The Interplay of Government Expenditure and the Private Sector Investment on the Nigerian Economy (1981-2013)

Omiete Victoria Olulu-Briggs
Department of Finance and Banking, University of Port Harcourt, Nigeria.
e-mail: firstvikes@yahoo.com

UlomaAdonyeOnoh
Department of Banking and Finance, MichealOkpara University of Agriculture, Umudike, Nigeria.
e-mail: jameonoh1@gmail.com

Abstract

This paper investigates theinterplay of government expenditure and private sector investment on the economy of Nigeria. Annual time series data are used for the period from1981-2013. The Unit root tests show that at the 5% level of significance, all the variables were stationary at both level and first difference, thus confirming a transitory stochastic trend. The Johansen cointegration test demonstrate that three cointegrating long-run relationship exist between the GDP, Capital Expenditure, Recurrent Expenditure and Credit to the Private Sector.However, in the short-run, disequilibrium errors were detected. Consequently, the Error correction modelwas engaged to ascertain the proportion of the disequilibrium errors built up in the preceding short-run periods that are corrected in the current period. Our result gave a speed of adjustment of 66% with its expected negative sign, which shows statistical significance at the 5% level. In addition, we conducted a Granger causality test to demonstrate the direction of causality of the variables. We find bi-directional causality between CAPEX and GDP; CPS and GDP; and REPEX to CPS; while uni-directional causality exists from CAPEX to REPEX; and CPS to CAPEX. First recommendation is that monetary and fiscal authorities should make credible policies and give an in-depth attention to its capital investment strategies to ensure they are adequately implemented with feedback mechanisms. Second, an equilibrium fiscal management such that deficit financing do not interfere or create a negative multiplier effect on private sector credits. Third, the interest rate charged by banks' on credits to the Private sector should be minimal in order to boost economic activities.
Keywords: Government Expenditure, Private Sector Investment, Economic Growth, Error Correction model, Cumulative Sum of Residual Test.

1. Introduction

In market driven economies, Governments seek to strengthen macro-economic stability using the instruments of fiscal and monetary policies. Its objectives is to secure high level of employment, stabilize prices of goods and services, rapid growth of the GDP, positive balance of payment, a free market economy, unbiased income distribution, step-ups in the real sector among others. The Nigerian economy has been plagued with misplaced policies which contributed to a drastic drop in both domestic and foreign investments, as well as slow growth of the financial markets. Okunroumu (1993) opine that the management of the Nigerian economy in order to achieve macroeconomic stability has been unproductive and negative hence one cannot say the Nigerian economy is performing. In another development, Ajisafe and Folorunsho (2002) argue that despite their demonstrated efficacy in other economies as policies that exert influence on economic activities, both fiscal and monetary policies have not been sufficiently or adequately used in Nigeria.

Fiscal policy involves the use of revenue and expenditure by government to stimulate the allocation of resources, aggregate demand and income distribution; thus creating equilibriumin economic activities. According to Onoh(2007), of all fiscal instruments available, the fiscal instrument of expenditure is considered most potent in reactivating idle economic activities and creating opportunities and environment for new ones to thrive.Undoubtedly, fiscal policy is central to the health of any economy, as government's ability to tax and to spend affects the disposable income of citizens and corporations, as well as the general business climate (Abata*et al* 2012). Basically, fiscal policies of expenditure are employed during cyclical periods of recession or depression. During a recession, government stimulates the economy through public projects, which create jobs. Deficit financing to support projects can either come from the public through the sale of government bonds and treasury bills;loans from deposit money banks and other international financial institutions; or from new moniesloaned out from the vaultsof the Central Bank.If government borrows from the public or banks, it will trigger an upsurge in interest rates, which can put a stop to private sector credit in the long-run. Apparently, monies that come from a central bankare very expansionary,and can cause a high level of inflation. Onoh(2007) opine that of all the available sources of government borrowings that of the central bank is more inflationary prone.This will in turn lead to a weaker currency, deficit in the balance of payments and capital flight.Conversely, the government employs the contractionary policy in periods of booming economic activities

through imposition of taxes. In some developed countries, like the United States, high income earners are highly taxed than low income earners.

During the period of boom or prosperity, a surplus budget slows down an overheated economy and dampens the threat of inflation (Samuelson and Nordhaus, 2010). Fiscal policy is widely endorsed but economies still suffer from recession and inflation. Overall, deficit fiscal policy has to be applied with caution by ensuring that during a fiscal year, the percentage of deficit is at most equal to its growth rate (Onoh, 2007). The International Monetary Fund recommends that countries implement fiscal stimulus measures equal to 2% of their GDP to help offset the global contraction (IMF, 2009)

Adefeso and Mobolaji (2011) are of the opinion that an increase in government borrowing from banks would crowd out private sector credits. Excessive government borrowing from banks outweighs any short-term benefits of an expansionary fiscal policy. The solution in its entirety is to achieve a sense of balance in fiscal management, that is to say, government should borrow moderately to satisfy the demands of government and boost growth, but not deprive the private sector the bank creditit needs to invest to leverage output and employment.Moreover, government fiscal haste towards deficit financing can also initiate inflation which conflicts with the fundamental goal of price stability.

This paper investigates the effectiveness of governmentfiscal policies and private sector investment on the Nigerian economy using the Gross Domestic Product as a proxy for economic growth.Specifically,as stated earlier, this paper examines if Government Capital expenditure, Recurrent expenditure and Private sector credit have in realitystimulatedeconomic growth in Nigeria. A multiple linear regression model is adopted with annual time series data covering the period 1981-2013 and sourced from a well distinguisheddatabase i.e. the Central Bank of Nigeria (CBN) Statistical Bulletin.Robust tests were conducted to enable quality policy, inferences and recommendationsto be made for the benefit of foreign and private investors, corporate and government policy makers as well as research bodies.

The remaining sections of this paper are as follows: section 2 deals with government fiscal policyand empirical literatures. Section 3 expoundson sources of data and the methods applied. Section 4 describesthe empirical results and analyses them and section 5 concludes with a summary and recommendations.

2.1   Fiscal Policy as the Economy's key Driver

The concept of fiscal policy is largely based on the ideas of a British Economist, John Maynard Keynes (1883-1946), who believed that Government could spin the depressed economies of the late 20s and early 30s towards prosperity and full employment through effective management of taxes and expenditures using the budget. The budget is a fiscal policy mechanism through which public policies of government are implemented. Omitogun and Ayinla (2007) in their work described the budget as the most important tool in the management of a nation's economy.Gbosi (1998) defines fiscal policy as a major economic stabilization weapon to achieve some specified macroeconomic policy objectives and to counteract undesirable trends in the Nigerian economy. Nagayasu (2003) express government fiscal policy as a key measure to curb depression. Siyan and Adebayo (2005) describe fiscal policy as undoubtedly one of the most important tools used by government to achieve macroeconomic stability. Omitogun and Ayinla (2007) opine that fiscal policy has conventionally been associated with the use of taxation and public expenditure to influence the level of economic activities. Hottz-Eakin*et al* (2009) define fiscal policy as a tool to achieve macroeconomic objectives through government modifications in taxation and expenditure programmes to influence full employment, prices and aggregate demand for goods and services. Medee and Nembee (2011) state that fiscal policy entails government's management of the economy through the manipulation of its income and spending power to achieve certain desired macroeconomic objectives amongst which is economic growth. In this study, we define fiscal policy as deliberate actions taken by the government on its expenditures and revenue which will bring about changes in inflation, unemployment, business cycles and the cost of money indirectly.

The objective of fiscal policy cannot be overemphasized. It has a balancing effect on the economy when managed properly. Anyanwu (1996) is of the view that the objective of fiscal policy is to promote economic conditions conducive to business growth, while ensuring that any such government actions are consistent with economic stability. When an economy plunges into recession, government influences macroeconomic aggregate demandby reducing taxes and increasing public spending, which gives a spiral effect on employment, investment, money supply as well as savings. However when the economy is restored, it is logical for the government to raise taxes gradually so that too much money do not exist in the market to push up prices which contribute to a higher level of inflation.

Government could either employ a budget surplus or budget deficit to keep the economy stable. With a budget surplus achieved through taxes, economic growth will slow down and prices will be stabilized during inflationary periods. On the other hand, a budget deficit will require funds that will come from public borrowings through the issue of debt instruments such as government bonds and treasury bills. This will inevitably increase bank lending rates because government through borrowing caused an upsurge in the demand for credit in the

money market; resulting in the "crowding out" of the private sector from the credit market. Crowding out significantly negates the principle of fiscal stimulus. In this light, the IMF in early 2009 called on governments to establish a four-point fiscal policy principle. First, stimulus should not have permanent effects on deficits. Second, medium-term frameworks should include commitment to fiscal correction once conditions improve. Third, structural reforms should be identified and implemented to enhance growth. Fourth, countries facing medium to long- term demographic pressures should firmly commit to clear strategies for healthcare and pension reform.

2.2   Empirical findings

The impact of fiscal policies and private sector investment on economic growth is documented in a number of studies. A more recent study by Nathan (2012) on the impact of fiscal policy on the Nigerian economy between 1970 and 2010; using the Error Correction Mechanism and a two band Recursive Least Square to test for the stability of the model, established a significant causal relationship between GDP, Money supply, Fiscal deficits and Exports. Hence, fiscal policies have a significant influence on the outputand growth of the Nigerian economy.Khosravi and Karimi (2010) assert that fiscal policies are believed to be associated with growth; hence, appropriate fiscal measures in particular circumstances can be used to stimulate economic growth and development. Mansouri (2008) analyzed the relationship between fiscal policy and economic growth in three North African countries, Morocco, Tunisia and Egypt; and found that a 1 percent increase in public spending raised real GDP by 1.26 percent in Morocco, 1.15 percent in Tunisia and 0.56 percent in Egypt. Omitogun and Ayinla (2007) investigated empirically the contributions of fiscal policy in the achievement of sustainable economic growth in Nigeria. Using the Solow Growth model and the Ordinary Least Square method; the study concluded that fiscal policy has not been effective in the area of promoting sustainable economic growth in Nigeria. This was attributed to policy inconsistencies, high level of corruption, wasteful spending, poor policy implementation and lack of feedback mechanism for implemented policies.Nijkamp and Poot (2002) carried out a meta-analysis of past empirical studies of the relationship between fiscal policy and growth and found that in a sample of 41 studies, 29 percent were negative, 17 percent were positive and 54 percent were inconclusive. Abdullahi (2000) investigated the relationship between government expenditure and economic growth and found that the performance of any economy largely depends on the size of its expenditure. He recommended that government should support and encourage the private sector to accelerate economic growth, and also increase its budget on social, economic activities and infrastructures.Ekpo (1994) investigated the extent to which public sector expenditure contributed to the growth of the Nigerian economy from the period 1960-1992. The findings lent support for fiscal policy-led growth by way of government expenditure on infrastructure which benefits private sector investment. Nurudeen and Usman (2010) examined the impacts of government expenditures on economic growth from 1970-2008; and found that expenditure on education had a negative effect on economic growth but that of health, transport and communication were growth-enhancing. Oyinlola (1993) explored the impact of the defense sector budgetary expenditure on economic growth in Nigeria and observed that a positive and significant relationship exist between defense expenditure and economic growth.

3.   Presentation of Data and Methods for Data Analysis
Table 3.1:   Data for the Variables of GDP, CAPEX, REPEX and CPS.

YEAR	GDP	CAPEX	REPEX	CPS
1981	94325.02	6567	4846.7	9670.5
1982	101011.23	6417.2	5506	11611.4
1983	110064.03	4885.7	4750.8	12237.8
1984	116272.18	4100.1	5827.5	12895.3
1985	134585.59	5464.7	7756.4	14139
1986	134603.32	8526.8	7690.9	18299.9
1987	193126.2	6372.5	15646.2	21892.5
1988	263294.46	8340.1	19409.4	25472.5
1989	382261.49	15034.1	25994.2	29643.9
1990	472648.75	24048.6	36219.6	35436.6
1991	545672.41	28340.9	38243.5	42079
1992	875342.52	39763.3	53034.1	79958.9

1993	1089679.72	54501.8	136727.1	95529.7
1994	1399703.22	70918.3	89974.9	151000.3
1995	2907358.18	121138.3	127629.8	211358.6
1996	4032300.34	212926.3	124491.3	260613.5
1997	4189249.77	269651.7	158563.5	319512.2
1998	3989450.28	309015.6	178097.8	372574.1
1999	4679212.05	498027.6	449662.4	455205.2
2000	6713574.84	239450.9	461600	596001.5
2001	6895198.33	438696.5	579300	854999.3
2002	7795758.35	321378.1	696800	955762.1
2003	9913518.19	241688.3	984300	1211993.4
2004	11411066.91	351250	1110644	1534447.8
2005	14610881.45	519470	1321230	2007355.8
2006	18564594.73	552385.8	1390102	2650821.5
2007	20657317.67	759281.2	1589269	5056720.9
2008	24296329.29	960890.1	2117362	8059548.9
2009	24794238.66	1152796.5	2127971.5	10219336.1
2010	33984754.13	883874.5	3109378.5	9830344.1
2011	37409860.61	918548.9	3314513.3	14183591.8
2012	40544099.94	874840	3325178	15151762.1
2013	42396765.71	1108386.4	3689080.2	16509472.5

Source: CBN Statistical Bulletin, 2013.
*Note: GDP=Gross Domestic Product, CAPEX=Capital Expenditure,
REPEX=Recurrent Expenditure, PS=Credit to the Private Sector*

The aim of this study is to ascertain how Government fiscal policies of capital expenditure, recurrent expenditure as well as private sector credit haveimpactedon theNigerian economy. Relevant annual time series data were extracted from the CBN Statistical Bulletin for the period 1981-2013. The E-views7 statistical software will be deployed for the study to test the variables. The tests include: the Unit Root test, the Johansen Cointegration test, the Error Correction test and the Granger causality test.

Time series data exhibit stochastic trends which may either revert to their mean or remain outside the mean. Hence, the Unit Root test is used to estimate if the variables under study are stationary at level or at differences. Further, the Johansen Cointegration test is used to establish if a long-run relationship exist among the variables. The Error correction test measures the speed at which prior deviations from equilibrium are corrected. That is, the speed at which a dependent variable Y returns to equilibrium after disequilibrium of the independent variable X. It is used to check both short term and long term effects of one time series on another; and used both integrated and stationary data that have beendifferenced. Finally, we used the Granger causality test to demonstrate whether x causes y or y causes x; and to see how much of the current y can be explained by past values of y and then to see whether adding lagged values of x can improve the explanation.

In accordance with the objectives of the study, the model in its functional form is specified thus:

$GDP_t = f(Capex_t, Repex_t, CPS_t)$…………………….…………………………………...…..eqn.1

The functional relationship is transformed into an econometric linear form as follows:

$GDPt = b_o + b_1CAPEX_t + b_2REPEX_t + b_3CPS_t + \varepsilon_t$………………………….…………...…….eqn.2

where;

GDP_t = Gross Domestic Product at time t, (which measures the current
                  Economic status of the Nigerian economy.
$CAPEX_t$ = Capital Expenditure at time t

$REPEX_t$ = Recurrent Expenditure at time t

CPS_t = Credit to the Private Sector at time t

b_0 = the intercept

b_1, b_2, and b_3 = parameter estimates

ε_t = an uncorrelated stochastic error term at time t

It is therefore expected *"apriori"* that the coefficients of the models will follow thus: **$b_1>0$; $b_2>0$; and $b_3>0$.** This signifies a positive relationship between the variables.

4. Results and Findings

The results and findings of the variables under study are presented in various sections beginning with the Unit Root test.

Table 4.1:   **UNIT ROOT TEST OF STATIONARITY**

	ADF				PP			
Variables	**Critical values @ 5%**	**t-statistics**	**Prob.**	**Order of integration**	**Critical values @ 5%**	**t-statistics**	**Prob.**	**Order of Integration**
GDP	-2.957110	4.399905	1.0000	1(0)	-2.957110	5.483803	1.0000	1(0)
CAPEX	-2.960411	-6.546782	0.0000	1(1)	-2.960411	-6.543372	0.0000	1(1)
REPEX	-2.957110	3.105945	1.0000	1(0)	-2.957110	3.966432	1.0000	1(0)
CPS	-2.976263	8.409138	1.0000	1(0)	-2.957110	3.813111	1.0000	1(0)

Source: Author's extraction from E-views7 computation

Table 4.1, presents the ADF and PP Unit Root test to examine the order of integration of the variables. From the analysis, we find that at the 5% level of significance, all the variables were stationary at both level andfirst difference thus confirming a transitory stochastic trend. Precisely, GDP has t-statistics of 4.399905 and 5.483803, which is more than the critical values at the 5% significance level. Thus, we conclude that GDP is stationary. That is its mean; variance and auto covariance at various lags are constant overtime.CAPEX has t-statistics of -6.546782 and -6.543372which is more negative than the critical values at the 5% significance level. Hence, we credibly reject the null hypothesis that there exists a unit root.REPEX has t-statistics of 3.105945 and 3.966432 which is as well more than the critical values at the 5% significance level. Consequently, we strongly reject the null hypothesis that there exists a unit root. Finally, CPS has t-statistics of 8.409138 and 3.813111. This is likewise more than the critical values at the 5% significance level.So, we plausibly reject the null hypothesis that there exists a unit root.

Table 4.2   **JOHANSEN TEST OF COINTEGRATION**

VARIABLES	EIGEN VALUE	TRACE STATISTIC	0.05 CRITICAL VALUE	P-VALUES
GDP*	0.913011	138.8001	47.85613	0.0000
CAPEX*	0.833387	67.98276	29.79707	0.0000
REPEX*	0.423939	16.01244	15.49471	0.0418
CPS	0.000612	0.017749	3.841466	0.8939

Source: Author's extraction from E-views7 computation

The Johansen co-integration trace test indicates three co-integrating equations at the 0.05 level asthe trace statistics are clearly more than the 5 percent critical level. Accordingly, we can say that there is a strong evidence of a long-run equilibrium relationship between the variables.

Table 4.3   ERROR CORRECTION MODEL

Dependent Variable: D(GDP)
Method: Least Squares
Date: 09/27/14   Time: 09:36
Sample (adjusted): 1983 2013
Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-50120.22	136995.4	-0.365853	0.7180
D(CAPEX)	-2.226716	1.189354	-1.872206	0.0745
D(REPEX)	6.456403	0.531102	12.15661	0.0000
D(CPS)	-0.297284	0.260545	-1.141007	0.2661
D(GDP(-1))	1.031775	0.145716	7.080704	0.0000
D(CAPEX(-1))	5.120632	1.122263	4.562775	0.0002
D(REPEX(-1))	-5.326991	1.572460	-3.387681	0.0026
D(CPS(-1))	-0.041351	0.122789	-0.336762	0.7395
ECM(-1)	-0.655520	0.175921	-3.726215	0.0012

R-squared	0.946755	Mean dependent var		1364379.
Adjusted R-squared	0.927393	S.D. dependent var		1928402.
S.E. of regression	519622.4	Akaike info criterion		29.39729
Sum squared resid	5.94E+12	Schwarz criterion		29.81361
Log likelihood	-446.6580	Hannan-Quinn criter.		29.53300
F-statistic	48.89765	Durbin-Watson stat		1.990601
Prob(F-statistic)	0.000000			

Source: Author's extraction from E-views7 computation

In the short-run dynamics, there may be disequilibrium resulting to an "equilibrium error". The error term links the short-run behaviour of GDP to its long-run value. Hence, the Error Correction Model to ascertain the proportion of the disequilibrium errors built up in the previous periods which can be corrected in the current period; and indicates the time lag for the correction to be completed. Our result gave a speed of adjustment of 66% with its expected negative sign which shows that the ECM (-1) is statistically significant at the 5% level (t=-3.73, p<0.0012).

Individually,D(CAPEX) is negative and insignificant while D(CAPEX) at lag 1 is positive andsignificant; D(REPEX) is positive and significant while D(REPEX) at lag 1 isnegative but significant; D(CPS) and D(CPS) at lag 1 are both negative and insignificant; D(GDP) at lag 1 is positive and significant and confirmed with a priori expectation.This explains the fact that Government capital expenses have not impacted on the economy either because funds directed towards it have been underutilized or misappropriated significantly.Recurrent Expenditures of government are inadequate to impact on the economy. Also, Credits made to the Private sector have not improved or effected changes in the Nigeria economy too. The funds may have been diverted to other uses or inadequate infrastructural development may have been responsible for the poor performance of the private sector. Furthermore; the F-statistic of 48.9 shows that both the lagged terms of the variables are statistically different from zero. The Durbin Watson test statistic is 1.99which is greater than 1.651; for a 33 years sample size.This proves that there is no evidence of positive first-order serial correlation and autocorrelation. Adjusted R^2 show that 93% of variations in GDP are caused by the independent variables. Overall, the model is fit for forecast and policy purposes.

Table 4.4:   **THE GRANGER CAUSALITY TEST**

Pairwise Granger Causality Tests

Date: 09/27/14   Time: 09:38

Sample: 1981 2013

Lags: 5

Null Hypothesis:	Obs	F-Statistic	Prob.
CAPEX does not Granger Cause GDP	28	3.09490	0.0363
GDP does not Granger Cause CAPEX		4.54505	0.0082
REPEX does not Granger Cause GDP	28	0.75526	0.5939
GDP does not Granger Cause REPEX		2.07298	0.1192
CPS does not Granger Cause GDP	28	13.1428	2.E-05
GDP does not Granger Cause CPS		10.8990	8.E-05
REPEX does not Granger Cause CAPEX	28	0.96758	0.4649
CAPEX does not Granger Cause REPEX		3.25242	0.0305
CPS does not Granger Cause CAPEX	28	3.55783	0.0220
CAPEX does not Granger Cause CPS		2.53677	0.0685
CPS does not Granger Cause REPEX	28	7.84638	0.0005
REPEX does not Granger Cause CPS		22.7152	6.E-07

Source: Author's computation extracted from E-views7 computation

Finally, the Granger causality test shows that at 5% level of significance, bi-directional causality exists from CAPEX to GDP and from GDP to CAPEX; CPS to GDP and from GDP to CPS; CPS to REPEX and from REPEX to CPS; while uni-directional causality exists from CAPEX to REPEX and from CPS to CAPEX. This implies that Capital Expenditures are leading causes of Economic Growth and vice versa; Credits to the Private sector is also a leading cause of Economic Growth as well as Recurrent Expenditure and vice versa.It is Capital Expenditures that influence Recurrent Expenditures, and Private Sector Credits that also influence Capital Expenditures of government in the Nigerian economy.

5.   Summary, Conclusion and Recommendations

       This paper used annual data to examine the impacts and long-run equilibrium relationship between fiscal policies, private sector investment and the Nigerian economy, proxy by GDP, for a period of 33 years. We obtainedthe data from the current CBN Statistical Bulletin and employed the E-view 7 statistical software to carry out the various tests associated with the study.

The empirical results from the Unit root test showed that the variables were stationary at level and first difference. Also, we conducted the Johansen cointegration test to find that there exists a strong long-run equilibrium relationship between the variables. However, in the short-run an equilibrium error exists which is to be corrected with the use of the Error Correction model. The ECM is an error correction component which measures the speed of adjustment of prior deviations from equilibrium and the length of time for correcting the disequilibrium. Our ECM estimation shows a 66% return to equilibrium of the GDP after a change in any of the regressors.

Furthermore, our Equation estimations show that D(CAPEX) is negative and insignificant while D(CAPEX) at lag 1 is positive and significant; D(REPEX) is positive and significant while D(REPEX) at lag 1 is negative but significant; D(CPS) and D(CPS) at lag 1 are both negative and insignificant; D(GDP) at lag 1 is positive and significant and confirmed with a priori expectation. This means that Government should increase capital investments e.g. infrastructural and human capital development in order to improve on economic activities. Also, recurrent expenditures as well as private sector investments have not been very effective and havelittle impact on the economy. The Granger causality test also prove that at 5% level of significance, bi-directional causality exists from CAPEX to GDP and from GDP to CAPEX; CPS to GDP and from GDP to CPS; CPS to REPEX and from REPEX to CPS; while uni-directional causality exists from CAPEX to REPEX and from CPS to CAPEX. This implies that Capital Expenditures are leading causes of Economic Growth and vice versa; Credits to the

Private sector is also a leading cause of Economic Growth as well as Recurrent Expenditure and vice versa. It is Capital Expenditures that influence Recurrent Expenditures, and Private Sector Credits that also influence Capital Expenditures of government in the Nigerian economy.Generally, the results are consistent with most studies on fiscal policies and economic growth.

According to the Central Bank of Nigeria, Federal Government total expenditure in Q4 2013 stood at ₦1,360.49 billion. This represented an increase of 19.46 per cent in capital expenditure and 16.45 per cent in recurrent expenditures when compared with the levels at the precedingquarter and the corresponding quarter of 2012, respectively. Further analysis revealed that recurrent expenditure was ₦1,136.11 billion or 83.5 per cent of the total expenditure, capital expenditure was ₦110.95 billion or 8.16 per cent while Transfers amounted to ₦113.43 billion during the period under review. Investigation into the budget performance indicated that total and recurrent expenditures overshot their budget expectations by 9.12 per cent and 52.61 per cent, respectively. However, Capital Expenditure reflected a poor 27.37 per cent budget performance.Moreoverin Q4 2013, the Federal government recorded an overall fiscal deficit of ₦628.02 billion, capital deficit of ₦178.45.97 billion and recurrent deficit of ₦416.47 billion.

Abata*et al* (2012) states that despite the substantial increases in government expenditure over the years, the rate of economic growth has been very low and sluggish.Fiscal policy in Nigeria has been extremely pro-cyclical with expenditures rocketing out of control on the upswing of the oil price cycle and resulting to deficit bias policy in the conduct of fiscal policy.Abatafurther emphasized on putting in place a fiscal rule that will commit government to a certain level of conduct in fiscal and budgetary management, and help rebuild government credibility in fiscal management. A rule based on oil prices to address the issue of vulnerability of all tiers of government to oil price swings will reduce the pro-cyclicality in the budget. In a related study, Phillips (1997) opined that budget deficits have been an abiding feature in Nigeria for decades;and has been largely financed by borrowings. This have given rise to excessive money supply, worsened inflationary pressures and complicated macroeconomic instability resulting in negative impact on external balance, investment, employment, growth and capital flight.

The first recommendation is that fiscal authorities should devise credible policies to give an in-depth attention to its capital investment strategies and to ensure that they are adequately implemented with feedback mechanisms. Secondly, Government should ensure an equilibrium fiscal management such that deficit financing do not interfere or create a negative multiplier effect on private sector credits. Thirdly, the CBN should ensure through the mechanism of its MPR that interest rate charged by banks' on credits to the Private sector should be minimal in order to boost economic activities.

References

Abata, M.A., Kehinde, J.A., and Bolarinwa, S.A. (2012).Fiscal/Monetary Policy and Economic Growth in Nigeria: A Theoretical Exploraion, International Journal of Academic Research in Economics and Management Sciences, Vol. 1, No. 5.

Abdullahi, H.A. (2000). The Relationship between Government Expenditure and Economic Growth in Saudi-Arabia,Journal of Administrative Sciences, Vol. 12, No. 2.

Adefeso, H. and Mobolaji, H. (2010).The Fiscal-Monetary Policy and Economic Growth in Nigeria: Further Empirical Evidence,Pakistan Journal of Social Sciences, Vol. 7, No. 2.

Adeoye, T. (2006).Fiscal Policy and Growth of the Nigerian Economy, Nigerian Institute of Social Economic Research, Monograph series No. 26.

Ajisafe, R.A. and Folorunsho, B.A. (2002).The Relative Effectiveness of Fiscal and Monetary Policy in Macroeconomic Management in Nigeria, The African Economic and Business Review, Vol. 3, No.1.

Anyanwu, J.C. (1996). Beyond SAP: A case of Monetary Sector, Annual Conference of Nigerian Economic Society.

Christiano, L. J., Eichenbaum, M. and Evans, C. L. (1999).Monetary Policy Shocks: What have we learned and to what end? Chapter 2 in Taylor, J. B. and Woodford, M. (*eds.*), Handbook of Macroeconomic, Vol. 1a, Amsterdam: Elsevier Science Publishers B.V.

Central Bank of Nigeria Statistical Bulletin (2013).Various issues. Available at: www.cenbank.org. (Accessed 26th June, 2014).

Dickey, D.A. and Fuller, W.A. (1979).Distribution of the Estimators for Autoregressive Time Series with a Unit Root,Journal of the American Statistical Association, Vol. 74.

Zkpo, A. (1994). Public Expenditure and Economic Growth in Nigeria: 1960-1992, Final Report, Nairobi: AERC.

Engle, Robert F. and Granger, C. W. J. (1987).Co-integration and Error Correction: Representation, Estimation and Testing, Econometrica, Vol. 55.

Ezeji, C.E. and Michael, N. (2013).The Impact of Monetary and Fiscal Policies on Nigerian Economic Growth: 1990-2010, European Journal of Business and Management, Vol. 5, No.2.

Gbosi A. N. (1998). Bank, Financial Crisis and the Nigerian Economy Today. Corporate Impression Publishers,,Owerri.

Hottz-Eakin, D., Lovely, M.E. and Tosin, M.S. (2009).Generating Conflict, Fiscal Policy, and Economic Growth,Journal of Macroeconomics, Vol. 26.

International Monetary Fund (2009).Global Financial Stability Report, Available at: www.imf.org/external/pub/ft/gfsr/index.htm. (Accessed 30th June, 2014).

Johansen, S. (1995).Likelihood-based Inference in Co-integrated Vector Autoregressive Models, Oxford: Oxford University Press.

John, M. K. (1935). The General Theory of Employment, Interest and Money" Available at: www.marxists.org/reference/subject/economics/keynes/general-theory/.

Khosravi, A. and Karimi, M.S. (2010).The Relationship between Monetary Policy, Fiscal Policy and Economic Growth in Iran: Autoregressive Distributed Lag Approach to Cointegrattion,American Journal of Applied Sciences, Vol. 7, No. 3.

Mansouri, B. (2008). Fiscal Policy and Economic Growth: Egypt, Morocco and Tunisia compared, proceeding in UNECA Conference on: Macroeconomic Policy, Productive Capacity and Economic Growth in Africa, Addis Ababa, 23-25 November.

Medee, P.N and Nembee, S.G. (2011).Econometric Analysis of the Impact of Fiscal Policy Variables on Nigeria's Economic Growth: 1970-2009, International Journal of Economic Development Research and Investment, Vol. 2, No. 1.

Nagayasu, J. (2003). The Efficiency of the Japanese Equity Market, IMF Working Paper, No.142.

Nathan, P.A. (2012). The Impact of Fiscal Policy on the Nigerian Economy, International Review of Social Sciences and Humanities, Vol. 4, No. 1.

Njikamp, P and Poot, J. (2004).Meta Analysis on the effect of Fiscal Policy on Long-run Growth, European Journal of Political Economy, Vol. 20.

Nurudeen, A. and Usman, A. (2010).Government Expenditure and Economic Growth in Nigeria from 1970-2008: A Disaggregated Analysis, Business and Economics Journal, Vol. 9, No. 6.

Okunrounmu T.O. (1993). Fiscal Policies of the Federal Government: Strategies since 1986, Central Bank of Nigeria Economic and Financial Review, Vol. 31, No.4.

Omitogun, O. and Ayinla, T.A. (2007).Fiscal Policy and Nigerian Economic Growth, Journal of Research in National Development, Vol. 5, No. 2.

Onoh, J.K. (2007). Dimensions of Nigeria's Monetary and Fiscal policies: Domestic and External, Astra Meridian Publishers, Aba, Nigeria.

Oyinlola, O. (1993). Nigeria's National Defense and Economic Development: An Impact Annalysis, Scandinavian Journal of Development Alternatives, Vol. 12, No. 3.

Phillips, A.O. (1997). Nigeria's Fiscal Policy: 1998-2010, Nigerian Institute of Social Economic Research, Monograph Series No. 17.

Phillips, P.C.B. and Perron, P (1988).Testing for a Unit Root in Time Series Regression, Biometrika, Vol. 75.

Poot, J. (2000). A Synthesis of Empirical Research on the Impact of Government on Long-run Growth, Growth and Change, Vol.31.

Rotimi, S. M., Adebayo, A. N. and Adisa, A. B. (2012).Potency of Monetary and Fiscal Policy Instruments in Economic Activities of Nigeria: 1960-2011, Journal of African Macroeconomic Review, Vol. 3, No. 1.

Samuelson, P.A. and Nordhaus, W.D. (2010). Economics, The McGraw-Hill Companies, Inc., 1221 Avenue, New York. Nineteenth Edition.

Sayera, Y. (2012). Relative Effectiveness of Monetary and Fiscal Policies on Output Growth in Bangladesh: A Co-integration and Vector Error Correction Approach, Deputy General Manager of the Research Department of Bangladesh Bank.

Siyan, P. and Adebayo, F.O. (2005).An Empirical Investigation of Stability and Money Demand in Nigeria: 1970-1999, Nigerian Journal of Economics Development Matters, Vol. 4, No. 1.