

# The Effect of Fiscal Policy on the Macroeconomic Condition of Nigeria: A Case Study of Economic Growth, Employment, and Inflation from 1991 to 2020

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## Abstract

The macroeconomic condition of a country constitutes an indicator of the economic welfare of the country, as well as a yardstick for measuring the performance of a government. Given that the fiscal policy constitutes a vital instrument of the government in influencing the macroeconomic condition of the country, this paper seeks to assess the effect that Nigeria's fiscal policy has had on the macroeconomic condition of the country, with a focus on economic growth, employment, and inflation. While the variables of fiscal policy which were used as independent variables are total government revenue, recurrent expenditure, capital expenditure, Net Domestic Financing, and Net Foreign Financing, the dependent variables include economic growth, unemployment rate, and inflation rate in Nigeria. Data of these variables, from 1991 to 2020, were gathered and analysed using the Ordinary Least Square (OLS) regression analysis. Findings from these analyses show that Nigeria's fiscal policy has a significant impact on its economic growth, with a regression value (R<sup>2</sup>) of 0.655, while the impact on unemployment and inflation rates were insignificant, with regression values of 0.05 and 0.305, respectively. Given the findings from the analysis, coupled with the low economic growth over the past five years, with an average Gross Domestic Product (GDP) growth rate of 1.19%, this paper recommends that the Nigerian government focuses its fiscal policy on influencing and increase the growth rate of the economy by increasing its revenue and reducing its recurrent expenditure.

**Keywords:** Fiscal Policy, Macroeconomic Condition, Economic Growth, Employment, Inflation

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## 1. Introduction

### 1.1 Research Background

The growth, welfare, and development of an economy is a phenomenon that is of paramount interest to the government, population, and other relevant stakeholders of a nation. While several instruments are often adopted and employed to achieve this purpose, two of the most common instruments are monetary and fiscal policies. While these policies are both instruments used in conditioning the macroeconomic environment and steering the economy of a nation towards growth, monetary policy entails influencing and steering the economy towards growth via changes in the base rate of interest while fiscal policy entails influencing the steering the economy towards growth via the use of spending and taxation of the government (Adelina-Geanina, 2006; Horton & El-Ganainy, 2009; Abdullahi & Adeiza, 2019). Given both theoretical and empirical findings that reflect that positive relationship between the autonomy and fulfilment of the objectives of the central bank, which is typically the custodian of the monetary policy, the fiscal policy is the most potent instrument of the government in influencing the economic environment and steering the economy in the direction that it desires (Papi, 2005).

In forecasting or assessing the influence that a proposed or implemented fiscal policy has on an economy, it becomes essential to seek out and measure the indicators of the macroeconomic conditions of the country in which the fiscal policy is being implemented. According to Weinstock (2021), a change in the level of expenditure or revenue of the state can alter the economic outcome of a nation by either increasing or decreasing the level of economic activities. This increase or decrease is reflected via the macroeconomic condition of the economy, which is measured or assessed via indicators, which cut across leading indicators (such as interest rate, bond yield, and other indicators that aid the forecasting of the welfare and health of an economy), lagging indicators (such as GDP growth, inflation rate, and other indicators that reflect the historical performance of an economy), and coincident indicators (such as unemployment rate, real earnings, and other indicators that change simultaneously with changes in the condition of the economy) (Izani & Ahmad, 2004). However, according to Mugge (2016), employment, inflation, and Gross Domestic Product (GDP) and its growth, are among the few and most commonly utilized macroeconomic indicators, when it comes to economic governance and decision making by policymakers. This is as a result of the insight they provide on the health of an economy. Hence, it can be deduced that the impact of a fiscal policy can be adjudged by the assessment of its influence on these macroeconomic indicators.

### 1.2 Research Context and Justification

In assessing these macroeconomic indicators within the context of Nigeria, particularly within the fourth republic

which began in 1999, it can be discovered that since 2015, when the Buhari-led administration began to govern, Nigeria has experienced a deterioration in these indicators, signalling a deterioration in the macroeconomic condition of the country under the Buhari-led government. Findings reveal that while the average GDP growth rate during the fourth republic and before the Buhari-led administration was 6.74%, the average GDP growth rate during the Buhari-led administration is 1.19% (World Bank, 2021). Findings from data provided by the Central Bank of Nigeria (CBN) also shows that while the average inflation rate within six (6) years of the Buhari-led government (from May 2015 to April 2021) was 13.56%, the average inflation rate in the six (6) years before the Buhari-led government (from May 2009 to April 2015) was 10.63% (CBN, 2021). Also, findings from Labor Force data published by the Nigerian Bureau of Statistics (NBS), revealed that the unemployment rate has increased from 8.19% in the second quarter of 2015, when the Buhari-led administration began, to 33.28% in the fourth quarter of 2020 (NBS, 2021). These clearly show a deterioration in the macroeconomic condition of Nigeria under the Buhari-led government. While this deterioration has often been hinged on a fall in the average price of crude oil (which makes up a significant portion of the government revenue) from \$96.29 per barrel in 2014 to \$49.49 per barrel in 2015 when the Buhari-led administration commenced, it is important to note that the Nigerian economy witnessed a higher average GDP growth rate (of 7.2%) in the first term of the Obasanjo-led administration (i.e. from 1999 to 2004) when the highest average price of crude oil within this period was \$36.05 per barrel, as compared to the average GDP growth rate (of 1.19%) during the first term of the Buhari-led administration (i.e. 2015 to 2019) during which the lowest average price of crude oil was \$40.76 per barrel (Statista, 2021; World Bank, 2021). With better macroeconomic condition under worse revenue conditions than that of the Buhari-led administration, coupled with fiscal policy being the government's primary instrument for influencing the health of the economy, this paper aims to assess how fiscal policy in Nigeria has historically and holistically influenced and driven the performance, development, and health of the Nigerian economy in the past.

This study will provide insights that will aid current and future policymakers in developing and implementing the appropriate fiscal policy required to accomplish desired economic goals and objectives. The findings from this study will also aid policymakers, investors, and other stakeholders in forecasting the resultant macroeconomic conditions of future budgets of the Federal Government of Nigeria, and making relevant decisions.

### *1.3 Research Question and Hypothesis*

In achieving the aforementioned aim of the paper, the researcher seeks to answer the following questions;

1. What has been the impact of fiscal policy on the growth of the Nigerian economy?
2. How has the fiscal policy impacted the creation of jobs in Nigeria?
3. How do government revenue and spending activities impact inflation within the Nigerian economy?

This study seeks to test the following hypothesis;

**Ho1:** The fiscal policy has no significant impact on the growth of the Nigerian economy

**Ho2:** The fiscal policy has no significant impact on job creation and employment in Nigeria

**Ho3:** The inflation rate in Nigeria is not significantly impacted by the fiscal policy adopted by the Nigerian government

## **2. Literature Review**

### *2.1 Conceptual Review*

Over the years, several researchers, authors, and institutions have given different definitions and descriptions of fiscal policy. One of these definitions was given by Alkawasbeh & Haron (2018), who define fiscal policy as the explanation of the sources of government income and the channels of expanding the income generated to achieve both economic and social objectives. Weinstock (2021), on the other hand, defines fiscal policy as the changes being made to the revenue and expenditure of the government. While Alkawasbeh & Haron (2018) and Weinstock (2021) both share the opinion that the fundamentals of fiscal policy encompass the revenue generation and expenditure activities of the government and that the aim of fiscal policy entails influencing or stimulating the economy, the definition by Weinstock (2021) highlights the fact that fiscal policy deals with changes in these fundamentals, that therefore suggests the time-series nature of fiscal policy and the importance of assessing revenue and expenditure activities of the government in one period without isolating preceding or other periods. Contrary to this, the definition presented by Alkawasbeh & Haron (2018) suggests the study of fiscal policy as being cross-sectional, with the revenue and expenditure activities of government being assessed within a periodic context and in isolation of other periods. In another research, in which taxes and expenditure by the government were seen to be a function of the business cycle, Fatas & Mihov (2012) provide a more elaborate definition of fiscal policy by defining it as the tax collection and spending policies of a government that is incorporated into its budget. Among other things, this definition highlights the fact that fiscal policy encompasses various policies that dictated and encompass how the government generates income and how it spends it. Most importantly, it highlights the instrumentality of the government budget to fiscal policy; a phenomenon ignored by Alkawasbeh & Haron (2018) and Weinstock (2021). While the definition by Fatas & Mihov (2012) is predicated on the assumption that

taxes and expenditure by the government were seen to be a function of the business cycle, Johnson (2018) argues that at any point in time, the fiscal policy adopted by a government is driven by politics and the public perspective of what economics is and could be. However, a more elaborate definition which is adopted for this paper is the definition given by O'Connell (2021), which refers to fiscal policy as the legislative actions taken by the government, via its revenue and spending, in a bid to regulate and stimulate the economy to attain growth and poverty alleviation. Critical to this definition is the role of fiscal policy in stabilizing and/or improving the macroeconomic condition of the country; a phenomenon that forms the essence of fiscal policy.

While the term 'macroeconomic condition' can be regarded as conditions that pertain to the performance of the economy as a whole, it is better understood within the context of macroeconomic indicators or factors, some of which include economic output, inflation, interest, employment, exchange rate, to mention a few (World Bank, 2021). In line with the aforementioned assertion of Muge (2016), this study focuses on how fiscal policy impacts three macroeconomic conditions, which are economic growth, employment, and inflation. Ivic (2015) defines economic growth as changes in the production or output within an economy throughout one (1) year or less, often expressed in terms of either the value (nominal or real) or growth rate of the GDP or national income. Findings from CEA (2015) suggests that the two principal ways of measuring the output or production of an economy are the Gross Domestic Product (GDP) and the Gross Domestic Income (GNI). GDP is the summation of consumer expenditure, investment expenditure, government expenditure, and the difference between import and export, which is referred to as net export, while GNI is the summation of wages, profits, interests, and taxes, within an economy. Under conditions of equilibrium, it is expected that the income equates expenditure, and therefore, GDP and GNI are the same.

Hence, change in any of these values, from one year, quarter, or month, to another reflects the growth of the economy over the period being assessed. Employment, on the other hand, is measured by the employment rate, which is defined as the extent to which the available labour resources (which includes those that are from age 15 to 64 years) within a country are being utilized (OECD, 2021). A common indicator of employment within an economy is the unemployment rate, which is measured as the percentage of unemployed people within the labour force of a country.

Inflation, according to Oner (2010), can be defined as the rate at which prices increase over a given period. It essentially shows the extent to which the prices of basic services and goods have increased over a period, which could be a quarter or a year. While the definition given by Oner (2010) is limited to prices, Labonte (2011) provides a more elaborate definition of inflation by defining it as the sustained increase in the general prices of goods and services within an economy over a period, or the sustained decrease in the value of money within an economy over a period. The Consumer Price Index (CPI) is the most common indicator of inflation, and it measures the changes that occur in the price level of a basket of services and goods that are typically consumed by households (Reserve Bank of Australia, 2021).

## *2.2 Theoretical Review*

While several theories seek to expound on fiscal policy and its impact on the economy, one of the foremost is the Keynesian theory of fiscal policy. This theory stems from the criticism of the monetary policy, by the Keynesian System, as being ineffective in changing the real income level in an economy. According to Hic & Gencer (2014), the Keynesian school argues that an increase in the supply of money (via monetary policy) does not result in a change in the rate of interest due to liquidity trap, which results from the inelastic nature of the LM curve (which results from the combination of real income and interest rates at which the money market is at equilibrium). The Keynesian school further argues that even with the elimination of the liquidity trap, which makes a change in money supply result in a change in interest rate, the change in interest rate does not increase the real income of the economy. As an alternative, the Keynesian theory argues that a rise in government expenditure or a reduction in the taxes tends to result in a positive change in the real income, signified by the outward shift in the IS curve, which is the set of all the output (GDP) and interest rate levels at which the investment and savings are equal (Zivot, 1996; Hic & Gencer, 2014). In simple terms, John Maynard Keynes (the proponent of the Keynesian theory) argued that an increase in government expenditure boosts aggregate output and results in the generation of more income.

The assertion of this theory is hinged on some assumptions, such as aggregate demand being susceptible to the influence of multiple economic decisions which transcend the public and private sector, prices and wages being slow in their response to the changes that occur in demand and supply, and change in aggregate demand having the most significant short-term impact on both employment and output within an economy (Jahan et al., 2014). While there are several criticisms of the Keynesian theory of fiscal policy, a prominent limitation is the lack of consideration of time lags, given that it takes a long time for aggregate demand to change, thereby subjecting the impact on the real income being to the risk of being eroded by inflation. Similarly, it fails to recognize the fact that an increase in the government expenditure, aimed at boosting aggregate output, will have to be funded by increased taxation, leading to an opposite effect on real income compare to what was intended by the Keynesian theory.

Another theory of fiscal policy, which improves on the limitations identified in the Keynesian theory, is the political economy theory of fiscal policy and unemployment. This theory argues that while unemployment can exist in an economy, it can be reduced via a reduction in taxes as well as an increase in public production, which can be financed via government debt financing (Battaglini & Coate, 2016). Contrary to the Keynesian theory which argues for increased government spending and tax cuts to increase real output, without considering how such expenditure can be financed, the political economy theory of fiscal policy and unemployment provides clarification on the funding, of such expansionary fiscal policy of the government (Ingberman & Inman, 1987; Hic & Gencer, 2014; Battaglini & Coate, 2016). However, both theories portray fiscal policy as an instrument for influencing macro-economic variables and conditions within an economy.

### *2.3 Review of Empirical Studies*

Several research efforts have been made to assess the fiscal policy of the Nigerian government and how it has impacted the macroeconomic performance and stability of the Nigerian government. One of these researches was carried out by Dikeogu & Karma (2018), who sought to empirically assess the effect that the fiscal policy has had on the macroeconomic performance of Nigeria between 1970 and 2017. While assessing data from the Central Bank of Nigeria (CBN) using the ARDL (Autoregressive Distributed Lag), Engle-Granger Cointegration and Error Correction Modeling (ECM) techniques, the findings of Dikeogu & Karma (2018) revealed that both government capital and recurrent expenditure harmed economic growth, while there was a positive relationship between government revenue and economic growth. While there were mixed findings on the impact of capital expenditure on unemployment, both the recurrent expenditure and the total government revenue negatively impacted unemployment. These findings differ from those of Babalola (2015), whose findings revealed a positive impact of capital and recurrent government expenditure on economic development in the short-run (with only recurrent government expenditure having this impact in both the short and long run), while total government revenue had a negative impact on economic development. The findings of Babalola (2015) were based on the analysis of data from 1981 to 2013, gathered from the World Development Indicators and the Central Bank of Nigeria, and analyzed using the Pair-wise Correlation. However, the limitation of the findings by Babalola (2015) is hinged on the use of real per-capita income as a proxy for economic development, and the weakness of this variable in reflecting the true state and pace of the development of the Nigerian, which is characterized by a high level of income inequality that has contributed to the increase in the poverty rate by 75% over the recent years (Taiga & Ibrahim, 2021).

Similar to Dikeogu & Karma (2018), Olunmi et al (2019) attempted to assess the relationship between fiscal policy and economic growth, using the ARDL and ECM techniques, but with a different data set which focused on data on variables of fiscal policy and economic growth from 1990 to 2017. While the latter agrees with the former on the positive relationship between government revenue and economic growth, as well as the negative relationship between recurrent government expenditure and economic growth, Olunmi et al (2019) highlights the fact that positive relationship between government revenue and economic growth exists only in the short-run (with the relationship becoming negative in the long run), and the negative relationship between recurrent expenditure and economic growth is negative in both the short and long run, although the relationship is significant in the short run and insignificant in the long run. Unlike other researchers that have focused more on how the fiscal policy impacts economic growth, Olunmi et al (2019) also assessed the impact on inflation, with the results showing a significant and positive relationship between fiscal policy and inflation in both the short and long run; a result that differs from the findings of Otto & Ukpere (2015) who (using the Ordinary Least Square regression analysis on relevant data from 1980 to 2010) found that although the fiscal policy has an impact on inflation, this impact was not significant and the direction of the impact varied based on the fiscal policy instrument and the logarithmic transformation of the data being assessed. However, worthy of note is the finding of Olufayo (2016), which concluded that in the case of Nigeria, the inflation rate is not exogenous and tends to respond to policy shocks.

In another research, Penzin & Adamgbe (2019) assessed the impact that fiscal multipliers have on the macroeconomic condition of Nigeria. The findings from this research revealed a high government spending multiplier and tax revenue multiplier, at 0.47 and 0.67 on impact respectively, therefore showing the need for careful consideration of fiscal policies and programs aimed at impacting the economy, before their implementation. Bodurin (2016), upon applying the Vector Autoregressive Model (VAM) and the Vector Error Correction (VEC) to time series data on indicators of fiscal policy and economic growth from 1981 to 2015 concluded that while capital expenditure had a significant impact on real GDP, recurrent expenditure had no significant impact on GDP. While the findings of Bodurin (2016) are limited by the fact that they failed to reveal the direction of these impacts, coupled with the failure to consider the taxation/revenue element of the fiscal policy, the research points to the need and importance of fiscal leadership, as well as a harmony between the fiscal and the monetary policy being implemented within the economy; a conclusion that aligns with the proposition of researchers such as Kartal (2019) and Weidmann (2020), as well as Goshit & Landi (2014) who assert the insufficiency of monetary policy alone in

achieving set macroeconomic objectives in developing countries such as Nigeria, and the need for such harmony in ensuring efficient and effective macroeconomic management.

Several researchers have attempted to study fiscal policy and how it impacts the macroeconomic conditions and stability of Nigeria. However, the gap in these research is the failure to holistically assess the impact of all aspects of the fiscal policy on the macroeconomic condition of the country. For instance, while Titiloye & Ishola (2020) attempted to assess fiscal policy and how it impacts economic growth, the indicators of fiscal policy used were total government revenue and total government expenditure. This ignores government borrowing, which researchers such as Geoff (2012) and Ighoroje & Akpokerere (2021) have identified to be one of the fiscal policy strategies of a government. This limitation is seen in the analysis of other researchers such as Babalola (2015), Otto & Ukpere (2015), Olufayo (2016), and Olubunmi et al (2019), to mention a few. This inclusion of government borrowing in the analysis of the impact of fiscal policy on the macroeconomic variable is critical in the context of Nigeria, particularly because government debt as a percentage of GDP has grown from 20.3% in 2015 to 34.9% in 2020, amidst growing concern of the unsustainability of the country's debt profile in recent years (Statista, 2021). The paper seeks to fill this gap by including government debt financing (both local and foreign) as part of the variables of fiscal policy.

### 3. Methodology

To achieve the aim of this research, a quantitative approach will be utilized. This is an approach similar to the approach utilized by Babalola (2015), Otto & Ukpere (2015), Dikeogu & Karma (2018), Olubunmi et al (2019), Penzin & Adamgbe (2019), and several other researchers that have assessed the concept of fiscal policy and how it impacts on the macroeconomic performance of a country. The quantitative approach is an idea for this study, given that the indicators of fiscal policy and macroeconomic conditions are presented in the form of time-series data.

#### 3.1 Model Specification

To empirically assess the impact that fiscal policy has on macroeconomic conditions, this study presents three (3) baseline regression models. The first present economic growth as a function of fiscal policy (for hypothesis one), the second presents unemployment as a function of fiscal policy (for hypothesis two), and the third presents inflation as a function of fiscal policy (for hypothesis three).

##### 3.1.1 Model One

For the first hypothesis, the dependent variable is the economic growth rate, which is proxied by the growth rate of the Gross Domestic Product (GDP). The null and alternative hypotheses for this model are stated as;

**Ho1:** The fiscal policy has no significant impact on the growth of the Nigerian economy

**Ha1:** The fiscal policy has a significant impact on the growth of the Nigerian economy

To assess the impact of fiscal policy on the growth of the Nigerian economy, the model constructed is defined as;

$$EGR_t = f(TGR_t, RE_t, CE_t, NFF_t, NDF_t) \quad (1)$$

The operational and log form of the model are stated as;

$$EGR_t = \beta_0 + \beta_1 TGR_t + \beta_2 RE_t + \beta_3 CE_t + \beta_4 NFF_t + \beta_5 NDF_t + \epsilon_t \quad (2)$$

$$\ln EGR_t = \beta_0 + \beta_1 \ln TGR_t + \beta_2 \ln RE_t + \beta_3 \ln CE_t + \beta_4 \ln NFF_t + \beta_5 \ln NDF_t + \epsilon_t \quad (3)$$

Where;

EGR = Economic Growth Rate

TGR = Total Government Revenue

RE = Recurrent Expenditure

CE = Capital Expenditure

NFF = Net Foreign Financing

NDF = Net Domestic Financing

$\beta_0$  = Constant Term

$\beta_1 - \beta_5$  = Coefficients of the Independent Variables

$\epsilon_t$  = Error term

##### 3.1.2 Model Two

The dependent variable for the second hypothesis is the unemployment rate (UMP). The null and alternative hypotheses for this model are stated as;

**Ho2:** The fiscal policy has no significant impact on job creation and employment in Nigeria

**Ha2:** The fiscal policy has a significant impact on job creation and employment in Nigeria

With the unemployment rate used as a proxy for the measurement of job creation and employment in Nigeria, the model construction for measuring the impact of fiscal policy on job creation and employment in Nigeria is defined as;

$$UMP_t = f(TGR_t, RE_t, CE_t, NFF_t, NDF_t) \quad (4)$$

The operational and log form of the model is stated as;

$$UMPt = \beta_0 + \beta_1TGRt + \beta_2REt + \beta_3CEt + \beta_4NFFt + \beta_5NDFt + \epsilon_t \quad (5)$$

$$\ln UMPt = \beta_0 + \beta_1 \ln TGRt + \beta_2 \ln REt + \beta_3 \ln CEt + \beta_4 \ln NFFt + \beta_5 \ln NDFt + \epsilon_t \quad (6)$$

Where;

UMP = Unemployment Rate

TGR = Total Government Revenue

RE = Recurrent Expenditure

CE = Capital Expenditure

NFF = Net Foreign Financing

NDF = Net Domestic Financing

$\beta_0$  = Constant Term

$\beta_1 - \beta_5$  = Coefficients of the Independent Variables

$\epsilon_t$  = Error term

### 3.1.3 Model Three

The dependent variable for the third hypothesis is the inflation rate (INF). The null and alternative hypotheses for this model are stated as;

**H<sub>03</sub>**: The inflation rate in Nigeria is not significantly impacted by the fiscal policy adopted by the Nigerian government

**H<sub>a3</sub>**: The inflation rate in Nigeria is significantly impacted by the fiscal policy adopted by the Nigerian government

To measure the impact that fiscal policy has on the rate of inflation in Nigeria, the model is defined as below;

$$INFt = f(TGRt, REt, CEt, NFFt, NDFt) \quad (7)$$

The operational and log form of the model is stated as;

$$INFt = \beta_0 + \beta_1TGRt + \beta_2REt + \beta_3CEt + \beta_4NFFt + \beta_5NDFt + \epsilon_t \quad (8)$$

$$\ln INFt = \beta_0 + \beta_1 \ln TGRt + \beta_2 \ln REt + \beta_3 \ln CEt + \beta_4 \ln NFFt + \beta_5 \ln NDFt + \epsilon_t \quad (9)$$

Where;

INF = Inflation Rate

TGR = Total Government Revenue

RE = Recurrent Expenditure

CE = Capital Expenditure

NFF = Net Foreign Financing

NDF = Net Domestic Financing

$\beta_0$  = Constant Term

$\beta_1 - \beta_5$  = Coefficients of the Independent Variables

$\epsilon_t$  = Error term

### 3.2 Source of Data and Method of Analysis

Annual time-series data on the dependent and independent variables, from 1991 to 2020 are collected for analysis in these studies. These data were collected primarily from the annual statistical bulletin of the Central Bank of Nigeria (CBN), as well as the online data bank of the World Bank. While the data on the independent variables were collected from the CBN Annual Statistical Bulletin, data on dependent variables were collected from the World Bank data bank.

However, the data on the unemployment rate (a dependent variable) from the World Bank is based on the estimates of the International Labor Organisation (ILO), and not actual data on the unemployment rate in Nigeria. While the Nigerian Bureau of Statistics (NBS) provides the actual data on unemployment in Nigeria, the data available is limited to quarterly data from Q4 2014 to Q4 2020; hence, the use of the data provided by the World Bank. In addition to this, the data on inflation rate is based on World Bank's data on annual Consumer Price Index (CPI) for Nigeria, from 1991 to 2019. The inflation rate for 2020, used in the analysis, is gotten from the average of the monthly CPI data provided by the CBN for 2020.

In assessing the impact that the variables of fiscal policy have on the macroeconomic condition of Nigeria, specifically the economic growth, employment, and inflation, this paper employs the use of the Ordinary Least Square (OLS) regression analysis.

## 4. Discussion of Results

are (OLS) regression analysis.

### Discussion of Results

Table 1 below contains the results of the multiple regression for model one, which sought to assess the relationship between fiscal policy and economic growth of Nigeria, with a focus on data from the variables spanning 1991 to 2020. The result shows that the regression value (R<sup>2</sup>) of the economic growth is 0.655, which means that 66% of

the variation in the economic growth of Nigeria can be explained by fiscal policy, which is jointly represented by all the independent variables in model one, at 5% level of significance. The coefficients suggest that while total government revenue, capital expenditure, and Net Domestic Financing have a positive relationship with economic growth, recurrent expenditure and Net Domestic Financing have a negative relationship with economic growth. With the total government revenue and recurrent expenditure being statistically significant in model 1, the result shows that a unit increase in total government revenue and recurrent expenditure will result in a 3.188 increase and a 3.507 decrease in economic growth, respectively. However, capital expenditure, Net Foreign Financing, and Net Domestic Financing are not statistically significant at a 5% level of significance. The results from this analysis align with the findings of Babalola (2015), who asserted that in the long run, recurrent expenditure has a negative impact on economic growth, while capital expenditure has a positive relationship with economic growth. However, the results disagree with the findings of Babalola (2015) on the negative relationship between government revenue and economic development and rather aligns with the findings of Dikeogu & Karma (2018), who found a positive relationship between economic growth and government revenue. The F-Statistics value of 9.104 and the P-value of < 0.001 is highly significant, pointing to the fact that all the independent variables in model 1 are jointly significant, thereby resulting in the rejection of the null hypothesis for model 1.

**Table 1:** Regression Results for the Impact of Fiscal Policy on Economic Growth from 1991 to 2020

Variables	Coefficients	T-Values	P-Values
Constant	-6.232	-4.648	< 0.001
Total Government Revenue	3.188	4.982	< 0.001
Recurrent Expenditure	-3.507	-4.653	< 0.001
Capital Expenditure	0.933	1.867	0.074
Net Foreign Financing	-0.057	-0.396	0.696
Net Domestic Financing	0.211	1.277	0.214
R <sup>2</sup>	0.655		
Adjusted R <sup>2</sup>	0.583		
F-Value	9.104		
P-Value	< 0.001		
Observation	30		
Method	OLS		

**Source:** Author's SPSS Output (Significant at 5%)

**Table 2:** Regression Results for the Impact of Fiscal Policy on Unemployment from 1991 to 2020

Variables	Coefficients	T-Values	P-Values
Constant	1.024	2.128	0.044
Total Government Revenue	0.005	0.121	0.905
Recurrent Expenditure	0.014	0.279	0.783
Capital Expenditure	0.007	0.161	0.874
Net Foreign Financing	0.029	1.029	0.314
Net Domestic Financing	0.014	0.41	0.685
R <sup>2</sup>	0.05		
Adjusted R <sup>2</sup>	-0.147		
F-Value	0.255		
P-Value	0.933		
Observation	30		
Method	OLS		

**Source:** Author's SPSS Output (Significant at 5%)

Table 2, on the other hand, shows the results of the regression analysis which assesses the relationship between fiscal policy and unemployment. The regression value (R<sup>2</sup>) of the unemployment rate is 5%, which points to the fact that only 5% of the variation in the unemployment rate in Nigeria is accounted for by the fiscal policy. With a P-value of 0.933, which is above the significance level of 0.05, the results from the analysis of model 2 suggest that fiscal policy has no significant impact on unemployment and/or job creation; hence, the null hypothesis is accepted for model 2. This result points to the fact that the recent astronomical increase in the unemployment rate in Nigeria, as shown in the report by NBS (2021), cannot be attributed to the fiscal policy of the Buhari-led government, neither can the government use fiscal policy as an instrument for influencing the rate of employment in Nigeria. In addition to this, the result of this analysis contradicts the assertion of the political economy theory of fiscal policy and unemployment, which holds that unemployment can be reduced by the reduction of taxes. Although the regression analysis for model 2 shows that there is a positive relationship between unemployment and government revenue, the insignificance of the model shows that such reduction in taxes will

have no significant impact on the unemployment rate.

**Table 3:** Regression Results for the Impact of Fiscal Policy on Inflation from 1991 to 2020

Variables	Coefficients	T-Values	P-Values
Constant	2.859	3.17	0.004
Total Government Revenue	0.08	0.944	0.354
Recurrent Expenditure	-0.165	-1.893	0.082
Capital Expenditure	0.163	1.903	0.694
Net Foreign Financing	-0.089	-1.66	0.11
Net Domestic Financing	0.033	0.524	0.605
R <sup>2</sup>	0.305		
Adjusted R <sup>2</sup>	0.16		
F-Value	2.108		
P-Value	0.099		
Observation	30		
Method	OLS		

**Source:** Author's SPSS Output (Significant at 5%)

Table 3 shows the results of the analysis of model 3, which seeks to assess the impact the fiscal policy has on inflation. The regression value (R<sup>2</sup>) shows that approximately 31% of the variation in the inflation rate is explained by fiscal policy. With all the P-Value of the independent variables being above the 5% significant level, none of the variables of fiscal policy in model 3 has a significant impact on the inflation rate. Similarly, the P-value of the model is 9.9%, which is above the 5% significance level; hence, the null hypothesis for model 3, which states that the inflation rate in Nigeria is not significantly impacted by the fiscal policy adopted by the Nigerian government. This is in line with the findings of Otto & Ukpere (2015), who concluded that while fiscal policy impact on inflation rate in Nigeria, this impact is not significant, and contradicts the assertion of Olubunmi et al (2019) who found a significant and positive relationship between fiscal policy and inflation.

## 5. Conclusion

This paper aimed at assessing the impact of fiscal policy on the macroeconomic condition of Nigeria, specifically the growth of the economy, unemployment, and inflation. While the analysis of data in this paper shows the fiscal policy has a significant impact on economic growth, the impact of fiscal policy on unemployment and inflation was found to be insignificant. This means that fiscal policies aimed at influencing or achieving set rates or range of rates for unemployment or inflation will be of little effect. Rather, the Nigerian government can utilise its fiscal policy in influencing the growth of the economy. The nature of the relationship between economic growth and other macroeconomic condition (particularly unemployment and will determine whether or not the government can indirectly influence inflation and unemployment rate via its fiscal policy initiatives. However, in light of the finding from the analysis, it is recommended that the government of Nigeria focuses on promoting initiatives that can increase the revenue of the federal government, which can be channelled to increasing capital expenditure (since both government revenue and capital expenditure have a positive relationship with economic growth), while also reducing recurrent expenditure. One of the several initiatives that the government can adopt to increase its revenue is to improve the ease of doing business in Nigeria, which is currently ranked 131 out of 190 countries (Varrella, 2021). This will enable the establishment of more businesses and the growth of existing ones, leading to increased taxes for the government, especially its Corporate Income Taxes. Similarly, the government can reduce its recurrent expenditures by reducing inefficiencies in governance, as well as the cost of governance, which are among the highest in Africa and globally. The insignificance of the impact of capital expenditure, Net Domestic Financing, and Net Foreign Financing, evident by P values of 0.074, 0.696, and 0.214, respectively, suggest that the Nigerian government's attempt to influence economic growth via these instruments of fiscal policy will be of little effect. Therefore, the Nigerian government should focus on growing its revenue and reducing its recurrent expenditure in order to grow the economy.

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