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# Impact Assessment of Fiscal Policy and The Performance of Selected Macroeconomics Indicators in Nigeria

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***Abstract*—** This study dealt with the effect of Fiscal Policy and the Performance of Selected Macroeconomics Indicators in Nigeria. Fiscal policy is used in gearing the economy towards achieving a variety of economic transformation such as economic development and growth, price stability, reduction in unemployment, external equilibrium as well as income redistribution. The study covered the period of thirty-one years (31) years from 1990 - 2021. It made used of the Ordinary Least Square estimation technique to estimate the relationships, due to the dynamic nature of the relationships, Autoregressive Distributed Lag Model (ARDL) is employed in the estimation of the model. The regression result shows that there exist a positive and a significant relationship between Fiscal Policy and macroeconomic variables in Nigeria. This is indicated by the goodness of fit of 99% growth in GDP and 94% respectively which is as a result of a change in the independent variables and remaining 1% and 6% is by the disturbance variables. The overall significance is measured by the value of the probability F-statistic which is 0.000000 and is less than 0.05 significant levels. The study concludes that The effects of fiscal policy and the performance of some selected macroeconomic indicators in Nigerian economic growth cannot be undermined since it is the main source of regulating the economy apart from monetary policy in Nigerian economy. The study recommends among other things that there is the need for government to formulate appropriate policy that could engender better and judicious used of Capital Expenditure to enhance the growth of the Nigerian economy and to ensure growth and stability in the economy, the government needs to increase her expenditure.

***Keywords*—** fiscal policy, impact assessment, macroeconomics, ARDL.

## 1. INTRODUCTION

A significant obstacle for Nigeria is maintaining economic stability. According to Audu (2012) in Iwuoha, Okolo, and Attamah (2020), this issue is the result of both internal and external shocks, and they include a rise in the general price level, a high unemployment rate, and rapid economic growth. The National Bureau of Statistics annual report (NBS, 2018 in Iwuoha, Okolo, and Attamah, 2020) states that Nigeria's declining economic activity is reflected in the rising unemployment and inflation.

Therefore, reducing unemployment, achieving price stability, and maintaining economic development while creating an environment that attracts investment becomes a priority for contemporary governments. This can be accomplished by implementing fiscal policies correctly and effectively. The employment of tax laws and government spending to expand or decrease macroeconomic activity is known as fiscal policy. Real growth and macroeconomic stability are the goals of government intervention through fiscal policy.

The government or the relevant central bank can regulate an economy through the use of fiscal policies (Salis and Saibu, 2019). The main goal of fiscal policy is to influence the government's financial activities in order to achieve specific goals of economic policy. The main metrics used to assess fiscal policy are debt, budgeting, tax income, government investment, and expenditure. It promotes development and economic growth via a variety of means.

Utilizing fiscal policy, the economy can be steered toward a number of goals, including income redistribution, price stability, unemployment decline, external balance, and economic expansion and growth. In comparison to other policies like monetary policy, fiscal policy has been used a lot more often in developing economies. As a tool for macroeconomic management, fiscal policy is described as the deliberate use of government spending and revenue, primarily from taxes, to influence the degree of economic activity in a nation (Akpapan, in Ogar., Arikpo, and Suleiman, 2019).

The macroeconomic fiscal policy discussion in many developing nations has covered a wide range of topics, with a primary focus being on the effectiveness of fiscal policy in stabilizing business cycles rather than only its effects on output growth. The shame of rising unemployment rates, unstable prices, and sluggish economic growth confronts succeeding governments in the face of massive spending and a mounting national debt burden. After a three-year civil war, the General Yakubu Gowon-led administration adopted the centralized fiscal federalism and financing gap policies, concentrating its expenditures on economic rehabilitation. The government spent a lot, yet taxes, particularly import charges, were cut sharply. The goal was to bridge the gap between supply and demand by making it easier for necessities to enter the market, particularly because the nation was generating little to nothing at the time (Iwuoha, Okolo, and Attamah, 2022).

The fiscal policy goals of the Yaradua and Jonathan administrations were expanded to include increasing productivity, promoting the development of infrastructure, laying the groundwork for economic growth driven by the private sector, enhancing agricultural and educational output, lowering unemployment and poverty, and raising agricultural productivity (Nwosa, 2021 in Iwuoha, Okolo, and Attamah, 2020). The administration made repeated attempts to stabilize prices, lower unemployment, and accelerate economic growth, but the results were unsatisfactory and beset by the same issues.

Despite the fact that Nigeria has implemented a number of fiscal policies since independence, and considering the role that fiscal policy plays in assisting in the achievement of macroeconomic policy goals, it appears that these initiatives have fallen short of expectations. There have been many arguments over the years that corruption, inappropriate and ineffective policies, a lack of integration of macroeconomic plans, a lack of harmonization and coordination of fiscal policy, egregious mismanagement/misappropriations of public funds, and a lack of potential for rapid economic growth and development have all seriously hampered the ability of fiscal policy to fully impact the Nigerian economy and other macroeconomic variables (Ogar, Arikpo, and Suleiman, 2019).

A persistent downward trend in inflation has been observed, along with fluctuating foreign exchange rates, fluctuations in the gross domestic product, an unfavorable balance of payments, an excessive dependence on oil revenue, low fiscal buffers, an expansionary fiscal policy, a large number of maturing instruments, the impact of external shocks, diminishing foreign exchange earnings, diminishing reserves, a weak oil market, and high unemployment. This ultimately led to the macroeconomic variables doing poorly. It is challenging to grasp the relationship between fiscal policy and other macroeconomic indicators because the majority of studies on these topics have produced contradictory findings. Regarding the direction and magnitude of the impact of fiscal policy on macroeconomic variables, there doesn't seem to be a settled conclusion. This is demonstrated by the recent volatility of macroeconomic data, which has made it challenging to use their results to inform economic decisions. Furthermore, according to Ogar, Arikpo, and Suleiman (2019), there isn't a single study on the relationship between fiscal policy and macroeconomic dynamics; instead, the studies that are accessible appear to be focused on fiscal policy and economic growth. Regarding the direction and magnitude of the impact of fiscal policy on macroeconomic variables, there doesn't seem to be a settled conclusion. This is demonstrated by the recent volatility of macroeconomic data, which has made it challenging to use their results to inform economic decisions. Furthermore, according to Ogar, Arikpo, and Suleiman (2019), there isn't a single study on the relationship between fiscal policy and macroeconomic dynamics; instead, the studies that are accessible appear to be focused on fiscal policy and economic growth.

## 2. REVIEW LITERATURE

### *Fiscal Policy*

Economists typically see monetary policy as the other half of macroeconomic policy, with fiscal policy making up the other half. In its most basic form, fiscal policy outlines the kind of operations carried out by the government and how they are funded. Fiscal policy would be the creation of a government budget, for instance. Therefore, using taxation and spending policies of the government to increase demand in an economy is known as an active fiscal policy. Today, the term "fiscal stimulus" refers to the employment of fiscal policy by the government to boost demand in political discussions. (Enyoghasim and others, 2022). As a tool for macroeconomic management, fiscal policy is described as the deliberate use of government spending and revenue, primarily from taxes, to influence the

degree of economic activity in a nation (Akpapan, 1994), as quoted in (Ogar, Arikpo, & Suleiman, 2021).

The use of tax and spending laws by the government to affect macroeconomic factors such as employment, inflation, GDP growth, and overall demand for goods and services is referred to as fiscal policy. It is a way for a government to monitor and affect a country's economy by modifying tax rates and expenditure amounts (Kanu, Amu & Afolanyan, 2022).

The employment of tax and spending measures by the government to expand or decrease macroeconomic activity is known as fiscal policy. Real growth and macroeconomic stability are the goals of government intervention through fiscal policy (Dikeogu & Itode, 2018).

Manishsiq (2023) defines fiscal policy as the use of tax and spending laws by the government to influence macroeconomic factors including aggregate demand for goods and services as well as employment and inflation. The main goal of these measures is to stabilize the economy. The normal approach is to combine monetary and fiscal policy actions to achieve these macroeconomic goals. Fiscal Policy deals with all aspects of government revenue and spending. Taxation and budgeting are examples of fiscal policy measures that handle the most important facets of the economy. The following are the three facets of Indian fiscal policy. Government Revenues, Government Spending, and Public Debt. The application of tax and spending laws by the government to affect macroeconomic and overall economic conditions is known as fiscal policy. These comprise employment, inflation, economic growth, and the total demand for goods and services (Adam, 2023).

The theories of British economist John Maynard Keynes, on which fiscal policy is based, assert that changes in revenue (taxes) and expenditure (spending) levels have an impact on employment, inflation, and the movement of money throughout the economy. Monetary policy and fiscal policy are frequently combined. Since taxes, spending, inflation, and employment all affect the GDP, fiscal policy is essential to effective economic management (Kiely, 2023).

***Fiscal Policy Objectives***

The goal of any nation is economic stability, hence Manishsiq (2023). Explain the following objectives of fiscal policy to an economy.

- **Price Stability:** The main function of this policy is to regulate pricing for all commodities and things in an absolute manner. It controls prices during economic downturns and maintains them stable during periods of inflation; hence, it controls pricing across the country. The government preserves price stability by controlling the supply of necessities. It so spends money on food grain supplies that are enough, rationing, and stores that have fair prices. It also keeps the costs of utilities affordable for the average person by providing subsidies for things like cooking gas, water, and transportation.
- **Complete Employment:** Prioritizing employment is crucial for any country seeking to improve its economic standing. India has the largest youth population, which raises the prospect of growth. In many domains, the younger generation outperforms the older ones. As a result, our country's economic statistics would soar if it could provide full or nearly full employment. All hiring decisions are guided by the fiscal policy. The government uses a variety of strategies to increase employment prospects. One benefit is that it creates jobs by developing public sector enterprises. Two, in order to boost output and employment, it offers the private sector incentives and other advantages like tax cuts, lower tax rates, and so forth. It also encourages people to start small, rural, and cottage enterprises in order to create jobs. To do this, you can provide them low-interest loans, subsidies, tax breaks, and other incentives.
- **Economic Growth:** Initiatives related to fiscal policy can help the country satisfy its needs and accelerate its rate of growth. One way the government encourages economic growth is through the establishment of heavy industries like steel, chemicals, fertilizers, and industrial machinery. Additionally, it constructs the utilities—roads, bridges, trains, schools, hospitals, water and power supply, telecommunications, and so on—that facilitate economic growth.

***Theoretical Framework***

***Wagner's Law of Increasing State Activities***

German economist Adolph Wagner (1835–1917) founded his law of growing governmental operations on German historical realities. Wagner contends that there are innate inclinations for the actions of various governmental tiers (such as the federal and state governments) to grow in scope and intensity. The expansion of government operations and economic

growth have a functional relationship that causes the governmental sector to develop faster than the economy. In the original version, it is not clear whether Wagner was referring to an increase in

a) Absolute level of public expenditure
b) The ratio of government expenditure to GNP, or
c) Proportion of public sector in the total economy.

Musgrave's in Ilori and Ajiboye (2015), interpreted that Wagner was thinking of (c) above. Witti (2010) in Ilori and Ajiboye (2015) not only supported Wagner's thesis but also concluded with empirical evidence that it was equally applicable to several other governments which differed widely from each other. All kinds of governments, irrespective of their levels, intentions and size had exhibited the same of increasing public expenditure as a result of the understated points.

According to this study, when government activities increase and policies are put in place to sufficiently secure the accomplishment of the overall macroeconomic goals, government spending and other components are anticipated to have an impact on people's welfare and quality of life. It is anticipated that state spending, capital formation, and labor productivity would all play a role in determining how fast Nigeria's economy grows.

***Keynesian Fiscal Theory of Output and Income***

A hypothesis developed by John Maynard Keynes (1883–1946) encourages the government to take a significant role in promoting economic development and progress. In particular, he proposed that government intervention in the form of taxes and spending is necessary to stimulate output, growth, and employment in the economy and address long-term unemployment and depression. Additionally, he made the point that suitable fiscal policy measures must be implemented in order to address the issue of unemployment in the economy, which is defined as a scenario when output falls below the level of full employment. This kind of strategy could involve tax cuts, increases in government spending, or a mix of the two. It is important to note that the governments of many nations view fiscal policy as a useful tool for managing the collection and use of public funds. The program is divided into two parts: adjustments to government spending and adjustments to taxes. According to Keynesian philosophy, expenditure is what drives output, which in turn produces revenue and jobs. The foundation of this theory is the idea that corporate enterprises are compelled to provide goods and services in response to aggregate demand, or total spending. Therefore, commercial enterprises will reduce production if overall expenditure in an economy drops due to either pessimism about the future economic climate or from preserving more of the current income (Nyong, 2001). Consequently, lower spending leads to lower output. Naturally, this causes a drop in a number of other macroeconomic factors. According to the hypothesis, changes in government spending directly impact income through the multiplier. As a result, government spending has a significant role in aggregate demand.

Moreover, higher government taxes, tax rates, or lump sum taxes have a detrimental effect on the state of the economy. Because taxes are a withdrawal from an income stream and expenditures are an injection, increasing taxes has the reverse impact of increasing economic activity from increases in government spending (Nyong, 2001). This demonstrates that the application of fiscal policy, which involves altering government spending, encourages economic activity and, consequently, growth across the board. Keynes said that the government's inability to regulate the economy through suitable economic policies was the cause of the ongoing unemployment and economic downturn (Iyoha, 2003). Thus, Keynes put out the idea of macroeconomic policies like fiscal and monetary policies as a means of government intervention in the economy. Fiscal policy is the intentional use of taxation and spending by the government to influence macroeconomic variables in a desired way. This includes low inflation, strong job creation, and sustainable economic growth (Ekpo, 2010). Fiscal policy therefore seeks to stabilize the economy. While lower government expenditure or higher taxes slow down a boom, higher government spending or lower taxes typically help the economy emerge from a recession (Dornbusch and Fischer, 1990). Essentially, government interventions in the economy take the form of restrictions on particular economic sectors or areas. These regulations vary and are based on the particular goals or requirements that the government wants to accomplish. Keynes suggests using fiscal policy to intervene on behalf of the government.

***Empirical Review***

Divergent views have been expressed by researchers regarding the influence of fiscal policy instruments on the economic expansion of numerous countries. While some believe that fiscal policy tools have a positive relationship with economic growth, others argue that

they have a negative relationship. A third group believes that the relationship between fiscal policy tools and economic growth depends on how they are used in conjunction with other macroeconomic variables. Nevertheless, a fourth school of thought has emerged. They believe that the use of fiscal policy tools could have a minor, non-significant effect on the rate of economic growth in any particular country. Some of the studies are as follow:

"Impact of Fiscal Policy on selected Macro Economic Variables in Nigeria" was the topic of Ogbu and Ogu's 2020 study. The impact of fiscal policy on a few chosen macroeconomic indicators was measured in the study using the Auto Regressive Distributed Lag (ARDL) Model, which employs a limits test approach based on the unconstrained error correction model (UECM). In the first objective, the variables used in the analysis were government spending, public debt, and taxes; in the second objective, the dependent variable was unemployment, and the independent variables were government spending, taxation, and borrowing. The findings demonstrate that, as fiscal policy instruments, government borrowing and expenditure have a statistically significant impact on GDP in Nigeria, while taxes have no statistically significant impact on GDP. Additionally, government borrowing and expenditure have no statistically significant impact on unemployment. Thus, government expenditure as a fiscal policy instrument has a statistically significant impact on unemployment in Nigeria. It was suggested that a thorough reevaluation of the financial situation be conducted.

Olukayode (2015) uses Engel-Granger cointegration for the long-run relationship, ordinary least square for the long-run estimate, and a diagnostic test for instrument consistency to investigate the effects of fiscal policy on the growth of the Nigerian economy from 1970 to 2011. According to his research, fiscal policy has a major positive impact on economic growth, suggesting that right fiscal policies boost the country of Nigeria's economic expansion. As a result, government expenditure has a bigger influence on Nigeria's economic growth rate. There is need for continuous increase and growth of the nation’s output by ensuring that government spending is channelled into sectors that best guarantees efficient and effective usage.

Ogar, A., Arikpo, O. F., & Suleiman, L. G. (2019) also looked at the dynamics of Nigeria's macroeconomic and fiscal policies. In particular, the study evaluated whether fiscal policy tools—such as government revenue, expenditure, and debt—have a causal link, both short- and long-term, with macroeconomic variables like interest rates and GDP in Nigeria. From 1980 to 2016, the CBN statistical bulletin served as the study's primary source of data. Desk surveys were used to collect data, and the exploratory and ex-post facto research designs were merged. The Vector Error Correction Mechanism (VECM) was employed in the study to analyze the data. The analysis' conclusions demonstrated that there is no direct relationship between interest rates in Nigeria and fiscal policy tools such government revenue, expenditure, and debt. The analysis also demonstrated that there is no causal relationship between fiscal policy tools including government revenue, government spending, and debt to GDP in Nigeria in the long or medium term. The study's recommendations are based on these findings, which suggest that fiscal policy should be geared toward sustaining economic growth and development, that the government refrain from taking on new debt because doing so could increase the burden of servicing it and have a negative long-term impact on growth, and that fiscal policy should be used in conjunction with monetary policy to achieve the desired interest rate target in Nigeria.

Additionally, Jolayemi and Akinlo (2021) look into how Nigeria's fiscal policy channels affected a few key macroeconomic variables between 1970 and 2018. The study looked at the prior and posterior mean values on the given models before using the Bayesian technique of the Dynamic Stochastic General Equilibrium Model. The study found that the country's macroeconomic variable performance was impacted by the channels of transmission of fiscal policy, i.e., Nigeria's macroeconomic variable performance is substantially influenced by the channels of transmission of fiscal policy. The study came to the conclusion that government spending, oil revenue, private sector lending, and exchange rates were important factors in Nigeria that required sound policy measures to be implemented. According to the report, a consistent cutback in fiscal policy channels is necessary in order to achieve sustainable development and enhance variable performance. Additionally, as the most active shock that fiscal policy channels transfer to the economy is credit shock, efforts should be taken to encourage banks to create additional money for the private sector of the economy. And Central Bank of Nigeria should also

pursue the government in financing credit availability in the country.

Barfour, Shehu, and Yakubu (2023) The effectiveness of the interaction between monetary and fiscal policy on price and output growth in Nigeria is examined in this article. The analyses of variance decomposition and impulse response have caught the dynamic correlations of the variables. According to innovation assessments, government revenue and money supply are the two policy factors that, over time, are likely to have a more positive impact on prices and economic growth in Nigeria, albeit more slowly. This study shows that, despite the dominance of monetary and fiscal policy factors, economic activity is mostly driven by its own dynamics during the majority of the studied periods. According to the estimations in this article, fiscal and monetary policy have a bigger influence on Nigeria's real GDP and inflation. Overall, it is clear that the choice of policy variable greatly affects the impact of that policy, even though certain policy variables are thought to be more advantageous for social and economic advancement than others.

The contribution of fiscal policy measures on economic stability in Nigeria is examined by Enyoghasim et al. (2022). In particular, the study looks at how fiscal policy decisions affect the GDP, a macroeconomic growth metric. They analyzed their data, which covered the years 1970 to 2019, using the econometric techniques of ordinary least squares and co-integration/error correction mechanism in order to meet their goals. Their studies and conclusions demonstrate that changes in fiscal policy had a significant impact on economic growth. The model's coefficient of determination provides proof of this. In the model, the R2 value is constantly high. In the model, government revenue and spending were also important. Based on the study's findings, the government should strengthen its role in economic management by increasing capital spending and decreasing recurrent spending to promote the development of infrastructure and foster an atmosphere that will encourage more private investment in the economy.

## 3. METHODOLOGY

The information obtained from optional sources, such as periodicals, books, journals, documents, reports, websites, and more, is referred to as secondary data. Secondary data were used in this empirical investigation to estimate the work's specified models. Over the course of thirty-one (31) years, from 1990 to 2021, data on the Gross Domestic Product, Capital Federal Government Expenditure, Recurrent Federal Government Expenditure, and Unemployment variables were gathered for the Nigerian economy. The World Bank Development Indicator (different issues) and the Central Bank of Nigeria (CBN) Statistical Bulletin would be the sources of the data to be used.



***Model Specification***

A regression model is a powerful tool that helps in providing models that express the relationship between two or more variables. For this study, the functional relationship are stated thus:

GDP = f (RFGEX, CFGEX, UR)

UR= f (GDP, RFGEX, CFGEX,)

The functional model will be converted to a stochastic relationship below:

GDP= Bo + B1RFGEX+ B2CFGEX + B3 UR + µ---------- 1

UR = Bo + B1RFGEX+ B2CFGEX + B3 GDP + µ----------2

Where:

GDP= Gross Domestic Product

RFGEX= Recurrent Federal Government Expenditure

CFGEX= Capital Federal Government Expenditure

UR= Unemployment Rate

µ= Error Term

Bo,= Intercept of the regression

B1, B2, and B3 = slopes coefficient of the respective explanatory variables

Equation above were tried with both linear and log linear specifications and log specification was accepted, judging in terms of goodness of fit, precision of estimates and a tolerable level of multicollinearity. It is important to note that log model help to reduce the problem of multicorrelearity. Also logging the variables

will give the variable a uniform scale given that some of the variables are in percentages while some are in naira.

***Apriori Expectation:***

On estimation, the intercept Bo and the slope coefficients B1, B2 and B3 are expected to have a positive sign. That is positive economic growth is expected at zero value of RFGEX, CFGEX and a negative sign for UR.

## 4. RESULTS AND DISCUSSION

***Unit root test***

This study applied unit root test to determine if the data is stationary before any analysis can be conducted. Economic theory requires that variables be stationary (that is, the variables should have long-term or equilibrium relationship between them) before the application of standard econometric technique (Gujarati 2004). It is recommended that the unit root test is conducted to validate the data for analysis. The unit root was tested using Augmented Dickey-Fuller test at 5% level of significance. The critical values are based on the assumption that variables should be I(1) or I(0). Therefore, applying the unit root test is still necessary to make sure that none of the variables is integrated at I(2) and beyond (Sahbaz and Feridun, 2012; Yusuf et al., 2011). For unit root test, the Augmented Dickey-Fuller (ADF) is exercised to check the order of integration of model variables, using intercept without trend option with automatic AIC lag selection criteria. The result is shown in the table below:

***Table 1:*** *Summary of the Augmented Dickey-Fuller Test*

| Variables | ADF Statistics | 5% Critical value | Order of integration | Remark |
|---|---|---|---|---|
| **LOGCFGEX** | **-6.507210** | **-2.963972** | **1(1)** | **Stationary** |
| **UR** | **-4.618091** | **-2.963972** | **1(1)** | **Stationary** |
| **LOGGDP** | **-5.062133** | **-2.960411** | **1(0)** | **Stationary** |
| **LOGFREX** | **-7.668248** | **-2.963972** | **1(1)** | **Stationary** |

Source: Author's computation from Eview 10

Following Pesaran and Pesaran (1997) procedure. However, ADF unit root test for this study confirmed that only one of the variables in the research model is stationary at 1(0) and the remaining three are stationary at first difference1(1). The result in table 1 above indicates that when the variables are tested at levels, only one variable is stationary, the rest are not stationary. Moving forward, differencing the respective variables and performing the unit root test on each of the resultant time series. The rationale behind this procedure is as Box and Jenkins (1976) have argued that differencing non-stationary time series will make it attain stationarity. The result of the unit root test on these variables first differencing showed that Gross Domestic Product, Federal Capital Expenditure, Federal Recurrent Expenditure and Unemployment Rate are stationary all. With these results, these variables are adjudged to be stationary at 5% critical value. This implies that the variables are integrated of order one 1(1) and Order zero 1(0). The findings indicated that the null hypothesis couldn't be rejected for the variables but after differencing the data, the absolute ADF statistic is all significant and above 5% critical values respectively. Unit root of this nature, where the variables are stationary at a level and first difference warrant the use of Autoregressive Distributed Lag Model in estimating the equation. Given the unit root properties of the variables, we proceed to test the relationship among them using Granger Causality Test as presented in the table 2 below:

***Granger Causality Test***

Although regression analysis deals with the dependence of one variable on the other, it does not imply causation. In other words, the existence of a relationship between variables does not prove causality or the direction of influence (Gujarati, 2004).

The essence of employing causality analysis, using the granger causality test in this research work is to actually ascertain whether a causal relationship exists between Unemployment (UR) and Recurrent Federal Government Expenditure (RFGEX), (CFGEX) and GDP. The F- statistics is used to reject or accept the null hypothesis of no causation between the variables when F-statistics is greater than 2 and less than 2 respectively. Or the probability value, the null hypothesis is rejected if p- value is less than 5% level of significance. Consider the table below to check for direction of influence between the variables in Nigeria for the period under study (i.e. from 1990 to 2021).

| Pairwise Granger Causality Tests | | | |
|---|---|---|---|
| **Date: 09/07/23 Time: 13:17** | | | |
| **Sample: 1990 2021** | | | |
| **Lags: 2** | | | |
| **Null Hypothesis:** | Obs | F-Statistic | Prob. |
| **LOGRFGEX does not Granger Cause UR** | 30 | 1.11962 | 0.3422 |
| **UR does not Granger Cause LOGRFGEX** | | 0.61362 | 0.5493 |
| **LOGCFGEX does not Granger Cause UR** | 30 | 0.56189 | 0.5772 |
| **UR does not Granger Cause LOGCFGEX** | | 3.09634 | 0.0629 |
| **LOGGDP does not Granger Cause UR** | 30 | 1.67101 | 0.2084 |
| **UR does not Granger Cause LOGGDP** | | 0.25337 | 0.7782 |
| **LOGCFGEX does not Granger Cause LOGRFGEX** | 30 | 1.05877 | 0.3619 |
| **LOGRFGEX does not Granger Cause LOGCFGEX** | | 2.38482 | 0.1127 |
| **LOGGDP does not Granger Cause LOGRFGEX** | 30 | 0.55733 | 0.5797 |
| **LOGRFGEX does not Granger Cause LOGGDP** | | 11.6674 | 0.0003 |
| **LOGGDP does not Granger Cause LOGCFGEX** | 30 | 2.08922 | 0.1449 |
| **LOGCFGEX does not Granger Cause LOGGDP** | | 1.64108 | 0.2140 |

The results alternated between no causality and uni-directional, depending on the lag length allowed, which are all tested on the same lag. The outcome is presented in Table 2 above. The results suggest that there is no causality between Recurrent Federal Government Expenditure and Unemployment Rate. There is no causality between Capital Federal Government Expenditure and Unemployment rate. Gross domestic product does not granger cause each other with unemployment rate. The result shows that Recurrent Federal Government Expenditure does not granger caused each other with Capital Federal Government Expenditure. The result also, shows that GDP does not granger Caused Recurrent Federal Government Expenditure, but Recurrent Federal Government Expenditure granger caused GDP. That means that there is a unidirectional relationship between them. Moving forward, it shows that there is no relationship between GDP and Capital Federal Government Expenditure. The result alternate between no relationship and a unidirectional relationship.

***Autoregressive Distributed Lag Model (Ardl) Result***

The ARDL approach was adopted because its test statistics generally perform much better in small sample than the test statistics computed using the asymptotic formula that explicitly takes account of the fact that the regressors are 1(1). Its permits the combination of the different order of integration (1(1) and 1(0)) among the variables in the model. The result of the ARDL for the models is represented below:

| Dependent Variable: LOGGDP | | | | |
|---|---|---|---|---|
| **Method: ARDL** | | | | |
| **Date: 09/7/23 Time: 13:06** | | | | |
| **Sample (adjusted): 1994 2021** | | | | |
| **Included observations: 28 after adjustments** | | | | |
| **Maximum dependent lags: 4 (Automatic selection)** | | | | |
| **Model selection method: Akaike info criterion (AIC)** | | | | |
| **Dynamic regressors (4 lags, automatic): LOGRFGEX LOGCFGEX UR** | | | | |
| **Fixed regressors: C** | | | | |
| **Number of models evalulated: 500** | | | | |
| **Selected Model: ARDL(2, 4, 4, 2)** | | | | |
| **Variable** | Coefficient | Std. Error | t-Statistic | Prob.* |
| **LOGGDP(-1)** | 0.757487 | 0.193640 | 3.911825 | 0.0021 |
| **LOGGDP(-2)** | 0.132346 | 0.135755 | 0.974890 | 0.3489 |

| | | | | |
|---|---|---|---|---|
| **LOGRFGEX** | 0.169389 | 0.058565 | 2.892317 | 0.0135 |
| **LOGRFGEX(-1)** | 0.028672 | 0.044912 | 0.638390 | 0.5352 |
| **LOGRFGEX(-2)** | 0.161044 | 0.047659 | 3.379052 | 0.0055 |
| **LOGRFGEX(-3)** | 0.063043 | 0.056379 | 1.118200 | 0.2854 |
| **LOGRFGEX(-4)** | -0.198778 | 0.059385 | -3.347249 | 0.0058 |
| **LOGCFGEX** | -0.067222 | 0.036949 | -1.819302 | 0.0939 |
| **LOGCFGEX(-1)** | 0.044698 | 0.036639 | 1.219953 | 0.2459 |
| **LOGCFGEX(-2)** | -0.080066 | 0.033619 | -2.381554 | 0.0347 |
| **LOGCFGEX(-3)** | -0.042992 | 0.039994 | -1.074951 | 0.3035 |
| **LOGCFGEX(-4)** | -0.049032 | 0.030027 | -1.632923 | 0.1284 |
| **UR** | -0.016190 | 0.017048 | -0.949687 | 0.3610 |
| **UR(-1)** | 0.027188 | 0.021782 | 1.248196 | 0.2358 |
| **UR(-2)** | -0.022947 | 0.019580 | -1.171966 | 0.2640 |
| **C** | 0.880300 | 0.413377 | 2.129532 | 0.0546 |
| **R-squared** | 0.999705 | Mean dependent var | | 10.19622 |
| **Adjusted R-squared** | 0.999336 | S.D. dependent var | | 1.397349 |
| **S.E. of regression** | 0.036004 | Akaike info criterion | | -3.514828 |
| **Sum squared resid** | 0.015555 | Schwarz criterion | | -2.753568 |
| **Log likelihood** | 65.20759 | Hannan-Quinn criter. | | -3.282103 |
| **F-statistic** | 2710.556 | Durbin-Watson stat | | 2.456551 |
| **Prob(F-statistic)** | 0.000000 | | | |
| ***Note: p-values and any subsequent tests do not account for model selection.** | | | | |

The coefficient of the constant intercept β0 is 0.880300 which show that if all the explanatory variables were held constant, the GDP will be 880300, an increase in economic growth in the economy. In relation to our apriori expectation, it is expected that there should be a direct positive relationship between Gross Domestic Product and the independent variables (RFGEX, CFGEX and UR) in Nigeria.

The coefficient conforms to the apriori expectation. However, the coefficient of Recurrent Federal Government Expenditure (RFGEX) conformed to the apriori expectation. The coefficient (β1=0.169389, P=0.0135) shows a positive and a significant relationship between RFGEX and economic growth in Nigeria. Its shows that a unit change in RFGEX will lead to 20% change in economic growth in Nigeria.

Consequently, the coefficient of Capital Federal Government Expenditure shows that its does not conformed to the apriori expectation of a positive relationship. This is proving by the coefficient of (β2=-0.067222, P=0.0939). The result is negative and insignificant at 5%. This shows that a unit change in Capital Federal Government Expenditure will lead to a reduction in GDP by 7% in the economy.

Lastly, the coefficient of unemployment rate also conformed to the apriori expectation of a negative relationship. This is shown by the coefficient (β3=-0.016190, P=0.3610) which indicates that a unit increase in Unemployment Rate will lead to a 2 unit decrease in economic growth.

The coefficient of determination (R2) showed the percentage of variations in the dependent variable that can be explained by the independent variables. The R2 of 0.999705 or 99% showed that Economic growth can be explained by changes in the explanatory variables as shown in the model and the remaining 1% is explained by the dummy variable. The F-statistic which measures the overall significance of the model indicated that it is significant at 5%. This is indicated by the F-statistics and its probability (2710.556 and 0.000000) respectively. We therefore conclude that there is a significant relationship between economic growth and some selected macroeconomic variables and economic growth in Nigeria. The Durbin Watson statistics is approximately 2 which show that there is no serial correlation. This means that the value of the random term in any particular period is uncorrelated with its preceding values which indicate the absence of autocorrelation.

| | | | | |
|---|---|---|---|---|
| **Dependent Variable: UR** | | | | |
| **Method: ARDL** | | | | |
| **Date: 09/7/23 Time: 13:16** | | | | |
| **Sample (adjusted): 1992 2021** | | | | |
| **Included observations: 30 after adjustments** | | | | |
| **Maximum dependent lags: 3 (Automatic selection)** | | | | |
| **Model selection method: Akaike info criterion (AIC)** | | | | |
| **Dynamic regressors (3 lags, automatic): LOGRFGEX LOGCFGEX** | | | | |
| **LOGGDP** | | | | |
| **Fixed regressors: C** | | | | |
| **Number of models evalulated: 192** | | | | |
| **Selected Model: ARDL(1, 0, 0, 2)** | | | | |
| **Note: final equation sample is larger than selection sample** | | | | |
| **Variable** | Coefficient | Std. Error | t-Statistic | Prob.* |
| **UR(-1)** | 1.062458 | 0.067028 | 15.85103 | 0.0000 |
| **LOGRFGEX** | -0.247206 | 0.402281 | -0.614511 | 0.5449 |
| **LOGCFGEX** | -0.870985 | 0.299351 | -2.909574 | 0.0079 |
| **LOGGDP** | -1.378300 | 1.502832 | -0.917135 | 0.3686 |
| **LOGGDP(-1)** | 0.936380 | 1.972692 | 0.474671 | 0.6395 |
| **LOGGDP(-2)** | 1.170393 | 1.183428 | 0.988985 | 0.3330 |
| **C** | 0.387274 | 1.634579 | 0.236926 | 0.8148 |
| **R-squared** | 0.944078 | Mean dependent var | | 4.897333 |
| **Adjusted R-squared** | 0.929490 | S.D. dependent var | | 1.964332 |
| **S.E. of regression** | 0.521605 | Akaike info criterion | | 1.737150 |
| **Sum squared resid** | 6.257645 | Schwarz criterion | | 2.064096 |
| **Log likelihood** | -19.05725 | Hannan-Quinn criter. | | 1.841743 |
| **F-statistic** | 64.71445 | Durbin-Watson stat | | 2.365226 |
| **Prob(F-statistic)** | 0.000000 | | | |
| ***Note: p-values and any subsequent tests do not account for model selection.** | | | | |



The coefficient of the constant intercept β0 is 0.387274 which show that if all the explanatory variables were held constant, the GDP will be 387274, an increase in Unemployment Rate in the economy. In relation to our apriori expectation, it is expected that there should be a direct positive relationship between Unemployment Rate and the independent variables (RFGEX, CFGEX and GDP) in Nigeria. The coefficient conforms to the apriori expectation. However, the coefficient of Recurrent Federal Government Expenditure (RFGEX) conforms to the apriori expectation. The coefficient (β1=-0.247206, P=0.5449) shows a negative and insignificant relationship between RFGEX and unemployment rate in Nigeria. Its shows that a unit change in RFGEX will lead to 25% reduction in unemployment rate in Nigeria, as workers are paid their wages, they may invest it in a profitable ventures leading to a reduction in unemployment rate.

Consequently, the coefficient of Capital Federal Government Expenditure shows that its does not conformed to the apriori expectation of a negative relationship. This is proving by the coefficient of (β2=--0.870985, P=0.0079). The result is negative and significant at 5%. This shows that a unit change in Capital Federal Government Expenditure will lead to a reduction in UR by 87% in the economy.

Lastly, the coefficient of Gross Domestic Product also conformed to the apriori expectation of a negative relationship. This is shown by the coefficient (β3=-1.378300, P=0.3686) which indicates that a unit increase in GDP will lead to a 138 unit decrease in Unemployment Rate in Nigeria.

The coefficient of determination (R2) showed the percentage of variations in the dependent variable that can be explained by the independent variables. The

R2 of 0.944078 or 94% showed that Unemployment Rate can be explained by changes in the explanatory variables as shown in the model and the remaining 6% is explained by the dummy variable. The F-statistic which measures the overall significance of the model indicated that it is significant at 5%. This is indicated by the F-statistics and its probability (64.71445 and 0.000000) respectively. We therefore conclude that there is a significant relationship between Unemployment Rate and some selected macroeconomic variables in Nigeria. The Durbin Watson statistics is approximately 2 which show that there is no serial correlation. This means that the value of the random term in any particular period is uncorrelated with its preceding values which indicate the absence of autocorrelation.

***Discussion of Findings***

Based on this result, the ARDL shows that a positive and a significant relationship existed between economic growth and Recurrent Federal Government Expenditure in Nigeria at 5%. It shows that a unit rise in Recurrent Federal Government Expenditure will lead to an increase in economic growth by 20%. This is because an increase in the number of workers will be accompany by an increase in the production of goods and services in the economy thereby leading to an investment by the workers if they are well paid. The result is consistence with Enyoghasim et al (2022) who found a positive relationship between recurrent federal government expenditure and economic growth in Nigeria but differ in the Capital Federal Government Expenditure, where we got negative relationship. The negative relationship may occur if the capital expenditure enters the pocket of few people without using it for the federal government capital project, as a result of corruption.

Lastly, the coefficient of unemployment rate also conformed to the apriori expectation of a negative relationship. This is indicates that a unit increase in Unemployment Rate will lead to a 2 unit decrease in economic growth. Hence, the government needs to employ more qualify work force to increase the economic growth of the nation. For the second objective, shows a negative and insignificant relationship between RFGEX and unemployment rate in Nigeria. Its shows that a unit change in RFGEX will lead to 25% reduction in unemployment rate in Nigeria, as workers are paid their wages, they may invest it in a profitable ventures leading to a reduction in unemployment rate. Both GDP and CFGEX shows a negative relationship with unemployment rate in Nigeria. When GDP and Capital Federal Government Expenditure increase, it will lead to a reduction in unemployment rate in Nigeria.

The regression result shows that there exist a positive and a significant relationship between Fiscal Policy and macroeconomic variables in Nigeria. This is indicated by the goodness of fit of 99% growth in GDP and 94% respectively which is as a result of a change in the independent variables and remaining 1% and 6% is by the disturbance variables. The overall significance is measured by the value of the probability F-statistic which is 0.000000 and is less than 0.05 significant levels. We, therefore, reject the null hypothesis and conclude that there is a significant effect of fiscal policy and major economic variables on economic growth in Nigeria.

## 5. CONCLUSION AND RECOMMENDATION

The research made an attempt to investigate the effects of fiscal policy and the performance of some selected macroeconomic indicators in Nigeria. This study provided empirical justification for the effects of fiscal policy and the performance of some selected macroeconomic indicators in Nigeria. The study used Gross Domestic Product and Unemployment Rate as the dependent variable with, Recurrent Federal Government Expenditure (RFGEX), Capital Federal Government Expenditure (CFGEX), and Unemployment Rate as the independent variables to ascertain the effects of fiscal policy and the performance of some selected macroeconomic indicators in Nigeria. These have been achieved using analytical techniques (Augmented Dickey-Fuller, Autoregressive Distributed Lag Model, Granger Causality and Cusum sum of Squares).

The findings of the study are as follows:

- The regression result showed that there exist a positive effect of fiscal policy and the performance of some selected macroeconomic indicators in Nigeria. This is shown by the coefficient of determination. The granger causality only show a unidirectional relationship in which GDP does not granger Caused Recurrent Federal Government Expenditure, but Recurrent Federal Government Expenditure granger caused GDP. All the rest of the variables does not granger cause each other.
- The post-test was tested using Jack-Bera and Cusum sum of Squares. The result showed that it is

normally distributed and significant during the reviewed years in Nigeria.

## CONCLUSION

The effects of fiscal policy and the performance of some selected macroeconomic indicators in Nigerian economic growth cannot be undermined since it is the main source of regulating the economy apart from monetary policy in Nigerian economy. The result showed that there is a negative and insignificant relationship between Fiscal policy and unemployment rate in Nigeria, therefore, the government need to put more effort in the generation of revenue and spending more on capital and recurrent expenditure in Nigeria as such will increase GDP and reduce unemployment in Nigeria. The coefficients conform to the apriori expectation, that there is a negative relationship between RFGEX, GDP and CFGEX in Nigeria. The other model shows that UR and RFGEX conform to the apriori expectation of negative and positive sign respectively with the exception of CFGEX which exert a negative relationship.

## RECOMMENDATIONS

Base on the result of the study, the following recommendations were suggested:

a) Capital Federal Government Expenditure impacted negatively on economic growth. Therefore, there is a need for government to formulate appropriate policy that could engender better and judicious used of Capital Expenditure to enhance the growth of the Nigerian economy. Capital punishment such as dead by hanging should be implemented on corrupt office holders to serve as a detriment to others

b) Government should take a bold step towards the diversification of the economy from oil in order to encourage the growth of the economy from other sectors of the economy, which will help in increasing the GDP.

c) For growth and stability in the economy, the government need to increase its expenditure

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