EFFECT OF FISCAL POLICY ON COMMERCIAL BANKS IN NIGERIA

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Abstract

This paper focused on fiscal policy and banks performance in Nigeria. The study adopted the ex-poste research design and made use of the econometric procedure in estimating the relationship between fiscal policy and commercial banks in Nigeria from 1990 to 2018. This study made use of time series data which were collected from the Central Bank of Nigeria bulletin and NDIC annual report on non-oil tax revenue. Recurrent expenditure, capital expenditure, and domestic debts of the federal government of Nigerian as the independent variables and deposit money banks' performance (ROA) as the dependent variable for the stated period of review. The ordinary lease square regression model technique was used in this study to conduct the various econometric tests and the result of the unit root test indicated that ROA and NTR are stationary at level ie they are integrated at order zero 1(0) while REX, CEX and DON are stationary at first difference ie they are integrated at order one 1(1). Based on this mixed order of integration, the bounds text was carried out and it revealed that there is long run relationship existing among the variables in the model. Generally the results showed that the fiscal policy variable are related with the ROA based on which the researcher recommended among other things that fiscal policy should be complemented with a good mix of effective monetary policy and adequate maintenance of rule of law to foster stability in Nigerian economy.

Keywords: Fiscal Policy, Bank Performance, Economic Growth

Introduction

Banking is a critical sector of all economies owing to its important role of financial intermediation which is highly significant to the achievement of the goal of economic growth in every nation. The performance of deposit money banks is an index that mirrors the overall state of an economy at any point in time (Bank for International Settlements, 2010). In the last decade, there was experience of rapid increase in competition in the activities of deposit money banks in Nigeria which resulted from the successful implementation of the banking system consolidation initiated by the CBN in 2004. ND1C (2014) observed that this consolidation exercise led to the reduction in the number of deposit money banks initially from 89 to 25 which were highly capitalized, each of them having the prescribed minimum capital base of N25 billion. Several scholars have opined that whatever happens in the banking sector is most likely to leave a deep impact on a nation's economy. Any crisis in the banking sector will create economic depression which will in turn affect its growth tendency. Weidmann (2014) averred that stable banks are meant to bring about a stable economy. Elliot (1975) emphasized that most countries of the world have encountered great economic depression which was the aftermath of some notable distortions in their banking operations as a result of which their governments started having profound and reformed economic and political thinking. According to him, this depression lasted from October 1929 to the onset of the American entry into the Second World War. He further buttressed that before then, most governments have exhibited lai/ze fair approach to her economies and following this war, they rose to the challenge of taking proactive role in formulating and implementing fiscal policies in line with their economic affairs and situations to monitor and regulate unemployment, inflation, business cycle cost of money.

Again, it is important to note the fact that market mechanism cannot solely perform all economic functions in a country, hence public policy is

required to correct, guide and supplement the market forces in order to achieve the desired level of banking operational standard and macroeconomic objectives and as well keep the economy of nations stable and growing. Fiscal and monetary policies are such policies used by government to correct market imperfections and failure with the aim of preventing banking sector crisis and economic recession of any level. In the view of Porter and Rosa (2011), the realization of the desired economic goals of a nation can be successful among other factors by the effective mix of fiscal and monetary policy measures.

As a result of this, there emerged a dimension of broad consensus on governments doing their very best to prevent such disasters from happening in an economy.

Banking is people oriented and the quality of personnel is what makes the distinction of a bank performing well or not. **It** is important to recognize the fact that the burden of instability in bank's operations and performance and its related effect on the economy falls on the households and individuals that make use of the banks in a country. However, it takes effective public policy to stabilise the economy hence there is general agreement that a stable and predictable economic environment contributes substantially to social and economic welfare of the people. Anna (2012) observed that in the short-run, households prefer to have economic stability with continuous employment and stable incomes, allowing them to maintain stable consumption and relative bank savings over time which has the tendency of affecting banks' performance. A highly volatile economic environment might also have a negative impact on bank performance and economic growth but by maintaining a stable **macroeconomic** environment, economic policy can thus contribute to economic growth and welfare (Nwankwo, 2015). It is an obvious fact that monetary policy is what the CBN uses to monitor the operations going on in the banking industry, however it is important to understand that fiscal policy can affect the operations and performance of banks especially when government decide to issue domestic debt instruments whether to finance fiscal deficit or to mop up monetary liquidity in the system. The issue of domestic debt followed heavy reliance on crude oil as one primary commodity and the collapse of the global oil market which started in 1981 in addition to unsound economic policies that resulted in bad investment, bad management, minimal production capacities, inflationary trend, escalation of project costs, consumption oriented expenditure and lack of probity and budgetary discipline in the public sector (Anyanwu, 1993). No matter the reason for domestic borrowing and the channels through which it is effected, it must somehow leave an effect on the public finances, the financial sector and the real economy. Critics of domestic debts are concerned with the repercussions on private sector lending, fiscal and debt sustainability, weakening effect on the efficiency and performance of deposit money banks and the inflationary risks involved. The most prominent effect is the crowding out effect on private investment, Individuals will rather desire to lend to the government than to the banks and when they do, it will have an inverse effect on their available fund, aggregate demand and consumption power and they will be left with no fund to lend to the banks thereby reducing the ability of the banks to pool resources for possible lending and other investments that could enhance their performance. Okeke (2011) posits that when governments borrow domestically, they use up domestic private savings that would otherwise have been available for private sector lending. He further observed that the small residual pool of loanable funds in the market raises the cost of capital for private borrowers, reducing investment demand, and hence capital accumulation, growth and welfare.

In Nigeria, governments at various times have used a mix of fiscal policy and monetary policy to manage her economy with a view to achieving some desired macroeconomic objectives such as

ensuring sound banking practice and performance hence promoting employment. This has always depended on the political orientation and philosophy of the government officials. Cffion and Akpan (2012) opined that the pursuit of sound monetary and fiscal policies and good governance can exert a strong moderating influence on the exogenous factors that have militated against the rapid growth of the Nigerian economy. In line with this, Akpan and Okeke (2013) posited that both fiscal and monetary policy measures have been employed by the government to influence economic activities in the country which includes banking performance. The fiscal systems represent a key factor to influence the efficiency of the economy. Many researches were done in the fiscal area both in Nigeria and at an international level and the result have always been that the focus on the impact of the fiscal factor over the budget and the economic development in the integration context and the issue of some scientific elements in this area was not achieved previously.

The focus of this study is to examine the relationship between fiscal policy and the performance of deposit money banks in Nigeria. The potency of fiscal policy to affect banks' performance and achieve the desired macroeconomic objectives such as maintaining a stable economic growth is subject to the effective and efficient manipulation of the fiscal policy instruments of like government taxation, expenditure and debts in assimilation with the existing monetary policy. Nigeria, like any other developing countries, is presently facing serious development problems. For instance, despite the various economic and banking reforms undertaken by the country in the last four decades, the country is still having some challenges in their banking sector and overall economy. Up till date, some banks are still performing below standard as evidenced in the recent merger of Diamond and Access banks. It is also evident that Nigeria is categorized among the countries in the world that is experiencing lowest investment and employment rate hence low economic growth rate. There are competing measures at the disposal of the government that she can apply at different times which would go a long way to enhance the economic environment so as to boost economic growth in Nigeria. The question is, how have the fiscal policy steps taken by past governments of Nigeria impacted on banks' performance and her economy. Have public expenditure, tax revenue and issuance of domestic debt instruments as government fiscal measures left any impact on the efficiency of deposit money banks in Nigeria and to what extent have they collectively and individually influenced economic growth in Nigeria. Given this, there is every need to assess whether these fiscal policy measures have collectively and/or individually made any positive impact on the banking sector towards bettering the economic condition of Nigeria. Is there short run and long run relationship existing between these measures and the performance of deposit money banks in Nigeria.

Again, it is assumed that once the government embarks on the implementation of well-articulated fiscal policy, the result of the set objectives will begin to show conspicuously thereafter but in reality there is the probability that its potency may not likely be ascertained on the face value because there is always a lag period between when policies are implemented and when they will begin to make an effect on the economy. It actually takes a time between when changes are recognized, policy is formulated and implemented and the time when such policy implementation will begin to have effect and this is far from the understanding of an average citizen who merely expects immediate changes to begin to occur.

It is against this backdrop that this study is carried out in order to determine whether or not there exists short run and/or long run relationship between the fiscal policy variables and banks' performance in Nigeria and as well a scertain the lag periods in which these variables will begin to have effect on the performance of deposit money banks and Nigerian economy in general.

Review of Elated Literature

Conceptual Framework

In economics and finance, fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is a sister strategy to monetary policy through which the central bank influences a nation's money supply. Adejeso (2010) defined fiscal policy as government's programme with respect to; the purchase of goods and services and spending on transfer payment, the amount and type of taxes. In the words of Babalola (2014). fiscal policy is essentially concerned with the manipulation of government's financial operations in furtherance of certain economic policy objectives. He also noted that fiscal policy is majorly measured in terms of government expenditure, tax revenue, government investment, budgeting and debts. Bleazar and Kazie (2016) opined that fiscal policy involves the use of parameters like taxation, budget quotas that will influence government revenue and expenditure with a view of achieving set macroeconomic objectives. They further explained that increase in tax revenue will somehow increase government spending thereby promoting more expansion and that this is obtainable when and where such spending is channeled into provision of infrastructures that will complement private investment.

Government intervention in the economy through her fiscal policy is usually enunciated in its budget. Valmont (2006) stated that fiscal policy is a set of action taken by government in setting the level of public expenditure and the way in which the expenditure is funded. The government will try to manipulate the fiscal policy instruments to stabilize the economy and achieve a desired level of economic growth. It is only when an economy is stabilized that investment decisions become more favourable. In line with this Bhatia observed that when an economy is stabilized, investment decisions are more favourably effected as consumption expenditure does fall below certain minimum level and forms a cushion against economic contraction. Fiscal policy is depend on the political orientation and philosophy of government officials which includes the executive, legislature and other elected officials in influencing the economy using spending and taxation. It is used in conjunction with the monetary policy implemented by central banks. It influences the economy using the money supply and interest rates.

The Role of Fiscal Policy

The role of fiscal policy talking about the national government's planned, discretionary balance between its outlays and recurrent revenues (broadly in terms of her spending and taxes) has long been a subject of debate controversy in modern times.

Fiscal policy can promote **macroeconomic** stability by sustaining aggregate demand and private sector incomes during an economic downturn and by moderating economic activity during periods of strong growth (Familoni, 2009). He further posited that it plays a very important role in managing a country's economy as it helps to stimulate a slowing economy with the combination of tax cuts and spending increases. An important stabilizing function of fiscal policy operates through the so-called "automatic fiscal stabilzers". These work through the impact of economic fluctuations on the government budget and do not require any short-term decisions by policy makers. The **size** of tax collections and transfer payments, for example, are directly linked to the cyclical position of the economy and adjust in a way that helps stabilizing aggregate demand and private sector incomes.

The role of fiscal policy in developed economies is to maintain full employment and stabilize growth. In contrast, in developing countries, fiscal policy is used to create an environment for rapid economic growth. Anyanwu (1993), Ogege and Shiro (2012) and Nwankwo (2015) opined the following as the aspects where fiscal policy play important role in sustaining an economy.

1. Mobilization of resources: fiscal policy is used to generate revenue for increasing investment especially in the key sectors of the economy thereby helping to accelerate economic growth through the multiplier process. Developing economies are characterized by low levels of income and investment, which are linked in a vicious circle. This can be successfully broken by mobilizing resources for investment energetically.

2. Acceleration of economic growth: The major aim of fiscal policy is to achieve steady growth in national resources and in internal output as well as to ensure structural and attitudinal changes in the economy. The government has not only to mobilize more resources for investment, but also to direct the resources to those channels where the yield is higher and the goods produced are socially acceptable.

3. Minimization of the inequalities of income and wealth: Fiscal tools can be used to bring about the redistribution of income in favor of the poor by spending revenue so raised on social welfare activities. Taxation like gift tax. wealth tax can be uses to reduce inequality and redistribute income. Highly progressive taxation of income tends to reduce the consumption and **accumulation** of wealth by the rich thereby bringing equity and attainment of social and economic justice

4. Increasing employment opportunities: Fiscal incentives, in the form of tax-rebates and concessions, can -e used to promote the growth of those industries that have high employment generation potential.

5. Price stability: Fiscal tools can be employed to contain inflationary and deflationary tendencies in the economy. Expansionary fiscal policy is used to fight deflation while contractionary fiscal policy takes care of inflation taking into consideration the aim of attaining full employment.

Types of Fiscal Policy

There are two main types of fiscal policy. They are the expansionary and the contractionary.

Expansionary Fiscal Policy

The expansionary fiscal policy is designed to stimulate economic growth and it is the most widely used during recession, times of high unemployment and other low period of business cycle. It entails the government spending more money and lowering taxes or both. The government either spends more, cuts **taxes,** or both. The idea is to put more money into consumers' hands, so they spend more (Robert, 2013). As the government engages in more spending, it leads to more income and more job creation as well. The increased demand forces businesses to add jobs to increase supply.

Political office holders usually debate about which works belter. Advocates of supply-side economics prefer tax cuts. They say it frees up businesses to hire more workers to pursue business ventures. Advocates of demand-side economics say additional spending is more effective than tax cuts. Examples include public works projects, unemployment benefits, and food stamps. The money goes into the pockets of consumers, who go right out and buy the things businesses produce.

An expansionary fiscal policy is impossible for state and local government. They are mandated to keep a balanced budget. If they haven't created a surplus during the boom times, they must cut spending to match lower tax revenue during a recession. That makes the contraction worse.

Contractionary Fiscal Policy

The second type of fiscal policy is contractionary fiscal policy. A government rarely uses the contractionary fiscal policy because it slows the level of economic growth in the nation. Its goal is to slow economic growth. Why would a government ever want to do that, it can only be used to control or stamp out inflation to avoid its long-term effect of damaging the standard of living as much as recession in the economy (Doyran. 2012).

The tools of contractionary fiscal policy are used in reverse. Taxes are increased, and spending is cut. You can imagine how wildly unpopular this is among voters. Only lame duck politicians could afford to implement contractionary policy.

Tools of Fiscal Policy

The government has two major tools at its disposal under the fiscal policy. They are taxation and public spending. The fiscal policy tools borders on budgeting and budgetary control ie manipulating the sources of government fund and its application in areas she deems fit.

Taxation Tool: Taxation can be defined as compulsory, non-refundable transfer or payment of money or sometimes goods and services from private individuals, institutions or groups to the government (Anyanwu. 1993). It is usually levied on wealth or income or in form of surcharge on prices. This includes taxes on income, property, sales and capital gains from investments. Taxes provide the income that funds the government and help in influencing the economy by determining how much money the government has to spend **in** certain areas and results in how much money in the hands of individuals to spend. For example, if the government is trying to spur spending among consumers, it can decrease taxes. A cut in taxes provides families with extra money which the government hopes will in turn be spent on goods and services, thus spuring the economy as a whole. The downside of taxes is that whatever or whoever is taxed has less income to spend on themselves. As a result, taxes are unpopular. There two types of taxes, the direct taxes: personal income tax, company income tax, property tax etc and the indirect tax: custom duties, export and import duties, stamp duties, value added tax, sales tax ete.

Government Public Spending: The second tool is government spending which is used as tool for fiscal policy to drive government money to certain sectors needing an economic boost. It includes subsidies, transfer payments including welfare programs, public works projects, and government salaries. Whoever receives the funds has more money to spend. That increases demand and boosts economic growth. The government spends money in health, agriculture, transport, communication, commerce and industry, real estate and construction and they cake two forms; the current and capital expenditure.

Limitations / Hindrances to Fiscal Policy Implementation

According to Barro (2014), Fiscal policy has been a great success in developed countries as against the developing countries where it has always recorded partial success. One of the reasons is that the tax structure in the developing countries is rigid and narrow. Thus, conditions conducive to the growth of well-knit and integrated tax policies are absent and sorely missed. The following are some of the reasons that are hindrances for fiscal policy implementation in developing countries (Ajayi, 2014).

1. A sizeable portion of most developing economies is non-monetized, rendering fiscal measures of the government ineffective and self-defeating.
2. Lack of statistical information as regards the income, expenditure, savings, investment, employment etc. makes it difficult for the public authorities to formulate a rational and effective fiscal policy.
3. Fiscal policy cannot succeed unless people understand its implications and cooperate with the government in its implication. This is due to the fact that, in developing countries, a majority of the people is illiterate.
4. Large-scale tax evasion, by people who are not conscious of their roles in development, has an impact on fiscal policy.
5. Fiscal policy requires efficient administrative machinery to be successful. Most developing economies have corrupt and inefficient administrations that fail to implement the requisite measures vis-a-vis the implementation of fiscal policy.
6. Inaccurate short run forecasts of economic situation may also limit the success of fiscal policy. If forecasts are inaccurate, government decisions might be harmful

rather than being remedial, therefore decisions should be based on real economic situations.

7. There are also political obstacles arising from debatable issues before parliamentary decisions are taken

Bank Performance

Bank performance has always attracted the interest of researchers and bankers as it plays an important role in the global financial system. This role was greatly displayed by the fall of large banks in 2007-2008, which resulted in a global financial crisis (El Mehdi, 2017).

Bank is a safe and guaranteed place of storage for and retrieval of money and other important/valuable items and (he extent of its success and/or failure is usually revealed through a careful study of their financial statements. Bank performance may be referred to the extent to which a bank accomplishes useful operations estimated in terms of timely discharge of her obligations to its publics with minimal risk and remarkable level of profiting. Banks are financial institutions that are most regularly regulated due to the high level of risk that is involved in their operations especially credit and liquidity risk which is a threat to their performance. Banks" performance is traditionally measured by their profitability margin hence the most critical challenge facing every bank management in the present competitive financial market is how to maximize profit while operating within the ethical, professional and prudential limits as prescribed by their regulatory bodies. Ebochie (2011) noted that profitability is always related with performance and productivity. He further stated that pure profit is the increase that an investor realizes out of his investment efforts after considering all costs associated with such investment including the opportunity cost of cost. In the present post consolidation era, most banks are performing Nigeria is experiencing an improved level of macroeconomic stability.

Banks are performing well and Nigeria is experiencing an improved level **of macroeconomic** stability. Banks are somehow ensuring efficient discharge of their financial intermediation role. According to Muribabc and Anderson (2016), banks' performance among other things means the ability of a bank to be in the position **to** consecutively maintain good financial position and actively meet the needs of its shareholders and other stakeholders. Doyran (2012) in his study on the effect of fiscal policy on financial institution performance in Nigeria posits that banks' performance is determined by firm-specific and industry-specific determinants and that the firm-specific factors are those management controllable that may include the CAMEL **determinants,** while the industry-specific factors include that micro and macroeconomic indices that are beyond the control of the banks[7] management. Banks' performance can be measured through their profit after tax (PAT), return on asset (ROA), return on equity (ROE), net interest margins (NIM) etc.

Theoretical Framework

Theories are useful systematic and deductive ways of thinking about reality in order to describe and understand such reality. They are sets of logically related concepts that explain the day-to-day occurrence of any phenomenon. Thus, theories are important tools in the hands of the researcher in putting more explanations to various concepts.

For the purpose of this work, the following theories are examined.

Keynesian Theory

This is the theory of the British economist John Maynard Keynes and it is known as the Keynesian economics or Keynesian Theory. The role of fiscal policy in the achievement of macroeconomic objectives has been dealt extensively in this theory. This theory advocates for increased government expenditure and lower taxes to stimulate demand which will impact on the economy and pull it out of depression. It believes (hat consumer demand is the primary force that drives an economy. In view of this the theory supports expansionary fiscal policy. This theory

basically states that governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. Gertler and Gilchrist (1991), Anasari (2016) and Marco (2017) generally asserted that this influence in turn curtails inflation which is generally considered to be healthy when it falls between 2 to 3 percent, increases employment and maintains a healthy value of money. This theory leads to the conclusion that demand management policies can be used to improve macroeconomic performance. An active macroeconomic policy involves setting monetary and fiscal variables in each time period at the values which are deemed necessary to achieving the government objectives; Keynesian theory further posits that removing spending from the economy will bring about reduction in the aggregate demand and stabilization of prices. This theory believes that aggregate demand is more likely to be re primary cause of an economic event than aggregate supply and that wages and prices can be sticky and so result to unemployment in situations of economic downturn

Market Structure Theories of Bank Profitability

This theory traditionally assumes that the main objective of firm is simply to maximize profit. In practice this theory must be applied with caution especially in the banking industry. This is because the modern banking markets is full of risk and uncertainties that challenge the operators to be more conservative in proving sustainable value satisfying products and services. This has led to situations where banks are faced with much more complex decisions of sustainable profit (Devinaga, 2010). According to Abbasoglu, et al (2007), the central objective of this theory is that industry structure which is measured in terms of market concentration and market share has impact on the performance of banks. Amor et al (2006) posits that the market structure approach is divided into two mainstreams called the structure-conduct performance paradigm (SCP) and the efficiency structure hypothesis (ESH).

- **Structure Conduct Performance (SCP) Hypothesis**

The Structure-Conduct-Performance (SCP) model developed by Bain (1951) describes the relationship between the market structure, company conduct and performance. It assumed that a more concentrated system leads to less competition and hence to higher profitability (Berger (1995). The SCP is derived from the neo-classical analysis of the markets and it was first formalized by Mason in 1939 as a method of analyzing markets and firms. It actually emphasizes the industry-specific determinants. The SCP paradigm asserts that there is a relationship between the degree of market concentration and the degree of competition among firms. This hypothesis assumes that firms rivalry behaviour in the market is determined by market structure conditions especially the number and size distribution of firms in the industry and the condition of entry (Smirlock, 1985). According to him, this rivalry leads to unique levels of prices, profits and other aspects of market performance. The SCP also postulates that increased market power yields monopoly profits. The SCP recognizes that fact that there is a low and weak competition that exists between the small si/e banks and the large size banks leading to a positive relationship between market concentration and profitability. In SCP market concentration encourages collusion among large banks in the industry which subsequently leads to unfair high financial profits for the large/big banks to the detriment of the small ones therefore pointing out those changes in the market concentration that may directly influence the financial performance of banks. In the word of Gilbert (1984), firms in more concentrated markets can earn higher profits than those in less concentrated industries. The benefits of the SCP are it helps to interpret different sources of productivity and efficiency gains or losses and it provides a rational basis for analyzing the market behaviour. However, Smirlock (1985) examines an alternative explanation for these results and finds no relationship between concentration and profitability rather between bank market share and

bank profitability and created the relative market power hypothesis (RMP). This special case of the SCP, (the RMP) suggests that only firms with large market shares and well-differentiated products are able to exercise market power and earn non-competitive profits.

- **Efficiency Structure Hypothesis (ESH)**

The Efficiency Structure Hypothesis (ESH) developed by Demsetz (1973) argues that if banks enjoy a higher degree of efficiency than their competitors, they can increase shareholder value or gain market share by reducing their prices. According to the ESH, a positive concentration-profitability relationship may reflect a positive relationship between size and efficiency. This hypothesis stales that efficient banks in the market leads to increase in the firms size and market share due to the aggressive behaviour and this behaviour allows such banks to concentrate and earn higher profits which further helps them to enhance their market share (Srnirlock. 1985). He further observed that these banks can maximize profits either by maintaining the present level of products or service charge and firms size or by reducing the service charge and expanding the firms size. The ESH state that the positive relationship between profit and concentration results from the lower cost achieved through superior management and efficient production process. Godlberg, et al, 1996).

Empirical Review

Over the years so many empirical studies have been carried out by a number of scholars on the impact of fiscal policy in determining the performance of deposit money banks in Nigeria and other nations of the world. Also a good number of studies have examined the determinants of banks* performance in a particular country or as relates to a number of countries using internal factors (banks' specific) and external factors (industry-specific and economic environment) as the case may be. Most of these scholars have agreed that there is relationship between fiscal policy instruments, their implementation and deposit money banks' performance in Nigeria. However, some of them have differed on the direction of causality between these fiscal policy instruments and the performance of deposit money banks individually and collectively based on the results of their various studies.

Based on this, it therefore becomes pertinent to review such studies to lake cue since the present study is not a novelty.

Omitogun and Ayinla (2007) conducted a study on fiscal policy and Nigerian economy between 1981 and 1004. They used gross domestic product (GDP) as proxy for economic growth representing the dependent variable and fiscal deficit ratio, debt financed deficits and money printing financed deficits were used as explanatory variables. They adopted the Solow growth model estimated with ordinary lest square method and it was claimed that fiscal policy has not been effective in the area of promoting sustainable economic growth. The researchers further argued that deficit financing has no statistical impact on the economic growth stressing that deficit financing rather depresses economic growth in Nigeria and they concluded that the problem of policy inconsistency, high level of corruption, wasteful spending, poor policy implementation and lack of feedback mechanism for implemented policies are capable of hampering the effectiveness of fiscal policy of Nigeria.

Another study is that of Adedeji, Nwokoro and Anaele (2008) on fiscal policy and the banking system in Nigeria. It was a comparative analysis of the effect of fiscal policy indices on the performance of deposit money banks. They employed two models using return of asset (ROA) and return on equity (ROE) as indicators of banks[1] performance and government domestic debt variables to represent fiscal policy. The study was carried out on ten selected banks for a period of 30 years and the result indicated that the ROA of most banks under review were significantly affected by public spending. From this result, they implied that effective application of public expenditure helps in the provision of relevant infrastructure which aids the public sector to be productive and contribute effectively to revenue

redistribution, development of the financial sector, nation building and overall economic development of a nation. The result further revealed that taxation as a fiscal policy measure created more positive impact on the banks ROE and they concluded that the government should proactive in implementing tax policies especially company taxes so as to adequately realize the desired macroeconomic goals of the nation.

Appah (2010) examined the relationship between fiscal policy and economic growth in Nigeria (1991 - 2005). Utilizing multiple regression analysis, he adopted gross domestic product (GDP) as the dependent variable which was proxied with economic growth and tax revenue, government debt, government capital expenditure, government recurrent expenditure, government capital expenditure budget and government recurrent expenditure budget as explanatory variables. The result of the study indicated that a significant relationship exists between fiscal policy variables collectively and economic growth in Nigeria. He claimed that the adjusted R^2 of 98.6% represents the total variation in the GDP that is explained by the variables in the model and that the specific variables contributing to the GDP are government recurrent and capital expenditure while the other variables such as taxes, government debts did not significantly contribute to economic growth in Nigeria.

Ebochie (2011) investigated the impact of fiscal policy on the profitability of deposit money banks in Nigeria from 1986 to 2013. He used profit after tax for banks' profitability and government tax revenue, public expenditure and total debts as fiscal policy variables. The study descriptive analysis and the result disclosed that a significant relationship exists between fiscal policy and banks[1] profitability in Nigeria as most of the fiscal policy indices have positive coefficients. The researcher recommended that deposit money banks should establish an internal control system that will effectively and efficiently monitor credit and liquidity risk mechanisms in order to ensure full compliance with banks philosophy, avoid asset-liability mismatch, keep an eye to the government fiscal policy and possibly attain a desired profit level.

Ogole, Amadi and Essien (2011) in their study on the impact fiscal policy on economic growth in Nigeria involving a comparative analysis during regulation and deregulation periods. They used time series data of government expenditure, private investment, inflation rate, capital inflow and exports as the regressors and GDP as the regress and from 1970 to 2006. The result of the study showed that the model is plausible and fit having an adjusted R of 0.87 which implies that 87% of the total variation in the GDP is explained by the independent variables in the model. Specifically the result revealed that government expenditure does not have any significant effect on GDP while private investment, inflation, capital inflow individually show a positive and significant relationship with GDP.

Alaeze and Maduagwu (2012) investigated the dynamics of Nigerian's fiscal policies with specific emphasis on their effects on the growth of Nigerian economy. The paper used time series data on capital expenditure, recurrent expenditure and tax revenues from the public sector as fiscal policy variables and real GDP for economy growth in Nigeria covering a period of 35 years. They conducted the unit root test and granger causality tests respectively and the result indicated that all the variables were stationary at level except capital expenditure. The result further revealed that there is unicausality among the variables except real GDP and capital expenditure that showed bidirectional causality. Based on this result the researchers concluded that fiscal policy have significant relationship with economic growth in Nigeria.

Doyran (2012) investigates the effect of fiscal policy on firm-specific and industry-specific determinants of financial institution performance in Nigeria between 1980 and 2011. It reviews the manner in which market structures and firm

characteristics affect the overall firm performance in terms of profitability by using the industrial organization literature. Using the panel data analysis for a sample of insured and regulated savings and loan associations (S&Ls) in 2000-2010. The study suggests that with the exception of leverage, liquidity risk and market share (relative market power), all firm-specific determinants like capital, management efficiency, earnings etc have significant associations with bank performance which he proxied with return on assets. Neither market power of individual firms nor concentration, however, affects profitability as anticipated by the traditional market structure hypotheses. He recommended that bank management try to become more proactive in ensuring effective management of fund in term of their lending and profitability considerations.

A work conducted by Akpan and Okeke (2013) on fiscal policy and economic growth in Nigeria between 1977 and 2009 was also reviewed. They used log linearised variables of real gross domestic product (GDP) as proxy for economic growth as the dependent variable and productive government consumption expenditure (defined as expenditure on health, education and economic services), unproductive government consumption expenditure (defined as total recurrent expenditure less recurrent expenditure on health, education and economic services), direct income tax and capital expenditure as the independent variables. Using the Engle-Granger approach to co-integration test, the researchers posited that productive expenditure was found statistically significant after dropping the unproductive expenditure in their initial regression which was found that productive and unproductive expenditure were statistically insignificant. They also claimed that the adjusted R which is the multiple coefficient of determination showed that 80% of the total variation in the real GDP is explained by the independent variables included in the model while the F-statistic was significant by 1%. The result further revealed that direct income lax showed a significant and positive relationship with real GDP while capital expenditure was found to be statistically significant and negatively related with real GDP.

The study of Duru and Ejike (2014) used multiple regression analytical models to measure the relationship between fiscal policy and banks' performance in Nigeria between 1980 and 2013. The study collected secondary data on oil tax revenue, non-oil tax revenue, revenue expenditure, capita! expenditure domestic debt, and external debts as fiscal policy variables and return on assets as the variable for banks' performance. The findings from the study revealed that there exists a positive and significant correlation between the fiscal policy variables and the performance of banks in Nigeria for the period under review except oil-tax revenue which showed an inverse but significant impact.

Oseni (2016) examined the impact of fiscal policy on sectoral output in Nigeria in a multivariate co-integration model over the period 1081 to 2011. The study used time series data of expenditures on agriculture, building and construction, industry and service, wholesale and retail sectors. He adopted the Johansen co-integration test after conducting the **Augemented** Dicky Fuller unit root test. He claimed that fiscal policy variables are co-integrated and also have significant impact on sectoral output. Also, the study reveals that the contribution of fiscal policy variables especially the productive expenditure to building and construction is below expectation despite huge amount allocated to the sector yearly and recommends that there should be appropriate regulatory and pricing reforms in all the sectors particularly the building and construction sector.

Muribabe and Anderson (2016) carried out an empirical study on fiscal policy and corporate performance in Asia. The study made use of four large banks from four emerging economies in Asia namely; Malaysia, Singapore, Hong Kong and Korea. The study specified two models and the variables used were return on equity and return on assets for banks' performance and taxation, total debts and public expenditure for fiscal policy and five years data were collected for the analysis.

The study specified two models to capture the effect of the expressed variables on the performance. The ANOVA test result found a positive and significant impact of total debts on ROE and ROA respectively in Singapore and Hong Kong and Malaysia but in Korea the relationship was negative; taxation positively affected ROB and ROA all the countries and public expenditure had a significant positive and negative impact on ROM and ROA respectively in the different countries. The scholars concluded that the differences can be attributed to fiscal policy influences in the various countries and there is no way they will report the same relationship since these are independent economies.

Abraham (2016) investigated the determinants of banks performance in Nigeria: an empirical study of some selected deposit money banks in Nigeria. He used profit after tax (PAT) as the dependent variable and some **macroeconomic** determinants like GDP growth, inflation, consumer price index and lending rate as the independent variables for a period often years from 2005 to 2015. The unit root test showed that there is a mixed order of integration among the variables and the ARDL result indicated that the independent variable positively and significantly impacted on PAT except real GDP growth which showed an insignificant result.

Nwosisi and Ezeoma (2017) examined the impact of fiscal policy measures on the economy West African nations. It was a comparative analysis of the fiscal policy measure adopted in West African nations including Nigeria where he compared the different budgets of these nations. Taxation, recurrent and capital expenditure were used as the indices for fiscal policy while RGDP was used as the measure for economic growth over ten years. He conducted the granger causality test to draw inference which indicated that there is poor budget implementation among these nations. Given this result, there exists poor rate of economic growth in West African. It was revealed that these variables generally impacted on economic growth with differences in the level of significant impact. The study result also revealed the high rate of tax run among citizens in West African nations thereby denying the government of possible level of revenue generation hence infrastructural decay in these nations. Based on their result, the researchers concluded that the poor non-oil tax generation which negatively impacted on most of the national economies selected in their study is enough reason why financial development and banks' performance in such countries will also be negatively affected.

A total of thirteen studies are considered relevant and supportive to this paper hence reviewed. Based on the forgoing, it is obvious that the debate on this subject matter is far from conclusion as there are varying opinions as to the impact of fiscal policy on the performance of deposit money banks both in Nigeria and in other countries of the world.

Methodology

Sources of Data

The study used secondary data from the Central Bank of Nigeria statistical bulletin for the period of 28years (1990- 2018)

Modeal Specification

According to Egbulonu (2018), model specification is a mathematical expression used to measure the relationship between economic variables (dependent and independent). Usually in economic literature, Return on Asset (ROA) is one of the indices traditionally used as proxy for banks' performance while fiscal policy is proxied by revenue expenditure, non-oil tax revenue and domestic debt.

In a bid to express the relationship between fiscal policy and banks'[erfprmance in Nigeria, the model stated in the study of Appah (2010) and Nwosisi (2017) and Ezeoma (2017), was adopted with modifications and therefore specify a model in which recurrent expenditure, capital expenditure, non-oil tax revenue and domestic debts of the Federal government of Nigeria are the independent variables while return on asset of deposit money banks is the dependent variable,

therefore, the functional form of the model is given by;

ROA =f(REX, CEX, NTR, DDN) ----------(1)

The above functional equation does not have a random or stochastic variable and since in statistical relationship we deal with random or stochastic variables that have probability distribution, equation (1) can be written in an rquation that bet describes hpw dependent variable is related to all the indeendepent variables and the stochastic error term is stated in a multiple regression model. In assumption of a linear relationship amongst the variables, the econometric format of the equation (1) can be explicitly written as;

$$ROA = b_0 + b_1REX + b_2CEX + b_3NTR + b_4DDN + Ut \text{ ---------- } (2)$$

Where:

ROA = Return on Asset of Deposit Money Banks in Nigeria

REX = Recurrent Expenditure of Nigeria

CEX = Capital Expenditure of Nigeria

NTR = Non-Oil Tax Revenue of Nigeria

DDN = Domestic Debts of Nigeria

Ut = Stochastic error term (unexplained variables in the model)

b_0, $b_1 – b_4$ are the unknown parameters to be estimated (partial regression or slope coefficients).

Data Presentation and Analysis

test for Stationarity (Unit Root Test)

The Augmented Dicky Fuller (ADF) was used for the unit root test with the e-views statistical root hence the following results as stated in table 2 below were obtained. The test was also based on on the hypothesis below.

Ho: there is a unit root (ie variables are not stationary)

HA: there is no unit root (ie variable are stationary)

Table 2: Result of Unit Root Test for Variables

Variables	At Level	At 1st Diff	5% Critical Values	Level of Intergration	Remarks
ROA	**-5.407069**	**-4.301178**	**-3.004861**	**1(0)**	**Stationary @ level**
NTR	**-4.171837**	**-5.621565**	**-3.012363**	**1(0)**	**Stationary @level**
REX	**-2.239307**	**-4.514721**	**-3.012363**	**1(1)**	**Stationary @ 1st Difference**
CEX	**-0.839900**	**-6.675746**	**-3,012363**	**1(1)**	**Stationary @ 1st Difference**
DDN	**-1.153883**	**-3.129537**	**-3.012363**	**1(1)**	**Stationary @ 1st Difference**

Source: E-view output

The result of the unti rppt test above indicates that Return on assets (ROA) and non-oil tax revenue (NTR) are stationary at level and integrated at order 0. So we reject the null hypothesis. On the other hand, REX, CEX and DDN are stationary at 1st difference ie, they are integrated at order 1. We also reject the null hypothesis that these other three variables are not stationary at 1st difference. This result gives a mixed order of integration, we therefore proceed to test for longrun relationship using the Bounds Test.

Bounds Test for Co-integration (Long Run Relationship)

Table 3:

ARDL Bounds Test
Date: 01/17/20 Time: 01:37
Sample: 1994 2012
Included observations: 19
Null hypothesis: no long-run relationships exist

Test Statistic	Value	k
F-statistic	6.212570	4

Critical Value Bounds		
Significance	10 Bound	11 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: E-view Output

The above test result above shows that the F-statistic value of 6.212570 is greater than the upper 1(1) and lower 1(0) bounds at 5% critical level. We therefore reject the null hypothesis and accept the alternative hypothesis and therefore conclude that there is a long run relationship existing among the variables in the model.

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Lag Selection and ARDL Estimates

The ARDL result is summarized in the table below

Table 4:

Dependent Variable: ROA
Method: ARDL
Date: 01/17/20 Time: 01:44
Sample (adjusted): 1990 2018
Included observations: 19 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model Selection method: Akaike info criterion (AIC)
Dynamic regressors (2 lags, automatic): NTR REX CEX DDN
Fixed regressors: C
Number of models of evaluated: 324
Selected Model: ARDL (4, 2, 2, 1, 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA(-1)	-0.911894	0.259472	3.514424	0.0246
ROA(-2)	-0.514600	0.230859	-2.229062	0.0897

ROA(-4)	1.404617	0.447417	3.139389	0.0349
NTR	- 1.469785	7.995916	-0.183817	0.8631
NTR(-1)	-0.593127	5.401821	-0.109801	0.9179
NTR(-2)	16.72124	8.978731	1.862317	0.1360
REX	31.56256	11.44172	2.758550	0.0050
REX(-1)	-0.902327	9.286018	-0.097171	0.9273
REX(-2)	15.88180	5.803775	2.736460	0.0421
CEX	-9.520252	4.646608	-2.048860	0.1098
CEX (-1)	-3.327184	4.009158	0.829896	0.4533
DDN	-46.76068	18.65995	-2.505938	0.0363
DDN(-1)	-15.54064	13.46744	-1.153941	0.0128
C	-291.6445	76.33919	-3.820377	0.0188
CointEq(-1)	-0.651148	0.549191	-3.006512	0.0397

R-squared	0.878863	Mean dependent var.	2.080626
Adjusted R-squared	0.861970	S.D. dependent var.	3.100137
S.E of regression	2.44323288	Akaike info criterion	4.645369
Sum square resid.	23.87862	Schwarz criterion	5.390979
Log likelihood	-29.13101	Hanan-Quinn criter.	4.771556
F-statistics	1.784222	Durbin-Watson stat.	2.041434
Prob. (F-statistics)	0.304857		

Note* p-values and any subsequent tests do not account for model selection.

From the table above, Non-Oil Tax Revenue (NTR) has two lagged periods and at the current year and 1st lagged periods it related negatively with return on Asset (ROA) given their coefficient of -1.469785 and 0.593127 respectively meaning that 1 unit increase in NTR will plummer ROA with -1.469785 and -0.593127 of the current and 1st lag periods respectively. Again at the 2nd lagged year. NTR recorded a coefficient of 16.72124 showing a positive relationship with ROA. Meanwhile the result also revealed that NTR has an insignificant impact on ROA at all periods given the fact that all the p-values are greater than the 0.05 critical values.

Furthermore, recurrent expenditure (REX) also has two lag periods hence the coefficients and p-values of the variable at the current year and the 2nd lagged periods showed a positive and significant relationship with ROA increasing it by 31.56256 and 15.88180 units respectively while the 1st year lag is inverse and insignificant at --9.520253 coefficient and 0.9273 respectively.

In the case of capital expenditure (CEX), there is a negative and insignificant relationship existing between CEX and ROA in both the current year and 1st lagged period given its coefficients of -9.520253 and 3.327148 and p-value of 0.1098 and 0.4533 respectively. This implies that 1 unit increase in CEX will lead to -9.520253 and -3.327148 decrease in ROA respectively.

Domestic debts (DDN) have positive coefficients of -46.76068 and 15.54064 in the current and 1st year lag with 0.0363 and 0.0128 p-values respectively which implies a negative and significant relationship with ROA that the two periods thus indicating that 1 unit increase in DDN will decrease ROA by -46.76068 and -15.54064 respectively. The-values are greater than the 0.05 critical values indicating a significant impact.

The speed of the adjustment of the model to long run equilibrium is 65% estimated annually. This implies that at the annual rate of 65%, the explanatory variables would have returned ROA to equilibrium all things being equal.

Discussion of Findings

The study examines fiscal policy and bank's performance in Nigeria from 1990 to 2018 and the following findings were made; Non-oil tax revenue (NTR) was found to have a negative relationship with ROA of deposit money banks in Nigeria at the current year and 1st lagged period but at the 2nd lagged year, it showed a positive relationship

meanwhile the impact of NTR on ROA was insignificant at all periods. The study of Nwosisi and Ezeoma (2017) on the comparative analysis of fiscal policy measures in the different countries of West Africa gave credence to this particular finding in this study. They used taxation and budget indecies as proxy for fiscal policy and the result showed negative and insignificant effect on the rate of economic growth in the selected countries. They also observed high rate of tax avoidance which they attributed to lack of concern of some citizens in West Africa towards the wellbeing of their nations. Based on their result, the researcher concluded that the poor non-oil tax generation which negatively impacted on most of the national economies selected in their study is enough reason why financial development and banks' performance in such countries will also be negatively affected. Experience has been that most Nigerian citizens especially the self-employed do not keep good and accurate record of their income talk of what to be taxed, even when they have details, they desire to avoid tax remittance notwithstanding all manner of public enlightenment concerning tax payment and this has contributed to low rate of economic growth through low internally generated revenue.

The ROA of deposit money banks in Nigeria was positively and significantly affected by REX at the current year and 2nd lagged periods increasing it by 31.56256 and 15.88180 units respectively while the 1st year lag expenditure like regular payment of salaries and allowances of public servants, creates opportunity for people to have regular fund in their hand for consumption and possible savings of the residue in the banks as this adds to the level of deposit mobilized by banks and can help in their operational performance.

The result also indicated a negative and insignificant relationship between CEX and ROA in all the periods given its coefficients of -9.520253 and -3.327148 as well as the p-value of 0.0198 and 0.4533 respectively. Nigeria usually records high budget figure for capital expenditure yet they still experience. The level at which Nigerian government, both the past and present fail in the application of budgeted funds towards infrastructural development has been the reason for the low capacity utilization and income generation as experienced in the private sector if the economy. A lot of selfish, sharp and corrupt practices among government officials in Nigeria have denied most Nigerians access to some amenities, especially regular power supply which would have helped in their investment and productive activities, thereby limiting the operations vis-à-vis fund generation/profiting and possible bank deposits that would have somehow affected banks' liquidity and performance positively.

Conclusions and Recommendations

Conclusion

The financial system is the bedrock of every economy and no economy grows without good fiscal policy and effective implementation of same. The growth or slump of every economy depends on the quality government officials which in turn give rise to quality fiscal measures that should be adaptable with the monetary policies on ground. The general outcome of this study is that the financial system exerts great impact on the economy of Nigeria, the growth of the banks is the growth of the economy, therefore to achieve the macroeconomic objectives of this country which include stable and sustainable economy, corrective and implementable fiscal policy measures should be in place while keeping eye on how it will affect the financial sector since it is one of the sectors that have profound impact on the economy.

Recommendation

1. Government should embark on fiscal policy measures that are effective and efficient in tackling the economic challenges of the country and will also try to implement same with view of lag period between such implementation and its resultant effect so as

to be in a better position of achieving targeted macroeconomic objectives as required time.

2. Government should ensure that when domestic debts are raised, the proceeds should be used to invest in critical infrastructure so as to provide enabling environment for investment and generation of fund.
3. The government of the federal republic of Nigeria should endeavor to attain a good level of fiscal responsibility and transparency system in the formation and implementation of her fiscal policy measures without any form of partiality, personal interest and corrupt practices.
4 There should be effective and efficient reforms in the banking industry at relevant times so as to counter balance banking operations with fiscal policy measures geared at enhancing the performance of banks.

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