



Fiscal Policy and Industrial Sector Output In Nigeria

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ABSTRACT

The paper studied fiscal policy and industrial sector output in Nigeria within a time period spanning 1987 to 2019. Fiscal policy was disintegrated into government expenditure, tax revenue and budget deficit while industry sector output was measured as the GDP contribution from the industrial sector. The model developed was analysed using multiple regression methods based on Johansson cointegration Error Correction Modelling. The results showed that fiscal policy has a long run and short run effect on industry sector output. The specific results evidenced that government expenditure and budget deficit have significant positive impact on industry sector output in Nigeria; while tax revenue has positive but insignificant effect on industry sector output in Nigeria. The study posits that fiscal policy drives the industrial sector of Nigeria and thus recommended that should formulate and implement viable fiscal policy options that will stabilize the economy.

KEYWORDS: Fiscal policy, Industrial Output and Gross Domestic Product

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I. INTRODUCTION

Nigerian real sector comprises five sectors which are agriculture, industry, construction, trade, and services (CBN, 2018). The industrial sector is the most significant and impactful of all the sectors in Nigeria. The sector consists of the Crude Petroleum & Natural Gas, Solid Minerals and manufacturing sub-sectors. The growth of Nigeria has reckoned the growth of industrial sector, especially the oil and gas sub-sector and recently effects has geared towards energising the manufacturing sub-sector to enhance productivity, local content, economic sustainability and development.

The government through concerted fiscal policies, can support industrial sector. Fiscal policy is all the blueprint and strategies employed obtain revenues, make expenses and repayments in the process of controlling the economy (Geoff, 2012). The role of fiscal policy in promoting economic stability was recognized very slowly and not sufficiently until the Great Depression of the 1930s (Bhatia, 2002). In the 1950s and late 1960s, the Nigerian economy was relatively stable because the economy was based on the agricultural sector, while in the early 1970s, the pattern of the economy changed absolutely from agricultural sector to oil and gas sub-sector, which has resulted to the fluctuations in Nigeria's investment climate. From the 1970s till date, the Nigerian economy has witnessed various degrees of shocks and disturbances. One of such effects is the low investment in manufacturing.

The failure to achieve industrialisation, despite several industrial policies and reforms, is common amongst the developing countries including Nigeria. In the Nigerian context, there has been a protracted and steady decline in the sectoral contribution of the industrial sector to national productivity and hence economic development has been disappointingly low while poverty level has increased tremendously (Iwuagwu, 2009). The major channel of government efforts to industrialisation and enhanced economic development is the fiscal policy stance. This study thus sought to determine the effect of fiscal policy strategies on the industrial sector in Nigeria.

Despite that the industrial sector is a vehicle for growth and development, industrialisation policies in Nigeria has not successfully driven the economy to development. There has been a steady decline in Nigeria industrial output over the years. The Keynesian school portends that fiscal policies could drive high level investment in the industrial sector. Extant literature shows that expenditure and revenue are the most prevalent fiscal policy stance tested in empirical studies, with exclusion of deficit finance by most studies (Imide, 2019; Oseni, 2015). Most of the reviewed concentrate on the manufacturing sub-sector (Eze & Ogiji, 2013; Osinowo, 2015; Arikpo, Ogar and Ojong, 2017; Uffie & Aghanenu, 2019; and Imide, 2019), with an exception of Oseni

(2015). It becomes pertinent to employ a holistic variable of industrial sector to study the role of fiscal policy. The specific objectives are to examine the effect of tax revenues on industrial sector output in Nigeria; to determine the effect of government expenditure on industrial sector output in Nigeria and to investigate the effect of budget deficit on industrial sector output in Nigeria. Research Questions that guide the study are to what extent does tax revenue influence industrial sector output in Nigeria? To what degree does government expenditure determine industrial sector output in Nigeria? And what is the effect of budget deficit on industrial sector output in Nigeria?

The findings of this paper will be of immense value to the government, policy makers, and the academia. The study will enhance the understanding of government functionaries on how its revenues, spending and strategic planning affects the industries in the economy. This will inform the government on how to be prudent and more efficient in managing the economy, to bring about development.

II. REVIEW OF RELATED LITERATURE

Conceptual Review

Fiscal Policy

Policy could be courses or action being proposed or adopted by an organisation to manage its affairs. Fiscal policy relates to the government use of its resources. According to Peter and Simeon (2011) who described fiscal policy as the processes that government follows to manage the economy by way of manipulating its income and expenditure to achieve certain desired macroeconomic objectives. More so, Obioma and Ozughalu (2010) noted that fiscal policy is the alignment in government revenue and expenditure in order to promote price stability and sustainable growth in output, income and employment, as well as prevent or reduce short-run fluctuations in output, income and employment in order to move an economy to its potential level. These definitions bring to the fore the notion that fiscal policy helps the government to plan for revenues and expenditures. Thus, fiscal policy anchors on budgets to influence economic activities.

In a broader sense, Geoff (2012) averred that fiscal policy encompasses the use of government spending, taxation and borrowing to affect the level and growth of aggregate demand, output and jobs creation. This definition goes ahead to include all sources of revenue by the government including taxation and borrowing. Thus, fiscal policies involves a holistic blueprint and strategies the government uses to obtain revenues, make expenses and repayments in an effort to control the economy. From the stand point of this conceptual review, fiscal policy includes taxation, government expenditure and budget balances.

Government Expenditure: Government expenditures play key roles in the operation of all economies. It refers to expenses incurred by the government for the maintenance of itself and provision of public goods, services, and works needed to foster or promote economic growth and improve the welfare of people in the society (Eze, Nwite, Nwanne, Onwe, Ugwu & Ogiji, 2019). Government (public) expenditures are generally categorized into expenditures on administration, defense, internal securities, health, education, foreign affairs, etc. Aggregate government capital expenditure at current prices will be used. It is expected that the increase in capital expenditure, will increase real sector growth because people's welfare will improve through government provision of social and infrastructural facilities. This will directly reduce unemployment, thus leading to a positive impact on the real sector.

Taxation: In an organised society with government presence, payment of tax is compulsory and social responsibility of every citizen. These monies are meant for government expenditure. Edame and Okoi (2014) see tax as a compulsory levy imposed by the state upon its citizenry or upon its property, corporate bodies and institutions to enable government carryout its obligation of providing social amenities and security for the wellbeing of the state. In general terms, tax are financial obligation laid upon individuals or property owners, to compulsorily support the government as derived from legislation.

Budget balance: When government revenue equals its expenditures in a fiscal year such balance could be referred to as balance budget. At the end of the fiscal year, the deference between the planned estimate and the actual activities is determined. A good budget, therefore, requires comprehensiveness, a meaningful presentation of the state of budgetary balance and an appropriate grouping of expenditure items (Anyanwu, 1997 cited in Asaju, Adagba & Kajang, 2014). Budgetary balance is derived from the difference between real sum budgeted and actual sum spent. It is the difference between the sum collected by the state and that spent in a fiscal year (Testic, Ilic & Delic, 2014). Situation of surplus budget occur when government expenditure is lower than its xpected revenue, however, if the expected income is higher than the expenditure that become deficit balance (Chimobi & Igwe, 2010).

Industrial Sector Output

The industry is all the economic activity concerned with the processing of raw materials and manufacture of goods in factories. Industries are group of business outfits involved in industrialisation. Industrialization is about the introduction and expansion of industries in a particular place, region or country

(Obioma & Ozughalu, 2010). Is also referred to as an increase in the share of manufacturing in the Gross Domestic Product (GDP) and in the occupations of the economically active population (Iwuagwu, 2009).

The manufacturing sector accounts for a significant share of the industrial sector in developed countries (Dickson, 2010). This signals that this sector is essential for economic development as it creates employment which helps to boost agriculture and diversify the economy and through that the nation increase its foreign exchange earnings (Charles, 2012).

The government fiscal policy is expected to influence activities in the industrial sector. The conceptual framework of this study posits that fiscal policies support and boosts total output from the industrial sector.

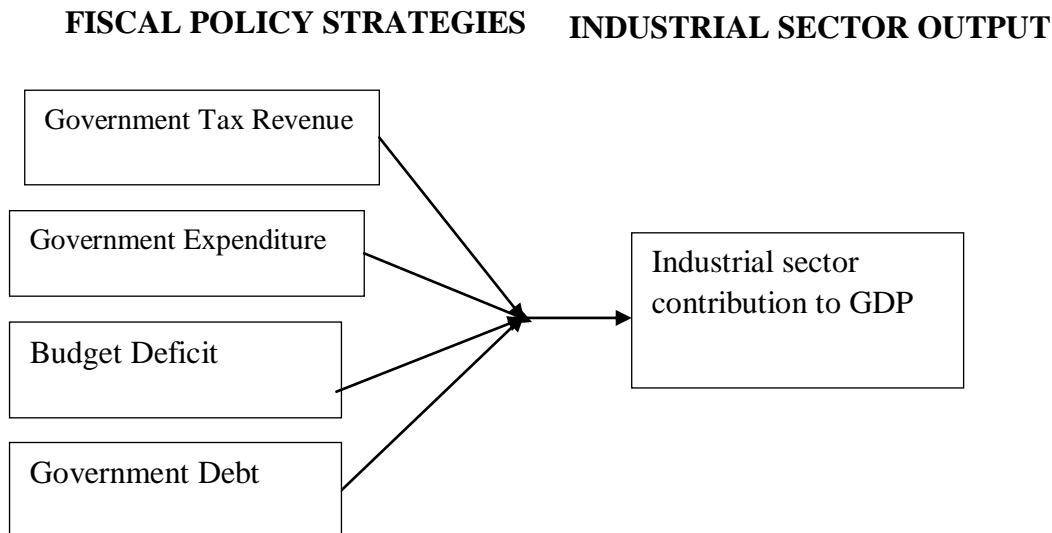


Figure 1: Conceptual link for fiscal policies and industrial sector output

Source: Researchers' Conception

Theoretical Framework

The study was anchors on the Managerial Theory of the Firm which was propounded by Bumole (1967) as cited in Eze & Ogiji, (2013) in his research paper titled Business Behaviour, value and growth. The theory believes that if any nation want to grow fast by means of industrialization, such country have to increase its public expenditure as this will enhance the developmental processes of the country. Also, the theory explains that organization employ manager for purposes of revenue maximization and not mainly for profit maximization. The present study derives from this theory since industrial sector revenue is a function of their output which in turn drives national output. On the other hand, fiscal policy, which this study relates to industrial sector output has the potential to increase the money supply and thus makes available increased level of investment. This follows that increased public expenditure facilitates development process of the nation vis-à-vis industrialization.

Empirical Review

Osinowo (2015) examined the effect of fiscal policy on sectoral output growth in Nigeria for the period of 1970-2013. Specifically, fiscal policy was represented with expenditure, and controlled for trade openness, inflation rate, interest rate, population, labour and political stability. Sectoral output measured included agriculture, mining, building and construction, manufacturing, wholesale and retail, and service sectors. The study employed the Autoregressive Distributed lag and Error Correction Model (ECM). The results revealed that total fiscal expenditure contribute to the output of all other sectors apart from the agricultural sector.

Uffie and Aghanenu (2019) examine effect fiscal variables on manufacturing sector output in Nigeria between 1981 and 2016. Fiscal policies are total government expenditure and company income tax, while manufacturing sector output is the proportion of GDP to the manufacturing sector. The Autoregressive Distributed Lag (ARDL) Bounds test approach to Cointegration was adopted. The findings showed that fiscal policy has both short-run and long-run impacts on the manufacturing sector output in Nigeria. Specifically, government expenditure has positive significant impact on manufacturing output while company income tax dampened output owing to multiplicity of taxes.

Imide (2019) examined the impact of fiscal policy on the manufacturing sector of Nigeria from 1980 to 2017. The manufacturing sector was proxied as the Index of Manufacturing Sector while the explanatory variables were government expenditure, company income tax rate and federal government domestic debt outstanding. The econometric techniques of Ordinary Least Squares (OLS) results reveals that the government

expenditure have positive relationship with the index of manufacturing sector while federal government domestic debt outstanding has negative linear relationship with the index of manufacturing sector.

Eze, Nwite, Nwanne, Onwe, Ugwu and Ogiji (2019) studied the influence of fiscal policy on real sector growth in Nigeria. The explanatory variables are government wealth expenditure controlled by interest rate, inflation rate and exchange rate, while the real sector which captured as the output in agricultural sector. Analyses gotten from the ARDL revealed that a significant and positive influence of government wealth expenditure on the growth of agricultural sector in Nigeria.

Victor and Roman (2017) analysed the fiscal policies upon agriculture and industry in Ukraine, with the SVAR model using quarterly data for the 2001–2016 period. The results indicate that government spending has a positive effect on both agricultural production and industrial output, while an increase in government revenue is of the same expansionary impact for the latter only.

III. METHODOLOGY

Research Design

The study adopted the *ex-post facto* research design which employs already existing data to establish causal effect of one variable on another. The *ex-post facto* design is a suitable method since the data from which the variables of the study were obtained already exist in well-reputed publications and the researcher does not have the capacity to change their state or direction in the course of the exercise (Onwumere, 2009). The study used secondary data source based on annual time series spanning 1987 to 2019. The data were generated from the CBN Statistical Bulletin, and the CBN Annual Report and Statement of Accounts.

Model Specifications

The model specification is anchored on the Keynesian school of thought to suppose that fiscal policy aims to enhance sectoral output. Thus the model posits the industrial sector output is a function of government fiscal policy stance. Hence, $ISO = f(FP)$, where ISO is industrial sector output and FP is fiscal policy consisting of government expenditure, taxation, government domestic debt and deficit finance. The inclusions of fiscal policy variables were borrow from the works of Imide (2019) wherein fiscal policy variables are disintegrated into government expenditure, tax rate and domestic debt outstanding. The idea from the work of Ezeabasili, Ioraver and Wilson (2012), the present study added fiscal deficit to the model to develop a one holistic model of fiscal policy variables. The model is thus shown:

$$ISO = a_0 + a_1GE + a_2GT + a_3DD + a_4DF + \varepsilon_t \quad (1)$$

a_0 = the constant while $a_{1,3}$ are the coefficients of explanatory variables.

The Apriori expectation following the Keynesian view: GE, GT, GD and DF have positive effects on ISO.

Method of Data Analysis

The multiple regression technique was employed. The Johansson Cointegration technique and Error Correction Modelling was used.

Cointegration: Co-integration occurs when two or more series are non-stationary, but a linear combination of them is stationary. Testing for co-integration is a necessary step to check if one is modelling empirically meaningful relationships. Its analysis is done to investigate long- run relationship among variables. During this testing, the lag orders will affect the cointegration vectors of a system. An important feature of practical research studies based on the VAR model was selection of the optimal lag order, the VAR model are based on the correct model specification.

Error Correction model: Given that there is a co-integration in the variables, the short run relationship is examined using the error correction model (ECM). It helps to explore the short run dynamics of the endogenous variables, keeping them consistent with the long run relationship (Yang, 2011). The ECM explores the impact of the independent variables on the dependent variables in the short run.

IV. PRESENTATION AND ANALYSIS OF DATA

Presentation of Data

The study used 33-year time serial data. The data comprised four variables which are Industrial Sector Output represented by the Gross Domestic Product for the industrial sector (ISO), government expenditure (GE), tax revenue (TR) and budget deficit (BD). The ISO is the dependent variable for the study.

For the purpose of regression, all the variables are expected to be in a similar measurement scale. Originally, all the variables are in their levels; and since all of them have the same measurement scale being level, the analysis is performed at level of the variables.

Descriptive Analysis of the Variables

Table 3: The mean, standard deviation and Jarque-Bera statistics of the variables

	I	S	OG	ET	RB	DD	D
Mean	6588.72	33894.26	2181.51	102.83	783053.69	7	
Std. Dev.	7514.71	3801.52	2284.54	3201.50	213879.41	2	
Jarque-Bera	5.47	3.26	4.12	177.04	10.26	0.18	
Probability	0.0648	0.1954	0.1272	0.0000	0.0059	1.6	
Observations	3	3	3	3	3	3	3

The descriptive statistics covered the time series of 33 years. The mean is the average value for the period, while the standard deviation measures the variability of the values. The mean of the variables computed are ISO (₦6588.72 billion), GE (₦3894.26 billion), TR (₦2181.51 billion), BD (₦102.8378 billion) and DD (₦3053.697 billion). The corresponding standard deviation for the variables are ISO (₦7514.713 billion), GE (₦3801.52 billion), TR (₦2284.54 billion), BD (₦201.50 billion) and DD (₦3879.41 billion). The standard deviation for ISO is larger than its mean, suggesting high variation over the period under study.

The Jarque-Bera Statistics and its corresponding probability values examined the normality of the distributions. The Jarque-Bera statistics are ISO = 5.4702 (p 0.0648), GE = 3.2650 (p 0.1954), TR = 4.1230 (p 0.1272), BD = 177.0496 (p 0.0000) and DD = 10.2601 (p 0.0059). The null hypothesis is that the variables are normally distributed. Thus, p.value less than 0005 rejects the null hypothesis while p.value greater than 0.05 accepts the null hypothesis. The p.values for BD, and DD are less than 0.05 (p < 0.05) thus we rejected the null hypothesis while that of ISO, GE and TR are greater than 0.05 (p > 0.05), and we accepted the null hypothesis. This means that only ISO, GE and TR have normal distribution while BD and DD do not have normal distribution.

Stationarity Test

Table 4: Stationarity of the variables used in the study

Variables	A t L e v e l				F i r s t D i f f e r e n c e				Order of Integration
	t-Statistic		P r o b .		t-Statistic		P r o b .		
I	S	O	-0.6451	0.8423	-4.5394	0.0266	1	(1)	
G	E	E	-0.7178	0.8277	-5.1761	0.0002	1	(1)	
T	R	R	-0.8466	0.7879	-3.7835	0.0087	1	(1)	
B	D	D	-0.3757	0.8980	-4.7962	0.0350	1	(1)	

The stationarity test was done to determine whether the variables can be successfully manipulated in the regression process to produce a robust result. Most time series data are susceptible to instability that can distort normal trends and affect the reliability of regression analyses. The variables were therefore subjected to stationarity test using the Augmented Dickey-Fuller (ADF) Tests, to determine whether they are stationary series or non-stationary series. The null hypothesis of the ADF is that the variables have unit root. Presence of unit root implies that the variable is not stationary. The results of the stationarity tests are presented on Table 4.

The ADF results revealed that none of the variables are stationary at level 1(0). However, all the variables including ISO, GE, TR and BD, became stationary at their first differences 1(1). From the results of the ADF tests, it can be seen that the variables used in the model are all stationary at first difference 1(1). The variables stationary at 1(1) implies that they have separate long term and then short term behaviours. Under this situation, the cointegration and error correction mechanism is the most suitable regression technique for the study.

Model Estimation

The result on Table 5 showed the Johansson cointegration analysis for long run relationship between fiscal policy and output from the industry sector in Nigeria. The results from both Trace and Maximum Eigenvalue statistics reveal that there is at least five cointegration equations of possible relationships between fiscal policy and industry sector output in Nigeria. The probability value less than 0.05 indicate significant relationship with the rejection of the null hypothesis. From the results however, the p.values for first four null hypotheses, are less than 0.05. Thus the study concludes that there is least four cointegrating equations. This means that fiscal policy has long run effect on industry sector output in Nigeria.

Table 5: Long run relationship between fiscal policy and industrial sector output

Unrestricted Cointegration Rank Test (Trace)

Hypothesized	Trace	e0	.0	5
No. of CE(s)	Eigenvalue	Statistic	Critical Value	P r o b . * *

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N o n e	*	0.903089	151.0614	69.81889	0.0000
At most 1	*	0.734310	81.04264	47.85613	0.0000
At most 2	*	0.568581	41.27985	29.79707	0.0016
At most 3	*	0.402737	16.05959	15.49471	0.0411

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level
 * denotes rejection of the hypothesis at the 0.05 level
 ** MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized		Max - Eigen	0	5	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.	**
N o n e	*	0.903089	70.01878	33.87687	0.0000
At most 1	*	0.734310	39.76279	27.58434	0.0009
At most 2	*	0.568581	25.22026	21.13162	0.0125
At most 3	*	0.402737	15.46193	14.26460	0.0322

Max-eigenvalue test indicates 4 cointegrating eqn(s) at the 0.05 level
 * denotes rejection of the hypothesis at the 0.05 level
 ** MacKinnon-Haug-Michelis (1999) p-values

Haven establish presence of long run relationship among the variables, the study went further to test for short run dynamism of the independent variables. Since the variables are not stationary at levels, it suggests reasons for check of short run effects. The estimation of the error correction model (ECM) represents the short-run behaviour and the adjustment to the long run models.

Table 6: Short run relationship between fiscal policy variables and industry sector output

Dependent Variable: ISO
 Method: Least Squares
 Sample (adjusted): 1988 2018
 Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	41.62272	0.282472	117.73610	0.0391
G	0.75923	0.111399	6.815397	0.0000
T	0.36457	0.436749	0.834744	0.4118
B	0.23822	0.980254	0.243741	0.0000
ECM (-1)	-0.40536	0.254203	-1.594654	0.0234

R - s q u a r e d 0.892044 Durbin-Watson stat 1.994838
 F - s t a t i s t i c 623.4343
 Prob(F-statistic) 0.000000

The output is used for test of hypothesis and policy adjustment. The result on Table 6 is the ECM result of the study. The coefficient of the ECM is negative and statistically significant (that is < 0.05), suggesting that is rightly signed. As the disequilibrium error term ECM_{t-1} is statistically significant and negative (as expected) in all the equation, it means that there is existence of long-run relationship between the variables in the error correction models. The coefficient of -0.4053 indicates that about 41% of long run disequilibrium can be adjusted within a year.

However, the coefficient of determination measures the overall effects of all the variables of fiscal policy on industry sector output. The value of 0.8920 indicates that about 89% of changes in industry output is accounted for by changes in fiscal policy of Nigeria. The F-statistics of 623.4343 with probability value of 0.0000 indicates that all the fiscal policy variables have a statistically significant cumulative effect on industry output. The value 1.9948 (approximately 2) of the Durbin Watson (DW) indicates absence of autocorrelation.

Hypothesis Testing

From Table 6, the coefficients for each variable and the corresponding probability values are used to determine the nature and direction of the effect of each fiscal policy variable on industry sector output. They are used to test the hypotheses as follows:

Hypothesis One: Tax revenue does not have significant positive influence on industrial sector output in Nigeria.

The coefficient of tax revenue is 0.3645TR. This indicates that taxation has positive effects on industrial output in Nigeria.

Hypothesis Two: Government expenditure does not have significance positive effect on industrial sector output in Nigeria.

The coefficient for government expenditure (0.7592GE), indicate that government expenditure has positive effect on industrial output in Nigeria.

Hypothesis Three: Budget deficit does not have significance positive effect on industrial sector output in Nigeria.

The coefficient of budget deficit is 5.2382BD, which reveals that budget deficit has positive effects on industrial output in Nigeria.

The coefficient of domestic debt (1.2513) indicates that debt has positive effects on industrial output in Nigeria. The t-statistics is 7.0047 with a probability value of 0.0000. Since the P.value is less than 0.05 level of significance, the study did not reject that null hypothesis and thus posit that government debt has significant positive influence on industrial sector output in Nigeria.

V. DISCUSSION OF FINDINGS

The results showed that fiscal policy has significant long run relationship with industry sector output in Nigeria. This means that fiscal policy stance of the government including government expenditure levels, tax revenue collection, budgetary deficit strategies and domestic borrowing all results in long run position of the industry output. Hence, government fiscal policy should be aimed for long run economic posterity. All fiscal policy strategies of government would either make or mar the economic posterity of a nation in the long run. However, all long run policies have medium and short run structures; hence the ECM was used to show that about 41% of long run possible economic dynamism is what maintained the government long run fiscal policy posture over time. This is possible because fiscal policy has about 89% overall effect on the industry productivity. Nonetheless, the coefficient of the fiscal policy variables revealed that all of them have positive relationships with industry output. This suggests that all government fiscal policy stance including government expenditure, tax revenue and budget deficit boost industry productivity. The significance levels t-statistics reveals that only government expenditure, budget deficit and domestic debt have significant positive effect on industry output. This suggests that all but tax revenue influences the industry output. It is not how much the government realises that but the utilisation in public administration.

VI. CONCLUSION AND RECOMMENDATIONS

Fiscal policy drives the industrial sector of Nigeria. Increasing revenues as well as expenditure channels brings about growth of the industries in Nigeria. This is due to the extent to which revenues and expenditure from the government increases money supply available for enhancing infrastructure development and business investment in Nigeria. Hence sound fiscal policy stances are *sine quo non* to economic development vis-à-vis industrial sector in Nigeria. The paper thereby recommends that Government should enhance its revenue base by diversifying its revenue sources. This is expected to provide sufficient revenue to run government activities and enhance industrial sector performance in the long run; The government should also encourage increased expenditure and investment for infrastructural development that will provide healthy environment for the industrial sector growth; And the government should increase tax to the industrial sector as this drives them to improved productivity. However, it should be noted that tax may not necessarily impact the development of the industrial sector since tax rates did not perturb the industrial sector.

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