

Fiscal Policy (VAT) Reform and Economic Growth: Empirical Evidence of Nigeria

BIAZE, Preye K. ¹, KPOLODE, Oghenevwo P. ², and EKIODIRIBO, Kelvin A ³

¹Department of Accountancy, Delta State Maritime Polytechnic Buru, Nigeria.

²Department of Accountancy, Niger Delta University, Amasoma, Bayelsa State, Nigeria

³Department of Business Administration, Delta State Maritime Polytechnic Buru, Nigeria

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ABSTRACT

Value added tax (VAT) is an element of fiscal policy and it has been a consumption since from 1st September, 1993 and was impose or became operational on 1st January 1994 at the rate of .five percent (5%),and was later adjusted upward to 7.5%, however this new fiscal reform is proposing a 10% VAT value which is about 2.5% increase in the prior value and 15% by 2027, therefore we employed secondary data covering data from 2020 to 2023 extracted from Nigeria statistical bulletin and central bank of Nigeria to examined fiscal policy (vat) reform and economic growth, the regression showed a statistical significant relationship between the explanatory variables and the response variables, which agreed with the study. Hence we recommend that policy that deter consumption purchasing power on the average should be discourage, this is because it will not only reduce productivity but also increase unemployment.

Keywords: VAT, GDP, Inflation and Unemployment

INTRODUCTION

Government over the globe adopt various approaches to control her economy, the two most quantitative approach adopted by government over the world are either fiscal or monetary policy, although in the course of this study, we will concentrate on the former. Nigeria has adopted various tax reform from different administration to the other, with the aim of growing her economy. Currently Nigeria policy makers are proposing a change to her the fiscal policy, with the aim of ensuring equitable distribution of resources among her citizen. Adereti, Adesina and Sanni (2011) fiscal policy is very vast issue in research hence for the purpose of this our study we will concentrate on value added tax which is an aspect of fiscal policy and also a contemporary issue that is being address by policy makers, the currently administration is proposing zero percent of value added tax (VAT) on food, education and healthcare, which literally holding other factors constant will improve the standard of living create more productivity since the individual purchasing power will increase and in the long run reduce unemployment.

This new fiscal policy also seek to reform the VAT, the tax VAT been a consumption since from 1st September, 1993 and was impose or became operational on 1st January 1994 at the rate of .five percent (5%),and was later adjusted upward to 7.5%, however this new fiscal reform is proposing a 10% VAT value which is about 2.5% increase in the prior value and 15% by 2027, this may lead to increase in revenue on the side of the government however discourage consumption of certain commodity and most likely affect productivity and increase unemployment. However Seyed and Zaleha (2024) are of the contrary view that VAT increase savings, hence saved fund can be plough into positive and viable project that may increase productivity. Onoh (2013) VAT should not be high on the infant industries, so as to enable them grow, although the current proposed derivation formula intend to plough revenue from VAT based on the where the goods and services are consumed by the final consumer rather than the current focus on business operations or corporate headquarters, which to us is a global accepted standard.

Jane, David and Domic (2023) fiscal policy is the means by which a government changes its degree of expenditure to monitor and impact a country's economy, it is utilized alongside the monetary policy, which the national bank uses to impact cash supply in a country, literatures review has a contrary issues on the matter of fiscal policy (VAT) on economic growth. Scholars such as (Seyed & Zaleha, 2024; and Orisadare & Fasoye, 2021) are of the opinion higher VAT has a negative effect on the economy however scholars such as (Onoh, 2013; Daferighe & Emah, 2014) opined the VAT has positive impact on economic growth this is because it help government to grow her revenue.

REVIEW OF LITERATURE

Theoretical literature

Fiscal policy depends on the hypotheses of English business analyst John Maynard Keynes whose hypothesis fundamentally expresses that state run administrations can impact on macroeconomic efficiency levels by expanding or diminishing expense levels and public spending. Reem, (2009) opined that this impact, thus, controls expansion, increments business, and keeps a sound worth of cash. The Keynesian speculations have been utilized and abused over the long run, as they are famous and are frequently explicitly applied to moderate financial slumps. Keynesian financial speculations nonetheless, depend on the conviction that proactive activities from our government are the best way to guide the economy. This suggests that the public authority ought to utilize its powers to increment total interest by expanding spending and making a simple cash climate, which ought to animate the economy by making position and at last expanding success.

Empirical Literature

Seyed and Zaleha (2024) investigated the effects of VAT on the economic growth of 19 developing countries for duration of 1995 to 2010 using the GMM panel was employed because of the structure of the model. Afterwards, the effect of VAT through the channel of saving on the capital accumulation and productivity and ultimately the economic growth was examined. The results revealed that VAT has a negative effect on capital accumulation growth in the level; the positive effect of VAT on the level of economic growth seems to have been imposed through channels other than the increase of saving and its effect on capital accumulation.

Jane, David and Domic (2023) examined the impact of fiscal policy on the economic growth of Nigeria". The study made use of Johansen Co-integration Test analysis to determine the long run relation between fiscal policy and economic growth of Nigeria. The data was sourced from CBN statistical bulletin for the period of 1990 to 2021. The research findings revealed that there is a linear relationship between Gross Domestic Product and Public Debt, Tax revenue and Government Expenditure, Public debt (PDBT) and Tax Revenue (TAX) were negatively related to GDP while Total Government Expenditure (TGE) is positively related to GDP; PDBT and TAX both have an inverse relationship with GDP meaning that increases in both variables have negative impact or lead to a reduction in GDP. Statistically; the t-statistics of the variables under consideration were significant and the overall estimates of the regression were statistically adequate and therefore shows the acceptance of alternative hypothesis of no co-integration of unstable long run relationship between fiscal policy and economic growth.

Ordu, and Omesi, (2022) examined the nexus between Value added tax revenue and Revenue allocation in Nigeria within the period of 2000-2020 by using expo facto design with secondary data ranging from 2000 to 2020 and discovered that VAT has a positive and significant relationship with Federal allocation in Nigeria; VAT has a positive and significant relationship with State allocations; VAT has a positive and significant relationship with Local government Allocations in Nigeria The study therefore recommends that Federal government should not be left out in the sharing of VAT revenue as clamoured by some quarters where there is agitation for resource control especially the issue of VAT administration and collection.

Orisadare and Fasoye (2021) examined the effect of VAT on economic growth in Nigeria between 1994 and 2020 using consumer price index (CPI) as a threshold. A technique of Threshold Vector Autoregressive (TVAR) was employed and the results reveal that a VAT above the 10 percent threshold value endangers the economy while a VAT below the 7.59 percent threshold value does not harm the economy; rather, it improves

people's well-being. It is therefore recommended that Nigerian economy should maintain the lower VAT threshold to cushion the effect of ever rising CPI on the citizens.

Olisaji and Onuora (2021) examined the impact of fiscal policy on Nigerian economic growth with secondary data covering from 2015 to 2019 by using variables such as Government Expenditure and Government revenue through Companies Income Tax (CIT) were regressed against dependent variable Economic Growth proxied by GDP growth. The result revealed, that there is a significant and positive relationship between Companies Income Tax (CIT) and Economic Growth (EG) measured using Gross Domestic Product (GDP) with a p-value of 0.030 which is less than the 5% level of significance adopted. On the same note, the study found an insignificant and negative relationship between Government Expenditure (GE) and Economic Growth (GDP) with a p-value of 0.334 which is greater than the 5% significant level adopted.

Muhammad (2015) employed secondary data covering from 1980 to 2012 to investigate the impact of fiscal policy on economic growth in Nigeria, the data used is time series co-integration and Vector Error Correction Model (VECM) is the approach used for data analysis. The series were tested to determine their statistical properties using Augmented Dickey Fuller (ADF) and Phillip Perron (PP). The series were found to be stationary or integrated of order one, that is, $I(1)$. Furthermore, a cointegration test was conducted. The result shows that, Trace Test has 3 cointegration and Maximum Eigenvalue results indicates 2 cointegrating equations of the series use in our model, and discovered that the VECM shows that deficit financing, domestic debt and government consumption expenditure are negative and significant determinants of gross domestic product in Nigeria at 5% ($\alpha = 0.05$) level of significance. However, external debt and government revenue are positive and statistically significant determinants at 5% level of significance.

Daferighe and Emah (2014) investigated the contributions of Value Added Tax (VAT) to economic development with empirical evidence from Nigeria. The effects of other relevant variables Foreign Direct Investment (FDI) and Total Debt (TD) were examined alongside VAT on economic development; proxy by RGDP. The study period was 1994 to 2013 and time series data were collected from Central Bank of Nigeria (CBN) statistical bulletin. The variables RGDP, FDI, TD and VAT are incorporated into the model in their natural logs because the changes in the log series display a more stable variance than the changes in the original series. The models were evaluated using step-wise multiple regression technique. It was revealed that VAT alone accounted for approximately 94.40% variation in RGDP as indicated by adjusted R^2 of 0.9440. It is worthy to note that VAT is significantly related to economic development in Nigeria. It was discovered that the explanatory variables FDI, VAT are positively related to economic development in Nigeria while TD is negatively related to economic development in line with the a priori expectation. FDI increases the wealth of shareholders, thus contributing positively to economic development

Onoh (2013) empirically analyzed the impact of Value Added Tax (VAT) on economic growth in Nigeria from 1994- 2010. Data was collected from Central Bank of Nigeria (CBN) statistical bulletin. Ordinary Least Square techniques was used to estimate the model, which reveals a strong positive significant impact of VAT on economic growth in Nigeria. Therefore, this study recommends that the VAT should not be high on the infant industries, so as to enable them grow.

METHODOLOGY

An ex-post factor was adopted to analyzed secondary data extracted from Nigeria statistical bulletin and central bank of Nigeria of data covering from 2010 to 2023, we adopted this approached due to the reliable as the researchers have no power to massage the data. Descriptive statistics and regression analysis was adopted by the researchers following the specified model above using E-view 10 software. The hypotheses were tested using the analysed result from the study; the decision rule was to reject the hypotheses if the calculated the p-value is less than 5% (0.05). ed on the stock market, other reason was the availability of data required for the study.

Model of Specification

The study adopted a model which applied by other researchers such as Bingilar and Kpolode (2021). The model is as follows: $GDP = (VAT, UE, IR)$ The above was modified and transformed into regression equations

as follows: $GDP = \alpha + \beta_1VAT + \beta_2UE + \beta_3IR + \mu$ Where: GDP = refers to real gross domestic product, which is a response variable employed in measuring fiscal policy (vat) reform and economic growth: empirical evidence of Nigeria. VAT = Value added tax (explanatory variable), IR = inflation rate, (explanatory variable), UE = unemployment, (explanatory variable). α = constant in the equation above μ = residual $\beta_1 - \beta_3$ = the slope of the equation or coefficient of the independent variables

RESULTS AND DISCUSSION OF FINDINGS

Data were extracted from Nigeria statistical bulletin and central bank of Nigeria of data covering from 2010 to 2023 in Table 1 below:

Table 1

YEAR	GDP	VAT	UE	IR
2010	11.259	564.89	5.092	13.742
2011	4.887	659.15	5.957	10.825
2012	4.279	710.56	10.566	12.225
2013	5.394	802.69	9.955	8.495
2014	6.31	802.96	7.841	8.048
2015	2.653	635.35	9.04	9.01
2016	-1.617	828.2	13.375	15.696
2017	0.806	972.35	17.462	16.502
2018	1.937	1108.04	22.562	12.094
2019	2.147	1188.58	33.3	11.701
2020	4.322	1,628.35	35.201	19.43
2021	4.4084	1677.2	23.937	17.32
2022	4.7262	1727.5	24.854	23.66
2023	3.6281	1779.3	25.773	25.09

Source: Nigeria Statistical bulletin

Table 2: Descriptive Statistics

	VAT	GDP	UE	IR
Mean	1077.513	3.938550	17.49396	14.55986
Median	900.2750	4.300500	15.41850	12.98350
Maximum	1779.342	11.25900	35.20143	25.09000
Minimum	564.8900	-1.617000	5.092000	8.048000
Std. Dev.	445.7905	2.947967	10.10200	5.366611
Skewness	0.543000	0.598644	0.393921	0.667634
Kurtosis	1.707627	4.373343	1.843313	2.418678

Jarque-Bera	1.662282	1.936416	1.142529	1.237177
Probability	0.435552	0.379763	0.564811	0.538704
Sum	15085.18	55.13970	244.9155	203.8380
Sum Sq. Dev.	2583479.	112.9766	1326.656	374.4067
Observations	14	14	14	14

Source: E-view 10 output

Table 3, show the summarized the descriptive statistics of the Mean 1077.513, 3.938550, 17.49396, 14.55986 Median 900.2750, 4.300500, 15.41850, 12.98350, Maximum 1779.342, 11.25900, 35.20143, 25.09000, Minimum 564.8900, -1.617000, 5.092000, 8.048000 and Standard deviation 445.7905, 2.947967, 10.10200, 5.366611 of the variables (VAT, GDP, UE and IR) for the study respectively. The indication is that VAT the most dispersed variable in the study while GDP is the least dispersed among the variables. Jarque-Bera statistics and the associated probability values also showed that the VAT, GDP, UE and IR are normally distributed with probabilities of 0.435552, 0.379763, 0.564811 and 0.538704 (which are greater than 5%) respectively

Table 3: Regression Output

Dependent Variable: GDP				
Method: Least Squares				
Date: 12/26/24 Time: 19:34				
Sample: 2010 2023				
Included observations: 14				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
VAT	15.67628	17.99510	0.871142	0.4041
UE	26.12057	6.504938	4.015498	0.0025
IR	39.73931	11.61036	3.422747	0.0065
C	-19.77991	168.6603	-0.117277	0.9090
R-squared	0.875988	Mean dependent var		1077.513
Adjusted R-squared	0.838784	S.D. dependent var		445.7905
S.E. of regression	178.9923	Akaike info criterion		13.44752
Sum squared resid	320382.4	Schwarz criterion		13.63011
Log likelihood	-90.13263	Hannan-Quinn criter.		13.43062
F-statistic	23.54578	Durbin-Watson stat		1.565540
Prob(F-statistic)	0.000075			

Source: E-view 10 output

From the analytical output in Table 4, the independent variables combined significantly explained the variations in the dependent variable with F-statistics probability value of 0.000075 (at 5% significant level). The R-squared (coefficient of determination) value 00.875988 indicates that 88% of changes in the dependent

variable are accounted for by the combined effect of variations in the independent variables. Also, the adjusted R-squared value of 0.838784 indicates that the model used in testing the hypotheses for the study is a proper and good fit, with a confidence level of approximately 84% for acceptance of the goodness of the study model. Durbin-Watson statistics value 2.0 is approximately which is equal the acceptable benchmark, which indicates the non-existence of serial auto correlation among the independent variables.

CONCLUSION AND RECOMMENDATIONS

We employed secondary data covering data from 2020 to 2023 extracted from Nigeria statistical bulletin and central bank of Nigeria to examine fiscal policy (vat) reform and economic growth, the regression showed a statistically significant relationship between the explanatory variables and the response variables, which agreed with the study Seyed and Zaleha (2024); Orisadare and Fasoye, (2021) who are of the opinion higher VAT has a negative effect on the economy however contradicted (Onoh, 2013; Daferighe & Emah, 2014) opined the VAT has positive impact on economic growth this is because it helps government to grow her revenue. Hence we recommend that policy that deter consumption purchasing power on the average should be discouraged, this is because it will not only reduce productivity but also increase unemployment.

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