



## **ANALYSIS OF THE IMPACT OF FISCAL POLICY ON ECONOMIC GROWTH IN NIGERIA**

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### **ABSTRACT**

The paper evaluates the impact of fiscal policy on economic growth in Nigeria. Using tax income, capital expenditure and re-current expenditure of government to measure fiscal policy, and real gross domestic product were used to measure economic growth. For the purpose of this study, secondary data were sourced from federal inland revenue, central bank statistical bulletin as well as national bureau of statistics from 2016-2020. The study used statistical technique of ordinary least square (OLS), Descriptive statistics, Dickey fuller's unit root and cointegration test, using STATA. The study found that capital expenditure negative to real domestic product, and tax revenue affects economic growth at 5% significant level. The study concludes inadequate monitoring and supervision affected increase tax of revenue thereby causing a decrease in the economic activities. The study recommends government should ensure effective tax system and law are being practice in the country in order to ensure increase in the revenue sector. Also, there is need for government to ensure proper supervision and monitoring of capital expenditure activities to avoid leakages in the system through the application of due process, accountability and fiscal transparency.

**Keywords:** Fiscal Policy, Economy, Growth

### **1. INTRODUCTION**

Nigerian government has made effort through policy measures to address fiscal challenges both external and domestic; this has remained intractable and persistent with its adverse effect on macroeconomic fundamentals (Ayawu, 1993; Hottz-Eakin, Lovely and Tosin, 2009; Medee and Nembee, 2011). According to Ayinla (2007), the debate on the effectiveness of fiscal policy as a tool for promoting growth and development remains inconclusive.



The achievement of macroeconomic objectives like full employment, stability of price level, high and sustainable economic growth and external balance, from time immemorial, has been a policy priority of every economy whether developed or developing economies (Akanni and Osinowo, 2013). The realization of these goals undoubtedly is not automatic but requires policy guidance. This policy guidance represents the objective of economic policy. Fiscal policy is an outgrowth of Keynesian economics in order to achieve stable economy. The two major fiscal instruments used by government to influence private economic activities are; taxes and expenditure. The effect of taxation covers all the changes in the economy resulting from the imposition of a tax system. Without taxation, a market economy would not attain certain production, consumption, investment, employment and low generation of revenue by the government which reduces government expenditure.

Expenditure on the other hand, was meant to directly add to the effective demand in the market and generate a high – value multiplier by distributing income to those sections of the population which had a high marginal propensity to consume. Generally, increase in government expenditure should lead to reduced unemployment and increase economic growth but in Nigeria the reverse is the case that is as total expenditure increases, rate of unemployment increases. This is because a greater percentage of the total expenditure is channelled to recurrent expenditure and the proportion is worsening. In year 2000, the percentage of the total expenditure spent on recurrent was 66% and has increased to 79% in 2010 to 2014. The implication is less percentage of the total expenditure is spending on capital project which creates job in the economy. One of the major issues rose against Nigeria government in the used of fiscal policy tools in term of budgeted amount for recurrent expenditure is the government proposed spending of its revenue generated on running the government administration rather than in the badly needed infrastructure projects to create jobs and boost economic activities (Osinowo, 2015).

Some scholars also argued that increase in health, education, roads, communications, power encourages economic growth (Osinowo, 2015; Gbosi, 2011; Omitogon and Ayinla, 2007 and among others). This will reduce production costs, increases private sector investment and profitability of firms, thus, fostering economic growth. This study aims at determining the extent to which Nigeria's fiscal policy has impacted on the economy with emphasis on the impact of various components of fiscal policies on the Nigerian economy.



### **Statement of the Research Problem**

Nigeria's economic growth was unstable for many years and the country's economy situation faced many problems both internally and externally over the years. Internally, the unstable investment and consumption patterns as well as the improper implementation of fiscal policies, changes in future expectations and the accelerators are some of the factors responsible for it (Gbolsi, 2001). Nigerian government over the years had consistently embarked on diverse macroeconomic policy options in order to direct the economy on the path of growth and development. One of the regulatory policies used by government in achieving its macroeconomic objectives and economic growth is fiscal policy.

In Nigeria the years of corruption, civil war, military rule and mismanagement of fiscal instruments have hindered economic growth of the country. Nigeria potential for growth and poverty reduction is yet to be realized and a key constraint has been the recent conduct of macroeconomics, particularly mismanagement of fiscal policies. The mismanagement of fiscal tools like government borrowing to finance recurrent expenditure without considering capital project that will increase local and foreign investment and standards of living and reduce unemployment rate in Nigeria, but in Nigeria reverse is the case, where government divert borrowed funds and tax revenue that is embezzlement of borrowed funds and tax revenue. This has led to rising inflation, bastardized Nigerian economy, increase unemployment and decline in real incomes in Nigeria (Ajisafe & Folorunsho, 2002). Studies have identified some of these economic challenges as a result of gross mismanagement/misappropriation of public funds, corruption and ineffective economic policies (Ajisafe & Folorunsho, 2002); lack of integration of macroeconomic plans and the absence of harmonization and coordination of fiscal policies (Omitogun & Ayinla, 2007); inappropriate and ineffective fiscal policies and imprudent public spending and weak sectoral linkages and other socioeconomic maladies constitute the bane of rapid economic growth in Nigeria (Ajisafe & Folorunsho, 2002).

One of the most important objectives of Nigeria's fiscal policy is to reduce national debt and to check the interest payments on such debt from rising, and prevent it from leading to higher deficits in the future. Unfortunately, in Nigeria, government fiscal deficits increased continuously in the past two decades. Government debt as a percentage of GDP continued to increase, jumping to 1128.6 percent in 2002 and 1186.7 percent in 2004, but again declined to 751.2 percent and 980.0 percent in



2010 and 2013 respectively (Obi & Abu, 2009). The deficit problem has remained persistent because of “government’s inability to reduce the level of recurrent expenditure to sustainable economic growth (Akanni & Osinowo, 2013; Ezeoha and Chibuike, 2005; Alade, 2003). However, years of negligence and adverse policies in Nigeria. As a result of the above problems, this paper is aimed at examining the impact of fiscal policy on the economy growth in Nigeria.

The focus of the study is to evaluate the impact of fiscal policy on the economy growth in Nigeria via real gross domestic product (RGDP) through the three fiscal policy indicators, tax revenue from the Federal Inland Revenue Service, and capital expenditure and recurrent expenditure from the Central Bank of Nigeria Statistical bulletin. The study covers the period from 1990 to 2020.

### **Research Question**

- i. How does recurrent expenditure affect the Nigeria economic growth?
- ii. What is the effect of capital expenditure on the Nigeria economic growth?
- iii. What is the effect of tax revenue on the Nigeria economic growth?

### **Research Hypotheses**

H<sub>01</sub>: Recurrent expenditure has no significant impact on the economic growth of Nigeria

H<sub>02</sub>: Capital expenditure has no significant impact on the economic growth of Nigeria

H<sub>03</sub>: There is no significant impact of tax revenue on the economic growth of Nigeria

### **Justification of the Study**

Several studies have established the effect of fiscal policies on Nigeria economy (see Abdullah, 2000; Ebimobowei, 2010; Ghosh and Roy, 2004; Kenney, Morling and Yeaman, 2004 and others) and also other studies have investigate the impact of monetary-fiscal policies on Nigerian economic activities (see Adefeso and Mobalaji, 2010; Barro, 1991; Cooray, 2009; Dar-Atul and Amirkhalkhali, 2002; Fadare, 2010; Reem, 2009 and others) but most of these past studies do not consider recurrent expenditure in their studies. This study examines the impact of fiscal policy on Nigeria economic growth within the period of 1990-2020. It therefore becomes significant in filling some of the observed gaps by testing empirical contribution of recurrent expenditure on Nigeria economic growth. The study will contribute immensely in aiding the government, policy makers, economic planners, researchers



and the academia generally to provide an insight and provide a better understanding to the government on how to be prudent in spending public funds that would bring about economic growth and development.

## **2. LITERATURE REVIEW**

Fiscal policy involves the use of government spending, taxation and borrowing to influence the pattern of economic activities and also the level and growth of aggregate demand, output and employment. Fiscal policy entails government's management of the economy through the manipulation of its income and spending power to achieve certain desired macroeconomic objectives (goals) amongst which is economic growth (Medee and Nembee, 2011). Olawunmi and Tajudeen (2007) opine that fiscal policy has conventionally been associated with the use of taxation and public expenditure to influence the level of economic activities. They further said the implementation of fiscal policy is essentially routed through government's budget. Fiscal policy as mostly to achieve macroeconomic policy; it is to reconcile the changes which government price and total demand to be used through instruments such as government expenditures, taxation and debt management (Hottz-Eakin, Lovely and Tosin, 2009). As noted by Anyanwu, (1993), the objective of fiscal is to promote economic conditions conducive to business growth while ensuring that any such government actions are consistent with economic stability.

Economic growth has long been considered an important goal of economic policy with a substantial body of research dedicated to explaining how this goal can be achieved (Fadare, 2010). Economic growth has received much attention among scholars. According to Khorravi and Karimi (2010), classical studies estimate that economic growth is largely linked to labour and capital as factors of production. The emergence of the endogenous growth theory has encouraged specialists to question the role of other factors in explaining the economic growth phenomenon (Bogdanov, 2010). Economic growth represents the expansion of a country's potential GDP or output. For instance, if the social rate of return on investment exceeds the private return, then tax policies that encourage can raise the growth rate and levels of utility. Growth models that incorporate public services, the optimal tax policy lingers on the characteristic of services (Olopade and Olapade, 2010). Economic growth has provided insight into why state growth at different rates over time; and this influence government in her choice of tax rates and expenditure levels that will influence the growth rates.



Dar Atui and Amirkhalkhali (2002) conducted investigation on the endogenous growth model of fiscal policy and concluded that in the endogenous growth model of fiscal policy (government expenditure and income) is very crucial in predicting future economic growth. Abdullahi (2000) analysed the relationship between government expenditure and economic growth and found that the size of government expenditure is very important in determining the performance of the economy. He further advised that, government should not only support and encourage the private sector to accelerate economic growth, but should also increase its budgetary provision on infrastructure, social and economic activities.

Nijkamp and Poot (2002) also conducted a meta-analysis of past empirical studies of fiscal policy and growth and found that in a sample of 41 studies, 29% indicate a negative relationship between fiscal policy and growth, 17% a positive one, and 54% an inconclusive relationship. Khpsravi and Karimi (2010) maintains that fiscal policy is generally believed to be associated with growth, or precisely, it is held that appropriate fiscal measures pin particular circumstances can be used to stimulate economic development and growth.

Gregarious and Ghosh (2007) investigated the impact of government expenditure on economic growth using panel data and discovered that countries with large government expenditure in term of budgetary provisions tend to experience higher economic growth, but the effect varies from one country to another. Mansouri (2008) studied the relationship between fiscal policy and economic growth in Egypt, Morocco and Tunisia. The spans of data for each country are: 1970-2002 for Morocco, 1972-2002 for Tunisia and 1975-2002 for Egypt. The empirical results showed that 1 percent increase in public spending raised the real GDP by 1.26 percent in Marocco, 1.15 percent in Tunisia and 0.56 percent in Egypt. The results also indicated existence of long-run relationships for all the three countries. Chowdhury (1986) in his study of monetary and fiscal impacts on economic activity in Bangladesh was also of the opinion that fiscal rather than monetary action had greater influence on economic activities.

As observed by Omitogun and Ayinla (2007), the Keynesian school of thought postulates a positive relationship between deficit financing and investment and consequently on economic growth. This school of thought sees fiscal policy as a tool of overcoming fluctuations in the economy. As put by Tchokote (2001) this school regards deficit financing as an important tool to achieve a level of aggregate demand consistent with full employment. When debt is used to finance government



expenditures, consumers' income will be increased. Given that resources are not fully utilized, crowding-out of private investment by high interest rates would not occur. The position of the Keynesian school of thought on the possible effects of fiscal deficits on economic activities has been challenged by the Neo-classical school of thought on the premise that the former school ignores the significance of how fiscal deficits are financed on the effect of this policy variable on macroeconomic performance. The Neoclassical school postulates that the manner in which deficits are financed is capable of influencing the level of consumption and investment and by extension affect economic growth.

As noted by Babangida (1993), the lack of fiscal discipline is the bane of our economy. In spite of realized revenues being above budgetary estimates, extra budgetary expenditure has been rising so fast and resulting in ever bigger deficit... to say the least, this is a sobering revelation and we must all ensure that the deficit is not only minimized but eventually eliminated. The practice of financing the fiscal deficit through the banking system, especially the Central Bank's Ways and Means facility, results in rapid growth of domestic liquidity, which in turn, exerts immense pressures on prices, interest rates and exchange rate of the Naira. As an illustration between 1988 and 1991, an average of the 77 percent of the overall deficit by the CBN while in 1992 the deficit had been largely financed by the CBN. As a direct consequence, the monetary and credit aggregates have been exceeding prescribed targets in recent years.

### **Keynesian Fiscal Theory**

The mechanism behind the fiscal policy is clarified by the Keynesian income-expenditure method. The fiscal policy according to Keynesians has significant cause on income, employment and productivity in the short term without money supply. It asserts that aggregate demand is a determinant of output. An increase in government expenditure will reflect a cause and surge in domestic income. As internal income increases, imports will also increase and finally decrease the surplus in the trade cycle. Also, the Keynesians open economy model asserts that a casual relation runs from budget deficit to aggregate demand. Specifically rise in budget deficit will increase the interest rates as a compensation of the loss and a source of fund. Therefore, increases the capital inflows thereby increasing the demand on the local currency (Barro 1989). Enders and Lee (1990) opined that public debt is as crucial as the stock of money. A country with a balance of payments deficit will borrow resources from the rest of the world and give a negative representation of that



country's economic situation. For example, if a country invests the borrowed funds into better profitable opportunities, paying back the borrowed funds to foreigners will be no possible. This will lead to the country to decrease and limit its debt in the future. In contrast, the Ricardian equivalence theory says if the balance of payments is used to just raise the share of consumption and no practical improvement in the economics capital stock or exports, this increment will lead to less capacity to repay the borrowed funds in the future. The Ricardian Equivalence theory argued that the budget deficit has no influence on the current account deficit.

This is justified that when the government take actions to reduce taxes by then increases its default, the public expects a later rise of the taxes in the future. As a consequence, consumers decrease their consumption spending and increase their savings to face the expected increase in the taxes latter on. According to Barro (1974) and his theory of infinitely-lived families, government debt is a scheme named Ricardian-equivalence. In this theory government's debt policy is redistributed along with its tax burden on the generations of the country. This study is built upon endogenous growth theory which indicates that fiscal policy tools like tax revenue and government expenditure will enhance economic growth and per capital income.

Ogbole, Amadi and Essi (2011) wrote on fiscal policy: 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 using Co-integration method of analysis. Econometric analysis of time series data from Central Bank of Nigeria was conducted. Results showed that there is difference in the effectiveness of fiscal policy spending, setting of achievable fiscal policy targets and diversification of the nation's economic base, among others, were recommended.

Adefeso and Mabalaji (2010) wrote on the fiscal-monetary policy and economic growth in Nigeria. Their major objective was to re-estimate and re-examine the relative effectiveness of fiscal and monetary policies on economic growth in Nigeria using annual data from 1970-2007. The Error correction mechanism and co-integration technique were employed to analyse the data and draw policy inferences. Their result showed that the effect of monetary policy is much stronger than fiscal policy. They suggested that there should be more emphasis and reliance on monetary policy for the purpose of economic stabilization in Nigeria rather than fiscal policy.





In the same vein, Olawunmi and Ayinka (2007) examined the contribution of fiscal policy in the achievement of sustainable economic growth in Nigeria using slow growth model estimated with the use of ordinary least square method. It was found that fiscal policy has not been effective in the area of promoting sustainable economic growth in Nigeria. They however, stated that factors such as wasteful spending, poor policy implementation and lack of feedback mechanism for implemented policy evident in Nigeria which are indeed capable of hampering the effectiveness, of fiscal policy have made it impossible to come up with such a conclusion.

Mueller (2011) investigated economic, political and institutional constrains to fiscal policy implementation in sub-Saharan Africa. It was found that planned fiscal adjustments or expansions are less likely to be implemented. The larger they are, the more inaccurate the growth forecasts they are based on. The finding supports ongoing efforts in the region to improve the quality and timeliness of economic data, enhance forecasting capacity, adopt realistic fiscal plans, and strengthen governance, budgetary institutions, and public financial management procedures.

Davis, Ossowski and Fedelino (2003) looked at fiscal policy formulation and implementation in oil producing countries. Their study showed that resources dependent economies tend to grow more slowly than non-resources dependent ones at comparable levels of development. Poverty is still widespread in a number of oil-producing countries. They concluded that a pattern of fluctuating fiscal expenditures associated with oil volatility has entailed significant economic and social costs for a number of oil producers. Anerbach (2009) suggested that for fiscal discretionary policy to be practiced on a large-scale attention must be paid to policy design.

### **3. METHODOLOGY**

The study used ex-post Facto research design; Secondary data were used in this study which was sourced from the Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN) Statistical Bulletin as well as National Bureau of Statistics Publications within the time frame of 1990-2020. The variable of the study comprise of real gross domestic product as a proxy for economic growth while fiscal policy was measured by (tax revenue, capital expenditure and recurrent expenditure of government for the period under investigation.

#### **Model Specification**

$$RGDP = f(CEX, TR)$$

The modification of the model is:



$RGDP = f(\text{REX}, \text{CEX}, \text{TR})$

$$RGDP_t = \beta_0 + \beta_1 FRGDP_{t-1} + \beta_2 FREX_t + \beta_3 FREX_{t-1} + \beta_4 FCEXP_t + \beta_5 FCEXP_{t-1} + \beta_6 FTRE_t + \beta_7 FTRE_{t-1} + \beta_8 ECT_{t-1} + \varepsilon_t \dots \dots \dots (3)$$

Where:

RGDP = Real Gross Domestic Product

RE = Recurrent Expenditure

CE = Capital Expenditure

TR = Tax Revenue

F = First difference notation

ECT (-1) = 1<sup>st</sup> lag of Error correction term as a measure of long-run equilibrium

$\beta_0$  = Constant term and  $\varepsilon$  = Random error term of the model

$\beta_1 - \beta_7$  = Parameters to be estimated

t - 1 = Variable lagged by one period

### **Method of Data Analysis**

The model specified in this study was estimated using the Ordinary Least Square (OLS) estimation of regression analysis at first difference form; Dickey Fuller (ADF) was used to test for unit root test if there is the presence of autocorrelation and Johansen Cointegration test was conducted for long run relationship. The study employed multiple regression method of analysis to establish the impact of fiscal policy tools like recurrent tax revenue, recurrent and capital expenditure of government on Nigerian economic growth.

#### 4. RESULTS AND DISCUSSION

**Table 1**  
**Summary Statistics**

Stat	RGDP	CE	RE	TR
Mean	20,789.91	459.22	897.54	812.67
Min	69.58	4.10	4.75	2.98
Max	95,177.74	1,152.80	3,831.95	3,275.12
Obs.	40	40	40	40

Source: Author's Computation, 2021

Table 1 shows the descriptive features of the variables used for the study. As indicated in table the average value for real gross domestic product (RGDP) and government capital expenditure (CE) 1981 to 2015 are N20,789.91 billion and N459.22 billion respectively. Also in the same period, government recurrent expenditure (RE) averaged N897.54 billion while the government recorded mean tax revenue (TR) of N812.67. It can be observed that average value of recurrent expenditure was 171.74% higher than that of capital expenditure where as 54.55% of the total expenditure was generated as tax revenue in the period under review. The minimum and maximum values for the period are as shown in the table.

**Table 2**  
**Unit Root Test**

Variable	t-statistics	Order of Integration	p-value	Remarks
GDP	-2.7135	I(1)	0.0054	Stationary
CE	-9.5546	I(1)	0.0000	Stationary
RE	-7.9513	I(1)	0.0000	Stationary
TR	-5.1077	I(1)	0.0000	Stationary

Source: Author's Computation, 2021

Table 2 shows the results of stationary tests conducted using Augmented Dickey Fuller method. The results indicate that real gross domestic product, capital expenditure, recurrent expenditure and tax revenue became stationary at integration order of one I(1). This implies that there is short run disequilibrium in the relationship between economic growth and fiscal policy variables. Hence, Ordinary Least Square method of estimation appears inapplicable for regression of the variables at level form due to violations of its fundamental assumptions. Therefore, the study examined the possibility of long run relationship between the variables.



**Table 3**  
**Integration Test**

Hypothesized No. of CE(s)	Trace Statistic	0.05 Critical Value	Prob.
None *	105.9220	47.85613	0.0000
At most 1*	44.16075	29.79707	0.0006
At most 2	12.73268	15.49471	0.1250
At most 3	1.879154	3.841466	0.1704

Source: Author's Computation, 2021

From Table 3, it is evident that the null hypothesis of no long run relationship is rejected at 5%. This implies that the variables have long run relationship. Therefore, the study resorts to Error Correction Model (ECM) analysis to avoid spurious results that may arise from using OLS method with variables at level form. The ECM Analysis is justified on the grounds that it addresses the problems of collinearity, heteroscedasticity and non-stationarity of time series variables.

**Table 4**  
**Impact of Fiscal Policy on Economic Growth**

RGDP	Coef.	Std. Err.	t stat	P>t
Constant	23.511	240.510	-0.021	0.753
DRGDP(-1)	0.369	0.157	3.256	0.009
DCEX	-21.043	3.001	-5.987	0.001
DCEX(-1)	15.101	4.016	3.489	0.021
DREX	10.741	1.762	6.753	0.000
DREX(-1)	-9.123	2.951	0.620	0.016
DTRE	10.401	3.152	3.147	0.016
DTRE(-1)	-0.147	1.945	-0.105	0.759
ECT(-1)	-0.295	1.123	-4.291	0.071
R-squared	0.807			
Adj. R-squared	0.678			
F-statistic	31.125			
Prob(F-static)	0.0000			

Source: Author's Computation, 2021

Table 4 presents the results of a parsimonious Error Correction Model to investigate the impact of fiscal policy on economic growth in Nigeria. Using the R-Squared value of 0.807, the good fit of the model is not in doubt. This means that 81% of



systematic variations in economic growth were explained by the fiscal policy tools of tax revenue, recurrent and capital expenditure of the government.

Similarly, the coefficient of error correction terms (ECT(-1)) in the model suggests that last periods deviation (error) from the long run equilibrium influences the short run dynamics of the relationship between economic growth and fiscal policy. In other words, the ECT measures the speed at which the Nigerian economic growth returns to equilibrium in the long run after a change in fiscal policy implementation. Put succinctly, the value of ECT (-0.295) coefficient in the table is negative and statistically significant at 5%. The economic implication of this is that 29.5% of the last-periods deviation from long run relationship between the economic growth and fiscal and fiscal policy variables was corrected in the current period (every year). When compared to the theoretically specified maximum bound of 100%, the speed of adjustment of the Nigerian economic growth in response to fiscal policy change, from state of disequilibrium in the short run to the state of equilibrium in the long run is low. A logical explanation for this low speed of adjustment may be high level of corruption and poor financial management in the public sector of the Nigerian economy.

As per the short run relationship, the results show that current year's change in economic growth (DRGDP) is positively related to its previous year's change in economic growth (DRGP-1) and the coefficient (0.549) is statistically significant at 1% due to t-statistic of 3.256. Similarly, current year's change in economic growth has a negative relationship with change in capital expenditure (DCEX). The value is also significant at 1% level of significance. Moreover, current year's change in economic growth is significantly and positively affected by last year's change in capital expenditure at 5% level of significance given a t-statistic of 2.651.

Conversely, the relationship between change in economic growth and change in recurrent expenditure in positive and significant in the current but negative in the previous period at 1% and 5% level of significance respectively. In the same vein, change in tax revenue has a significant positive effect on change in economic growth at 1% but the coefficient of its last period's change fails to influence change in economic growth significantly due to t-statistic of -0.209.

In clear terms, economic growth has a significant negative relationship with capital expenditure (-21.043+13.300). On the contrary, the economic growth is positively correlated with recurrent expenditure due to a cumulative coefficient of (14.527-



8.700). Similarly, tax revenue has a significant positive influence on economic growth given a coefficient of 9.305. This implies that economic growth decreases with capital expenditure where as it increases with recurrent expenditure and tax revenue.

Overall, the parsimonious Error Correction Model relating economic growth to fiscal policy variables is statistically significant at 1% level of significance. This implies that the null hypothesis that tax revenue, recurrent and capital expenditure do not have significant impact on economic growth can be rejected due to F-statistic of 28.264. Hence, it can be inferred that fiscal policy has a significant impact on economic growth in Nigeria.

### **Discussion of Findings**

The study has investigated the analysis of the impact of fiscal policy on economic growth in Nigeria. The government capital expenditure was found to have negative effect and significant on real gross domestic product at 5% significant level this implies that a unit increase in capital expenditure will lead to a corresponding decrease in the RGDP. This could be largely due to misappropriation of public funds on capital project and corruption that have resulted in channelling public funds to non-productive areas rather than investing in productive ventures (such as infrastructure and other growth promoting activities). This result is consistent with (Adeoye, 2006) and Ogbole, Amadi and Essi (2011) that capital projects in Nigeria are poorly financed which negatively affects Nigeria economic growth. This study therefore fails to reject null hypothesis that there is no significant effect of capital expenditure on the economic growth in Nigeria.

The coefficient of tax revenue has significant effect on the GDP as indicated by its ( $P < 5\%$ ). This result is in line with Adeoye (2006), Ogbole, Amadi and Essi (2011) and Njoku and Ihugba (2011) that government tax revenue has significantly affect Nigerian economy. In Nigeria, the higher revenue yield from taxation can only be attributed to the effect that the tax provisions are properly enforced. This study therefore rejects the null hypothesis that there is no significant effect of tax revenue on the economic growth of Nigeria. The recurrent expenditure indicates positive effect on RGDP and significant as their ( $P < 5\%$ ), as there is increase in recurrent expenditure there will be an increase in economic activities. This study therefore, rejects the null hypothesis that recurrent expenditure does not affect economic activities.



## **CONCLUSION AND RECOMMENDATIONS**

The study reveals that the impact of tax revenue positively affects economic growth (RGDP) as a result of tax provisions which are properly enforced, either on account of the ability of the administration to cope with them, or on account of low level of corruption in the administration. The results showed that government capital expenditure is an important determinant of economic growth in Nigeria. Government capital expenditure has a negative effect on Nigeria's economy and significant at 5% level of significance as result embezzlement of capital projects allocated funds by public office holders. The results showed that recurrent expenditure is an important determinant of economic growth in Nigeria but insignificant to Nigeria economic activities due to diversion of economic growth in Nigeria but insignificant to Nigeria economic activities due to diversion of authorize funds to unproductive projects or activities by the Nigeria government. Therefore, this study concludes that Nigeria government should increase tax monitoring and revenue in order to increase economic activities. Based on the above conclusions, the study recommends that government should ensure effective tax system and laws are being practice in the country in order to ensure increase in the revenue sector. Also, there is need for government to ensure proper supervision and monitoring of capital expenditure activities to avoid leakages in the system through the application of due process, accountability and fiscal transparency. The study recommends that future researchers should incorporate other variables of monetary policy instead of fiscal policy.

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