EPRA International Journal of Economics, Business and Management Studies
ISSN: 2347- 4378, InnoSpace, (SJIF) Impact Factor: 3.957 (Morocco)
Vol-4 (Special Issue) June, 2016-17

EXAMINING THE RELATIONSHIP BETWEEN FISCAL POLICY INDICATORS AND ECONOMIC GROWTH IN NIGERIA: AN EMPIRICAL APPROACH

Amassoma, D[1]

[1]*Department of Economics and Development Studies, Faculty of Social Sciences, Federal University Oye Ekiti, Ekiti State, Nigeria.*

Makanjuola, O. M[2]

[2]*Department of Economics and Development Studies, Faculty of Social Sciences, Federal University Oye Ekiti, Ekiti State, Nigeria.*

ABSTRACT

The study empirically examined the relationship between fiscal policy indicators and economic growth in Nigeria. Annual data on government tax revenue, government expenditure, external reserve, total public debt and foreign private investment from the Central Bank of Nigeria covering the period 1970 – 2013 were utilized. The study verified the time series properties using the Augmented Dickey-Fuller (ADF) technique after which the co-integration test was conducted using the Johansen Co-integration test. The study adopted the multiple regression method to know the long run effect of the fiscal policy indicators on economic growth in Nigeria between the study period. The study went further to ascertain the short run dynamic effect of the variables of interest. The results showed that while government expenditure, revenue and debt have positive relationship with economic growth in the long run, foreign private investment and tax revenue are negatively related to growth. Similarly, foreign private investment and total debt exhibited significant effect on economic growth in the long run. Furthermore, the short run dynamic analysis showed that none of the variable is significant thereby indicating that short-run relationship does not exist between fiscal policy and economic growth. Furthermore, the causality test confirms that a uni-directional causality exist between all the variables except for total debt and Revenue which had bi-directional causality. Therefore, the study recommends that there should be fiscal discipline which will in turn enable fiscal policy measures to the realization of goals which would ensure commitment, probity, accountability and transparency by public fund managers; more so that revenue gotten from tax should be expended on economically beneficial project so that the multiplier effect can be enjoyed by the vast majority. Finally, there should deficit financing by engineering the reduction in unproductive government spending and safeguard public expenditure on infrastructure so as to encourage private sector investment.

KEYWORDS*:* fiscal policy, revenue, external reserve, FPI, expenditure, total debt and economic growth.