Fiscal Policy Sustainability and Growth in the Nigerian Economy

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Abstract- ***Fiscal policy which is about how government revenue are earned and government expenditure incurred. Different economic reforms has been introduced by the past government in order to change the country's fiscal policy, despite all the economic reforms that has been introduced to either reduce expenditure or increase revenue, the country still sticks to its tradition of recording a budget deficit. This study investigates how government revenue, government expenditure and budget deficits affects economic growth in Nigeria from 1990-2020. To examine fiscal policy sustainability in Nigeria and to see how the individual variables of fiscal policy affects Nigerian economic growth. This research used an ex-post facto research design. ADF test was conducted, the Ordinary Least Square regression model and Granger Causality test was employed and findings revealed that government revenue has negatively predicted economic growth in Nigeria and that fiscal un-sustainability as measured by fiscal deficit negatively and significantly predicted economic growth in Nigeria. Based on the findings it was recommended that generation of revenue by the government should be anchored on the proceeds of developmental projects and not on excessive taxations and levies that are counterproductive and The government should also pay particular attention towards ensuring that expenditure does not rise faster than revenue as fiscal deficit would hamper economic growth.***

I. INTRODUCTION

Fiscal policy is a major component of Government administration and management because it is all about how government plans, organize, direct and control its revenue and expenditure. It is coordinated policy of government with respect to revenue, expenditure, budget surplus or deficit and public debt with the objectives of retaining a stable economy (Afonso 2000; ebimobewei 2010; Adeyemi and Odetayo 2017). Fiscal policy is used alongside with monetary policy to organize and regulate the economy. While fiscal policy deals with government revenue and expenditure, monetary policy on the other hand is used to regulate supply of money in the economy. These are the two major policies used in achieving macroeconomic goal in a nation, which includes; price stability, full employment, reduction of poverty level, high and sustainable economic growth, favorable balance of payment and reduction in national debts, (Sylvia, Ifeoma, Okelue and Adeline, 2015).

Fiscal policy sustainability is simply a macroeconomic concept which deals with how well the financial responsibility of the government is carried out in its economy without been detrimental to government expenditure. An economy is said to have a sustainable fiscal policy, if the economy is able to finance its debt without an unrealistic large future correction to balance of government revenue and expenditure, resorting to debt repudiation or excessive debt monetization; and that a reasonable level of external shocks is not expected to bring a country into perpetual debts (kojo, 2010). Rising public debt overtime, poor infrastructure, increased rate of poverty and high rate of unemployment are characteristics of an unsustainable fiscal policy will adversely affect the macroeconomic performance; retard the smooth operation of the private sector, generate economic instability and poor economic growth could necessitate policy change (Oyeleke 2013; Adeyemi and Odetayo 2017).

There is need for the managers of the country's fiscal policy to digest and accept the fact that today's overspending will result in mortgaging the standard of living for the younger generation and budget

deficit for the economy. Budget deficit which can be said to be the extent with which, government expenditure exceeds government revenue, and has to be financed with internal, external borrowing or sales of national assets. The rising debt profile of the country is quite alarming in the area of public finance management, shows the level of fiscal imbalance in the economy and shows to a great extent the level of fiscal discipline of political actor's attitude of making the country great.

An increase in government expenditure should lead to a decrease in the level of unemployment, rate of poverty, and an increase in the provision of basic infrastructures, but the reverse is the case as regards Nigeria, because a large percentage of the total expenditure is directed to recurrent expenditure. Different economic reforms has been introduced by the past government in order to change the country's fiscal policy, among which are; privatization and commercialization of some government parastatals, passage of debt management act, the passage of fiscal responsibility act of 2007, the public procurement act in 2007, introduction of single treasury account, IPPIS (integrated personnel and payroll information system) to mention but a few. Despite all these economic reforms that were introduced to either reduce expenditure or increase revenue the country still sticks to its tradition of recording a budget deficit.

This study investigates how government revenue, government expenditure and budget deficits affects economic growth in Nigeria from 1990-2020. To examine fiscal policy sustainability in Nigeria and to see how the individual variables of fiscal policy affects Nigerian economic growth.

The remaining part of this paper is further classified in four sections, section two; reviews of related literature, section three; methodology, section four; is the analysis and discussion of findings and the last section; is the conclusion and recommendation.

II. LITERATURE REVIEW

- Conceptual frame work

Fiscal policy refers to the means by which a government monitors its revenue and adjusts its expenditure to influence the country's economy, (Adeyemi and Odetayo 2017). It can also be said to be a macroeconomic tool which the government uses in regulating economic activities in the country. Fiscal policy according to Audu (2010) is the measure that government of any nation employs to stabilize its economy, it includes changing the allocation and levels of government expenditure and taxes.

Fiscal policy sustainability is the ability of government to maintain its expenditure and revenue in the long run without threatening its solvency, (Adeyemi and Odetayo 2017). Fiscal policy sustainability occurs when government budget can be smoothly financed without generating explosive increase in public debt over time (Sharma and Jaddy, 2009; Adeyemi and Odetayo, 2017). Fiscal policy as explained by Collingnon, (2012) are sustainable when a nation is able to continue servicing its debt without an unrealistically large future correction to the balance of revenue and expenditure, without resorting to excessive debt monetization, and being able to withstand a reasonable level of external shocks without going into debt distress.

Fiscal policy is a policy option used by the government for the promotion of both internal and external economic stability, (Dandan 2011). Developing countries are usually prone to the effects of cyclical fluctuations, this is because usually export primary product and import manufactured and capital goods. However in order to minimize the effects of international cyclical fluctuations. Fiscal policy is used to bridge the gap between balanced growths and reduce the effects of cyclical fluctuation through fiscal deficit (Cletus, Ejima and Ali 2021).

The difference between government revenue and government expenditure is known as Budget deficit, which is the difference between expenditure and revenue of a country. Budget deficit measures the extent to which government revenue that need to be financed either by borrowing or through monetization,(Adeyemi, and Odetayo 2017).

- Theoretical review

The work will be anchored on the fiscal theory of the price level [FTPL] which was primarily developed by

E.M Leeper (1991). The fiscal theory of price level is the idea that government fiscal policy, including debt and taxes present and future, is the primary determinant of the price level or inflation as opposed to monetary theory. The FTPL requires confidence that the government will not default on its debts but rather inflate away debts. FTPL suggests that currency is like a stock in a government and if the government has structural deficits then the stock loses valve. This theory implies fiscal of disequilibrium would be restored by neither government expenditure nor taxes and inflation must adjust to ensure that the inter-temporal budget constraint on fiscal policy is satisfied. The extrapolation approach identifies the steps to be taken in decomposition of expenditure and revenue on demographic characteristics of the population in a given base year and combined this with a population forecast to generate path for future public sector expenditures and revenue (Adeyami and Odetayo 2017).

The present valve constraint econometric approach is used to analyze fiscal sustainability which includes econometric tests of the government budget constraint or the Non-Ponzi game for a set of data on government expenditure, revenue, deficits and debt. Deficit is sustainable if and only the stock of debt held by the government is expected to grow not faster than the average real rate of interest, which is viewed as a proxy for the growth rate of the economy (Jibao, Schoeman and Maraidoo 2012; Adeyemi and Odetayo 2017).

- Empirical Review

The empirical review of this study will take the webometric approach, which comes in tabular form in table 1.

TABLE 1

Authors / year	Topics / period	Variables	Estimation methods	Major findings
Cletus, Ejima and Ali, 2021	Effect of fiscal policy on economic development in Nigeria (Econometric Approach 1986 – 2016)	Per capita income, Taxation, government expenditure and government revenue	Ordinary least square (OLS) method	Taxation and government expenditure have no significant effect on economic development, except government revenue which was revealed to have significant effect on economic development.
David and Gbadebo 2020	Fiscal policy sustainability in Nigeria; ARDL Bound testing technique (1961 – 2016).	Public revenue and expenditure and Gross Domestic Product (GDP)	Autoregressive Distributed Lag (ARDL).	Results shows no equilibrium occurs between public revenue and expenditure, indicating absence of sustainability in government finances in Nigeria.
Efuntade, Efuntade and Akinola (2020)	Relationship among Capital expenditure, taxation and Economic growth in Nigeria (1989-2010)	Capital expenditure, company income tax, Value added tax and GDP	ARDL, Cointegration test and Granger Causality.	Findings are that company income tax and value added tax had negative relationships with

				economic growth. Causality was also flowing from capital expenditure to economic growth.
Adeyemi and Odetayo 2017	Fiscal policy sustainability and economic growth in Nigeria 1980 -2015	Government revenue, government expenditure and fiscal deficit.	Augumented Dickey Fuller, Philip Perron, Autoregresive Distributed Lag (ARDL) and Error Correction Model (ECM).	Government revenue, government expenditure and fiscal deficit increased tremendously during the period covered. It also showed long run relationship between fiscal policy and economic growth in Nigeria.
Ubesie 2016	Effect of fiscal policy on economic growth in Nigeria 1985 – 2016	Total government expenditure, government revenue and Gross domestic product (GDP).	Ordinary least square (OLS) method	Total government expenditure is significantly and positively related to government revenue, with expenditure climaxing faster than revenue.
Sylvia, Ifeoma, Okelue and Adeline 2015	Fiscal policy and economic growth in Nigeria; Emphasis on various components of public expenditure (1961 – 2010)	Gross domestic product (GDP), recurrent expenditure and Capital expenditure and government revenue.	Augumented Dickey Fuller (ADF) and Ordinary least square (OLS) method	Findings revealed that total government expenditures have tend to increase with government revenue, with expenditure peaking faster than revenue with recurrent expenditures evidencing the poor growth in the country's economy.
Ayinde 2014	Sustainable fiscal management in Nigeria – A Triangulation analysis 1970 – 2011	Capital expenditure, government revenue public debts, recurrent expenditure	Augumented Dickey Fuller (ADF) and Co-integration test	Fiscal policy is grossly unsustainable in Nigeria. There is liquidity problem since the growth of capital expenditure is higher than that of its revenue

				counterpart.
Afonso and Jalles 2012	Fiscal sustainability for OECD Countries 1970 – 2010	Government revenue and government expenditure	Co-integration test	Fiscal policy has been less sustainable for several countries and panel results corroborate the time series findings.

III. METHODOLOGY

The time series data were sourced from the Central Bank of Nigeria statistical bulletin (2020). The multiple regression model is adopted for this study and is originally stated as follows;

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \ldots + \alpha_n X_n + \mu_t \quad (1)$$

Y is the dependent variable while X_1 to $X_n$are the independent variables. Similar to the study of Adeyemi and Odetayo (2017), this study models economic growth, measured by real GDP (RGDP), as a function of Government Revenue (GREV), Government Expenditure (GEXP) and Fiscal Deficit (FISD). The functional model is indicated thus;

$$RGDP = f(GEXP, GREV, FISD) \quad (2)$$

$$RGDP = \alpha_0 + \alpha_1 GEXP + \alpha_2 GREV + \alpha_3 FISD + \mu_t \quad (3)$$

Where α_0 is the constant term; α_1, α_2 and α_3 are the regression coefficients.

For the multiple regression models, the Ordinary Least Square (OLS) regression analysis was adopted. This method of analysis reveals the relationship between the dependent and independent variable. It procures statistics that determines if the relationship is positive, negative, significant or insignificant. To avoid spurious results of the OLS regression which is associated with the use of non-stationary data, the study tested the data for stationarity using the Augmented Dickey Fuller unit root test. To make the data stationary, they were differenced according to their order of integration.

To reveal the presence of significant effect, the Granger Causality test was adopted in this study. The assumption behind the Granger Causality test is that for effect to be established, past values of the independent variable must significantly predict the present values of the dependent variable. In other words, change in the dependent variable at a given period (ΔY_t) must be triggered by a change in the independent variable in the previous period (ΔX_{t-1}). The granger causality model is therefore expressed as follows;

$$\Delta RGDP_t = \Delta RGDP_{t-1} + \Delta GEXP_{t-1} \quad (4)$$

$$\Delta RGDP_t = \Delta RGDP_{t-1} + \Delta GREV_{t-1} \quad (5)$$

$$\Delta RGDP_t = \Delta RGDP_{t-1} + \Delta FISD_{t-1} \quad (6)$$

The criteria for data analysis include the regression coefficients of the OLS regression results, the Probability values of the t-statistics, the probability values of the F-statistic and the R-squared. The decision rule for using the probability values of the t-statistic and the F-statistic is to accept the hypothesis of a significant prediction/effect if the probability value is below 0.05, otherwise, the hypothesis of an insignificant prediction/effect is accepted.

IV. RESULTS

The result of the stationarity tests for the variables RGDP, GEXP, GREV and FISD are summarized in table 2. The table contains the ADF statistic, the Critical value, the number of lags, the differencing and the order of integration. The decision rule for the stationarity test is to accept the hypothesis of stationarity if the obtained ADF statistic is greater in absolute terms (ignoring the negative signs) than the critical value at the chosen level of significance (5%).

Table 2: Summary of the Stationarity test

Variables	Differencing	Number of Lags (Based on SIC*)	ADF Statistic	Critical Values (5%)	Order of Integration	Decision
RGDP	Level	4	-3.259671	-2.981038	I(0)	Stationary
GEXP	Level	5	4.602678	-2.986225	I(0)	Stationary
GREV	Level	0	-0.988558	-2.963972	I(0)	Non-stationary
DGREV	First	0	-5.164357	-2.967767	I(1)	Stationary
FISD	Level	5	5.364549	-2.986225	I(0)	Stationary

Source: *Author's Compilation from Eviews 10 ADF Unit Root Test Result, 2022*
**SIC – Schwarz Information criterion*

Table 2 reveals that RGDP, government expenditure and fiscal deficit are stationary at level as their ADF statistics are all greater than the critical values at 5% level of significance. Therefore they are integrated at level differencing (I (0) variables). However, government revenue was found to be non-stationary at level differencing. After the first differencing, government revenue became stationary and is therefore an I (1) variable. The data were differenced according to their order of integration and used for the Ordinary Least Square regression analysis.

Table 3: Ordinary Least Square Regression Result

Dependent Variable: RGDP
Method: Least Squares
Date: 02/21/22 Time: 12:48
Sample (adjusted): 1991 2020
Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GEXP	11.00742	0.758508	14.51192	0.0000
DGREV	-0.917644	0.586509	-1.564586	0.1298
FISD	-9.135966	1.391171	-6.567103	0.0000
C	18865.51	1383.011	13.64089	0.0000

R-squared	0.953174	Mean dependent var	42226.90
Adjusted R-squared	0.947771	S.D. dependent var	19864.99
S.E. of regression	4539.900	Akaike info criterion	19.80276
Sum squared resid	5.36E+08	Schwarz criterion	19.98959
Log likelihood	-293.0415	Hannan-Quinn criter.	19.86253
F-statistic	176.4139	Durbin-Watson stat	0.928474
Prob(F-statistic)	0.000000		

Source:*Eviews 10 OLS Regression Result, 2022*

The regression results shown in table 3 reveals that with a regression coefficient of 11.00742 Government expenditure positively predicts economic growth in Nigeria. The p-value of the t-statistic (0.000) is less than 0.05 indicating that the prediction is significant. It can therefore be predicted

to a significant extent that every billion naira increase in the value of government expenditure would coincide with an 11.007 billion naira increase in RGDP of Nigeria.

On the other hand government revenue negatively (α_2= -0.917644) predicts economic growth in Nigeria. The relationship is however insignificant as the probability value of 0.1298 is greater than 0.05. This indicates that, to an insignificant extent, each billion naira increase in the government revenue would likely be met with a decline of 917.64 million naira in the value of economic growth in Nigeria.

Similarly, Fiscal deficits was found to negatively (α_3= -9.135966) predict economic growth in Nigeria. The probability value of the t-statistic (0.0000) is below 0.05; therefore the relationships between the two variables are significant. The result suggests that to a significant extent, every billion naira change in the absolute value of the fiscal deficit would coincide with a 9.136 billion naira change in RGDP in the opposite direction.

The R-squared value of 0.953174 indicates that 95% of the trends in RGDP can be explained by the combined trends of government expenditure, government revenue and fiscal deficit. This indicate a very good fit of the regression model in explaining RGDP. The probability of the F-statistic shown in table 3 is 0.0000 which is less than 0.05. This indicates that the overall relationship between economic growth and fiscal sustainability variables is significant.

The Granger Causality test shown in tables 4, 5 and 6 reveal the direction of causation (effect) between the dependent variable and the independent variables.

Table 4: Granger Causality Test Result for RGDP and GEXP

Pairwise Granger Causality Tests
Date: 02/21/22 Time: 14:24
Sample: 1990 2020
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
GEXP does not Granger Cause RGDP	30	4.59526	0.0412
RGDP does not Granger Cause GEXP		0.16167	0.6908

Source: *Eviews 10 Granger Causality Test Result, 2022*

The probability value for the first null hypothesis shown in table 4 is 0.0412 which is less than 0.05. This indicates that a change in GEXP actually causes changes in RGDP. On the other hand, the probability value for the second null hypothesis shown in table 4 is 0.6908 which is greater than 0.05. By implication, a change in RGDP does not cause changes in GEXP. Therefore, there is a unidirectional causality flowing from GEXP to RGDP in Nigeria.

Table 5: Granger Causality Test Result for RGDP and GREV

Pairwise Granger Causality Tests
Date: 02/21/22 Time: 14:26
Sample: 1990 2020
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
GREV does not Granger Cause RGDP	30	9.23051	0.0052

RGDP does not Granger Cause GREV	3.16269	0.0866

Source: *Eviews 10 Granger Causality Test Result, 2022*

The probability value for the first null hypothesis shown in table 5 is 0.0052 which is less than 0.05. This is an indication that changes in GREV actually causes changes in RGDP. On the other hand, the probability value for the second null hypothesis shown in table 5 is 0.0866 which is greater than 0.05. This implies that changes in RGDP does not cause changes in GREV. Therefore, there is a unidirectional causality flowing from GREV to RGDP in Nigeria.

Table 6: Granger Causality Test Result for RGDP and FISD

Pairwise Granger Causality Tests
Date: 02/21/22 Time: 14:25
Sample: 1990 2020
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
FISD does not Granger Cause RGDP	30	13.8530	0.0009
RGDP does not Granger Cause FISD		0.96358	0.3350

Source: *Eviews 10 Granger Causality Test Result, 2022*

The probability value for the first null hypothesis shown in table 6 is 0.0009 which is less than 0.05. This indicates that a change in FISD actually causes changes in RGDP. On the other hand, the probability value for the second null hypothesis shown in table 6 is 0.3350 which is greater than 0.05. By implication, a change in RGDP does not cause changes in FISD. As a result, a unidirectional causality flows from FISD to RGDP in Nigeria.

V. DISCUSSION OF THE FINDINGS

Fiscal policy represents the modus operandi adopted by the fiscal authorities to achieve economic objectives using fiscal tools such as government spending and revenue generation. The government is able to tweak its fiscal policy tools in line with the prevailing economic objective and as a result, fiscal policy has the potential to influence economic growth. Problematically, the sustainability of Nigeria's fiscal policy has come under serious scrutiny and the consequences of unsustainable fiscal policies for economic growth cannot be ignored. In the light of the above, statistical examinations were conducted to ascertain the effects of Nigeria's fiscal policy sustainability on the economic growth of the country. These examinations sought to both identify the direction of prediction and the flow of effects between fiscal policy sustainability and economic growth. Using the OLS regression analysis alongside the Granger Causality test, the findings of the study revealed that government expenditure positively and significantly predicted economic growth in Nigeria. The findings of the Granger Causality test further showed that this was not just coincidence or mere prediction as causality was found flowing from government expenditure to economic growth and not the other way around. This indicates that the records of growth in Nigeria are traceable to the huge figures of expenditure laid out by the government. Government expenditure is a significant component of economic growth, measured by RGDP using the expenditure method. this best explains why greater values of expenditure definitely would lead to an increase in the economic growth in Nigeria. This finding also corresponds with the findings of Adeyemi and Odetayo (2017) who found that on the long run fiscal policy affects economic growth.

The findings of the study however revealed that government revenue has negatively predicted economic growth in Nigeria. This indicates that in periods when government revenue increased, economic growth has been slightly slower. The result of the Granger Causality test however revealed that government revenue affected economic growth and not the other way around. The findings of the study are in line with the findings of Cletus, Ejima and Ali (2021) who found a significant effect of government revenue on economic growth in Nigeria. Combining the findings of the OLS regression with the Granger causality test, it is an indication that huge accumulation of revenue by the government has had negative consequences for economic growth. A large portion of non-oil revenue represents taxation, levies,

duties and other collectibles which have been shown to discourage economic activities (Efuntade, Efuntade and Akinola, 2020).

Finally, the findings of the study revealed that fiscal unsustainability as measured by fiscal deficit (the gap between government expenditure and government revenue) negatively and significantly predicted economic growth in Nigeria. This is a clear indication that in periods when there were huge gaps between the government expenditure and government revenue, economic growth was low. The Granger causality test further revealed that this was not just a mere relationship as fiscal deficit was found to be responsible for changes in economic growth in Nigeria. This finding is in line with the findings of Sylvia, Ifeoma, Okelue and Adeline (2015) who found that increase in expenditure faster than government revenue resulted in poor growth in Nigeria's economy. Excess of expenditure over revenue implies the need for deficit financing which would automatically crowd out funds for private sector investments (Abdullahi, Bukar and Hassan, 2016).

RECOMMENDATIONS

The findings of the study guided the following recommendations;

1. There is need to continue to adopt expansionary policies by increasing expenditure, but there must be sustainable ways to finance this expansionary budget.
2. Generation of revenue by the government should be anchored on the proceeds of developmental projects and not on excessive taxations and levies that are counterproductive.
3. The government should also pay particular attention towards ensuring that expenditure does not rise faster than revenue as fiscal deficit would hamper economic growth.

CONCLUSION

Based on the findings of the study, it is therefore concluded that an unsustainable fiscal policy is detrimental to the Nigerian economy to a significant extent. Particularly, an expansionary budget has contributed immensely to the growth of the Nigerian economy. However, because this expenditure has risen faster than revenue, it has created fiscal deficit figures that are unsustainable and a hindrance to economic growth. This is worsened by tax-based attempts by the fiscal authorities to raise revenue to finance these deficits.

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