reduction through the extensive backward linkages it offers. This collaborates the findings of Nwamuo (2020) that non-oil revenue have a positive and significant impact on economic growth in Nigeria. This agrees with the findings of Amusa, Nwagwu, Yusuf and Sokunbi (2019) that government revenue has a significant positive relationship with economic growth in Nigeria in the short run.

The study further found that capital expenditure had significant positive relationship with economic growth in Nigeria. This implies that government capital expenditure contributed significantly to economic growth all things being equal. Recurrent expenditure enables government to invest in schemes that involves huge capital outlay such as construction of railways, roadways and communication systems, irrigation and power projects which can raise economic growth both directly and indirectly through encouragement of further private investment. This agrees with the findings of Benimana (2020) that government expenditure has a positive and significant impact on the GDP growth. This disagrees with the findings of Tasnia (2018) that government expenditure has no significant impact on real GDP growth. This also disagrees with the findings of Munongo (2012) that capital expenditure by government has a negative effect on economic growth. Similarly, Ghazi and Martha (2010) that government investment in infrastructure and productive capacity has been less growth-enhancing in Saudi Arabia. Furthermore, Nwamuo (2020) found that capital expenditure and capital expenditure have a negative and significant impact on economic growth.

Recurrent expenditure was also found to have significant positive relationship with economic growth in Nigeria. This implies that recurrent expenditure is positively related to economic growth in Nigeria. This collaborate the findings of Benimana (2020) that government revenues has a positive and significant

impact on the Rwandan GDP growth. This also agrees with the findings of Titiloye and Ishola (2020) that government total expenditure and revenue has a significant impact on economic growth in Nigeria. This disagrees with the findings of Amusa, Nwagwu, Yusuf and Sokunbi (2019) and Onifade, Çevik, Erdoğan, Asongu and Bekun (2020) recurrent expenditure has a significant negative relationship with economic growth. Similarly, Nwamuo (2020) found that recurrent expenditure and capital expenditure have a negative and significant impact on economic growth.

The study also found that domestic debt had significant negative relationship with economic growth in Nigeria. This implies that domestic debt have not contributed positively to economic growth in Nigeria within the review period. Proper and efficient utilization of domestic debt may enhance productive capacity and economic growth through development related projects. But the reverse is the case in Nigeria within the reviewed as it has not contributed to economic growth. This agrees with the findings of Agbarakwe (2018) that total debt stock have significant negative long run relationship with economic growth. This disagrees with the findings of Putunoi and Mutuku (2013) that domestic debt expansion had positive and significant effect on economic growth. This also disagrees with the findings of Osuala and Ebieri (2014) that government total debts have no significant impact on real GDP.

The study further found that external debt had significant negative relationship with economic growth in Nigeria. This implies that external debt borrowing have not contributed significantly to economic growth. Countries experiencing fiscal deficits, especially the developing ones borrow to improve their economic growth but these borrowing have not made any significant contribution to economic growth. The implication is that the huge external borrowings by government might have been either misappropriated, diverted, or invested in unproductive sector. This collaborates the findings of Akujuobi (2012) that external debts did not contribute positively to economic development of Nigeria. This also agrees with the findings of Ajao and Ogiemudia (2012) that there is a significant relationship between external debt and economic development in Nigeria. This disagrees with the findings of Eravwoke and Oyovwi (2013), Shehu and Aliyu (2013) and Sulaiman and Azeez (2012) that external debt has a positive relationship with economic growth.

The result also indicates that fiscal deficit had significant negative relationship with economic growth in Nigeria. This implies that fiscal deficit negatively relates to economic growth in Nigeria within the period under review. Hence, fiscal deficit adversely affects GDP supporting the mainstream neo-classical theory. This agrees with the findings of Gyasi (2020) that fiscal deficit affect economic growth. This also collaborates the findings of Tung (2018) that fiscal deficit had harmful effects on economic growth in both short and long run. Similarly, Navaratnam and Mayandy (2016) and Mohanty (2012) found that fiscal deficit has a negative impact on economic growth. This disagrees with the findings of Shahid and Naved (2010) that there is a long run positive relationship between overall fiscal deficit and economic growth. This also disagrees with the findings of Boldeanu and Ion (2015) that budget deficit has no significant influence on economic growth in the founding countries of the European Union.

CONCLUSION

The study investigated the relationship between fiscal policy and economic growth in Nigeria using time series data from 1981 to 2021. The results of the empirical analyses indicate that all the data used in the study were normally distributed and stationary at first difference. The result of the co-integration test indicates that there is a long run relationship between the variables used in the study. The result of the estimation technique indicates that non-oil revenue, capital expenditure and recurrent expenditure had significant positive relationship with economic growth. Oil revenue was found to have insignificant positive relationship with economic growth in Nigeria. Furthermore, domestic debt, external debt and fiscal deficit were found to have negative relationship with economic growth within the period under review. The study therefore concludes that fiscal policy has significant relationship with economic growth.

Based on the findings, the following recommendations are made:

1. The Federal government should intensify efforts in ensuring the diversification of the nation's from the oil economy to other productive sector. Judging from the huge capacity of the non-oil sector in transforming revenue generation and the economic growth of Nigeria, the government must be committed to setting machinery in place to drive its policies and strategies aimed at opening up the non-oil productive sector and setting it on track for revenue generation.
2. Government should be consistent with policies that will bring about sustainable growth in non-oil revenue. Government should reexamine its non-oil revenue by way of increasing tax base and introducing new taxes in such a way that it does not distort the working of the economy but to increase the economic growth.
3. Capital expenditure should be channeled to capital projects and social overhead capital that will encourage investment, such as constant electricity supply and good road networks. Also, tax rebates and holidays for those involved in the productive sector of the economy in order to increase their contribution to economic development.
4. Also, government used devise and adopts appropriate policy mix and setting of achievable fiscal policy targets that will help to enhance the productivity of the economy.
5. More caution should be applied in domestic government borrowing to keep the debt profile within a tolerable limit that would not lead to debt overhang that could affect the future generation. The study is encouraging domestic borrowing that is more dominated by marketable securities because it serves as a monetary tool to strengthen the financial markets and also helps to achieve economic expansion in the country.
6. Government should made efforts to settle the outstanding external debt. This will give room for proper conduct of monetary policy in the economy. It will be healthy if the government strives to finance budget deficit by improving on the present revenue base rather than resulting to external and domestic borrowing. This can be achieved by improving its revenue sources and efficient pursuit of tax reforms.
7. Concerted efforts should be made to boost domestic revenue generation and execute fiscal transformations that reduce public debt and deficit financing to a sustainable level, while ensuring that borrowed funds are deployed to support growth through productive and self-liquidating investments in principal sectors of the economy.

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