International Journal of Economics, Commerce and Management
United Kingdom Vol. VI, Issue 4, April 2018
http://ijecm.co.uk/ ISSN 2348 0386

FISCAL POLICY AND ITS' IMPACT ON PRIVATE SECTOR GROWTH IN NIGERIA (1990-2017)

Andabai, Priye Werigbelegha
Department of Finance and Accountancy, Niger Delta University, Bayelsa State, Nigeria
priyehc@yahoo.com

Ikeora, Joseph Jackson Emeka
Department of Banking and Finance,
Chukwuemaka Odumegwu Ojukwu University, Anambra State, Nigeria

Abstract

The study examined fiscal policy and its' impact on private sector growth in Nigeria; for the period 1990-2017. Secondary data were used and collected from the Central Bank of Nigeria Statistical Bulletin. Four variables were employed for this study. These are private sector output as proxy for private sector growth and used as the dependent variable; whereas, Government Tax, Government Recurrent Expenditure and Government Capital expenditure are employed as explanatory variables to measure Government fiscal policy. Hypotheses were formulated and tested using Ordinary Least Square (OLS) econometrics technique. The study showed that government capital expenditure had a significant impact on private sector output in Nigeria. Government tax had an inverse significant impact on private sector output in Nigeria. Government recurrent expenditure had a significant impact on private sector output in Nigeria. The coefficient of determination indicated that about 62% of the variations in private sector growth can be explained by changes in fiscal policy variables in Nigeria. The study concluded that government fiscal policy had a significant impact on the growth and development of private sector-led economy in Nigeria. The study recommended that more resources should be made available to the productive sectors to stimulate the economy. The study also recommends that government should minimize foreign borrowing, wasteful spending and uncontrolled increase in money supply.

Keywords: Fiscal policy, impact, private sector, growth, Nigeria

INTRODUCTION

The importance of macroeconomic policies and its impact on growth has occupied a central position in the economics literature in recent years both developed and developing economies (Andabai, 2016).Fiscal policy and its impact on private sector growth in Nigeria has been identified as one of the areas in the economics literature that can quicken the pace of growth and development in an economy such as Nigeria. The empirical studies carried out by (Omitogun and Ayinla, 2007)reveals that increase in government expenditure would lead to growth and development of the private sector. The implication is that more percentage of the total expenditure should be spent on capital projects which contributed to the growth and development of the private sector. Efficient and effective government fiscal policy serves as a catalyst for private sector growth and development in any modern economy (Nzotta, 2014).

Some empirical studies conducted by (Okemini & Uranta, 2008)and (Andabai, 2014) on the impact of government fiscal policy on private sector growth in Nigeria. Their studies identified gross mismanagement/misappropriation of public funds, corruption, inconsistent economic policies, political and economic instability, absence of harmonization and coordination of fiscal policies as some of the challenges affecting the sector. Others includes: imprudent public spending, weak sectoral linkages and other socio-economic problems constitute the bane of rapid private sector growth and development in Nigeria. Thus, these conflicting problems create a knowledge gap in this study; and, it is against this background that this study attempts to examine the impact of government fiscal policy on private sector growth in Nigeria. The main objective of the study is to examine the impact of government fiscal policy on private sector growth in Nigeria. The objectives include; To ascertain the impact of capital expenditure on private sector output in Nigeria. To assess the impact of recurrent expenditure on private sector output in Nigeria. To investigate the impact of tax revenue on private sector output in Nigeria.

THEORETICAL FRAMEWORK

The theoretical framework underlining this study is Wagner's law of (1917). The law postulates that the extension of the function of the states leads to an increase in public expenditure on administration and regulation of the economy. The development of modern industrial society would give rise to increasing political pressure to call for increased allowance for social consideration in the conduct of industry. The rise in public expenditure will more than proportionally increase the national income and will result in a relative expansion of the public sector. Musgrave and Musgrave (1988) in support of Wagner's law, opined that as progressive nations industrialize, the share of the public sector in the national economy grows continually. In

the existence of incessant unemployment, the Keynesian believe that the market economy is self-adjusting hence there is no need for government involvement in the economy.

They are sometimes referred to as Demand-side economists. Keynes accepts that the forces of demand and supply could not attain full employment conditions. He insists that only government interference (public sector) through the use of unrestricted policy measures would take the free enterprise economy out of depression and ensure a steady growth. Variations in savings and investment are responsible for modifications in business activities and employment in an economy. Keynes regards public expenditures as an exogenous factor which can be utilized as a policy instrument promote economic growth. The Keynesian found that public expenditures can contribute positively to economic growth. Through, an increase in employment, profit ability and investment through multiplier effects on aggregate demand. Government expenditure increases aggregate demand, which provokes an increased output depending on expenditure multipliers.

EMPIRICAL REVIEW

Babalola and Aminu (2011) studied fiscal policy and economic growth relationship in Nigeria (1977-2009) using the Engle-Granger approach. Productive expenditure was found to be statistically significant. They utilized logarithms of real gross domestic product as proxy for economic growth representing the dependent variable while the independent variables were the logarithms of productive government consumption expenditure (defined as total recurrent expenditure less recurrent expenditure on health, education and economic services), direct income tax, and capital expenditure.

Ogbole, Amadi and Essi (2011) studied fiscal policy and its impact on economic growth in Nigeria (1970-2006). The study involves comparative analysis of the impact of fiscal policy on economic growth in Nigeria during regulation and deregulation periods. Results showed that there is difference in the effectiveness of fiscal policy.Diversification of the nation's economic base, among other, was recommended.

Omitogun and Ayinla (2007) examined empirically the contribution of fiscal policy in the achievement of sustainable economic growth in Nigeria. They used Solow growth model estimated with the use of ordinary least square method and found out that fiscal policy has not been effective in the area of promoting sustainable economic growth in Nigeria. They suggested that government should put a stop to the incessant unproductive foreign borrowing, wasteful spending and uncontrolled money supply and embark on specific policies aimed at achieving increased and sustainable productivity in all sectors of the economy.

Amin (1998) examined the relationship between public and private investment stressing the crowding in or crowding out of private investment by public expenditures in Cameroon. Based on secondary data from the public sector, the results of a growth model show that the relevant factors have positive effects on growth while those of the investment model show the crowding in of infrastructures and social sector. The study concluded by recommending the relocation of more resources to productive sectors and increasing and sustaining a spending on those productive sectors or those components of public expenditures that crowd in the

METHODOLOGY

Data for this study were sourced from the Central Bank of Nigeria Statistical Bulletin, 1990-2017.The rationale for selecting this period is based on the availability of data. Four variables were employed for this study. These are private sector output as proxy for private sector growth and used as the dependent variable; whereas, Government Tax, Government Recurrent Expenditure and Government Capital expenditure are employed as explanatory variables to measure Government fiscal policy.

Model Specification

The model is adapted from the work of (Imoisi, 2012): GDP = *f*(GCE, GRE, GTX)

Where: GDP = Gross Domestic Product used as proxy for Economic Growth

GCE = Government Capital Expenditure

GRE = Government Recurrent Expenditure

GTX = Government Taxation

The above model is modified in this study by introducing private sector outputas proxy for Gross Domestic Productand employed as dependent variable. Hence, the modified model is stated as:

PSO = *f*(GCE, GRE, GTX).....(1).

The econometric model can be written as:

$Ln(PSO) = a_0 + Lna_1GCE + a_2LnGRE + Lna_3GTX + \mu$.....(2).

Where: PSO = PrivateSector Outputasproxy for Private SectorGrowth

GCE = Government Capital Expenditure

GRE = Government Recurrent Expenditure

GTX = Government Taxation

a_0 = Constant parameter, a_1–a_3 = Elasticity Co-efficient of each variable. μ = Stochastic error term, Ln = The natural log of the variables. Log transformation is necessary to reduce the problem of heteroscedasticity; because, it compresses the scale in which the variables are

measured, thereby reducing a tenfold difference between two values to a twofold difference (Gujarati, 2004).

ANALYSIS AND DISCUSSION OF FINDINGS

Data for this study consist of 28-years annual observation period of (1990-2017). Multivariate linear regression model is used to test the null hypotheses. Four variables were employed for this study. These are Private Sector Output as proxy for Private SectorGrowth and used as the dependent variable; whereas, the explanatory variables include Government Tax, Government Recurrent Expenditure and Government Capital Expenditure to measure Government fiscal policy as indicated in appendix 1.

Table 1: Dependent Variable: PSO

Method: Least Squares, Time: 03:34				
Sample: 1990-2017				
Included observations: 28				
Date: 28/03/2018	Coefficient	Std. Error	t-Statistic	Prob.
C	23.89685	32.37845	3.543276	0.000100
Ln(GCE)	8.376906	2.102709	4.785685	0.003300
Ln(GRE)	6.967485	8.397606	0.342302	0.000007
Ln(GTX)	7.253677	0.003752	-0.231769	0.000043
R-squared	0.620464	Mean dependent var		68.46480
Adjusted R-squared	0.590143	S.D. dependent var		67.83676
S.E. of regression	12.85095	Akaike info criterion		10.03759
Sum squared resid	32263.10	Schwarz criterion		10.46039
Log likelihood	-12.1673	F-statistic		8.967846
Durbin-Watson stat	1.939854	Prob. (F-statistic)		0.00 0000

Source: Author's computation with the use ofE-view 8.0

From table 1, the coefficient of determination (R^2=0.620464) indicates that about 62% of the variations in private sector growth can be explained by changes in fiscal policy variables (GRE, GCE and GTX) in Nigeria. This implies that a significant portion of private sector-led economy is explained by fiscal policy variables. The F-Statistics of (8.967846) which is significant at 5% confirms the impact of fiscal policy on the growth and development of Nigerian private sector-led economy; for the period 1990-2017. The influence of the explanatory variables on the dependent variable is statistically significant and this is also confirmed by the F-probability which is statistically zero.

CONCLUSION AND RECOMMENDATIONS

The study concludes that government fiscal policy has contributed positively to the growth and development of the private sector-led economy in Nigeria. This study is limited by the difficulty in sourcing for the most suitable variables that are used to measure fiscal policy and its' impact on private sector growth in Nigeria. Private Sector Output as proxy for Private SectorGrowth and used as the dependent variable; whereas, the explanatory variables include Government Tax, Government Recurrent Expenditure and Government Capital Expenditure to measure Government fiscal policy etc. The study is limited to these variables; because, they are intended to capture all the activities within the scope of the study from 1990 to 2017. Thus, another limitation is the accuracy of the data that were used for this study. This limitation was overcome by using Central Bank of Nigeria Statistical Bulletin. The study recommended that more resources should be released to the productive sector. The study suggests that government should reduce foreign borrowing, stop wasteful spending and uncontrolled money supply which impacts negatively on economic growth. The government should embark on specific policies aimed at boasting sustainable growth and development in the private sector.

CONTRIBUTION TO KNOWLEDGE

The study was able to adopt a model, expand the existing literature and updated data that will enable researchers and scholars to use it for further studies. The study concludes that government fiscal policy has a significant impact on the growth and development of the private sector in Nigeria.

SCOPE FOR FUTURE STUDY

The study made the following suggestions for further research:

i. Further investigation could be conducted to know the relationship between fiscal policy and economic growth in Nigeria.

ii. Future research could use time series econometrics such as unit roots, co-integration and Granger Causality tests to know the direction of fiscal policy and its' impact on private sector growth in Nigeria; and, thus suggest for further investigation.

iii. Finally, the study suggests that the period should be 1980-2017 to enable the findings to be more robust.

REFERENCES

Andabai, Priye W. (2016). Empirical investigation on the relationship between bank credit and private sector growth in Nigeria. An unpublished PhD thesis submitted to the department of banking and finance. School of postgraduate studies, Anambra State University, Nigeria.

Afolabi, J. A. (2004). Challenges of private sector growth in Nigeria. Being a paper presented at the 13th annual conference at the regional research units, organised by the Central Bank of Nigeria, held at Motel Plaza, Benin–City, Edo State. 8th-12th November. 34-48.

Andabai, P. W. (2014). Private sector development and economic growth in Nigeria. International Journal of Advanced Research in Statistics, Management and Finance, 2(1), 15-25. Retrieved from http://www.internlpolicybrief.org/Journals. on 11/03/18.

Abou-Stait, F. (2005). Are exports the engine of economic growth? An application of co-integration and causality analysis for Egypt 1997-2003, African Development Bank, Economic Research workingpaper series, No. 76.

Abu Al- Foul, B. (2004): Testing the export-led growth hypothesis: Evidence from Jordan, Applied Economics Letters, 1(1), 393-396.

Adak M. (2010): Foreign trade and economic growth the case of Turkey. Middle Eastern Finance and Economics. Issue 8, 137-145.

Adeleye, J. O. Adeteye, O. S. & Adewuyi, M. O. (2012): Impact of international trade on economic growth in Nigeria (1988-2012). International Journal of Financial Research. 1(6), 3-12.

Adelowokan, O.A. & Maku, A.O. (2013): Trade openness, foreign investment and economic growth in Nigeria: A long-run analysis. European Journal of Globalization and Development Research, 7(1), 446-458

Adenugba, A.A. & Dipo, S.O. (2013): Non-oil exports in the economic growth of Nigeria: A Study of agricultural and mineral resources. Journal of Educational and Social Research, .3(2), 12-19.

Adewuyi, A. O. (2002). Balance of Payments Constraints and Growth Rate Differences under alternative police regimes.Nigerian Institute of Social and Economic Research (NISER), Monograph Series No. 10 Ibadan, Nigeria.

Adewuyi, A & Adeoye, D (2011). Attainment of potential growth rates in Nigeria under balance of payments constraints: Extent, obstacle and the way forward. Research Journal of Finance and Accounting. 2(3), 22-29.

Azeez, B. A., Dada, S. O,& Aluko, O A. (2014). Effect of international trade on Nigerian economic growth: The 21st century experience. International Journal of Economics, Commerce and Management United Kingdom, I(4), 10-21.

Busari, D. & Olayiwola, S. A. (2001). Unleashing the private sector in Nigeria. Journal of Political Economy, 10(46), 1006-1038.

Gujarati, N. Damodar (2004). Basic Econometrics. (4th Ed), Tata McGraw-Hill Publishing Company Ltd. New Delhi, India.

Ibenta, Steve N.O. (2012). Research Monograph: Guidelines for Seminar Papers, Theses Project Reports. 22-28 Regina Caeli Road, Awka, Anambra State.

Kerlinger, F. N. (1973). Foundations of Behavioural Research. 2nd Edition. Holt, Rinehart and Winston. Journal of Industrial Research and Management, 24(5), 32-48.

Nzotta, S.M. (2014). Money, Banking and Finance: Theory and Practice. Revised Edition, Hudsion-Jude. Owerri, Nigeria.

Onwumere, J.U.J. (2009). Business and Economic Research Methods. Enugu: Vougasen Publishers.

Ogbokor, C. A. (2005). Macroeconomic impact of trade on Namibian growth: An empirical illustration. Journal of Social Sciences, 1(1), 57-60.

Ogbokor, S. (2001). Oil and economic Growth: An econometric analysis' Journal of Development Alternatives and Area Studies, 2(10), 124 – 130.

Ogborkor, C. A. (2001). Oil and economic growth: An econometric analysis. Journal of Development Alternatives and Area Studies, 20(2 & 3), 124-130.

Ohlin, B. (1933). Interregional and International Trade. Cambridge, Mass.: Harvard University Press.

Olaleye, S. O., Edun, F., & Taiwo, S. B. (2013). Export diversification and economic growth in Nigeria: An empirical test of relationship using a granger casualty test, Journal of Emerging Trends in Economics and Management Sciences (JETEMS), 5(1), 70-79.

Orubu, C. O. & P. O. Awopegba, (2004). Market economic, globalization and the role of good governance in the development process; challenges for the Nigeria economy, Journal of Social Sciences 9(3),163 – 176.

Oviemuno, A.O. (2003). International trade as an engine of growth in developing countries: A case study of Nigeria (1980- 2003). Search Warp Publication, 11(28), 23-19.

Podrecca E., & Carmeci, G., (2001). Fixed Investment and Economic Development: New results on Causality. Applied Economics 3(3); 177-182.

Rabia, A., & Kamran, M., (2012). Impact of domestic and external debt on the economic growth of Pakistan. World Applied Sciences Journal, 20(1); 120-129.

Rapu, S.C., (2003). Assessment of Nigeria domestic debt Sustainability. CBN-Economic and Financial Review, 4(2); 41-66.

Uzochukwus, A., (2003). Nigeria Public Debt and Economic development: An empirical Assessment of Effects on Poverty. African Institute for Applied Economics Enugu

Saibu M. O., (2004). Trade openness and economic growth in Nigeria: Further evidence on the causality issue. SAJEMS NS, 7(2), 299-315.

Seipati, M. & Itumeleng, P. M. (2014). The impact of international trade on economic growth in South Africa: An econometrics analysis. Mediterranean Journal of Social Sciences MCSER Publishing, Rome-Italy, 5(14), 23-32.

Sikiru, O. A. & James, O. A. (2014). Exploration of the impact of international trade on the growth of Nigeria's manufacturing sector: 1975-2010. Journal of Business Administration and Management Sciences Research. 3(1), 006-011.

APPENDIX 1: Fiscal Policy and its Impact on Private Sector Growth in Nigeria (1990-2017)

Years	Private Sector Output (N'billion)	Capital Expenditure (N' Billion)	Tax Rate (%)	Recurrent Expenditure (N' Billion)
1990	253.9	33.55	25.50	52.86
1991	453.9	41.35	20.01	75.40
1992	745.6	58.12	29.80	111.11
1993	896.4	127.12	18.32	165.34
1994	1,099.0	143.42	21.00	230.29
1995	2,417.3	180.00	20.18	289.09
1996	3,401.7	238.60	19.74	345.85
1997	3,474.6	316.21	13.54	413.28
1998	3,154.3	351.96	18.29	488.15
1999	3,727.0	431.17	21.32	628.95
2000	5,618.7	530.37	17.98	878.46
2001	5,353.4	764.96	18.29	1,269.32
2002	6,158.1	930.49	24.85	1,505.96
2003	7,946.8	1,096.54	20.71	1,952.92
2004	8,688.5	1,421.66	19.18	2,131.82
2005	11,069.5	1,838.39	17.95	2,637.91
2006	13,817.4	2,290.62	17.26	3,797.91
2007	15,321.9	3,668.66	16.94	5,127.40
2008	18,221.3	6,920.50	15.14	8,008.20
2009	17,820.4	9,110.86	18.99	9,419.92
2000	26,116.8	10,157.02	17.59	11,034.94
2011	28,324.0	10,660.07	16.02	12,172.49
2012	30,053.3	14,649.28	16.79	13,895.39
2013	30,278.2	15,778.31	16.72	15,158.62
2014	49,097.94	17,128.98	16.55	17,680.52
2015	35,946.23	17,895.2	18.2	19,772.87
2016	35,364.64	17,357.1	18.9	19,988.30
2017	34,873.34	17,987.6	18.87	18,624.76

Source: Central Bank Nigeria Statistical Bulletin, 2017.