THE EFFECTS OF TAXATION AND GOVERNMENT EXPENDITURE ON PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA, 1981-2017

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BY

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BEING A THESIS SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, FACULTY OF BUSINESS ADMINISTRATION, UNIVERSITY OF NIGERIA, ENUGU CAMPUS, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY (Ph.D) IN BANKING AND FINANCE

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APPROVAL

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CERTIFICATION

This is to certify that this thesis, written by Osuajoku, Adolphus Chigozie, with Registration Number PG/Ph.D/13/65266, presented to the Department of Banking and Finance, University of Nigeria, Enugu Campus is original and has not been submitted for the award of any degree or diploma either in part or in full in this or any other institution of higher learning.

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Osuajoku, Adophus Chigozie   **Date**

DEDICATION

This work is sincerely dedicated to the Almighty God, who in His infinite mercies, granted me the grace to complete it.

ACKNOWLEDGEMENTS

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ABSTRACT

The study examined the effects of taxation and government expenditure on the performance of deposit money banks in Nigeria for the period 1981 to 2017. Specifically, the study sought to; (i) examine the effect of taxation on the capital base of deposit money banks in Nigeria for the period 1981-2017, (ii) assess the influence of government expenditure on credit creation by deposit money banks in Nigeria for the period studied, (iii) measure the effect of taxation on the credit creation of deposit money banks in Nigeria within the period 1981-2017, and (iv) evaluate the effect of government expenditure on the asset base of deposit money banks in Nigeria from 1981-2017. The study adopted *ex-post-facto* and analytical designs. Data used were of secondary and time-series nature which were sourced from Central Bank of Nigeria, Statistical Bulletins and Publications of the National Bureau of Statistics. The data collected were subjected to various pre-tests to confirm its goodness before analyzing them with Autoregressive Distribution Lag Model (ARDL) form of regression. The findings from the study with respect to the stated objectives show that there was a positive and significant effect of taxation on capital base of deposit money banks in Nigeria; government expenditure had positive and significant effect on the credit creation of deposit money banks in Nigeria; taxation had positive and significant influence on the credit creation of deposit money banks in Nigeria; and government expenditure had positive and significant influence on the asset base of deposit money banks in Nigeria. It was recommended that the three tiers of government (the Local Council, the State and the National) should fashion out good strategies and enlightenment programmes on tax collection. Also government should encourage consumption and investment through expenditure so as to create jobs for the unemployed. More so, an enabling macro-economic environment needs to be created to allow banks perform their core role of credit creation for the overall benefit of the economy.

CHAPTER ONE
INTRODUCTION

1.1   Background to the Study

In any national economy, some of the most important factors that influence the aggregate demand and the level of economic activities are taxation and government expenditure. According to Anyafo (1996), taxation and public expenditure and other financial programmes embodied in annual budgets by government are used to achieve earmarked national goals. Also, Ogbole, Amadi and Essi (2011) describe taxation and government expenditure as government deliberate actions aimed at influencing macroeconomic objectives.

Globally, the importance of government spending was significantly noticed during the Great Depression of 1930s especially in the United States of America (USA) when Keynes, the economist, offered the solution for government involvement in expenditure in order to boost the economy. Equally, in the United Kingdom, taxation and government expenditure were used but arguably at the expense of enduring high unemployment (Middleton, 2010). Germany also used taxation and government expenditure to stabilize their economy because Cohn (1992) states that the German taxation and expenditure during the great depression was investigated using the concept of employment budget. Government expenditure followed by the Pre-Nazi governments, even those in office during 1932, was found to have been consistently restrictive. Only after Hitler assumed power in early 1933 did government expenditure moved increasingly towards expansion. In contrast to the United States of America and Britain, level of taxation and expenditure undertaken by the Nazi's helped to promote a quick and complete economic recovery from the Great Depression in Germany. In Canada, the global economic recession of 2008-2009 was a serious challenge to the Canadian government. The credit creation, demand deposits and liquidity of deposit money banks were at a greater increase.

There are two aspects in which government uses taxation and expenditure to stabilize the economy. The first aspect is embarked upon when the economy is in recession. On this note, the government has to reduce taxes to increase household disposable incomes as well as borrowing to spend more on capital projects in order to stimulate the activities in the economy. The second aspect on the other hand, is applied when there is high inflation in an economy. The government will increase various taxes and sell securities and treasury bills in order to withdraw the money in circulation thereby reducing the inflationary effects.

Stabilization of the economy, therefore, involves government's reduction of taxes in order to increase the disposable income of the individuals, government increase in spending and borrowing; and vice versa.

In Nigeria, the use of taxation and government expenditure had been in existence but the economic activities and administrative control were in the hands of the colonial masters (i.e the British government). Onyemenam (2013) observes that taxation was practiced in Nigeria especially in the northern part of the country as direct taxation. Most of the existing deposit money banks within this period were in short of capital for loan disbursement because they were only patronized by either the government or government-owned agencies (Nzotta, 2004). Nzotta observed that the activities of (DMB) were not regulated and this led to free-for- all banking business. Subsequently, between l892-1952 many banks were established and because they lacked proper monitoring and control by the government, most of them were distressed and eventually failed.

The growth and development of the Nigerian economy has not been stable over the years and as a result, the country's economy had witnessed so many economic cyclic fluctuations, disturbances both internally and externally over the decades (Gbosi, 2001).The rate of fluctuations in the economy demands for effective use of either taxation or government expenditure to attain government economic objectives. However, the use of taxation which also aimed at controlling the economy is administered by the ministry of Finance (Central Bank of Nigeria Act, 2007)

After the establishment of the Central Bank of Nigeria (C B N) in 1958, Nigerian government through taxation, and expenditure improved` the performances of the deposit money banks in the country. For example, between 1958 and 1965, there were industrial development and other government parastatals income tax relief Act, 1958 and; small companies and financial institutions relief packages. Also, between 1984 and 1985, there was a reduction of government expenditure at all levels including the DMBs and this affected the lending capacities of the banks. Government expenditure affects nearly every sector of the economy. It is considered as a paramount tool during times of economic hardship, such as periods of high unemployment, recessions and depression. Equally, between 1985 and 1986, the subvention given to the government by private establishments (deposit money banks inclusive) were reduced by 30 percent and there was a reduction of company income tax from 45 percent to 40 percent in 1987 (Anyafo,1996). All these strategies were government efforts

to improve the performance of deposit money banks and other sectors of the economy. In spite of all these laudable efforts of the government, we still have record of bank distress and failures.

For instance, in 1924, a group of Nigerian Businessmen resident in London established the first indigenous bank, industrial and commercial bank in Nigeria at Lagos. This bank liquidated in 1930 due to bad management and the global economic depression prevailing at that time. Many other indigenous banks were established and most of them failed. For example, a Merchant Bank established in 1931, collapsed in 1936, a National Bank of Nigeria Limited opened in 1933 also failed. Agbomagbe bank and the Nigeria farmers and Commercial Bank were founded in 1945 and 1947 respectively and both folded up in 1952. Equally, in 1948 the African Continental Bank was established as an offshoot of Lagos Properties Limited and later failed like others.

To restore confidence in banking business, the attention of the government was drawn and this led to the appointment of Mr. G. Paton to investigate into the conduct of banking business in Nigeria. Subsequently, Paton's report in 1948 provided a minimum capital requirement among other issues.

Based on these problems in the financial sector, the Central Bank of Nigeria (CBN) was established in 1958 and this paved way for the era of banking legislation. This step taken by the government, led to the increase in banking supervision, control and substantially reduced malpractices prevalent in the system hitherto. In 1959, the amendments of the CBN act further empowered it to exercise more control over the banking system in Nigeria. These strict measures and control reduced to a minimum, the cases of bank failures and other undesirable distortions in the business.

The ordinance among other issues included;

1. Minimum paid-up capital
2. Statutory Reserves
3. Legal lending limits
4. Minimum specified liquid Assets.

Taxation and government expenditure are designed to achieve rapid economic growth and development. It is applied to mobilize the financial resources of the individuals, private firms and public enterprises which subsequently are projects and programmes that are targeted to

growth and development. These economic policies are the budgetary policy of the government relating to taxes, public expenditure, public borrowing and deficit financing (Sani, 2012). Thus, taxation and government expenditure aims at stabilizing the economy. As noted by Anyanwu (1993), the objectives of taxation and government expenditure is to promote economic conditions conducive to business growth while ensuring that any such government actions are consistent with economic stability. These economic policies involves the decisions that a government makes regarding collection of revenue, through taxation and about spending that revenue (Grimsey, 2003). It is often contrasted with monetary policy in which a Central Bank (like the Federal Reserve in the United States) sets interest rates and determines the level of money supply.

The growth and development of the Nigerian economy has not been stable over the years and as a result, the country's economy has witnessed so many economic cyclical fluctuations, disturbances both internally and externally over the decades (Gbosi, 2001). In other words, taxation and government expenditure are major economic stabilization weapons that involve measure taken to regulate and control the volume, cost and available resources as well as direction of money in an economy to achieve some specified macroeconomic policy objectives and to counteract undesirable trends in the Nigerian economy (Gbosi, 1998).

Agnello and Sousa (2011) have also remarked that over the last decades, important events have drawn the attention of academics, governments and policy makers towards the use taxation and government expenditure. For example, the tax cuts during Reagan's presidency in the United States and the fiscal consolidations in Europe linked to Maastricht convergence criteria, the Economic Growth and stability pact are just a few examples of the renewed interests on the role of taxation and government expenditure as tools for stabilizing the economy and its potential effects on other sectors of economy like the banking sector.

In Nigeria, the rate of fluctuations in the economy demands for effective economic tool for control and stability. The Central Bank of Nigeria (CBN) is responsible for instituting sound monetary and ecopnomic policies required to attain government economic objectives.

Given that these economic policies impact on economic growth arid development, monetary policy is a complementary economic policy in effecting the level of economic activities in the country (Kunle, 2002).

Taxation and government expenditure are also ways 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 a Central Bank influences a nation's money supply. These economic policies are used in various combinations to direct a country's economic goals (Heakal, 2007).

The financial sector especially the deposit money banks are used to disburse money for development. Most of the fiscal policies in the form of taxation, public spending and government debts are carried out through the deposit money banks on the instructions of the apex authorities. The internal debts and external debts of the government are managed by the apex bank, the Central Bank of Nigeria (CBN). In other words, banking sector is in the helm of affairs of economic policy implementation.

1.2   Statement of the Problem

Over the years, Nigerian government had made frantic efforts to improve the performances of the deposit money banks in Nigeria. Some of these economic measures taken include income tax review, sectoral expenditures, review of government debts, and internal borrowing from banks, agencies and individuals. However, right from the colonial era, the use of economic measures to influence the performance of Deposit Money Banks was not significant. There are some disagreement, doubts and arguments on the effects of taxation and government expenditure on the performance of Deposit Money Banks in Nigeria. Some researchers are of the opinion that taxation and government expenditure exert positive and significant effect on the performance of Deposit Money Banks while others feel otherwise. It is against this background that this study investigated the effects of taxation and government expenditure on the performance of Deposit Money Banks in Nigeria from 1981 to 2017.

It is expected that taxation and government expenditure have positive and significant influence on the performances of deposit money banks. For example, government tax cuts boost the credit creation of deposit money banks because the lower the tax paid by the DMBs, the greater the funds made available for loans and advances to investors and vice versa. Also, according to Oguh (2016), there is an expectation that government expenditure increases economic activities which subsequently increases the amount of deposits received by the deposit money banks from the general public. Equally, it is expected that government expenditure affects the asset base of the DMBs in Nigeria because, government spending lead

to deficit financing which implies borrowing from banks thereby creating liquidity problems for the banks due to insufficient funds to lend to the teeming investors.

Specifically, the study investigated the effects of taxation and government expenditure on the capital base, credit creation and asset base of banks respectively.

1.3 Objectives of the Study

The main objective of this study is to examine the effect of taxation and government expenditure on the performance of deposit money banks in Nigeria within the period, 1981 - 2017. Specifically, the study sought to:

(i) Examine the effect of taxation on the capital base of deposit money banks in Nigeria,

(ii) Assess the influence of government expenditure on credit creation by deposit money banks in Nigeria,

(iii) Measure the influence of taxation on the credit creation of deposit money banks in Nigeria, and

(iv) Examine the effect of government expenditure on the asset base of deposit money banks in Nigeria.

1.4 Research Questions

In carrying out this research, the following research questions relevant to this study were addressed:

(i) In what ways does taxation affect the capital base of the deposit money banks in Nigeria during the period under study?

(ii) How far does government expenditure affect the credit creation of deposit money banks in Nigeria within the period under study?

(iii) In what ways has taxation influenced the credit creation of deposit money banks in Nigeria.

(iv) How far does government expenditure affect the asset base of deposit money banks in Nigeria for the period under study?

1.5 Research Hypotheses

The following were hypothesized:

(i) Taxation does not positively and significantly affect deposit money bank's capital base in Nigeria within the period.

(ii)   Government expenditure does not have any positive and significant influence on deposit money bank's credit creation in Nigeria.

(iii)   Taxation does not have positive and significant influence on the credit creation of deposit money banks in Nigeria.

(iv)   Government expenditure does not have positive and significant effect on deposit money bank's asset base in Nigeria.

1.6   Scope of the Study

The study examined the influence of taxation and government expenditure on the performance of DMBs over the period 1981-2017. The base year of 1981 was chosen so that the economic policies with respect to taxation and government expenditures during the military administration would be complimented with the democratic economic policies within this period in other to obtain a desired result.

The study examined all the banks on a macro level and the aggregate capital base, credit creation and asset base of the deposit money banks in Nigeria. The change in these indicators were determined using financial ratios of the banks, annual reports and statement of accounts from Central Bank of Nigeria bulletin and other materials.

1.7   Significance of the Study

This study is beneficial to the following stakeholders:

i.   **Bankers**: When there is a reduction in government tax, the banks will have enough cash to lend out to their customers. This will invariably enhance the performance of deposit money banks. Findings from this study will also help bank managers and administrators to determine the quantity of money to lend out to the public with respect to their tax assessment at the point in time.

ii.   **Investors**: Cherian (2013) remarks that Gross Domestic Product (GDP) deflator or the tax multiplier, gives the amount by which the GDP is multiplied for percentage decrease in tax. When taxes are reduced, loanable fund market become active since investors feel that they have opportunity to make profits. Tax policies are designed for many possible outcomes such as redressing of the redistribution error that creeps into the economy once in a while.

iii. **Investment Analysts**; Grant of concession in the payment of some taxes by government and government expenditure in capital projects through banks are sources of boosting the overall performance of deposit money banks in terms of increased

earnings. This enables the investment analysts to forecast the profitability of banks or other establishments as prospective investment options.

iv. **Governments Agencies**: Government agencies that wish to do business with deposit money banks will be guided by findings from this study because it brings to fore the operational and profitability assessment of banks in Nigeria. The reason being that if the impact of taxation and government expenditure are positive and significant on banks' performance, it indicates prospective improved profitability on banks' performance. On the other hand, many businesses including deposit money banks rely on government spending for their revenues and profits. For businesses that supply services to the public sector, demand is directly linked to how much government is spending

v. **Academics**: This study will be beneficial to future researchers because it will serve as a reference material to them.

vi. **Private and Public Sectors**: This study will help both private and public sectors to determine the investment options to do with deposit money banks. If the key performance indicators of the banks are negatively influenced by the government economic policies, it might not be lucrative to invest in the banks and vice versa. One would he advised to invest in other sectors.

vii. **Government's Appraisal of its Economic Policy**: The study will be a pointer to the government on economic policies that are lucrative to the economy. Those economic policies which are not favourable to the growth of the economy will be either dropped or fine-tuned and vice versa. This means that when the government economic policy decisions are not positive and significant to banks' performances, such policies would be redressed to suit the level of activities in the economy at that point in time. The amount of government debts to the banks will give the banks the idea of the amount of funds to loan out to investors and the general public.

1.8 Limitation of the Study

i. There were variations in some of the data publications of the Central Bank of Nigeria (CBN) and National Bureau of Statistics. To reconcile the differences, the study was more consistent with CBN data publications than that of National Bureau of Statistics.

ii. The volatility of the key variables of Deposit Money Banks was another limitation. This was as a result of the fiscal environment within which the study was carried out and Autoregressive Distribution Lag (ARDL) form of regression model was used to take care of this limitation.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1   Conceptual Review

2.1.1   The Concept of Fiscal Policy;

Keynes (1936) was the first economist to express the opinion that taxation and government expenditure are the best policy measure of achieving macroeconomic objectives. According to Keynes (1936) during inflation in the economy, the policy prescription is to reduce government expenditure and increase taxation or use both. It means that inflation can be handled by the use of adjustments in taxation or government expenditure .On the other hand, during deflation, the policy measure will be to increase government expenditure and reduce taxation or both are employed.

Anyafo (1996) explains that the powers of taxation and public expenditures and other financial programs are embodied in annual budgets by government to achieve earmarked national goals. He stressed that these economic measures have played a vital role in creating a favorable climate for rapid development in Nigeria particularly, the area of measures containing balance of payments pressures.

Heakal (2005) explains these economic measures as the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

Well (2008) opines that government spending and taxation are used to influence the economy. When the government decides on the goods and services it purchases, the transfer payments it distributes or the taxes it collects, it is engaging in economic policy. The primary economic influence of any change in the government budget is felt by particular groups- tax cuts for families with children, raising their disposable income. Although changes in taxes or spending that are "revenue neutral" may be construed as economic policy and may affect the aggregate level of output, but changing the incentives that firms or individuals face are equally described as economic policy. Taxation and government expenditure are usually used to describe the effect of the aggregate economy of the overall levels of spending and taxation and more particularly, the gap between them.

Tax revenue and government spending are designed to;

(i)   Counter economic cycles in order to achieve lower unemployment.

(ii)   Achieve low or no inflation.

(iii)   Achieve sustained but controllable economic growth (business dictionary, copyright 2016)

In a recession, government stimulates the economy with deficit spending (expenditure exceeds revenue). During period of expansion, they restrain a fast growing economy with higher taxes and aim at surplus (revenue exceeds expenditure). Government spending is based on the concepts of the United Kingdom (UK) economist, John Maynard Keynes (1883-1946), and work independent of monetary policy which tries to achieve the same objectives by controlling money supply.

Ugwu (1998) explains the importance of the use of taxes and government expenditure in an economy. According to him Government uses taxes and expenditure to influence the level of economic activities by changing the levels and content of taxation, government spending and public debts. He further stressed that some actions of fiscal policy therefore relate to actions affecting government spending, while some others have bearing on revenues.

Tejvan (2015) asserts that taxation and government expenditure as instrument of fiscal policy involve the government changing the levels of taxation and government spending in order to influence aggregate demand (AD) and the level of economic activity.

The Aggregate Demand is the total level of planned expenditure in an economy. (i.e., AD= C+I+G+X-M), where;

C= Total consumption

I= Investment

G= Government expenditure

X= Export

M= Import

Taxation and government expenditure as instruments of economic policy used to describe as the deliberate changes in the levels of their application so as to achieve national goals or objectives such as full employment, economic growth and balance of payment equilibrium (Idowu, 2010) and Okunrounmu, (2003).

Ajayi and Ojo (1980) assert that fiscal policy (taxation and government expenditure) in its broadest sense out- braces all aspects of the volume and composition of government revenues and expenditures. When used in the macroeconomic context, we speak of compensatory fiscal policy by which is meant the alteration of the relationship between aggregate federal revenue and expenditure in conscious efforts of influencing the aggregate demand for the

Gross National Product (GDP). Given the impetus by Keynes, the basic ideas of compensatory fiscal policy is that in order to provide an impetus to aggregate spending during recessional periods, government should increase its expenditure relative to taxes or reduce taxes relative to a given size of expenditure.

Also, Olaloku, Fajana, Tomori, Ukpong, Fapohunda, Ubogu and Adejugbe (1979) have explained that taxation and government expenditure can be employed to achieve a variety of economic policy objectives such as full employment, price stability, external equilibrium, economic development and growth as well as income distribution and government debt manipulation.

Iyoha (2004) explains that changes in government expenditures and changes in taxes are used to influence the level of key economic aggregates like gross domestic product (GDP), employment, general price level and balance of payments

Byins and Stone (1992) on their own assert that, these economic policies involve the deliberate legislative changes in government outlays or taxes to alter aggregate demand (AD) and stabilize the economy. To Jhingan (1997:646), fiscal policy through variations in government expenditures and taxation profoundly affect national income, employment, output and prices.

The use of fiscal policy varies from time to time and from economy to economy. For example, it was not generally recognized as important until the birth of Keynesian economics in the mid thirties which enhanced its significance as a tool to overcome the economic depression in the advanced economies of Western Europe and North America. In all situations, government spending and taxation are designed to achieve full employment, price stability, and balance of payment equilibrium.

2.1.2   The Historical Background of Fiscal Policy

The thought and use of government spending became paramount after the great economic depression of 1920s (Smiley, 2008). For example, the approach to economic policy in the United States was rather laissez-faire until the Great Depression. The government tried to stay away from economic matters as much as possible and hoped that a balanced budget would be maintained.

Bryant (2011) observed that prior to the Great Depression, the economy did have economic downturns and some were quite severe. However, the economy tended to self-correct so laissez-faire approach to the economy tended to work.

Slain (2005) observed that neither taxation nor government expenditure before the 1930s were primarily concerned with maintaining high employment and stabilizing the rate of growth of total national output. Economic thinking and policy in general were much less dominated by the high employment problem than they later came to be and were more focused on resources and equity in the distribution of income. It was believed that in the long run, they would lend to produce at a rate, determined by real factors- the supply of labor and capital and the state of technology, prices and wages rate would lend to adjust to changes to total money expenditures for goods and services so as to leave real output unchanged.

However, after the economic depression of 1930s, economists started to think that something must be done to involve the government in economic affairs. One of such great economists was John Maynard Keynes.

Blinder (2008) noted that Keynesian economics involve a theory of total spending in the economy (i.e. Aggregate demand) and its effect on output and inflation.

The total government spending will subsequently stimulate economic activities within the economy. For example, in the United States of America (USA), Franklin D. Roosevelt known as The New Deal first instituted fiscal policy in USA. His first experience did not move to be very effective, but that was in part because the Great Depression had already lowered the expectations of business so drastically.

Smiley (2008) remarked that The Great Depression showed the American population that there was a growing need for the government to manage economic affairs. The size of the Federal Government began rapidly expanding in the 1930s, growing from 553, 000 paid civilian employees in the late 1920s to 953, 891 employees in 1937. The budget grows substantially as well. In 1939, the federal receipts of the administrative budgets were 5.50 per gross national product, gross national product (GNP), while federal expenditures were 9.77 percent of GNP. These numbers were up significantly from 1930, while federal receipt averaged 3.80 percent of GNP, expenditure averaged 3.04 percent of GNP. Another contributor, to changing the role of government in the 1930s is president Franklin Delano Roosevelt (FDR). FDR was important because of his implementation of the new deal, which

was a program that would offer relief, recovery and reform to the American Nation. In terms of relief, new organizations, such as the work progress administration, saved many US lives.

The reform aspect was indeed the most influential, in the new deal, for it forever changed the rule of the government in the US economy. In essence, it was the beginning of useful economic policy. It was the first time that the government took an active role in attempting to secure American individual from unseen drastic changes in the market. Although the depression and reform aspect of the new deal proved to be effective for President Roosevelt, recovery was an issue that did not work properly. Unemployment rates remained very high throughout the 1930s. It was still difficult for Americans to find jobs. These problems diminished when the government called for many industries to convert to military production in the early 1940s, in order to prepare for world war. The world war forced the government to run huge deficits or spend more than they were economically generating, in order to keep up with all of the production the US military needed. By running deficits, the economy recovered, and America rebounded from the drought of unemployment.

The military strategy of full employment had a huge benefit; the government's massive deficits were used to pay for the war, and this ended the great depression. This phenomenon set the standard and showed just how necessary it was, for the government to play an active role with the use of these economic policies. The employment act of 1946 was enacted by the government to keep the economy from plunging back into a post war depression. The act declared the continuing policy and responsibility of the federal government to use all reasonable means to promote maximum (not full), employment, production and purchasing power. In addition to focusing on keeping unemployment rates low, the act called for the creation of the council of economic advisors. This council has the task of assisting the president in appointing members to the joint economic committee in the United States Congress and continuing to develop the rule of fiscal policy in the United States.

With respect to the modern economic policy, the United States government has attempted to spend more money than it takes in, indicated by a national debate that was closed to $1 Billion at the beginning of the twentieth century, the budget for most of the twentieth century followed a pattern of deficits during war time and economic (rises) and surplus during the period of peace time economic expansion. In 1971, at Breton Woods, the US went off the gold standard allowing the dollar to float. Shortly after that, the price of oil was pegged to gold rather than the dollar by OPEC. The 1970s were marked by oil shocks, recessions and inflation in the US. From fiscal years 1970 to 1997, although the country was nominally at

peace during most of this time, the federal budget deficit accelerated, topping out (in absolute terms) at $290 billion for 1992.

In contrast, from fiscal year (FY), 1997 to 2001, gross revenues exceeded expenditures and a surplus resulted. However, it has been argued that this `balanced budget` only constituted a surplus in the public debt (or on budget), in which the Treasury Department borrowed increased tax revenue from inter-governmental debt holdings (namely the Social Security Trust Fund), thus adding more interest on Treasury bonds. In effect, the four year `surplus` was only in public debt holdings, while the national debt outstanding increased every fiscal year (the lowest deficit in FY 2000 was $17.9 Billion). However, after a combination of the dot-com bubble burst, the September 11 attracted a dramatic increase in government spending (primarily in defense for military operations in Afghanistan and Iraq) and a $1.35 Trillion tax cut, the budget returned to a deficit basis. The budget went from $236 Billion surplus in fiscal year 2000 to a $413 Billion deficit in fiscal year 2004. In fiscal year 2005, the deficit began to shrink due to a sharp increase in tax revenue. By 2007, the deficit was reduced to $161 Billion; less than half of what it was in 2004 and the budget appeared well on its way to balance once again. In late 2007 to early 2008, the economy entered a particularly bad recession as a result of high oil and food prices, and a substantial credit crisis leading to the bankruptcy and eventual federal takeover of certain large and well established mortgage providers. In an attempt to fix these economic problems, the United States federal government passed a series of costly economic stimulus and bailout packages.

As a result of this, in fiscal year 2008, the deficit would increase to $455 Billion and is projected to continue to increase dramatically for years to come due in part to both the severity of the current recession and the high spending fiscal policy. The federal government has adopted to help combat the nations' economic woes. As a result, the federal government deficit increased to $1.2 Trillion in fiscal year 2009, or 9.8 percent of the gross domestic product (GDP). Over subsequent years, both the economy and the deficit recovered to some extent, and the government enacted several laws with significant budget impact, including the Affordable Care Act in 2010, the Budget Control Act in 2011, and the American Taxpayer Relief Act in 2012. The Congressional Budget Office (CBO) projected a $534 Billion deficit in fiscal year 2016 or 2.9 percent of GDP. If current policy remains unchanged, the CBO projects the deficit will increase to 4.9 percent of GDP by 2026, or a cumulative total of $9.3 Trillion over the period. As a percentage of the GDP, within the context of the national economy as a whole, the highest deficit was run during the fiscal year 1946 at nearly 30

percent of GDP, but that rebounded to a surplus by 1947. By contrasts, deficits during the 1980s reached 5-6 percent of GDP and the deficit for 2005 was 2.6 percent of GDP, close to the post world war average. In 2009, the deficit was 9.8 percent of GDP, the highest since World War II.

2.1.3 The Instruments of Economic Policy

There are some basic tools which the government and financial authorities use in achieving economic policies. Some of these instruments include the following; (a) Taxation, (b) Government Expenditure, (c) Public Debts, (d) Budget, and (e) public works (Pragyandeepa, 2015). Let us discuss each of these in more details.

2.1.4.1 Taxation as an Instrument of Economic Policy

Taxation is a powerful instrument of fiscal policy in the hands of public authorities which greatly affect the change in disposable income, consumption and investment. An anti-depression tax policy increases disposable income of the individual, promotes consumption and investment. This will ultimately result in spending activities i.e. it will tend to increase effective demand and reduce the deflationary gap .In this regard, sometimes it is suggested to reduce the rate of commodity taxes like excise duties, sales taxes and import duty. As a result of these tax concessions, consumption is promoted. Economists like Hansen and Musgrave with their eyes on raising private investment, have emphasized upon the reduction in corporate and personal income taxation to overcome contractionary tendencies in the economy. Now, a vital question arises about the extent to which unemployment is reduced or mitigated if tax reduction stimulates consumption and investment expenditure. In such a case, reduction of unemployment is very small.

If such a policy of tax reduction is repeated, then consumers and investors both are likely to postpone their spending in anticipation of a further fall in taxes. Equally, it will create other complications in the government budget.

An anti-inflationary tax policy on the contrary, must be directed to plug the inflationary gap. During inflation, fiscal authority should not retain the existing tax structure, but also evolve such measures (new taxes), to wipe out the excessive purchasing power and consumer demand. To this end, expenditure, tax and excise duties can be raised.

The burden of taxation may be raised to the extent which may not retard new investment. A steeply progressive personal income tax and tax on windfall gains are highly effective to curb

the abnormal inflation on any pressures. Export should be restricted and import of essential commodities should be liberated.

The increased inflow of suppliers from origin countries will have a moderate impact upon general prices. The tax structure should be such which may impose heavy burden on higher income group and vice versa. Therefore, proper care must be taken that the government should not bring violent fluctuations and impeded economic growth. To sum up, despite certain short-comings of taxations, its significance as an effective anti-cyclical and growth during investment cannot be quantified.

Reasons for the imposition of taxes

There are so many reasons why government imposes tax on its citizens. According to Anyafo (1996), some of these reasons include the following:

To cover the cost of general administration and social service: Taxes are used to settle the cost of administration, internal and external defense, maintenance of law and other social services.

Reduction of disparity in the distribution of income in the country: The part of tax which has the future of Pay AS You Earn (PAYE) is used to ensure equitable distribution of income because the tax one pays is proportional to the income he receives.

To control or discourage the consumption of harmful or non-essential goods: Tax (indirect tax) is used to discourage the consumption of some harmful goods. For example, goods like narcotic goods, drugs, tobacco, cocaine, etc may be banned and anybody in possession of such goods will be penalized.

To check inflation by reducing the volume of purchasing power: The government can impose taxes on the production of certain goods or importation of such goods in order to raise the volume of purchasing power of the home made ones.

To service national debt and provide Retirement Benefit: The taxes realized are used to service both internal and external debts. It can also be used to pay retirement benefit until 2004, when the pension scheme was introduced.

To subsidize preferred sectors: With taxation, the government may prefer to boost some sectors of the economy, like the agricultural and industrial sectors.

To implement government policy: Sometimes, the government uses taxation to provide a large budget surplus or reduce it to stimulate demand. Also, areas of distress or with ecological problems are sometimes granted tax holidays.

Type of Taxes

Taxes are categorized into two ways. One is on the basis of variations in the rate of taxes while the other one is on the basis of the method of payment. The first one involves proportional tax system, progressive tax system and regressive tax system, while the second class involves direct and indirect taxations. Let us examine each of them in details.

Direct Tax System

When a tax is collected directly from the taxpayer by the relevant tax authorities, it is known as a direct tax. Direct taxes are taxes on income as distinct from taxes levied on goods and services. A direct tax cannot be shifted, transferred or passed on to someone else (Anyafo, 1996). Examples of direct taxes are personal income tax, company profit tax, capital gains tax, capital transfer tax, petroleum profit tax and super tax. Direct tax can be either proportional tax or progressive tax or regressive tax or combination of the two or all of them.

Proportional Tax System:

This involves charging the tax payers the same amount of tax, irrespective of the amount or the size of income. This means that the tax system is proportional to income. It is regarded as less equitable than progressive tax. It has a straight line system of taxation. It is simple, convenient and easy to calculate. However, it is deficient in equity because it does not take into account, the ability to pay.

Progressive Tax System:

This system of tax increases as the income increases. Here, the amount of the tax to be paid increases more than proportionately with income. The rate of tax for each income group is different, such that the higher the income, the higher the tax paid. This system is more equitable than the other systems because it considers the ability to pay. There are three varieties of progressive tax system. They are

(i)   Decreasing progressive tax system,

(ii)   Constant progressive tax system and

(iii)   Increasing progressive taxes.

Regressive Tax System:

This is tax which falls heavily more on people with low incomes. It is the opposite of progressive tax (Anyafo, 1996). The rate of tax decreases as the income rises. According to Anyafo, in modern times, it is difficult to find any direct tax that is regressive in nature since the total revenue required by a modern state is so great that it cannot largely be provided from direct or income taxes of the poorer majority.

Direct System Assortment

In most of the developing countries, the following assortment of direct taxes is recognized. They include: Income tax, Company Profit Tax, Capital Gains Tax, Petroleum Profit Tax (for countries with oil deposits) and others with respect to natural resources and profits from them in that country. Let us discuss them briefly as follows;

Income Tax: Income tax is one of the oldest forms of taxation. It is a tax on all types of income such as rent, wages, interests and profits. In Nigeria, earned income tax is used by the inland revenue to mean income from paid employment whether as an employee or as a self-employed person, as distinct from unearned income which for tax purposes, is income from interests and dividends.

Company Profit Tax: This is a tax on the profits made by companies and agencies. In the United Kingdom and elsewhere, it is known as corporation tax. In Nigeria, most deposit money banks pay this tax according to the government fiscal policy authorities.

Capital Gains Tax: This system of tax is not so common in developing countries. According to Philips (1969), capital gains tax was introduced in Nigeria in 1967 by virtue of Capital Gains Tax Decree 1967 No. 44. This is tax on capital structures such as lands, and real estates that are found mainly in urban cities.

Petroleum Profit Tax: This type of tax is only found in countries that produce oil or have other mineral resources. According to Aboyade (1984:400-401), Petroleum Profit Tax was introduced in Nigeria in 1959 by Petroleum Profit Tax Act 1959 No. 15 and since then, it has come to stay. The tax was also extended to companies engaged in Liquefied gas operating under the PPT (Amendment) (No.3) Decree 1879 No. 95. Since then, tax from oil sector has contributed over 50 percent of total revenue in Nigeria (Anyafo, 1996).

Indirect Tax Assortment

Indirect taxes are taxes on goods or services. They are sometimes called expenditure taxes or outlay taxes, as distinct from taxes on income. The types of indirect taxes include the following;

Import Tariffs: These are duties on import. An import duty can be specific (i.e. when it is imposed on the basis of specific quantity, weight or size) or ad valorem (which is imposed on the basis of value).

Export Duties: These are commodity taxes imposed on export. An export duty on raw materials is usually imposed for protection of home industries. For example, an export duty on cocoa and palm oil may be imposed for the purpose of protecting the domestic chocolate beverages and Preference vegetable oil industries, respectively.

 These duties are commodity taxes imposed on goods supplied by some countries, in order to favor some other countries. The burden of export duties is passed onto consumer in foreign countries in the form of increased prices in the world market, provided that the world demand for the commodity is sufficiently inelastic. Otherwise, such duties can cause the demand for the export commodity to drop.

Excise Duties: These are commodity taxes, imposed on goods and services, produced within the country. They are levied, not only to raise revenue but also to discourage the consumption of certain goods. For example, the taxes on commodities like tobacco, alcoholic beverages; gambling etc is to discourage their consumption.

Beside excise duties, there are excise licenses. These are wireless license, motor vehicle license, license for keeping dog, possession of gun license and license for on and off liquor. Excise duties can be paid by the wholesaler or retailer. But if this happens, the tax incidence is passed unto the consumer. The excise duties on luxury goods are born by the affluent while those necessity goods are born by the poor people.

Purchase Tax: These are ad valorem taxes on specific goods. The tax is a percentage of the price of the commodity. It is used as a fiscal policy to control the level of economic activities. For example, purchase taxes are reduced to stimulate demand in times of unemployment. During inflation, if purchase taxes are increased, prices of goods will increase and there will be wage demand. In Nigeria, purchase taxes were introduced in few states in certain services. For example, in Kano state, purchase taxes were levied on hotels at two percent.

Sales Taxes: These are taxes levied on all retail goods, unlike purchase tax that was selective. Due (1963) observed that sales tax is the most import consumption based tax in the present tax structure. In sales tax, the final consumers bear the tax incidence. Sales tax is the major source of state revenue. Sales tax was introduced on 30th June, 1986 and was replaced by Value Added Tax (VAT) in 1993. Sales tax has a greater administrative feasibility than income tax. It also has high revenue productivity. Sales taxes are sub-divided into wholesale sales tax, retail sales tax, manufacturer sales tax, turnover sales tax and value added tax. The first three are single stage levies because tax is imposed only once upon each commodity as it passes through production and distribution channels. The last two have multiple stage tax which applies to all transaction through which commodities pass along production and distribution channels.

Value Added Tax (VAT): VAT is an off-shoot of sales tax. It was introduced in Nigeria on 1st September, 1993 on the strength of Value Added Tax Act 1993. VAT combines the features of single and multiple stage taxes applied at each transaction, but only to the value added. The final consumer bears the incidence of VAT. However, the manufacturer is expected to have paid tax on his supplies, termed (input tax) and charged tax to his sales to wholesaler (termed output tax). The difference between the output and input taxes is the remittance to the relevant tax authorities periodically. This process is repeated at each stage until it gets to the final consumer who bears the burden of the tax. The percentage of VAT is 5.0 percent and it is expected that this tax will be imposed on ten categories of goods and twenty-three categories of services.

Initially, the sharing ratio of revenue from VAT among the federal government and state was twenty percent and eighty percent, respectively. But the most recent ratio is now as entrenched in 1999 constitution is Federal Government 15 percent, State Government, 50 percent, and Local Government 35 percent.

Advantages of Value Added Tax

Some of the merits of Value Added Tax include the following:

    (i)   It has a low cost of administration.

    (ii)   It has high revenue productivity.

    (iii)   It is easy to pay and collect.

(iv)   It promotes capital formation.

(v)   It widens the revenue base of the government.

(vi)   It does not give room for tax evasion.

(vii)   It is more adjustable than the income tax.

Disadvantages of Value Added Tax

Some of the demerits associated with VAT include:

(i)   It is regressive in nature (inequality)

(ii)   It discourages consumption of essential commodities

(iii)   The final consumer bears the burden of VAT

(iv)   It is difficult to predict yield due to lack of standard data translation on certain businesses.

Selective Community Taxes: These are taxes imposed to correct some specific market failures such as externalities which are restricted to a few goods. It involves taxes that cover specific spending programmes. Examples of selective taxes include; excise taxes on luxury goods such as alcohol, tobacco, cars and jewelry.

Table 2.1 Merits of Direct and In-direct Taxes:

Table 2.1 given below shows some of the advantages of direct and indirect taxes

Direct	Indirect
Equitable	Easy to pay
Economical	Difficult to evade
Certainty	Highly productive
Civic consciousness	Social impact
Income redistribution	Promotes capital formation
	Protection of domestic industry
	Discriminating

Source: Anyafo (1996, p.93)

Table 2.2 Demerits of direct and indirect taxes

Table 2.2 given below shows some of the disadvantages of direct and indirect taxes

Direct	Indirect
Disincentive to hard working	Inequitable
Encourages tax evasion	Diversion of resources
Disincentive to foreign investment	Uneconomical
Unpopular and painful	Difficult to predict yield
	Unpleasant to entrepreneurs

Source: Anyafo (1996, p. 95)

The Incidence of Tax

The incidence of a tax is on the person who actually pays it. For example, in the case of income tax, it falls on the person earning the income. However, in the case of indirect taxation, it falls on either the buyer or the seller or it may be shared in varying proportion between them, depending on the elasticity of demand for the commodity on which tax has been imposed. If demand for the commodity is perfectly inelastic, the price will rise by the full amount of the tax and the incidence will be entirely on the buyer.

Figure 2. 1: Perfectly Inelastic Demand

Figure 2.1 given below shows the diagram of a perfectly inelastic demand.
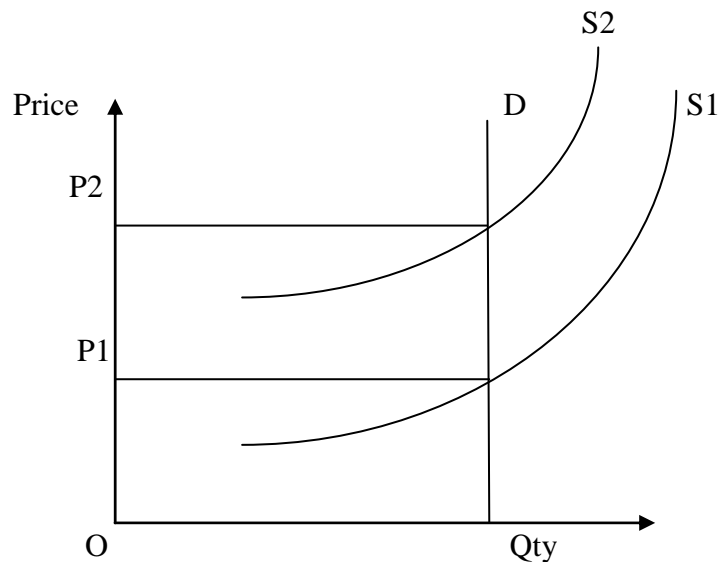
Source: Anyafo (1996, p. 96)

Figure 2.1 shows incidence of tax under perfectly inelastic demand. From the diagram S1 is the supply curve, and OP1is the price before tax was imposed and S2 is the SS curve and OP2 is the after tax imposition. As demand is perfectly inelastic, the tax falls on the buyer

alone. However, if the demand is fairly inelastic, the tax will fall mainly on the buyer and less on the seller.

Figure 2:2 Moderately Elastic Demand

Figure 2.2 given below shows a diagram of moderately elastic demand illustrating the incidence of tax on buyers and sellers.
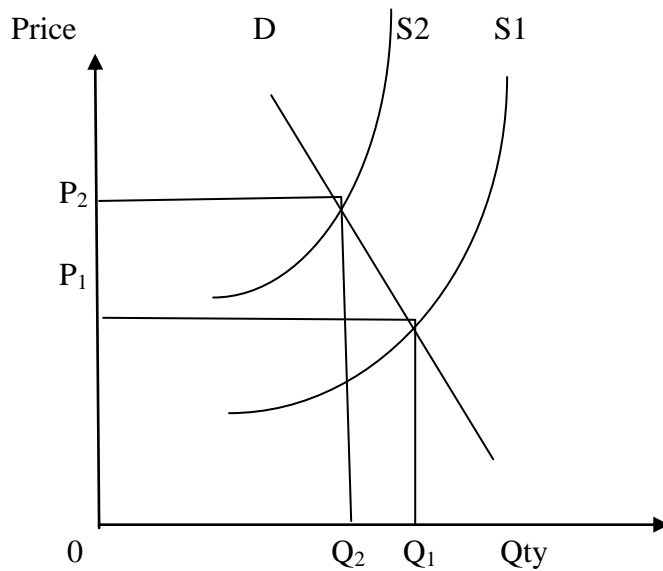
Source: Lawal (1982, p. 157)

The figure above shows the incidence under moderately elastic demand. If the demand is moderately elastic, the tax falls partly on the buyer and partly on the seller but more heavily on the seller.

Figure 2. 3: Perfectly Elastic Demand

Figure 2.3 given below shows the incidence of tax on a perfectly elastic demand.
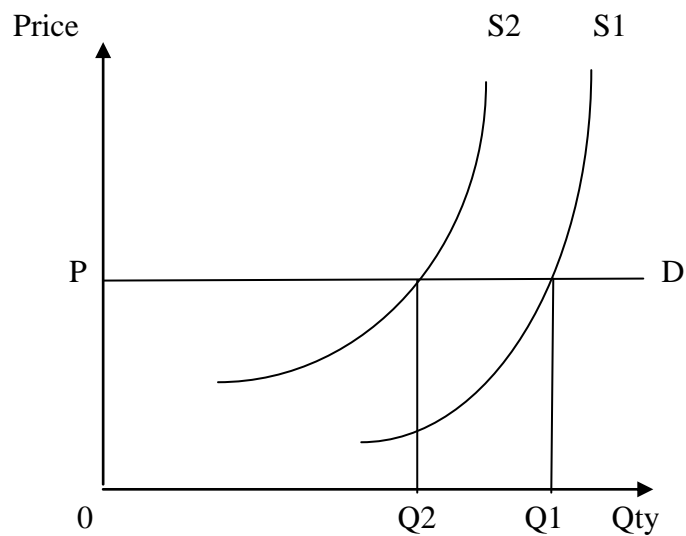
Source: Ande(2015, p.297)

Figure 2.3 shows the incidence of tax on a perfectly elastic demand. If the demand is perfectly elastic, the seller will have to reduce his price by the full amount of the tax, so that its incidence will be entirely on the seller (Hanson, 1974).

Difference Between Incidence of Tax and Impact of Tax

Incidence of tax is on the person who pays the tax but the impact of tax is the initial resting place of the tax. Zodrow and Mieszkowski (1983) opined that tax incidence or tax burden is the analysis of the effect of a particular tax on the economic welfare .Tax incidence is said to fall upon the group that ultimately bears the burden of .or ultimately has to pay the tax. The impact of a tax is on the person from whom government collects money in first instance.

Chand (2015) distinguished between incidence of tax and impact of tax. According to him the term impact is used to express the immediate result of or original imposition of the tax. The impact of a tax is on the person on whom it is imposed first. Thus the person who is habile to pay the tax to the government bears the impact. The impact of a tax as such denotes the act of impinging.

On the other hand, Chand explained that the term incidence refers to the location of the ultimate or the direct money burden of the tax as such, it signifies the settlement of the tax burden on the ultimate tax payer. Incidence emerges when the tax finally settles or come to

rest on the person who bears it. In fact it is the ultimate result of shifting. Hence, the incidence of a tax is upon that person who cannot shift it the burden any further, so he has to himself bear the direct money burden of tax. For clearer understanding, Chand distinguished impact and incidence of tax as follows;

(i) Impact refers to the initial burden of tax while incidence refers to the ultimate burden of tax.

(ii) Impact is at the point of imposition while incidence occurs at the point of settlement.

(iii) The impact of tax falls upon the person from whom the tax is collected and incidence of tax rests on the person who pays it eventually. For example suppose a tax-excise- duty is imposed on soap, its impact is on the producers in the first instance, as they are liable to pay it to the government. But, the producers may succeed in collecting it from the consumers by raising the price of soap by the amount of tax. In that case, consumers eventually pay the tax and so the incidence falls upon them.

(iv) Impact may be shifted but incidence cannot. For example, incidence is at the end of the shifting process. Sometimes however, when no shifting is possible, the impact coincides on the person paying the tax.

2.1.4.2 Government Expenditure as an Instrument of Economic Policy

Anyafo (1996) defines Public or government expenditure as the total amount of money spent by the government of a country in a period. It includes all the goods and services, and transfer of payments. The active participation of the government in economic activity has brought public spending to the front line among the fiscal tools. The appropriate variation in public expenditure can have more direct effect upon the level of economic activity than even taxes. The increased public spending will have a multiple effect upon income, output, and employment exactly in the same way as increased investment has its effect on them. Similarly, a reduction in public spending can reduce the level of economic activity through the reverse operation of the government expenditure multiplier. Let us examine what happens to public expenditure during inflation and depression.

Public Expenditure in Inflation

During the period of inflation, the basic reason of inflationary pressures is the excessive aggregate spending. Both private consumption and investment are abnormally high. In these circumstances, public spending policy must aim at reducing the government spending. In other words, some schemes should be abandoned and others be postponed. It should be carefully noted that government spending which is of productive nature should not be shelved, since that may aggregate the inflationary spending further.

However, reduction in unproductive channels may prove helpful to curb inflationary pressures in the economy. But such a decision is really difficult from economic and political point of view. It is true, yet the fiscal authority can vary its expenditure to overcome inflationary pressures to some extent.

Public Expenditure in Depression

In depression, public expenditure emerges with greater significance. It is helpful to lift the economy out of the morass of stagnation. In this period, deficiency of demand is the result of sluggish private consumption and investment expenditure. Therefore, it can be met through the additional doses of public expenditure equivalent to the deflationary gap. The multiplier and acceleration effects of public spending will neutralize the depressing effects of lower private spending and stimulate the path of recovery.

Objectives of Government Expenditures

Rapid economic development requires huge expenditures to be incurred in the various sectors of the economy. As the private sector is usually hesitant and unwilling to invest huge amounts because the returns from such investments are either uncertain or long delayed (Malhotra, 2011). It is public expenditure which plays the crucial role in economic development (especially) in under-developed economy. Malhotra went ahead to identify the objectives or purposes of government expenditures as follows;

Provide Social Goods: The theory of social goods is of prime importance to the economies of the public sector. The market economy, if certain conditions are met, enables an efficient use of resources for providing private goods. However, when it comes to providing public or social goods (e.g. parks, roads, bridges, free or subsidized educational facilities), the market economy often runs into trouble. Social goods are goods which are required for the welfare of society as a whole, but for which the market fails to provide a value. People are generally

ignorant of the value or utility of social goods. An individual knows that once one category of social goods say, road is constructed, he cannot be denied its construction or not everyone assumes that others would pay for it. It is these failures of the market(i.e. provision of social goods) that bring the role of the government and public expenditure in focus for providing social goods for the welfare of the public in general. Some economics divide social goods into two headings as social and economic overheads.

(a) Social Overheads: These are the provision of hospitals and health centers, schools and colleges and technical institutions.

(b) Economic Overheads: These include roads, railways, irrigations, power projects and other essential projects for economic development. It is the responsibility of public expenditure to build up sound social and economic overheads as money for these projects does not come from private sources.

Removal or Reduction of Unemployment; Government expenditure is the most potent weapon to fight unemployment. The level of employment depends upon effective demand. The government can influence effective demand either by making more public expenditure or by resorting to such fiscal methods as may raise the level of private expenditure. The role of public expenditure becomes very significant during the period of depression when the private entrepreneurs are not keen to take up investment activities .The government can resort to counter cyclical fiscal policy which means the taxes and government spending be varied in an anti-cyclical direction; government spending being cut and taxes increased in the expanding phase of cycle and government spending increased and taxes cut during the contraction phase. Increased government expenditure will open new job opportunities in the country, which means creation of demand of goods and services. Mention may also be made of pumping, priming and compensatory expenditure to raise the level of employment in the economy. Pump priming refers to increase in private expenditure through an injection of fresh purchasing power in the form of an increase in public expenditure even through budgetary deficit.

It is argued that such an initial public expenditure may set in motion, a process of recovery from the condition of depression. Compensatory expenditure refers to the variation in government budget expenditure to compensate the deficiency in private demand so as to maintain high level of investment, employment and income stability. In the words of Keynes,

government expenditure becomes a balancing factor in order to maintain national income at a given level. Such expenditure may be progressively reduced in the recovery phase.

Increase in Production: Public expenditure contributes to production through a large number of public enterprises both in industries and agriculture. Government incurs a lot of expenditure in the agricultural sector, e.g. on irrigation and power seed forms, fertilizer, factories, warehouses, etc., and in the industrial sector by setting up enterprises like the steel plants, heavy electrical, heavy engineering, machine-making factories etc. All these enterprises are calculated to promote production and economic development.

Exploitation and Development of Mineral Resources: Minerals provide a base for higher economic development. The government has to undertake schemes of expenditure and development of essential minerals such as coal and oil exploration. Public expenditure has to play its role to achieve these.

Promote Price Stability: Increase in public expenditure relieves the economy from quagmire of depression and conversely public expenditure can be scaled down when there is fear of inflationary rise in prices. The public expenditure helps in price stability.

Promote Balanced Growth: There is a tendency to use economic resources to the further development of already developed regions. But for the overall growth, special attention needs to be paid for the development of backward areas and undeveloped regions. This requires huge amounts for reliance has to be placed on public expenditure.

Reduce Inequality of Income: Another objective of public expenditure is to reduce the inequality of income. Expenditure on old age, pension, unemployment relief, free education, free medical treatment, free mid-day meals and so on benefit the poorer classes of the community at the expense of the rich people. All these objectives of public expenditure help to promote significantly the social welfare and economic prosperity of the country.

Anyafo (1996) explained that government expenditure is made for the purpose of;

(1) Securing the external defence and internal security of the nation;

(2) Paying for services through personnel and overhead costs embodied in the recurrent budget;

(3) Promoting socio-economic well being of the citizens;

(4) Executing economic development programmes of the nation;

(5) Maintaining the political machinery and public administration of the country;

(6) Providing advances, transfer payments and subsidies to policy favoured persons and groups; and

(7) Servicing of internal and external debts.

Types of Public Expenditure

Plaehn (1999) observes that for most of the last two decades, federal government spending equaled about one-third of the total Gross National Product (GDP). Following the 2007-2008 financial crisis, the portion jumped to 40 percent of GDP. How and where the federal government spends money has a big impact on the overall growth or lack of growth in the economy. Government spending can be divided into three main types as follows;

Government Consumption: This involves the purchase of goods and services. This category of goods and services covers the purchase of equipment ranging from government office computers to jet fighters and aircraft carriers. Government spending also includes payment of salaries and benefits for federal employees. The workers perform the task of government such as conducting inspection for all types of industries and managing the programs that pay out the other types of expenditure.

Transfer Payments: Transfer payment consists of providing money to recipients in plans like social security, medical care, health insurance, subsidies and various welfare programs. Foreign aids programmes also fall under transfer programs category. Social security, medical care and transfer payments mechanisms have their own separate tax funding sources.

Interest on the Debt: Interest on the federal government debt is the most variable of all the three types of public expenditure. For example, in 2013 the interest on $17 trillion debt was 6.2 percent of total federal outlays. In the period following the 2007-2008 financial crises, low interest rates helped to keep the interest payments down even as the total debt load grew. In comparison, in 1990's when rates were higher, interests payments accounted for up to 15 percent of total federal government expenditures.

Anyafo (1996) explained that the government expenditure is the total in cash terms of the federal, state and local government spending plus financial transfers to the parastatals at the

three levels of government. It has two components namely; recurrent and capital expenditures.

(a) Recurrent Expenditure: These are government expenditure made regularly on repeatedly from year to year. For example, personnel costs and overhead costs such as travel and transport, utility services, telephone services, stationery, maintenance of office furniture and equipment, entertainment, public relations and hospitality.

(b) Capital Expenditure: These are expenditure on new construction, land extensions and alterations to the existing buildings and the acquisition of any other fixed assets (e.g. plant and machinery)-including vehicles having expected life of more than one year. Also, the expenditure on stocks and grants and lending for capital purposes are equally included.

Omoruyi (1988) had an alternative conception of the components of government expenditure. He maintained that government expenditure is divided into absorptive and transfer expenditures.

(i) Absorptive Expenditure: These are expenditures that involve the transfer of funds from government to the private sector in return for goods and services. Absorptive expenditures also include expenditures on administration, economic, social and community services.

(ii) Transfer Payment Expenditure: These are expenditures on debt servicing (i.e. interest payment and capital repayments on internal and external debts, pensions and gratuities, external financial obligations such as annual subscriptions to international bodies and others.

According to Partington (1989), the definition of public expenditure which was used for many years in United Kingdom (UK) comprised of the current and capital expenditure of the central government and local authorities, other than the expenditure charged to the operating account of trading bodies, together with the capital expenditure of nationalized industries and other public corporations, and including debt interest and net lending. This definition was designed to give approximate measure of that public spending which has to be financed by means other than sales, charges, etc, and so, it excluded the current expenditure of public corporations and other trading departments. The capital expenditure of the nationalized industries and other public corporations were included as much of this expenditure is traditionally financed by loans and capital grants from the central government.

Principles of Public Expenditure

According to Mundra (2012), just as there are well-known cannons of taxation, similarly it is possible to formulate some cannons or principles to which prudent public expenditure should conform. They include;

(1)   Maximum Social Benefit: This principle advocates that public expenditure should satisfy one fundamental test such as maximizing the social welfare of the society. In other words, any money spent by the government should aim at the promotion of the welfare of the citizens as a whole. Care must be taken to make sure that public funds are not diverted for the benefit of a particular group or section of the society or for selfish interest. Government exists for the benefit of the governed and the justification of the government expenditure is therefore to be sought in the benefit of the country as a whole.

(2)   Cannon of Economy: Although the aim of public expenditure is to maximize the social benefit, yet it does not encourage government to make wasteful expenditure in the economy. Hence, this principle advocates that all wasteful and unnecessary expenditure should be avoided. Hence, overspending and misuse of all kinds must be strictly evaded.

(3)   Cannon of Sanction: The main thrust of this principle is to obtain authority to incur expenditure prior to committal to public funds. This means that proper protocol or due process must be followed and approval given by the rightful authority before public money is released and committed to approved government projects. Unofficial spending is bound to lead to profligacy and misuse.

(4)   Cannon of Elasticity: Public expenditure should be reasonably flexible. It ought to be achievable for public establishment to fluctuate the expenditure as per requirement. Hence, the constituted rightful authorities could use the funds in an equitable proportion to achieve several desired programmes or projects.

(5)   Balanced Budget: This principle conforms with the philosophy of strict budget discipline whereby all levels of government should confine themselves to the limit of expenditure in the approved estimate. Ever-recurring deficits in the budgets should be avoided. Every effort should be made to balance a budget which implies that a sensible State is expected to cut its coat according to its cloth.   It therefore requires that aggregate expenditure should be equal or preferably less than prudently determined aggregate revenue.

(6)   Beneficial Result on Production as Well as Distribution: It is essential to observe that public expenditure must work out to fit control on both production as well as distribution of wealth in the society. It must kindle productive activity so that the amount of production in the nation amplifies and it might be doable to elevate the living standards. It should be noted that, out of all these cannons, the principle of maximum social benefit (advantage) and that of economy should be regarded as the most fundamental. The other ones are simply administrative rules which should guide the authorities in the matter of spending public funds entrusted to their care.

Importance of Public Expenditure

Blogger (2011) identified the main important factors that are responsible for increasing the government expenditures. They are as follows;

(1)   Welfare of the People: Every government is spending a huge amount of money to provide the various facilities to the public. Every government is spending money on medical aids, education, transportation and housing facilities to the people. So, it has extended the expenditure of the government.

(2)   Population Pressure; In the developing countries, birth rate is very high. To provide the basic necessities of life to the population, government has to spend the huge amount of money.

 (3)   Development of **Backward Areas;** Every government is developing its neglected areas, and this makes public expenditure to increase. Every government allocates particular amount every year in the budget to develop these areas.

(4)   To Increase Output: Every government is spending money to cultivate the barren lands and to increase the output of the country. The reason is that without increasing the growth rate, we cannot improve the economic conditions of the people.

(5)   Inflation: In the developing countries, inflation is very high so their expenditure on goods and services is also increasing day by day.

(6)   **Increase in Administrative Expenditure**: To maintain peace, security and democracy, every government is spending money. Now terrorism has also increased the growth of government expenditure.

(7) Tax Collection: As the tax capacity of the people is increasing, government is also spending a huge amount of money on the revenue department. It has also increased the expenditure of the government.

(8) Defence Expenditure: The defence is the main factor which has increased the government public expenditure. Now, armament race among the nations is increasing day by day. This expenditure has contributed to the increase in government expenditure.

Impact of Public Expenditure on the Economy

Government expenditure produces varying degrees of impact on the economy. Let us examine its effects on production, income distribution, employment, consumption, economic growth, economic stability and the circular flow of income.

(1) Impact of Government Expenditure on Production

Akrani (2011) and Irshad (2015) assert that the effect of government expenditure on production can be examined with reference to its effects on the ability and willingness to work, save and invest, and on diversion of resources.

(i) Ability to work, save and invest: Socially desirable public expenditure increases community's productive capacity. Expenditure on education, health, communication increases people's productivity at work and therefore their income. With rise in income, savings also increase and this in turn has a beneficial effect on investment and capital formation.

(ii) Willingness to work, save and invest: Public expenditure sometimes brings adverse effects on people's willingness to work and save. Government expenditure on social security facilities may bring such unfavourable effects. For example, government spends a considerable portion of its income towards provision of social security benefits such as unemployment allowances, old age pensions, insurance benefits, sickness benefits, medical benefits etc. Such benefits reduce the desire to work.

(iii) Effect on allocation of Resources among different Industries and Trade: Most times, government expenditure proves to be an effective instrument to encourage investment on a particular industry. For example, where there is a directive by government to deposit money banks to lend to a particular sector in the economy like small and medium size- firms, such firms will be encouraged to survive.

(2) Impact of government expenditure on income Distribution

Anyafo (1996) states that the distributive effect of government expenditure refers to their distribution of real income, or welfare. Certain types of expenditure confer more benefits on the rich and as such can be regarded as increasing their income. For example, government expenditure on development of low density residential areas (that is Government Reservation Areas GRAs) is beneficial to the rich and detrimental to the low income families. Government expenditures from which poor people benefit more include those incurred on the provision of cheap housing, free education, free medical services, free recreational facilities, unemployment benefits etc. If the money for such expenditure is derived from taxing the rich, the ultimate result would be a reduction of the income gap between the rich and the poor. Hence, the aim of government here is to reduce income inequality between the rich and the poor.

(3) Impact of Government Expenditure on Consumption

Public expenditure enables redistribution of income as analyzed above in favour of the poor. It improves the capacity of the poor to consume. Hence, it promotes consumption and maximizes economic activities in the economy. For example, the government expenditure on welfare schemes and programmess like free education, health care and housing certainly improves the standard of living of the people It also promotes their capacity to consume and save.

(4) Impact of Government Expenditure on Economic Stability

Economic instability takes the form of depression, recession and inflation. Public expenditure is used as a mechanism to control instability. The modern economist, Keynes advocated public expenditure as a better device to raise effective demand and to get out of depression. Public expenditure is also useful in controlling inflation and deflation. Expansion of public expenditure during deflation and reduction of public expenditure during inflation control money supply and bring about price stability.

(5) Impact of Government Expenditure on Economic Growth

The goals of planning are effectively realized only through government expenditure. The government allocates funds for the growth of various sectors like agriculture, industry, transport, communications, education, energy, health, exports, imports with a view to achieve impressive growth. Government expenditure has been very helpful in maintaining balanced

economic growth. Government takes keen interest to allocate more resources for development of backward regions. Such efforts reduce regional inequalities and promote balanced economic growth.

(6) Impact of Government Expenditure on Employment

Anyafo (1996) explains that government expenditure on public works brings about an increase in the levels of employment and income in the economy. For example, in Nigeria, the National Directorate of Employment (NDE) was created to evolve schemes that would mobilize the financial resources of government for employment generation. The NDE evolved four programmes namely; Youth Employment and Vocational Skills Development, Small Scale Industries, Agriculture and Special Public Works. In 1988, a total of 94365 new jobs were generated under the above programmes compared with 142075 in 1987. The Directorate deposited #8 million in 1988 with 20 participating banks for soft lending to graduate entrepreneurs under the small-scale industries programmes (SSI). In addition, #15 million was allocated to all states including Abuja to boost the number of such loan beneficiaries. These were in addition to the initial sums of #35 million deposited with the banks as collateral in 1987. As at December, 1988, total loan approved by the NDE for 1557 graduate entrepreneurs amounted to #44.5 million. Under the agricultural programme, a total of 4400 graduates up to the end of 1988 benefited from loans amounting to #40.9 million (CBN: ARASA, 1988; 44-45).

(7) Impact of Government Expenditure on the Circular Flow

Government expenditure, on the whole, restores to income circular flow the amount extracted by taxation. A portion goes directly to individuals in the form of transfer payments, e.g. pension and gratuity, without the acquisition of factor units by the government and flows back into the income stream as the recipients spend it. Most of the revenue is used to acquire factor inputs and commodities necessary for the government to perform its service. The amount paid by the government to workers and other owners flow back into the income circular flow directly and immediately. Expenditure of government on goods by business firms enable firms to acquire factor inputs thereby releasing the money into the income circular flow.

In general, the impact of government expenditure is to restore the flow of purchasing power to the level prior to the extraction of taxation given an assumption that tax revenue and government expenditure are equal.

2.1.4.3   Public Debt as an Instrument of Economic Policy:

Muley (2016) defined public debt as modern government borrowing from different sources when the current revenue falls short of public expenditures. Hence, public debts refer to loans incurred by the government to finance its activities when other sources of public income fail to meet the requirements. The Public debt is the borrowing by government to fund public expenditures that are not financed by the current tax revenues. It is a sound fiscal weapon to fight against inflation and deflation. It brings about economic stability and full employment in an economy.

Forms of Government Borrowing

The government borrowing may be internal or external. When the borrowing is internal, it is described as internal debt and when it is external outside the country, it is known as external debt. The following are the forms of government borrowing identified by Pragandeepa:

Bonds are purchased by non- bank individuals and institutions by drawing upon their boarded money and this shows a net addition to the circular flow of spending. Consequently, the inflationary pressures are likely to be created. But funds from the source are not commonly available in larger quantity. Its main implication is that borrowing from non-bank public is more advantageous in an inflationary period and undesirable in a depression phase. In short, the borrowing from non-bank public are not of much significant magnitude whether it comes out of consumption, saving private investment or hoarding.

(i)   Borrowing from banking system:

The government may also borrow from the banking institutions. During the period of depression, such borrowings are highly effective. In this period, banks have excessive cash reserves and the private business community is not mainly to borrow from banks since they consider it unprofitable.

When unused cash lying with banks is lent out to government, it causes a net addition to the circular flow and tends to raise national income and employment. Therefore, borrowing from banking institutions has desirable and favorable effect, specifically in the period of depression when the borrowed money is spent on public works and programmes.

On the contrary, borrowing from this source, dry up almost completely in times of brisk business activities i.e. boom. Actually, demand is very high during inflation period, since

profit expectation is high in business. The banks, being already loaded up and having no excess cash reserves, find it difficult to lend to government. If it is done, it is only through reducing their loans somewhere else. This leads to a fall in private investment. As the government spending is offset by a reduction in private investment, there will be no net effect upon national income and employment. In a nutshell, borrowing from banking institutions have desirable effect, only in depression and is undesirable or with a neutral effect during inflation period.

(ii)   Drawing from Treasury

The government may draw upon the cash balances held in the treasury for financing budgetary deficit. It demonstrates dis-hoarding results in a net addition in the supply of money. It is likely to be inflationary in nature. But generally, there are small balances over and above what is required for normal day to day requirement. These borrowings from treasury did not have any significant result.

(iii)   Printing of Money

Printing of money i.e. deficit functioning is another method of public expenditure for motrilizing additional resources in the hands of government. As new money is printed, it results in a net addition to the circular flow. Thus, this form of public borrowing is said to be highly inflationary. Deficit financing has a desirable effect during depression as it helps to raise the level of income and employment but objection is often raised against its use at the time of inflation or boom. Here, it must be added that through this device, the government not only gets additional resources at minimum cost, but can also create appropriate monetary effect like low interest rates and easy money supply and consequently, economic system is likely to experience a new revival.

Classification of Public Debts

According to Muley (2016), the structure of public debts is not uniform in any country on account of factors such as categories of markets in which loans are floated, the conditions for repayment, the rate of interest offered on bonds, purposes of borrowing, etc. On this note, Muley classified public debts into:

(i) Internal and External Debts

The sums owed to citizens and institutions are called internal debts while sums owed to foreigners comprise the external debt. Internal debt refer to the government loans floated in the capital markets within the country, such debt is subscribed by individuals and institutions of the country.

On the other hand, if a public loan is floated in the capital markets i.e. outside the country, by the government from foreign nationals, foreign governments, international financial institutions, it is called external debt.

(ii) Short Term and Long Term Loans

Loans are classified according to the duration of loans taken. Most government debt is held in short term interest-bearing securities such as Treasury Bills, or Ways and Means Advances (WMA). Maturity period of Treasury bill is usually 90 days.

Government borrows money for such period from the Central Bank of the country to cover temporary deficits in the budget. Only for long term loans, government comes to the public. For development purposes, long term period loans are raised by the government usually for a period exceeding five years or more.

(iii) Funded and Unfunded or Floating Debt

Funded debt is the loan repayable after a long period of time, usually more than a year. Thus, funded debt is long term debt. Further, since for the repayment of such debt, government maintains a separate fund, the debt is called funded debt. Floating or unfunded loans are those which are repayable within a short period, usually less than a year.

It is unfunded because no separate fund is maintained by the government for the debt repayment .Since repayment of unfunded debt is made out of public revenue, it is referred to as a floating debt, and thus unfunded debt is a short-term debt.

(iv) Voluntary and Compulsory Loan

A democratic government raises loans for the national on a voluntary basis. Thus, loans given to the government by people on their will and ability are called voluntary loans. Normally, public debt by nature is voluntary. But during emergencies (i.e. war, natural calamities etc),

government may force the national to lend it. Such loans are called forced or compulsory loans.

(v) Redeemable and Irredeemable Debt

Redeemable public debt refers to that debt which the government promises to pay off at some future date. After the maturity period, the government pays the amount to the lenders. Thus redeemable loans are called terminable loans.

In the case of irredeemable debt, government does not make any promise about the payment of the principal amount, although interest is paid regularly to the lenders. For the most obvious reason, redeemable public debt is preferred. If irredeemable loans are taken by the government, the society will have to face the consequences of burden of perpetual debt.

(vi) Productive (or Reproductive) and Unproductive (or Deadweight) debt

On the criteria of purposes of loans, public debt may be classified as productive or reproductive and unproductive or deadweight debt. Public debt is productive when it is used in income earning enterprise. It can also be referred to as that loan which is raised by the government for increasing the productive power of the economy. A productive debt creates sufficient assets by which it is eventually repaid. If loans taken by the government are spent on the building of railways, development of mines and industries, irrigation works, education etc income of the government will increase ultimately. Hence, productive loans add to the total productive capacity of the country.

Shirras (2009) acknowledged that productive or reproductive loans, which are fully covered by assets of equal or greater value, the source of the interest is the income from the ownership of these as railways and irrigation works.

Public debt is unproductive when it is spent on the purposes which do not yield any income to the government e.g. refugee reliabilization or famine relief work. Loans for financing war may be regarded as unproductive loans, instead of creating any productive asset in the economy. Unproductive loans do not add to the economic capacity of the economy. That is why unproductive debt is called dead-weight debts.

Methods of Redemption of Public Debts

Redemption of debts refers to the repayment of a public loan. Although public debt should be paid, debt redemption is desirable too. In order to save the government from bankruptcy, and

to raise the confidence of lenders, the government has to redeem the debts from time to time. Sometimes, the government may resort to an extreme step such as repudiation of debts. This extreme step is of course, violation of contract. Use of repudiation of debts by the government is economically unsound. Other important methods of retirement or redemption of public debts are given below:

Refunding: This implies issue of new bonds and securities for raising new loans in order to pay off the matured loans (i.e. old debts). When the government uses this method of refunding, there is no liquidation of the money burden of public debt, instead, the debt servicing (i.e. repayment of interest along with the principal) burden gets accumulated on account of postponement of the debt, repayment to save future debt.

Conversion: By debt conversion, we mean reduction of interest burden by converting old but interest bearing loans into new but low interest bearing loans. This method tends to reduce the burden of interest on the taxpayers. As the government is enabled to reduce the burden of debt which falls, it is not required to raise huge revenue through taxes to service the debts. Alternatively, government can cut down the tax liability and provide relief for the taxpayers in the event of a reduction in the rate of interest payable on public debt. It is assumed that since most tax payers are poor people while the lenders are rich people, such conversion of public debt result in a less unequal distribution of income.

Sinking Fund: This is a situation where the fund into which certain portion of revenue is put every year in such a way that it would be sufficient to pay off the debt from the fund at the time of maturity. In general, there are in fact two ways of creating a portion of revenue to this fund.

2.1.4.4 Government Budget as an Instrument of Economic Policy

The budget of a nation is a useful instrument to access the fluctuations in an economy. The budget is designed according to the trend of events at the point in time. It is the duty of the government to design a budget to counter any distortion or fluctuation in the economy. Pragyandeepa identified three principles of budget as given below;

(1)   Annual Balanced Budget: The classical economists propounded the principle of annual balanced budget. They defended it with force till deep rooted crisis of 1930's. The reasons for their reacceptance of this principle are as follows;

(i) They maintained that there should be balance in income and expenditure of the government.

(ii) They felt that automatic system is capable of correcting the evils

(iii) Balanced budget will not lead to depression or boom in the economy.

(iv) It is politically desirable as it checks extravagant spending of the state.

(v) This type of budget assures full employment without inflation.

(vi) The principle is based on the notion that government should increase the taxes to get more money and reduce expenditure to make the budget balance.

However, this principle is subject to certain objections given as follows;

(i) Classical version that balanced budget is neutral, is not well based. In practice, a balanced budget can be expansionary.

(ii) The assumptions of full employment and automatic adjustment are too untenable in a modern economy.

(iii) Some economists also argue that annually balanced budget involves lesser burden of taxes.

(2) Cyclically Balanced Budget: The cyclically balanced budget is termed as the Swedish budget. Such a budget implies budgetary surpluses in prosperous period and employing the surplus revenue receipts for the retirement of public debt. During the period of recession, deficit budgets are prepared in such a manner that the budget surpluses during the earlier period of inflation are balanced with deficits. The excess public expenditure over revenue is financed through public borrowing. The cyclically balanced budget can stabilize the level of business activities. During inflation and prosperity, excessive spending activities are curbed with budgetary surpluses while budgetary deficits during recession will rise extra purchasing power. This policy is favoured by the following account:

(i) The government can easily adjust the finances according to the needs.

(ii) This policy works smoothly in all times like depression, inflation, boom and recession.

(iii) Cyclically balanced budget simply ensures stability but gives no guarantee that the system will get stabilized at the level of full employment.

(3) Fully Managed Compensatory Budget

This policy implies a deliberate adjustment in taxes, expenditures, revenues and public borrowings with the motto of achieving full employment without inflation. It assigns only a secondary role to the budgetary balance. It lays down the emphasis on maintenance of full employment and solidarity in the price level. With this principle, the growth of public debt and the problem of interest payment can be easily avoided. Thus, the principle is also called "functional finance". The fully managed compensatory budget has been criticized on the following grounds;

(i) It considers that government should give blanket guarantee against unemployment.

(ii) This policy is not automatic

(iii) It brings political upheavals as it delays the implementation of appropriate fiscal measures.

(iv) A country is burdened with debt in the long run period.

(v) This policy is a prolonged lag which in practice has a disturbing effect on the Economy.

2.1.4.5 Public Works as an Instrument of Economic Policy

Keynes General theory highlighted public works programme as the most significant anti-depression device. There are two forms of government expenditure viz: Public Works and Transfer Payments

Public Works: According to Clark, (2005) public works are durable goods, primary fixed structures produced by the government. They include expenditures on public works such as roads, rail tracks, schools, parks, buildings, airports, post offices, hospitals, irrigation canals etc.

Transfer Payments: These are payments such as interests on public debts, subsidy, pension, relief payment, unemployment, insurance and social security benefits etc. The expenditure on capital project is called capital expenditure.

Keynes had strong faith in such a programme that he went to the extent of saying that even completely unproductive projects like digging up of holes and filling them up are fully admissible. Public works are supported as anti-depression device on the following grounds;

(i)   They absorb hitherto unemployed workers

(ii)   They increase the purchasing power of the community and thereby stimulate the demand for consumption goods.

(iii)   They help to create economically and socially useful capital assets such as roads, canals, power plants, buildings, irrigations, training centres and public parks etc.

(iv)   They provide a strong incentive for the growth of industries which generally improves the state of depression.

(v)   They help to maintain the moral and self respect of the workforce and make use of the skill of unemployment people.

(vi)   The public works do not have an off-setting effect upon private investment because these are started at a time when private investment is not forth-coming.

2.2   Contextual Review

2.2.1   Taxation and Government Economic Policy Operations in Nigeria Before and After the Arrival of the Colonial Masters.

There has been an informal system of government in Nigeria practiced by the various regions in the country before the arrival of the colonial masters. On this premise, we shall look at this heading in the perspective of before, during and after the arrival of the colonial masters.

2.2.2   Nigerian Economy before the Colonial Administration

According to Usoro (1977), far back before and during the colonial period, Nigerians operated considerable market-orientated economies. These were in respect of agriculture including hoarding and fishing, mining and industries (smelting iron works, bronze works etc).and crafts using leather, wood, raffia, clay and the like. Various articles of trade went into the various networks and rings of daily and periodic markets as well as short and long distance ones. Apart from several such local markets rings, there were interregional trading centres and linkages in different directions; East, West, North and South in the territory now known as Nigeria. There were also international and intercontinental markets, trading route and commercial transactions involving Nigerians.

Thus, there were trans-Saharan to countries of North Africa and Southern Europe; Trans-Atlantic, to countries of South and Latin America; and trans-national to countries surrounding Nigeria including Cameroun, Niger, Togo and Chad. The economies of Nigerian people during both pre-colonial and colonial periods were able to sustain these trading skills as well as substantial population increase, settlement spread into frontier areas or region and urbanization at that time.

Products and art pieces dating even far beyond the colonial period are well known today in the world of art. During the colonial period, the authorities also tried to encourage this indigenous economic sector consciously and unconsciously. They recognized and encouraged a dual economy with internal and external (export) components. Unconsciously, the relative peace and security which the colonial rule eventually ushered in meant, for instance, that the areas (sphere) for the people's economic activities were widened, as they could have access to farmland, fishing grounds or pastureland even beyond their ethnic or kindred areas.

The roads and railways constructed in the export crop producing areas or to the mineral mining zones also helped in evacuating agricultural surpluses including the local food crops, to distant markets and consuming populations particularly in the cities and densely production of such local food items as root crops and cereals, or animals such as beef, chicken and fish, increased both in quantities and land areas concerned.

Shokpeka and Nwokocha (2009) observed that through the initiative of the colonial authorities and individuals including expatriates, philanthropists, innovations were introduced into the local economy. They included nylon fishing nets, new crops (cassava and maize) and new breeds of cattle (zebu). They provided water from earth dams and reservoirs for and encouraged irrigation farming in many parts of Northern Nigeria. Some of the industries and businesses owned by the government during the colonial era helped to organize the local farmers to provide them with funds (capital) for their farming inputs or activities. For instance, cotton farmers were helped by the then British Cotton Ginneries Association, and Tobacco growers were helped by the Nigeria Tobacco Company. Perhaps, the most significant conscious encouragement from the colonial administration was in research and scientific back-up. Many research institutes in Nigeria today were established during this period. Some of these institutes include; Ibadan (moor plantation); Benin (Nigeria institute for Oil Palm Research); Umudike near Umuahia (National Root Crops Research Institute);

Badegi near Bida National Cereals (then Rice) Research Station; Vom near Jos (National Vetinary Research Institute); and Kaduna(Institute for Trypanosomiasis Research). There were indeed, several others based on the findings and pilot trials by the research institutes, agricultural extension workers. With these and several other measures, the colonial era witnessed some boosts in the internal economy and the citizens of Nigeria were contented with the intra and international trade, and the farming activities and the living standard then were enjoyed by the citizens.

2.2.3 Nigerian Economy During and After the Colonial Administration

According to Online Nigeria (2003), two related aspects of the colonial economy have been particularly in Nigeria's development path. They are the Development Orientation and the Resultant Structure and Character of Production.

(i)   Development Orientation of the Colonial Authorities

The colonial authorities' approach to the 'management' of the Nigerian economy was characterized by two main orientations;

The first was the major factor which initially brought the British presence in the territory that eventually became Nigeria and British colonial rule's search for cheap supplies of resources, human and material to contribute to the sustenance of British Empire. It was the need to ensure that the exploitation of Nigeria's resources for the benefit of the empire was undertaken in a more efficient manner that led to colonial rule. Thus, during the early decades of colonial rule, the colonial authorities in Nigeria were concerned with the provision of basic infrastructure and services in the country to the extent that they were required to enhance the sourcing and shipment of raw materials to Britain.

The second orientation was what Schatz (1977) described as "Colonialist nurture Capitalism with a welfare tendency" This is an approach by which the government sought to directly influence in some ways, the course of events in the country. This change in orientation was brought about by a combination of forces.

The colonial government's idea of development and how to pursue it were summarized in two documents which the administration described as "development plans". These were the so- called Ten Year Plan of Development and Welfare for Nigeria (1946-1956), which was terminated in 1954, and the (1955-1960) Plan followed up.

For the first ten year period (1946-1956), the colonial administration planned to allocate national resources mainly to activities that would bring about improvement in the general health and mental condition of people, and to the provision of those physical facilities which may be regarded as the minimum necessary for the general improvement of the country and its population (Helleiner, 1966: 332).

In terms of specific sectors, this policy is meant for concentrating public resources on the provision of social services, as well as transport and communication. The believe then, was that these facilities would induce private entrepreneurs to invest in industry and agriculture that would bring about the jobs, the goods and services and the modern skills and production techniques (i.e. technological capabilities) necessary for the growth of the economy and the improvement of people's material well being.

Hence, the private sector was entrusted with the task of establishing and running directly productive activities while the government concentrated on the provision of physical and social infrastructure. The 1955-1960 plans showed a slight modification of colonial government approach to development. The authorities began to participate in direct productive activities by setting up and running industrial and agricultural enterprises. The modification was brought about by the realization that indigenous business had not yet developed by the necessary productive capacity. It was in response to the prompting of eager indigenes in government who then constituted a significant force in policy making, followed the 1954 constitutional changes.

(ii)   Structure and Character of Production

The main motives of the colonialism were the search for cheap raw materials and expansion of market for the products of the colonialists and as such the colonial economy was dominated by agriculture and trade. The authorities, through a combination of devices stimulated the production of such industrial raw materials as palm oil and kernels, cocoa, cotton, groundnut and rubber. The result was that export trade in these commodities soon becomes the dominant features of the colonial economy. It indicates the extent of export of two of the most agricultural products namely; palm oil and kernels between 1865 and 1889. This shows that, on the overall, the fluctuations in the quantities of both products exported from year to year, yet during 1885-9 substantial increases were recorded.

Increased export demand also stimulated activities in the production of the other major agricultural products such as cocoa, groundnuts, cotton, and rubber. In case of cocoa, for instance, it was reported that within two decades of introduction of the crop, into the country, export production had reached 202 tons (Onimode, 1933:43). It can also be observed that earnings increased substantially from 1950, as Nigeria was approaching independence. The promotion of agricultural goods for export (cash crops), generated substantial foreign exchange for the government, but it created problems in some other aspects of the economy. For example, it left the production of food crops in the hands of peasant households who generally worked on small plots of land with low inefficient technologies. Thus, the emphasis on cash crops production created the conditions for the food insecurity which the country later experienced. With the growth of foreign trade came the need for modern financial institutions especially banks mainly from Britain. Among these early banks were the British Bank of West Africa (now First Bank of Nigeria PLC) and Barclays Bank (now Union Bank of Nigeria PLC). These banks brought with them British payment instruments, especially silver coins and the modern practice of banking. Soon, several new banks were ill-equipped; they soon failed (Nwankwo, 1980).

This experience and several other factors led to the establishment of the Central Bank of Nigeria in 1958 to among other things; regulate development in the financial sector. Another significant economic activity during colonial period was mining of such minerals as coal, tin, columbite, petroleum and gold. They controlled the mining of gold but left the mining of others to private sector foreign companies. Earnings from mineral exports increased substantially from 1950, particularly in the case of tin and columbite. As revenue from gold started declining by 1945, petroleum had, by 1958 started contributing to Nigeria export earnings. It should be remarked that the motive of the colonial masters in their economic promotion and advancement was to enhance the evacuation of agricultural and mineral products to their foreign based country. They avoided the promotion of industrial activities such as manufacturing in order to protect the market for products in their home country.

2.2.4 Nigerian Economy after Independence

Obasogie (2015) explained that Nigeria became politically independent of the British Monarch on 1st October, 1960 and on October 8, 1960 she made her first appearance on the international arena when she joined "United Nations General Assembly" and became the 99th member-nation of the organization. Nigeria's foreign policy is non-alignment in foreign. As a member of comity of nations, Nigeria is represented on many committee and commissions of

the United Nations; Committee of Twenty-one Disarmament Committee, United Nations Educational Scientific and Cultural Organisation (UNESCO), United Emergency Children Fund (UNICEF), World Health Organisation (WHO),and UNTAD. Nigeria also belongs to the international Banks for Reconstruction and Development (IBRD) and International Monetary Funds (IMF) as well as the International Development Association (IDA). Perhaps where Nigeria has made the greatest achievement since independence is her activities in the Organisation of African Unity (OAU) now African Union (AU) as a founder member mediator and a living spirit behind the organization. Nigeria is also a member of the British Common Wealth of Nations. Nigeria has diplomatic relations with countries in Europe, Africa, America and Asia.

General Performance of the Economy

According to Ekpo and Umoh (2003), Nigerian economy has had a truncated history. In the period 1960-70, the Gross Domestic Product (GDP) recorded 3.1 percent growth annually. During the Oil boom era, roughly 1970-78, GDP grew positively by 6.2 percent annually which is a remarkable growth. However, in the 1980's, GDP had negative growth rates. In the period of structural adjustment and economic liberalisation, the GDP responded to economic policies and grew at a positive rate 4.0 percent. In the years after independence, industry and manufacturing sectors had positive growth rates except for the period 1980-1988 where industry and manufacturing grew negatively by -3.2 percent and -2.9 percent respectively. The growth of agriculture for the periods 1960-70 and 1970-78 was unsatisfactory. In the early 1960's, the agricultural sector suffered from low commodity prices while the oil boom contributed to the negative growth of agriculture in 1970's. The boom in the oil sector lured labour away from the sector to urban centres.

The contribution of agriculture to GDP, which was 63 percent in 1960, declined to 34 percent in 1988, not because the industrial sector increased its share but due to neglect of the agricultural sector and focus on the oil as a single source of Nigerian economy. It was therefore not surprising that by 1975, the economy had become a net importer of basic food items. The apparent increase in industry and manufacturing from 1978 to1988, was due to activities in the mining sub-sector especially petroleum. Capital formation in the economy has not been satisfactory. Gross Domestic Investment as a percent of GDP which was 16.3 percent and 22, 8 percent in the periods 1965-73 and 1973-80 respectively, decreased to almost 14.0 percent in 1980-88 and increased to 18.2 percent in 1991-98. Gross National Saving was low and consisted mostly of public savings especially during the period, 1973-80.

The current account balances before the official transfers were negative for the periods 1965-73, 1980-88 and 1991-98. The economy never experienced double- digit inflation during the 1960s. By 1976 however, the inflation rate stood at 23 percent. It decreased to 11.8 percent in 1979 and jumped to 41 percent and 72.8 percent in 1989 and 1995 respectively. By 1998, the inflation rate had, however, reduced to 9.5 percent from 29.0 percent in 1996. Unemployment rates averaged almost 5 percent for the period 1976-1988. However, the statistics especially on unemployment must be interpreted with caution. Based on some basic indicators, it appears that the economy performed well during the years immediately after independence and into boom years.

According to Nigeria Economic Statistics (2015), Nigeria has a population of 177 155 754 occupying a landmass of 923 768 sq km with major natural resources in natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, and arable land, With respect to April, 2014, statistical rebasing exercise, Nigeria emerged as Africa's largest economy with GDP estimates at 502 billion US dollar. Oil has been a dominant source of government revenue since 1970s. Regulatory constraints and security risks have limited new investment in oil and natural gas, and Nigeria's oil production was contracted in 2012 and 2013. Nevertheless, the Nigerian economy has continued to grow at a rapid of 6-8 percent per annum (pre-rebasing), driven by growth in agriculture, telecommunications and services and the medium-term outlook for Nigeria is good, assuming oil output stabilizes and oil price remain strong. Fiscal authorities pursued counter cyclic policies in 2011-2013, significantly reducing the budget deficit. Monetary policy has also been responsive and effective. Following 2008-9 global financial crises, the banking sector was effectively recapitalized and regulation enhanced. Despite its strong fundamental, oil-rich Nigeria has been huddled by inadequate power supply, lack of infrastructure, delays in the passage of legislative reforms, inefficient property registration system, restrictive trade policies, an inconsistent regulatory environment, a slow and inefficient judicial system, an unreliable dispute resolution mechanism, insecurity and pervasive corruption. Economic diversification and strong growth have not translated into a significant decline in poverty levels. Over 62 percent of Nigeria's 170 million people live in extreme poverty. President Jonathan established an economic team that includes experienced and reputable members and announced plans to increase transparency, continue to diversify production and further improve fiscal management. The government is working hard to develop stronger public private partnership for roads, agriculture and power.

2.2.5   Deposit Money Banks in Nigeria and Fiscal Policy

Deposit Money Banks formerly known as commercial banks are institutions set up for safe-keeping of money, valuable goods and documents like wills and others (Anyaele, 1990; Nwankwo, 1980). Orjiako (1999: 132-133) posits that the increased activities of the extra territorial merchants and the establishment of both local and international businesses created the need for locally based financial institutions in1892. Sequel to this, foreign-based and indigenous commercial banks were established to enhance business activities, Mgbodike (2001: 1) holds that basically, a bank has a two major functions; to receive deposits and to make loans. In addition to receiving deposits and loans, there are other services that banks render which are fundamental important to the normal functioning to our complex economic system and we shall discuss these later in this chapter.

Charley (1974:1) explained that a person who carries on the business of banking is called a banker and his business area is called a bank. With the advent of the limited liability, however, the term bank has come to be used to describe a company that carries on a banking business and the terms; bankers and bank have become, in practice, interchangeable and it would perhaps be regarded as pedantic to insist on keeping the separate meanings.

2.2.6   Evolution of Deposit Money Banks in Nigeria

Nzotta (2004) notes that banking business in Nigeria between 1892 - 1952 was free banking era which was characterized by the absence of any banking regulations and legislations, and this resulted into banking boom. This period dates back to 1892 when the African Banking Corporation of South Africa established a branch in Lagos as a result of the effort of the Elder Dempster Company that was then Shipping Company based in Liverpool. This attempt was followed by the establishment of the British Bank of West Africa in 1893. This bank started operation in 1894 and later assumed the responsibilities of operating the West African Currency Board (WACB). The bank as an agent of the board received, stored and issued coins, in exchange for sterling coin or London drafts.

However, in 1899, the Anglo-African Bank was established in old Calabar but the British Bank of West Africa (BBWA) took over this bank in 1912. The bank (BBWA) changed its name in 1957 to Bank of West Africa, after Ghana gained independence. Also in 1965 when the bank merged with Standard Chartered Bank of London, its name was changed to Standard

Bank. Further more in 1979, when the government acquired sixty percent share in the company, the bank was renamed First Bank of Nigeria Limited. The bank has recently fully privatized in addition with the other three first generation banks.

Another bank established in 1916 was later taken over by the Barclays Bank D C $ O (i.e. Dominion, Colonial and Overseas). This bank later changed its name to Union Bank of Nigeria limited after indigenization policy. Another foreign bank known as the British and French Bank for Commerce and Industry was also established in Nigeria in 1949. Its name was later changed to British and French Bank in 1959 and later in 1961, the name was further changed to the United Bank for Africa Limited.

So far, one can easily observe that most of the largest banks in Nigeria today were established during the free banking era. Most of these foreign banks geared their efforts in promoting colonial administration and businesses, neglecting the growth of the domestic economy. The realization of this monopoly of banking system, lead to the establishment of mushroom banks. For example, in 1847 alone, 145 banking companies were registered and most of them never commenced business (Nwankwo, 1982).

In 1924, a group of Nigerian business men resident in London established the first indigenous bank in Nigeria at Lagos. This bank liquidated in 1930 due to bad management and the global economic depression prevailing at that time. Many other indigenous banks were established and most of them failed. For instance, a Merchant bank established in 1931, collapsed in 1936. Also, a National Bank of Nigeria Limited opened in 1933 equally failed and Agbomagbe Bank the Nigeria Farmers and Commercial Bank were founded in 1945 and 1947 respectively and both folded up in 1952. Equally, in 1948, the African continental Bank was established as an offshoot of Lagos Properties Limited and later failed like the others. The failure of these indigenous banks that tried to fill the gap created by the discriminatory expatriate banks were due to under capitalization and bad management, lack of patronage, fraud, huge and bad debts among others.

To restore confidence in banking business, the colonial government appointed Mr. G Paton to investigate into the conduct of banking business in Nigeria. Sequel to Mr. G. Paton's investigations, the Central Bank of Nigeria (CBN) was established in 1958 and was further empowered by the amendment of CBN act over the control of banking system in Nigeria.

These strict measures and control reduced to a minimum, the cases of bank failures and other undesirable distortions in banking business were removed. The ordinance among other issues included;

- Minimum paid-up capital
- Satisfactory Reserves
- Legal lending limits
- Minimum specific Liquid Assets

In 1969, the CBN was further empowered to fully regulate and supervise all aspect of banking industry. The focus was mainly on the aspects of capitalization, reporting and liquidity considerations, lending limits and reserves etc.

On this note, the government had issued varying fiscal and monetary policies to Deposit Money Banks such as rural banking (1977-1985), deregulation of banking system (1986-1992), Universal banking System (2002-2004), and Banking Consolidation (2004-date). The up-to-date Deposit Money Banks that survived the 2004 bank's capital base consolidation as at 2017 include the following;

Table 2.3   List of Deposit Money Banks in Nigeria as at 2017

1   Access Bank (Acquired International Bank)

2   Citibank

3   Diamond Bank

4   Ecobank Nigeria (Acquired Oceanic Bank)

5   Fidelity Bank Nigeria

6   First Bank of Nigeria

7   First City Monument Bank (Acquired Fin Bank)

8   Guaranty Trust Bank

9   Heritage Bank Plc (formerly Spring Bank)

10   Keystone Bank Limited (Formerly Bank PHP)

11   Providus Bank PLC

12   Polaris Bank PLC(Acquired by Sky Bank Limited)

13   Stanbic IBTC bank Nigeria Limited

14   Standard Chartered Bank

15   Sterling Bank (Acquired Equatorial Trust Bank)

16   Suntrust Bank Nigeria Limited

17   Union Bank PLC

18   United Bank for Africa

19   Unity Bank PLC

20   Wema Bank

21   Zenith Bank

Source: http//www.imbuedngtion.com-banks-nigeria-2017.html

Anaeto (2015) explains that the continuing head wings in the economy may be defining the sustenance of the resilience banks have demonstrated in their 2014 operations. A consecutive year of severe negative operating environment may end up signposting both 2015 and 2016 as seasons of locust after significant rises in performance indicators in the previous three years. Much cannot be understood in the study of Nigeria's banking industry in the last two years without the background provided by the first major regulator induced consolidation in the industry under Prof. Chukwuma Soludo led Central Bank of Nigeria between 2004 and 2009.

Industry analysts believed that Soludo was set to build a better banking industry by share size in all respects especially capital base. By that, banks would be in a better position to support economic development and less susceptible to the risk of bank failures, which had almost become the common phenomenon of Nigerian banks. Up until then, banks were challenged with issues of persistent majorly on public sector deposits. Soludo, thus pursued vigorously the agenda of recapitalization of banks by increasing the minimum capital from N2 billion to N25 billion, an unprecedented 1150 percent jump.

Anaeto highlighted Soludo's landmark in the industry as follows;

- Elimination of fringe players and establishment of relatively bigger banking institutions with solid capital base

- Strengthening of regulation of the system thereby creating healthier banks.

- Establishment of a strong universal banking model which transformed most merchant banks into commercial banks with healthier competition.

- Establishment of electronic banking including online transfers; Automated Teller Machine (A T M) and other interbank platforms including other customer enhanced internet facilities.

- Increased capital bases encouraging banks to diversify into many new products and services as well as enhancing the liquidity ratios of the banks which subsequently drew more customers into the financial system and businesses.

However, many analysts observed that many banks at this period were carried away by the euphoria of their sizes and balance sheets which grew astronomically post-capitalization. The total assets of money deposit banks in 2006 (i. e. one year after consolidation) had grown by approximately 60%) to #7.2 trillion from #4.5 trillion. The huge resources soon found itself into bad businesses at the same time the global financial crisis was seeping into Nigeria. The combined effect was a bubble burst.

The 2008/2009 global financial crisis brought new dimension into financial system regulation of the C B N, following the events that followed up. The year 2009 was a transition year between the administration of Soludo and that of Lamido Sanusi led C B N. The Nigerian banking system and financial market experienced major shock arising from the contagion effect of the 2008 global financial crisis and decline in global oil prices on the international side and poor governance weak risk management framework and significant exposure to margin loans of the domestic front.

These factors led to the insolvency of eight banks which were classified as being in grave situations. The total toxic assets that were absorbed by Assets Management Corporation of Nigeria (AMCON) at this time were #5.7 trillion. After the backdrop of these challenges, the monetary policy anchor of the CBN following the entry of Sanusi as governor was anchored on four pillars of banking reforms namely;

- Enhancing the quality of banks
- Establishing financial stability
- Ensuring the financial sector evolution
- Ensuring the financial sector contributes to the real economy.

Though many observers believe the risk management and corporate governance focus of Sanusi's CBN led administration was relatively commendable. Stability in the sector was more of a transient effect of a relatively stable economy of the time as things began to go bad with reversal of oil revenue inflow into the economy in the second half of 2014. Also, despite the C B N's attempt to ensure that the banks remained responsive to activating a financially driven real sector, the impact had not been too significant.

However, due to other circumstances Sanusi's tenor at C B N ended abruptly and controversially few months to full statutory term having been suspended by the government. This formed the backdrop of the new C B N administration under the leadership of Godwin Emefiele which rolled out plans in 2014 geared towards running a people focused Central Bank deliberate effort to reduce interest rate, maintain price and exchange rate stability and stimulate domestic growth.

Major highlights of the planned policies include the pursuance of gradual reduction of interest rate, its consequent impact on both deposit and lending rates comparable to the pattern in other emerging and African economies. It also seeks to maintenance of exchange rate stability and sustenance of managed float regime so as to preserve the value of the domestic currency given its import dependent nature through the conservation of external reserves.

Emefiele was set to creating financial system stability by managing factors that create liquidity shocks and zero tolerance practices that undermine the health of financial institutions. He seeks a zero tolerance policy on fraudulent borrowers and he also reinforced the cashless policy which was introduced in 2012 to help strengthen the payment system. Major policy actions of the Emefiele led C B N points towards the continuation of hawkish policy.

 CBN under the leadership of Emefiele appeared ambitious with its plan to simultaneously pursue lower interest rate and exchange rate along steady price level given the challenges of the time when the new Governor came on board. However, the gradual winding up of the United States Quantitative Easing Program Slowing inflows into the emerging and frontier market, the build up to 2015 elections, fiscal fragility due to falling oil prices, dwindling external reserves and fiscal policy uncertainties were some of the more doubting issues requiring a hawkish strategy than a financial agenda. It is noteworthy that every C B N governor in the last three administrations has had one form of global or national challenge to contend with. While Soludo's C B N battled with issues of bank consolidation, the Sanusi was confronted with the fallout from global financial crisis and shaky financial system with extremely cost of risks. The major issues now confronting Emefiele's tenure is the depletion of external reserves and simultaneous pressure of foreign exchange rates.

Subsequently, the C B N has remained actively engaged on multiple policy fronts designed to curb speculative attacks on domestic foreign exchange market while also seeking to preserve reserves. The frequency and inconsistency of such policies have contributed to weakening investors' confidence and triggered outflows and banks are extremely uncomfortable as the books in 2015 are already in stress.

The culmination of the emergent challenges of fiscal and monetary policies under which the banks struggled through in 2015 could be summed up in the November Monetary Policy Committee (M PC) decisions. In its 6th and final meeting for the year on 24th November, presided over by Mr. Godwin Emefiele, the MPC emphasized the need to focus on financial system stability while taking proactive and administrative measures needed to support the environment in which market institutions operate.

However, it noted that close coordination between the monetary and fiscal policies was necessary for the sustainable growth in the banking industry and the economy in general. At the meeting, the committee considered the present challenges that pervade the macroeconomic space namely; the expected rate likely the USA Federal Reserve Bank, the continuously declining oil prices and the gloomy outlook on global growth.

The committee also considered the present macroeconomic challenges in the country noting that although headline inflation has been on a persistent rise, the observed moderation in October on a month-on-month basis provided some room for monetary easing to support output in the short to medium term while keeping focus on price stability. The M P C also, considered the bullish trend in the fixed income space of the bear run in the capital market.

Finally, the M P C reviewed and assessed the impact of the current policy to leave the market a wash with liquidity in a bid to foster credit expansion by banks to the real sector. However, the committee noted that the expected impact was yet to be met and it was against this background that they M P C made the following policy pronouncement;

- Reduction of Monetary Policy Rate (M P R) from 13.0% to 11.0%.
- Cash Reserve Requirement (CRR) reduction from 25.0% to 20.0%
- Asymmetric corridor of +2.0% and -7.0% around the MPR Afrinvest Group of financial analysis summarized the impact of the accommodative policy tweaks by the MPC against many analysts expectations as follows:

(i)The 200bps cut in M P R and introduction of an asymmetric corridor around the MPR at +200bps and -700bps is the most significant of the policy decisions reached as this brings the

Standing Longing Facility (SLF) and Standing Deposit Facility (SDF) rates to 130% and 4.0% from 15.0% and 11.0% respectively.

Prior to the MPC decision, there has been a regulatory maximum on the remunerable SDF placement by each bank at #7.5 bn. The MPC'S decision to complement this by further 5,0% cut in CRR will add approximately #771.4 billion to liquidity level in banks based on October data from the CBN.

However, the communiqué issued by the C B N added a caveat that the additional liquidity level would be based on a condition that the funds will be channeled to the real sector. Nevertheless, the lower SDF rate and increase in liquidity level would lower competition for deposits amongst banks and expect to see a decline in savings and interbank rates. The more accommodative stand is also expected to drive yields downwards in the Secondary Bonds Market as dealers are likely to bid down on current rates in anticipation of lower yield at the primary market auction.

We expect Nigeria Inter-bank Offered Rate (NIBOR) rates currently at 10.1percent on average to adjust to a new SLF rate to an average of 7.1 percent (if the same spread is maintained) while average yields on Treasury Bills (TB) and Bonds Market (currently at 4.7 percent and 10.5 percent) are likely to also correct to 3.7 percent and 9.5 percent respectively. Given the lower financial market rates anticipated, we expect slight reduction in prime lending rate.

(ii)Increase in Credit to Private Sector;

In the short term, we do not expect the ease in monetary policy to immediately translate to increase lending to the real sector, especially given the high risk retail/Small and Medium Enterprises (SME) loans segment. Structural bottleneck, weak quality of infrastructure and the current slowdown in economic activities constitute high risk adjustment to real sector lending, which would require more adjustments by the fiscal authorities to de-risk the sector. However, with the restriction on all the cheap income lines, we expect a significant medium term expansion in credit to the private sector (currently at #19.1 in October 2015 and up to 6.8 percent year to year) by DMBs.

This will necessitate banks to improve on their risk management framework to identify opportunity and earn a relatively higher margin (compared to the cheap rates in the fixed income market) and buoy assets turnover and shareholders' return.

(iii)Lower Net Interest Margin for Banks:

Interests and income earned by banks on investment security and loans are expected to reduce in the first quarter of 2016 as banks adjusted to the lower primary auction rates in the banks market and reduced inter-bank rates. Cost of fund will reduce but only marginally due to

1. 25.0 percent minimum mandated interest rate on savings deposits and
2. 80.0 percent loan to deposit ratio regulation by the CBN that will continue to drive demand for deposits.

Tier 1 banks who are net placers of funds in inter-bank market and with higher deposit liability to fund will be impacted more in terms of Net Interest Margin (NIM). Tier 2 banks who are net borrowers will have their cost of fund reduced although the lower interest income will still taper net interest margin. Overall, we expect NIM to decline (from 6.4 percent in 3rd quarter, 2015 to quarter1 in 2016). There is likelihood of a re-pricing of stocks in the stock market in the trading sessions ahead as investors are likely to go short on financial services and long on other valued sector equities.

(iv)Further Foreign Exchange restrictions and increase in black market rates.

The CBN's action to buoy aggregate demand side of the economy by increasing liquidity levels and reducing market rates will have a feedback effect on price and exchange stability in the short to medium terms. As the CBN has remained resolute in its resolve to keep administration measures in place to reduce depletion in the Foreign exchange (FX) reserves and create a contrived stability in inter-bank FX rates, the effects would be felt in the parallel market for FX where rates would further depreciate.

We estimate a conservative FX rate of #255.00/US$1.00 at the parallel segment. This may create a vicious cycle of addition tightening of exchange rates rules by CBN if accrual to external reserve does not strengthen. The strong pass-through of lower exchange rate on consumer prices in Nigeria suggests high inflation pressure is in evitable in the short to medium term.

The relaxed monetary stance of the MPC after its last meeting for the year, though positive for stimulation short term economic growth, may not come without negative implications for the economy in the medium term. With the reduction in interest rate, Nigeria is likely to face

increased capital flight consequences in the medium to long term, more so with Fed raising its benchmark interest rate at its last meeting in last week.

Equally, the spike in financial market liquidity resulting from the reduction in CRR to 20.0 percent as well as the expansionary 2016 fiscal year are expected to further trigger inflation pressure. While the decisions by the MPC ensued from a need to grow the real sector through increased lending by banks, decision of lending will continue to be governed by risk, given the macroeconomic headwinds.

2.2.7   The Role of Deposit Money Banks in an Economy

The availability of financial is a prerequisite for a rapid development and transaction of any nation's economy. It is generally acknowledged that the provision and efficient management of the scarce resources is facilitated by the existing and appropriate functioning of financial institutions in the economy. It follows that banks have a vital role to play by making their vast financial resources available for financing and promoting development.

Anyaele (1990) defined Deposit Money Bank (DMB) as an institution designed purposely for safekeeping of money, valuable goods and documents like wills, and others. He said that the existence of banks has been a big boost to business activities. Beattie (2014) described deposit money banks as places where money is stored, basic investment like term deposit are made as well as a place where credit cards and loans are signed for. He added that most deposit money banks perform basic functions such as;

(1) Accept deposit
(2) Lend money
(3) Process payments
(4) Issue bank drafts and cheque
(5) Offer safety deposit boxes for items and documents.

Deposit money banks are considered not merely as dealers in money but also the leaders in economic development. They are not only the store houses of the country's wealth but also the reservoirs of resources necessary for economic development. They play important roles in the economic development of a country. A well developed banking system is essential for the economic development of a country. The "Industrial Revolution" in Europe in the 19th century would not have been possible without a sound system of deposit money banking.

In case of developing countries like Nigeria, DMBs are considered to be the backbone of the economy. For example, they are responsible for the acceleration of capital formation. DMBs encourage the habit of saving among people and they utilize the funds saved (i.e. idle resources) for production purposes. Also, DMBs grant credit facilities to their customers and equally finance some short-run and long-run projects. The loans obtained from the banks are used to develop both internal and external businesses.

2.2.8   Performance Indicators of Deposit Money Banks in Nigeria

The deposit money banks in Nigeria since the establishment of the Central Bank of Nigeria (CBN) in 1958 has grown tremendously (Nnanna, Englama and Odoko, 2004). The benefits accruable to a healthy and well developed financial system relate to its savings mobilization and efficient intermediation roles (Gibson and Tsakalotos, 1994). According to Bisat, Johnson and Sundararajan (1992), measures of financial sector development used to assess the effectiveness of the financial growth and reforms of deposit money banks include the following;

- The growth of private financial assets as measured by the size of currency, which also indicates the liquidity position of the financial system. Their growth rates and ratios to GDP show the degree of monetization and contribution to the economic growth of the nation.
- The flow of credit to the private sector from the Deposit Money Banks (DMBs). The credit flow from CBN to the financial institutions highlights the role of the public sector in financial intermediation and would diminish as the financial sector develops, with increased mobilization of private savings.
- The growth of DMBs credit to the private sector relative to the growth of private sector deposits with them. A faster growth of the former relative to the later indicates that there is pressure on domestic resources. This process reflects poor performance of the DMBs in resource mobilization.
- The ratio of DMBs lending to the domestic economy is another measure of the performance of the banks. For example, Beck, Levine and Loyaza (2000), found out that bank lending to the private sector in Argentina, Chile and Mexico are strongly and positively correlated with an economy's level of real production and with its real rate of growth.

- Saving/Investment ratio is another commonly used indicator of financial sector performance. It shows the level of investment financed by national savings. This ratio has not been impressive over the years as it kept on fluctuating over time. For instance, the ratio was 1.0 percent in 1980 and declined to 0.7 percent in 1985. It rose to 2.5 percent in 1990 and further declined to -0.6 percent in 1995. The downward trend continued untill1998, which eventually drastically fell to -0.7 percent. This shows how inadequate the national savings to finance investment projects in the country. This further shows the inability of the financial sector to mobilize sufficient funds for investment purposes. However, the trend was reversed to average of 4.7 percent between 1999 and 2000 due to financial sector reform.

- Financial deepening as defined by Goldsmith (1955) and Shaw (1973) is the ratio of the financial assets of a country to the level of national income (GDP). Financial deepening is one of the lending indicators of financial sector performance as it measures the contribution of the financial sector to the growth of the entire economy. M2/GDP is a commonly used indicator of financial deepening and this has been identified as an important factor for growth.

2.2.9 Use of CAMELS Rating System

Another system of determining the performance of deposit money bank's growth is by the use of "CAMELS Rating System". The CAMELS rating system is a recognized international rating system that bank supervisory authorities use in order to rate financial institutions according to the factors represented by the six factors represented by the acronym "CAMELS" (Hardin , 2016). This system uses a score of one as the best rating while a rating of five is considered the worst for each factor. On this note, banks that are given an average score of less than two are considered to be high-quality institutions. Banks with scores greater than three are considered to be less-than satisfactory institutions. The acronym 'CAMELS' stands for the following factors;

C --- Capital Adequacy

A---Asset Quality

M---Management Assessment

E---Earning

L---Liquidity Ratio and

S---Sensitivity to Risks Exposures

Capital Adequacy: Financial authorities assess institutions' capital adequacy through capital to end analysis. They also check if the institutions comply with the regulations pertaining to risk-based net worth requirement. To get a high capital adequacy rating, institutions must also comply with interest and dividend rules and practices. Other factors involved in rating and assessing institutions' capital adequacy are its growth plans, economic environment, ability to control risk and loan, and investment concentrations.

Asset quality: This covers an institutional loan's quality which reflects the earnings of the institution. Assessing asset quality involves rating investment risk factors that the company may face and comparing them to the company's capital earnings. This shows the stability of the company when faced with particular risks. Financial authorities also check how companies are affected by fair market value of investments when mirrored with the company's book value of investments. Lastly, asset quality is reflected by the efficiency of an institution's investment policies and practices.

Management Assessment: This determines whether an institution is able to properly react to financial stress. This component rating is reflected by the management's capability to point out, measure, look after and control risks of the institution's daily activities. It covers the management's ability to ensure the safe operations of the institution as they comply with the necessary and applicable internal and external regulations.

Earnings: An institution's ability to create appropriate returns to be able to expand, retain competitiveness and add capital is a key factor in rating its continued viability. Financial authorities determine this by assessing the company's growth, stability, valuation allowances, net interest margin, net worth level and the quality of the company's existing assets.

Liquidity: To assess company's liquidity, its interest rate, risk sensitivity, availability of assets which can easily be converted to cash, dependence on short-term volatile financial resources and ACM technical competence should be examined.

Sensitivity: This covers how particular risk exposures can affect institutions. Financial authorities assess an institution's sensitivity to market risk by monitoring the management of credit concentrations. In this way, they are able to see how lending to specific industries affect an institution. These loans include agricultural lending, medical lending, credit card lending and energy sector lending. Exposure to foreign exchange, commodities, equities and derivatives are also included in rating the sensitivity of a company to market risk.

2.2.10 Performance Indicators of DMBs Employed in This Study

The principal and relevant performance indicators of DMBs employed in this research are:

- Capital Base
- Credit Creation (Loans and Advances)
- Liquidity Ratios and
- Asset Base

These indicators will be used to determine the influence of fiscal policy on the deposit money banks in Nigeria.

Capital Base of Deposit Money Banks in Nigeria

The capital base requirement of deposit money banks is the amount of capital banks or other financial institutions have to hold as required by its financial regulators. This is usually expressed as a capital adequacy ratio of equity that must be held as a percentage of risk-weighted assets. To a large extent, the strength of a bank depends on the capital funds available to that bank.

Capital can be defined as the equivalent of the net worth of an entity derived from subtracting total liabilities from total assets (Nzotta, 2004). He added that it is equity value of a bank equated to the present value of its future earnings. In other words, capital represents the owner's worth in a bank, which includes the paid up capital and the additions to the capital resources of the bank.

Okafor (1983) defined capital in the views of an economist, a layman, an accountant and a corporate financier. To an economist, capital is any output of post productive activity that has been saved for the purpose of adding further production. A layman sees capital as simply money (cash) while to an accountant capital consists of the assets (monetary and non-monetary) contributed by owners to get a business going. The corporate financier sees capital as the monetary and non-monetary assets contributed by both the owners of an enterprise (equity capital) and by creditors (loan capital). The financier stresses total productive capability to an enterprise irrespective of the source of such productive capability.

Emekekwe (2005) observed that the capital structure of a company is composed of long-term funds, medium term and long term funds. The long term fund is composed of equity stocks, debt and preferred stock. Medium term funds are needed for shorter period of time than the long term funds and these ranges from 3 years to 6 years. Short-term funds are required for much shorter periods before the debts are liquidated. There are no great conceptual difference

among the various meaning of capital. In each case, capital refers essentially to the right of an enterprise to utilize the services of produced factor inputs.

On the international scene, the established rules around capital requirements has been the Basel Accord established in 1974 and published by the Basel Committee on Banking Supervision (BCBS) housed at the Bank for International Settlement (BIS). This sets up a framework on how banks and depository institutions must calculate their capital. After obtaining the capital ratios, the bank capital adequacy can be assessed and regulated.

In 1988, the committee decided to introduce a capital measurement system commonly known as Basel 1

Basel 1 Accord: This is the round of deliberations by central bankers from around the world, and in 1988, the Basel Committee on Banking Supervision in Basel, Switzerland published a minimum capital requirements for banks. This is known as the 1988 Basel Accord and enforced by law in the Group of Ten (G-10) countries in 1992. This primarily focused on credit risk and appropriate risk- weighting of assets. The accord had three main objectives:

(i)   To make sure banks held sufficient capital to cover their risks.

(ii)   To level the playing field among international banks competing across boarder

(iii)   To facilitate comparability of the capital positions of the banks. Tennant (2016).

It was further replaced by Basel II Accord.

Basel II Accord: This is the second of the Basel Accord which are recommendations on banking laws and regulations issued by BCBS. It was initially published in June, 2004 which was intended to amend international standards that controlled how much capital banks need to hold to guard against the financial and operational risks banks encountered. These rules sought to ensure that the greater the amount of capital the bank needs to hold to safe-guard its solvency and economic stability the better its operation & performance. Basel II also tries to accomplish this by establishing risk and capital management requirements to ensure that a bank has adequate capital for the risk the bank exposes itself to through its lending, and trading activities. Another focus was to maintain sufficient consistency of regulations so as to limit competitive inequality amongst internationally active banks.

Capital Requirement in Basel II Accord: In Basel II accord, bank capital is divided in "tiers", Tier 1 capital and Tier 2 capital.

Tier 1 Capital: This consists of largely of shareholders' equity and disclosed reserves. It is the amount paid up originally to purchase the stock (or shares) of the bank (not the amount those shares are currently trading for on the stock exchange), retained profits subtracting

accumulated losses, and other quantifiable Tier 1 capital securities. In simple terms, if the original stockholder contributed $100 to buy their stock and the bank has made $10 in retained earnings each year since, paid out no dividends, had no other form of capital and made no losses, after 10 years the bank's tier 1 capital would be $200. Shareholders equity and retained earnings are now commonly referred to as "core" Tier 1 together with other qualifying Tier 1 capital securities.

Tier 2 Capital: This is also known as supplementary capital and it comprises of undisclosed reserves, revaluation reserves, general provisions, hybrid instruments and subordinated term debt.

Undisclosed Reserves: These are where a bank has made a profit but this has not appeared in normal retained profits or in general reserves.

Revaluation Reserves: A revaluation reserve is a reserve created when a company has an asset revalued and an increase in value is brought to account. A simple example may be where a bank owns the land and building of its headquarters and bought them for $100 a century ago. A current revaluation is very likely to show a large increase in value. The increase would be added to a revaluation reserve.

General Provisions: A general provision is created when a company is aware that a loss has occurred, but it is not certain of the exact nature of that loss. Under Pre-International financial Reporting Standard (IFRS) accounting standards, general provisions, were commonly created to provide for losses that were expected in the future. As these did not represent incurred losses, regulators tended to allow them to be counted as capital.

Hybrid Debt Capital Instruments: They consist of instruments which combine certain characteristics of equity as well as debt. They can be included in supplementary capital if they are able to support losses on an ongoing basis without triggering liquidation. Most times, it includes instruments which are initially issued with interest obligation (e.g. debentures) but the same can later be converted into capital.

Subordinated-Term Debt: Subordinated debt is classified as lower Tier 2 debt. It usually has a maturity of a minimum period of 10 years and ranks senior to Tier 1 debt but subordinate to senior debt. To ensure that the amount of capital outstanding doesn't fall sharply once a lower Tier issue matures and for example, not to be replaced, the regulator demands that the amount that is quantifiable as Tier 2 capital amortizes (i.e. reduce) on a straight line basis from maturity minus 5 years (i. e. a 1 billion issue would only count as worth 800 m in capital 4 years before maturity). The remainder qualifies as senior issuance. For this reason, many lower Tier 2 instruments were issued 10 years non-call 5 year issue

(i.e. final maturity after 10 years but callable after 5 years). If not called, issuance has a large step similar to Tier 1, thereby making the call more likely. Following the financial crisis of 2007-2008, Basel II was replaced by Basel III.

Basel III Accord: This is the part of the committee's continued effort to enhance the banking regulatory framework. It is built on the international convergence of capital measurement and capital standard documents (Basel II). It can also be a compilation of documents that form the global regulatory framework for capital and liquidity. The third Basel Accord is a global, voluntary regulatory framework on bank capital adequacy, stress testing and market liquidity risk. It was agreed upon by the members of the BCBS in 2010-2011, and was scheduled to be introduced from 2013 until 2015; however, changes from April 2013 extended implementation until March 2018 and further extended to March, 2019. The Basel III was developed in response to the deficiencies in financial regulation revealed by the financial crisis of 2007-2008. So, Basel III is intended to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage. Hence, it can be taken as the primary global standard-setter for prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate therefore, is to strengthen the regulation, supervision and practices of banks worldwide with purpose of enhancing and empowering financial sector stability.

Basel IV: Tennant (2016) explained that new proposals for setting the new capital requirements for the banking sector have been officially unveiled by the Basel Committee on Banking Supervision (BCBS). The proposals clarified the rules on combating money laundering and terrorist financing in correspondent banking. Based on the first accord, the revised proposals are intended to ensure that banks conduct correspondent banking business with the best possible understanding of the applicable rules on anti-money laundering and considering the financing of terrorism. According to BCBS, the draft proposals reflect these risks by withdrawing from correspondent banking, which may, in turn affect the ability to send and receive international payments in the entire regions. Tennant added that the proposals follow the publication by the Financial Action Task Force (FATF) of its guidance on correspondent banking services. On this note, the BCBS seeks to clarify the expectations of the banking supervisors, consistent with the FATF standards and guidance.

However, in response to BCBS proposals, the European Commission has published its first proposals for calibrating capital and liquidity requirements in the form of a Capital Requirements Directive and Resolution (CRDR) proposals which address the market risks

inherent in banks trading activities, as well as introducing the concept of "proportionality". Proportionality according to Berere (2016) will be used to improve the ability of smaller banks to compete for the benefits of their customers.

Credit Creation by the Deposit Money Banks in Nigeria

Credit creation is the process where banks create credit by lending out loans to businesses and customers from increased deposits. A portion of these deposits is kept by the bank as reserves (Mandikisi, 2016). It is also the purchasing power created by banks through lending based on fractional reserve system. Nyamangara (2016) in his view posits that credit creation refers to the ability of a bank to expand deposits as a multiple of its reserves. A bank keeps a certain proportion of its deposits as minimum reserve for meeting the demand of the depositors and lends out the remaining excess reserve to earn income. The bank loan is not paid directly to the borrower but is only credited into his/her account. Every bank loan creates an equivalent deposit in the bank. Hence, credit is created by expanding deposits as a multiple of the reserves.

In his own view, Appiah (2016) defines credit creation as a situation in which banks make more loans to consumers and businesses, with the result that the amount of money in circulation (being passed from one person to another) increases. In other words, it refers to the unique power of the banks to multiply loans and advances, and hence deposits.

Guru (2016) explains that credit creation is one of the most outstanding functions of a modern bank and in this regard, banks are called factory for the manufacture of credit. He added that banks are enabled to erect a vast superstructure of credit on the basis of a small cash reserve. Subsequently, banks lend out money and charge interest without parting with cash, instead they create a deposit for the borrower and this is what is meant by creation of credit.

The Process of Credit Creation

Let us assume that, a man say Mr. Obi deposits #20 000 with a bank and the Legal Reserve Ratio (LRR) or cash reserves ratio is 10 percent which means the bank keeps only the minimum required of #2000 as cash reserve. The lending bank can now use the remaining balance of #18000 (i.e. #20000x90%) for giving out loan to another person. Recall that banks do not give loans in cash; rather it is re-deposited in the bank as demand deposit in favour of the borrower. The bank now lends #18000 to say Mr. Ade who is actually not given loan but only demand deposit account is opened in his name and the amount is credited to his account.

This step taken is the first set of credit creation in the form of secondary deposit (#18000) which is equal to 90 percent of the primary (initial) deposit. Again, 10 percent of Mr. Ade's deposit (i.e. #18000) is kept by the bank as Legal Reserve Ratio(LRR) and the balance #16200 (i.e. #18000-1800) is advanced to another borrower say Mallam Musa. The bank now gets new demand deposit of #16200. This is the second set of the credit creation which is 90 percent of the first set of increase of #18000.The third set of credit creation will be 90 percent of second set of #16200. This process of credit creation goes on continuously until the derivative deposit (secondary deposit) becomes zero. At the end of it all, the volume of the total credit created in this way becomes multiple of the initial (primary) deposit. The quantitative outcome is called Money Multiplier. If the bank succeeds in creating total credit of say, #18000, it means that, the bank has created 9 times of the primary initial deposit of #20000. This is meant by credit creation. In a nutshell, credit or money creation by deposit money banks is determined by the amount of the initial (primary) deposits and the cash reserve (LRR).

Symbolically,

Total Credit Creation = Initial Deposit X 1/ LRR

Hence, the money multiplier means the multiple by which total deposit increases due to initial primary deposit. In fact, it is the inverse of the Legal Reserve Ratio (LRR). For example, if the LRR is 10 percent, then the money multiplier is 1/1/10 or 1/0.1 = 10.

Types of Bank Credits

Nzotta (2004) identified types of bank credits as follows:

- (i)   Loans and Advances
- (ii) Special Credits
- (iii) Documentary Bills
- (iv) Leases and
- (v)   Other credits.

(a) Loans and Advances: The loans and advances are categorized into the following:

(i)   **Overdrafts;** This permits the borrower to overdraw the amount in his account in accordance with the general banking practices. The procedure is simple and bank's interest is very low.

(ii) **Advances:** An advance is a short-term credit which is granted for a defined period of time, usually between 30 and 180 days. It does not call for long protocols and it has very low interest. Often times, it is demanded by bank's clients to solve pressing and emergency problems.

(iii) **Medium-Term Loans:** This is a credit facility with an original maturity of more than one year or a loan granted under a formal agreement (revolving credit or credits) on which the original maturity of the commitment is in excess of one year. It has a maturity between 1 and 5 years. They constitute important sources of intermediate funds for projects and businesses such as investments, equipment financing, housing, share acquisition, agricultural financing, construction etc. Usually, there must be a loan agreement between the bank and the borrower which among other things must specify the condition and important features of the loan.

(iv) **Long-Term Loans:** These are loans granted for periods exceeding five years and are mainly provided for capital requirements. In Nigeria, deposit money banks are not used to lend out this type of loan rather they are provided by investment banks, development banks and various international lending agencies. However, in recent times, deposit money banks have embarked on long-term lending through syndicated loan arrangements. The interest rates are higher than rates due to the higher risk exposures.

(b) Special Credits: Special credits are special types of credit facilities given by banks in favour of various projects and investments. They are non-fund based but since they involve risk bearing, they are branded as credit. They consist of the following:

(i) Public Works: The public works comprise of three types as follows:

- **The Bid Bonds or Tender Bonds:** This involves an agreement to ensure that the party to whom a project or contract has been awarded will be executed successfully. The bid bond is called for the employer as soon as the contractor fails to accept the terms of the contract may result in an additional cost of rewarding the contract to another contractor.

- **Advance Payment Guarantees:** When an employer doubts the financial and technical standing of a contractor, the bank can now stand as a guarantor to the contractor, prior to the commencement of the contract.

- **Performance Bonds:** Banks issue this type of bond on behalf of their clients who have contract awards. The bond provides a guarantee on the contractor's capability of handling the contract, his financial standing and credit rating.

(ii) Customs and Excise Bonds: This type of bond is issued by a bank to guarantee a third party (usually a government organ) with regards to an importer's capability of making payment of custom duties (for imports) and excise duties (for manufactured

goods in Nigeria). As soon as the customer defaults, the bank would be held liable to pay the sum guaranteed.

    (iii) Bill of Lading Indemnities: A bill of lading is a quasi negotiable document which confers title to goods. Banks usually issue a bill of lading indemnity to their customers. In cases where the goods imported into the country arrive before the importer (customer) receives the bill of lading, this indemnity issued will thus assist the customer in clearing the goods. The bill of Lading indemnity indemnifies the shipping company against any loss or subsequent claims on the ownership of the goods covered by the indemnity and usually the bank is primarily liable on the indemnity.

(c) Documentary Credits: This is a written commitment of one bank addressed to an identifiable party to pay the seller of goods or services, an agreed sum of money on condition that the seller produces documents showing evidence that the goods have been shipped or that he has performed the services required of him. Different types of documentary credits includes:

- **Revocable Document Credits:** A revocable documentary credit allows the issuing bank to amend or cancel the credit without notice to the beneficiary (the seller) before he is paid.

- **Irrevocable and Confirmed Documentary Credits:** This type of documentary credit offers the best security for payment to the seller assuming that he fulfills his part of the contract. Documentary credits could also be classified according to the terms of payment. For example, we have sight credits, acceptance credits, deferred payment credits, red clause credits and revolving credits.

Liquidity of Deposit Money Banks in Nigeria

Liquidity according to Nwude (2004) is the ability of a company to pay or meet its short term obligations as they fall due. It can also be a measure to which a person or firm has cash to meet immediate and short-term obligations or assets that can be quickly converted to do this. The liquidity position of deposit money banks is a very important consideration for effective business operations. Hence, the greater the liquid (cash) position of big DMBs, the greater will be its ability to carry out business activities (especially lending loans and advances) effectively to the public (Pandey, 2008).

Nwude (2004) and Emekekwue (2005) identified two ways in which liquidity can be measured. They include:

Current Ratio: This is the ratio of the current assets and current liability. It is represented as;

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Acid Test or Quick Ratio (QR): This is the ratio of current assets-stock and current liability. It is represented as;

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Stock}}{\text{Current Liability}}$$

Lack of Liquidity (or illiquidity) in extreme situations can lead to a bank's insolvency and sometimes liquidation. Also, if a firm (bank inclusive) does not invest sufficient funds in current assets, it may become illiquid and therefore, risky (Pandey, 2005). But, it would lose profitability as idle current assets would not earn anything. Thus, a proper trade-off must be achieved between profitability and liquidity.

Asset Base of Deposit Money Banks

Assets are valuable economic resources owned by a firm (Pandey 2005). Pandey stressed that the asset of a firm represents:

(a) stored purchasing power (e.g. cash),

(b) money claims (e.g. receivables, stock) and

(c) tangible and intangible items that can be sold or used in business to generate earnings.

Tangible items includes: land, building, plant equipment or stocks of materials and finished goods and all such other items which have physical substance. Intangible items do not have any physical existence, but they have value to a firm. They include patents, copyrights, trade name or good will.

A bank's asset base is the underlying assets giving value to the bank's investment or loan. The asset base is not fixed. It can appreciate or depreciate according to the market forces, or increase or decrease as the bank sells or acquires new assets.

Types of Assets:

Assets of a firm are classified as:

Current Assets: The current assets are sometimes called liquid assets. They are those resources of a firm which are either held in the form of cash or are expected to be converted into cash within the accounting period or the operating cycle of the business. The accounting period is usually one year while the operating cycle is the time taken to convert the raw

materials into finished goods, sell finished goods, and convert receivables (goods sold on credit) into cash.

Fixed Assets: These are long-term items that are held for periods longer than the accounting period. They include tangible fixed assets like land, building, machinery, equipment, furniture etc. They can either appreciate or depreciate (i.e increase in value or decrease in value).

2.3 THEORETICAL REVIEW

2.3.1 The Theory of Government Intervention and Financial Fragility

According to Wegner (2013), banks decide on the projects in which they invest, and the banks to which or from which they obtain loans. Thus, the links (network) created between banks is endogenous. Each bank is characterized by parameters which define the return on its projects, the withdrawal rate of its depositors and its equity available for investments. Maturity mismatch of balance sheets forces a fraction of assets to be prematurely liquidated, at a fire sale cost. This therefore shows the impact of government intervention, which alleviates this cost by increasing the recovery rate of assets. The fragility of a network is measured by the number of bank failures following shocks of two kinds: first a shock to a single bank, second a simultaneous shock to all banks. The first leads to a ranking of the banks similar to that used by Google to rank websites: the higher its ranking the greater the degree of vulnerability induced by the bank. The vulnerability of the network to simultaneous shocks depends on the probability distribution of the banks characteristics: the more dispersed the distribution the greater its vulnerability. Government intervention increases the vulnerability of the network, the increase being greater, the more dispersed the characteristics of the banks. Banking systems with similar leverage can have different degrees of vulnerability, highlighting the importance of networks.

2.3.2 Government Economic Activities and Crowding Out Theory

Reuss (1991) explained that in response to the deepest recession in the United States of America (USA) since the Great Depression, the Obama administration proposed a large fiscal "stimulus" plan (Fiscal policies involve taxation and government spending while fiscal stimulus involves increase in government spending or tax cuts or both). The current stimulus plan, after some compromises between the Obama administration and Republicans congress, included both substantial tax cuts and increase in government spending. Together, they would increase the Federal Government deficit by over$700 billion. Reuss further stated that a fiscal

stimulus is a standard "Keynesian" response to a recession. The logic behind these policies is that recessions can be caused by insufficient total demand for goods and services. If saving (a "Leakage" from demand) exceeds investment (an "injection" of demand), there will not be enough demand to buy all the goods and services that the economy is capable of producing at the "full employment" level. Some goods will go unsold and firms will reduce output. They will cut jobs, cancel supply orders and even close production facilities. The economy will now spiral into a recession.

In standard Keynesian models, either tax cuts or increased government spending can increase total demand and therefore total output and employment. An initial increase in spending (by either the government or the recipients of the tax cuts) results in new income for other individuals, who then go on to spend part (not all) of this income which results in new income for still other individuals and so on. Ultimately, this series of additions to income results in a total increase in Gross Domestic Product (GDP) greater than the original increase in government spending or reduction in taxes. The increase in real GDP divided by the initial spending increase is called the "multiplier". The standard Keynesian view implies a multiplier greater than one.

The Keynesian theory is criticized by conservative Economists because they argued that government spending cannot possibly increase overall economic activity and that the stimulus plan is there doomed to fail. This position is sometimes known as the "Treasury View" (because it mirrors the argument of the British Treasury Department during the Great Depression) or the theory of "Crowding Out". The new government spending, these economists argue, has to come from somewhere, either from higher taxes or increased government borrowing. Either way, the increase in government spending will come at the expense of private spending. If the spending is financed by tax increases conservative economists argue that this will reduce individual's after-tax incomes and therefore reduce their spending. If it is financed through borrowing, the increased government demand for loans will drive up interest rates and this will "crowd out" private investment. Some private investment projects that would have been profitable at lower interest rates would not be profitable at higher rates and they would not be undertaken.

Extreme version of this theory known as "dollar-for-dollar" crowding out, argue that the decrease in private investment will exactly offset the increase in government spending and there will be no change in the overall output of goods and services.

2.3.3 Theory of Price Level

Leeper (1991) and Sims (1994) state that the fiscal theory of the price level is the idea that government fiscal policy affects the price level. For the price level to be stable (i.e. to control inflation), government finances must be sustainable. This means that they must run a balanced budget over a course of the business cycle, meaning that they must not run a structural deficit (Woodford, 1994, 1995, 2001). It is an unorthodox theory, which contrasts with the usual monetary theory of the price level, where the price level is primarily or exclusively determined by supply of money.

These two contrasting views of prices may or may not contradict one another. By the proponents, the fiscal theory is seen as complementary to the monetary quantity theory. By its detractors, the fiscal theory is seen as incorrect and either irrelevant or simply wrong-headed (Kocherlakola, 2002) and (Mccallum, 1999, 2001, 2003).

In nominal terms, government must pay off its existing liabilities (government debt) either by refinancing (rolling over the debt, issuing new debt to pay the old) or amortizing (paying it off from surpluses in tax revenue). In real terms, a government can also inflate away the debt, if it causes or allows high inflation; the real amount it must repay will be smaller. Alternatively, it could default on its obligations. The fiscal theory states that if a government has an unsustainable fiscal policy, such that it will not be able to pay off its obligation in future out of tax revenue (it runs a persistent structural deficit), then it will pay them off via inflating the debt away. Thus, fiscal discipline, meaning a balanced budget over the course of the economic cycle is necessary for the price level to remain stable, unsustainable deficits will require inflation in future.

2.3.4 Banking Theory of Financial Intermediation

The financial intermediation theories of banking states that banks collect deposits from those that have surplus funds and lend them out as loans to individuals or other non-financial units that do not have enough funds. Arnold (2007) opined that fundamental financial intermediation is enticing investors to buy securities backed by investments whose risks the investors cannot fully evaluate. The intermediary such as a bank, hedge fund or ordinary corporation, specializes in evaluating risks. The investor who buys security from the intermediary looks to the past performances of the intermediary as well as to concise summaries of risk of those securities.

According to Allen (1997) the traditional theories of intermediation are based on transaction costs and asymmetric information. They are designed for institutions like deposit money banks(DMB) which take deposit or issue insurance policies and channel funds to firms. However, in recent decades, there have been significant changes. For instance, even though costs and asymmetric information have declined, intermediation has increased. New markets for financial futures and options are mainly markets for intermediation rather than individuals or firms. These changes are difficult to reconcile with the traditional theories. The most recent aspect of the theories lays more emphasis on the role of intermediation in the context of risks and participation costs involved.

In the views of Wemer (2015), the older fractional reserve theory of banking states that each individual bank is a financial intermediary without the power to create money, but the banking system collectively is able to create money through the process of multiple deposit expansion (the money multiplier). On the other hand, Wemer added that the credit creation theory of banking predominant a century ago does not consider banks as financial intermediaries that gather deposits to lend out but instead argues that each individual bank creates credit and money when granting a bank loan.

Government fiscal policy makes use of intermediation theory to instruct DMBs to channel their loans and advances to specific areas or sectors in order to achieve a desired goal which will subsequently improve the economy in general.

2.3.5 A Review of Keynesian Theory

Before 1920 the economy of the countries round the whole world was more or less in a laissez faire situation especially in the United States of America. For example, in the United States of America, it was an era dominated by Republican President: Warren Harding (1920-1923), Calvin Coolidge (1823-1929) and Herbert Hover (1929-1933). Under their conservative economic philosophy of laissez- faire (leave it alone), markets were allowed to operate without government intervention. Taxes and regulations were slashed drastically, monopolies were allowed to form and inequality of wealth and income reached record levels. The country was on the conservative and preferred gold standard and the Federal Reserve was not allowed to significantly change the money supply. This situation persisted and deteriorated into Great Depression which began in 1929. This situation showed that the economy was clearly turning downward. The entire sectors of the economy were depressed throughout the decade, like agriculture, energy and mining, construction and automobile,

manufacturing were affected. Bank failures were rampant and people lived at or below the minimum subsistence level.

When the Great Depression hit worldwide, it fell on economists to explain it and devise a cure. On this note, an influential economist by name John Maynard Keynes, a British citizen (1883-1946) came up with an explanation of economic slumps that was surprisingly simple. According to Keynes, in a normal economy, there is high level of employment and everyone is spending their earnings as usual. This means there is a circular flow of money in the economy, as my spending becomes part of your earnings, and your spending becomes part of my earnings. Some consumers may like to save their money but because my spending is part of your earnings, my decision to hoard (save) money makes things worse for me and in alternative if you try to hoard your own money too (save), things will be even worse for both of us. So there is a viscous circle at work here because as people tried to hoard money at difficult times, times become more difficult. The cure for this according to Keynes was for the Central Bank to expand the money supply. By putting more bills in people's hands consumer confidence would return, people would spend and the circular flow of money would be established.

The question is that if this is a solution to recessions, what then is the solution to depressions? Keynes believed that depressions were recessions that had fallen into a "liquidity trap". A liquidity trap is when people hoard money and refuse to spend no matter how much government tries to expand the money supply. In situation like this, Keynes believed that the government should do what individuals cannot do, namely spending. He called this "priming the pump" of the economy which is a final government effort to re-establish the circular flow of money. The success of Keynesian economics was so resounding that almost all capitalist governments around the world adopted its policies. The result seems to be nothing less than the extinction of the economic depression. For example, in seven short years under massive Keynesian spending the US went from the greatest depression it has ever known to the greatest economic boom it has ever known. Before world war 11, eight US recessions worsened into depressions (as happened in 1807, 1837,1873,1882,1893, 1920, 1933 and 1937). Since world war 11, under Keynesian policies, there have been nine recessions (1945-46, 1949, 1954, 1956, 1969-61, 1970, 1973-75, 1980-83, 1990-92), and not one has turned into a depression. The success of Keynesian economics was such that even Richard Nixton once declared, "we are all Keynesian now".

Keynes theory of spending was criticized by Milton Friedman on the grounds that government spending is not a cure to recession rather, he postulated that government should bolt out of the business of expanding or contracting the money supply. This means that money supply should be steady, expanding it slightly each year only to allow for the growth of the economy and a few other basic factors. Inflation, unemployment and output would adjust themselves according to market demands. This policy he called monetarism. This system of fiscal policy was tried by Bank of England in 1986 and President Reagan of US and it did not yield any positive result.

Another critique of Keynesian policy was Robert Lucas who was of the opinion that recession is self-correcting and government intervention in a recession is not effective because of its slow in taking actions. He called his theory rational expectation.

2.3.6   Faculty Theory of Taxation

The faculty theory of taxation is also known as "Ability-to-pay" theory of taxation. The theory states that every one (including deposit money banks) should be taxed according to his ability to pay (Anyafo: 1996). By this theory, deposit money banks should be taxed according to the profits they made and this will go a long way to increase their credit creation, capital base and business activities.

However, the problem with this theory is that it is not easy to measure with accuracy and fairness the ability to pay of people even in superficially similar circumstances (Hanson: 1974).The theory that taxes should be levied in accordance with the taxpayer' ability to pay is often considered the basic criterion of justice in taxation. In other words, this means that those with equal ability to pay should shoulder the same burden and those who possess greater financial ability should render a heavier tax burden. This implies that horizontal equity of taxation shows equal tax burden for those with the same income while vertical equity of tax shows different abilities to pay.

Dalton (1964:62-63) in respect to how to measure the ability to pay, considered the sacrifice to the tax payer of paying his taxes and then to deduce some scheme of distribution of the burden of taxation from some principle concerning sacrifice. The three most common of these principles are:

(i)   Equal sacrifice

(ii)   Proportional sacrifice

(iii)   Minimum sacrifice and Dalton added the fourth one as

(iv)   Do not alter the inequality of incomes by taxation or leave them as you find them.

The principle of equal sacrifice states that the direct money burden of taxation should be so distributed that the direct real burden on all taxpayers is equal. The principle of proportional sacrifice stresses that the direct real burden on every taxpayer is proportional to the economic welfare which he derives from his income. Also, the principle of minimum sacrifice emphasizes that the total direct real burden on the taxpayers as a whole is as small as possible. The fourth principle states that the inequality of incomes should be neither increased nor diminished by taxation.

2.3.7   The Benefit Theory of Taxation

Browning and Browning (1979) explains that the benefit theory of taxation implies a specific method for distributing the tax burden. This means that taxes should be allocated on the basis of benefits received from government expenditures. The value of some benefits increase with income. For example, policy and fire service protection are probably more important to wealthier people with more property to protect.

The deposit money banks as private agencies are likely to be crowded out when government made some expenditure and on this note, the rate of lending their loans and advances will be affected. However, the merit of this theory is that it emphasizes the two – sidedness of government tax- expenditure decisions. If people or firms do not receive benefits commensurate with their tax burden, then the expenditure should not be undertaken at all. However, there is no way of determining the benefits to specific people or firms from expenditures on public goods such as national defence. Also, there is the question of how to redistribute income under such a system. For instance, if low income group were taxed on the basis of benefits received from a policy of income redistribution, the effect of such policies would be negated. Hence, the notion that the basis of progressive taxation be in accordance with benefits received is unpopular.

2.3.8   Taxable Capacity Theory

This theory shows an expression of the extent to which a people or agency can be taxed. According to Hanson (1974) it is very difficult to decide on what is the taxable capacity of

people or agencies, because it depends to some extent on what the state does with the revenue from taxes. Dalton (1964), considering the theory of taxable capacity, distinguished between what he called "Absolute taxable capacity of single community" and the "Relative taxable capacity of two or more communities". After his analysis, he concluded that relative taxable capacity is a reality, which can however be equally well expressed in other terms while absolute taxable capacity is a myth.

2.3.9 Theories of Public Expenditure and Economic Growth

Musgrave (2004) propounded this theory when he discovered that changes in the income elasticity of demand for public services in three stages of per capita income. He postulates that at low levels of per capita income, demand for public services tends to be very low, this is because such revenue is dedicated to satisfying basic needs. Also, when per capita income begins to rise above these levels of low income, the demand for services supplied by the public sector, the rate of public sector growth tends to fall as the more basic wants are being satisfied. This feature is common in the developed economies.

2.4 EMPIRICAL REVIEW

The empirical review will discuss and highlight the works of various authors on Taxation and government expenditure and related topics from both foreign countries and within Nigeria.

2.4.1 Taxation and Government Expenditure in Foreign Countries and within Nigeria

Yuchan (2014) investigated the changes of private consumption in response to fiscal shocks in China using the Linear Regression model and the VAR model with respect to government taxation, government expenditure and transfer payment. The sample used in this paper was annual time series data on 29 mainland Chinese Provinces from 1990-2012. Yuchan found out that Chinese fiscal policy implementation is in line with Keynesian theory. He added that an expansionary government spending, a cut in taxation or an increase in transfer will lead to an increase in household consumption which invariably favours deposit money banks in terms of loans and advances to investors.

Breuer and Buettner (2010) examined the effects of economic policy on GDP and the government budget balance in Germany using a Structural VAR Model. In order to identify the expenditure shocks, they used Balanced/Perotti (2002) and assumed that government

expenditure is partly predetermined in the budget. For the identification of tax policy shocks, they exploit changes in tax law in Germany between 1967 and 2008. Breuer and Buettner analysis shows significant effects of expansionary fiscal policies on output in the short term. The result points at a multiplier for government expenditures of 1.5 and below 1.0 for tax cuts. This means that government economic policy contributes to an increase in government debt. When the situation is applied to the recent fiscal policy expansion that took place in the wake of the global financial crisis, the model suggests considerable effects on GDP for the years 2009 and 2010. However, the model predicts that following the progamme, government will tend to restore primary balance. As a consequence, the level of government debt will reach a new steady state.

Tatu and Lucian (2006), in a recent study in Romania, tested the applicability of the Modigliani-Miller model in fiscal conditions on Romania's case, taking into account the specific nature of the interest deductibility. Study results showed that surplus value of a company indebted compared to unlevered one is influenced by the tax rate and interest expenses, if all interest expenses would be tax deductible when the company's financial structure is not affected. Analyzing all correlations, tax profits financing of a company (deposit money banks inclusive), numerous studies (Stickney and McGee (1982), Graham(1996),Gupta and Newberry(1997), Derashid and Zhang(2003), Richardson and Lanis(2007), found out that there is an interdependent relationship between effective tax rate and financial structure (measured by leverage variable) in most of the studies emphasizing a negative correlation between these two variables.

In addition to the financial structure, taxation influences the performance of business profits. Thus, interest expenses and depreciation expenses are deductible expenses that may influence the amount of income and hence, tax due, depending on the policies of depreciation used. The analysis, deductible expenses or tax incentives that can benefit companies are element that impacts the tax liability of the company. It can lead to a financial structure resorting to tax savings due to the fact that they are tax deductible depreciation expense of investment projects which probably has been contracted more loans. Thus, in the presence of taxation of profits and debt conditions, the market value of capital increases by the amount of tax savings resulting from the deductibility of interest.

Bancel and Mittoo (2003) using information provided by the managers of companies (DMBs inclusive) from 17 European Countries followed the link between theory and practice, found

out that the most important factors that influence debt policy are financial flexibility, the rating company granted by credit institutions like deposit money banks and tax benefits of debt and net income per share is the delusive element on equity financing.

Haug, Jedrzejowicz and Sznajderska (2013) combined a monetary Structured Vector auto regression (SVAR) with a fiscal (SVAR) for Poland. They found out that government expenditure multiplier turnout to be relatively small.

Omran (2017) studied fiscal policy on output using a three variables Structural Vector autoregressive Model (SVAR) including GDP, tax revenue and real interest for the period 1985-2015 in Egypt. His main findings were that GDP responds negatively to a one standard deviation shock from GE starting from the first year until we reach the fifth year then becomes fairly constant until the tenth year. However, it responds positively to a one standard deviation shock from tax revenue until the second year then it becomes fairly constant after that. Therefore, the conclusion is that tax revenue shock has a positive but weak impact on output. Also, when a five variable SVAR Model is used, the main findings were that GDP responds negatively to a one standard deviation shock from government spending meaning that government spending shock has a negative impact on output. The response of inflation to government spending produces a positive reaction starting from the first year to the third year however, it becomes negative until the fourth year and finally, it becomes constant starting from the fourth year till the tenth year.

Aydin and Iyan (2010) investigated the effects of fiscal policy with respect to Bank Lending in Turkey with a methodology by Kashyap and Stein (2000) using a two-step regression approach. They studied the effect of taxation in government expenditure on the credit growth during the period 2002-2008. They found out that liquidity-constrained banks have sharper decline in lending during contractionary fiscal policy and that crowding-out effect disappears more for banks with retail-banking focus when fiscal policies are prudent. This means that the results are statistically weak, suggesting that bank lending channel is not strong in Turkey and government finances has limited direct impact on credit.

Sarangi, Bhanumurthy and Abu-Ismail (2015) under fiscal space assessed the pattern of public expenditure policies and its impact on growth, poverty and inequality during the period 1991-2013 in Jordan. They used the Structural Vector Auto regression (SVAR) model to capture the dynamic impacts (shocks) of changes in government spending on output after introducing some restrictions (mostly recursive). They also used the Structural macro-

econometric modeling following the tradition of Tinbergen- Klein- Goldberger models. The study follows the latest contribution to the incidence analysis by Lusting and Higgins (2013). Their methodology takes into account a comprehensive list of adjustment to income concepts and combines micro and macro data in order to access the impact of fiscal policy on poverty and inequality.

The researchers found out that, in Jordan, the impact of fiscal policy multipliers in the case of current expenditure, capital expenditure as well as aggregate expenditure is found to be 2.5, 0.9 and 1.2 respectively. The role of public investment was noted to be crucial for boosting growth as the peak multiplier for capital expenditure is 5.8 and it takes three years to see the maximum impact on growth. The current expenditure multiplier is higher than that of capital expenditure in the impact year. Within current expenditure, subsidies, compensation to employees and social benefits have positive impact multipliers. In other words, government subsidy has higher multiplier than the other expenditure components.

The incidence of transfer shows an impressively progressive pattern. Also, assuming that a cycle starts with expenditure lending to growth, it is important that the tax policies need to be calibrated to maximize current revenues in order to make the expenditures sustainable. Equally, the aim of the tax and expenditure policies should not only be revenue maximization and growth but also redistribution of resources towards achieving equity and reducing poverty.

Bokreta and Benanaya (2016) examined the relative effectiveness of fiscal policy in Algeria using the econometric modeling techniques of cointegration and vector error correction (VEC) modeling to analyse and draw policy inferences. The chosen variables of fiscal policy are government expenditure and net taxes on products. From the analysis, it was found that in the long run, the impact of government expenditures is positive, while the effect of tax is found to have little effect on GDP per capita. This means that the fiscal policy variables of government expenditure and net taxes on products have dominant long –run effects on the economy, but the impact is negative from taxes. From this result, it is clear that fiscal policy exerted greater impact on the Algeria's economic growth.

Perotti (2004) studied the effects of taxation and government expenditure on GDP, inflation and interest rates in 5 OECD countries using a Structural Vector Auto regressive (SVAR) approach. His results are as follows:

(i)   the effects of taxation and government expenditure on GDP tend to be small: government spending multipliers larger than 1 can be estimated only in the US in the pre-1980 period.

(ii)   there is no evidence that tax cuts work faster or more effectively than spending increases

(iii)   the effects of government spending shocks and tax cuts on GDP and its components have become substantially weaker overtime in the post -1980 period these effects are mostly negative, particularly on private investments.

Osuala and Jones (2014) examined the impact of taxation and government expenditure on economic growth in Nigeria using time series data from 1986 to 2010 relevant to the data collected from the Central Bank of Nigeria (CBN), Statistical bulletin and the National Bureau of Statistics (NBS). The Ordinary Least Square method of Multivariate regression was utilized in analyzing the log-linearized model. The Augmented Dickey-Fuller unit root test was employed to test establish the stationarity of the variables while the general-to-specific approach to Auto-regressive Distributed lag (ARDL) model was used for testing for the existence of long-run and short-run equilibrium conditions. Their empirical work shows that there is evidence of long-run equilibrium relationship between taxation and government expenditure and economic growth in Nigeria during the period under study. The adjusted R^2 value of 0.6850 showed that about 68.5% of the total variation in the real GDP is explained by the independent variables included in the model. Specific taxation and government expenditure variables that have significant and positive impact on economic growth in Nigeria are government recurrent and capital expenditures. Non-oil taxes and government total debts have no significant impact on real GDP. Only capital expenditure has short-run equilibrium relationship with economic growth. It is therefore recommended that government should establish a strong fiscal responsibility and transparency systems in the fiscal institutions and tax reforms should be such that would encourage increase in investment and fight corruption. Government debts should be channeled towards provision of critical infrastructure so as to provide the enabling investment environment.

Ogar, Mkamare, and Emon (2014) studied the effect of taxation and government expenditure on the economic growth of Nigeria for the period (1986-2010). The objectives were to determine the factors of fiscal policy that contribute to the growth of Nigerian economy. Secondary data from CBN statistical bulletin were used and the Ordinary Least Square methods of statistical analysis were used. They found out that government revenue had a

positive impact and statistical significant on GDP. This further revealed that inflation had a positive impact but there was no significant relationship between inflation and GDP. This implies that government should increase the number of fiscal policy instruments over and above the ones currently in use. Hence, more efforts should be adopted to increase income and government revenue generation.

Kareem, Afolabi, Raheen, and Bashir (2012) studied the analysis of taxation and government expenditure on economic growth using descriptive statistics, regression and correlation analysis on fiscal variables (government expenditures, inflation etc) in Nigeria. The objective of the study is to describe the trend of fiscal variables and impact of fiscal policy on economic growth (ie Real Gross Domestic Product (RGDP) as proxy for economic growth). The researchers found out that there have been fluctuations in the trend of policy variables in Nigeria (ie inflation, government expenditure etc in Nigeria between 1999-2008. The result further shows that government recurrent expenditure and broad money are positively related to RGDP which shows that a unit increase in the aforementioned variables will lead to a unit increase in the GDP. The study concluded that broad money, government recurrent and capital expenditures are significant variables that affect economic growth in Nigeria.

Onuoha (2015) assessed the performance of five banks in Nigeria using Ordinary least square method of regression for the period 2001-2010. The analysis also used co integration and error correlation models (ECM) technique to test for the data used. The study aimed at finding out the effect of nominal lending rate, the credit volume on banks financial performances in terms of their profitability among others. The researchers found out that the variables employed are statistically significant and positively correlated and therefore recommend that government should be strict in their fiscal policy implementation to avoid fraud and allow for transparency

2.4.2   Summary of Empirical Findings on the effects of Fiscal Policy on Banks Performance Indicators and Related Indices

Table 2.2 and 2.3 below present the summary of the empirical works reviewed on the impact of fiscal policy on the performance of deposit money banks and other related variables at both global fronts and the Nigerian scenario. In general, a total of 18 empirical works were reviewed both globally and in Nigeria,

Table 2.4: Summary of Key Works Empirical Review

S/No	Author (s)	Evidence from	Objectives	Methodology	Results
1	Yuchan (2014)	China	Fiscal policy shocks on private consumption	Linear Regression and VAR models	Fiscal policy was positive and significance
2	Muneanu& Gonder (2012)	Romania	Determine the relations between credit cycles and fiscal policy	Market value of performance assessment- residual income, market value added, earning per share & price to earning ratio	Fiscal policy is pro- cyclical and positive and significant
3	Bancel&Mitto (2003)	17 European Countries	Factors influencing debt policy in the 17 European Countries		Financial Flexibility and Tax benefits affect Debt Policy
4	Haug, Jedrzejowicz&Sznajderska (2013)	Poland		Monetary SVAR and Fiscal SVAR Models	Expenditure Multiplier is relatively small (i.e. positive)
5	Omran (2017)	Egypt	Effect of Fiscal Policy on Output in Egypt	Structural VAR Model	Govt.expenditure has negative influence on GDP
6	Aydin &Iyan (2010)	Turkey	Effects of Fiscal policy on Bank Lending in Turkey	Kashyap and Stein Model with a two- way step regression approach	Liquidity constraints affect Banking Lending
7	Sarangi, Bhanumurthy & Abu-Ismail (2015)	Jordan	Impact of Public expenditure on growth, poverty & inequality in Jordan	Structural (VAR) Model & Structural Macro econometric Modeling	Fiscal Policy impacts positively and significantly on growth and poverty
8	Bokreta&Benanaya	Algeria	Effects of government	Economic modeling Technique of Co integration	Government expenditure has

	(2016)		expenditure & tax on economic growth	& VEC modeling	positive impact on GDP but tax has little impact on the economy
9	Perotti (2004)	5 OECD Countries	Effects of Fiscal Policy on Economic Growth	SVAR Approach	Fiscal Policy on GDP is positive but the effects of tax and government spending are negative on private investments
10	Osuala and Jones (2004)	Nigeria	Impact of Fiscal Policy on Economic Growth	OLS method of Multivariate regression &Autoregressive Distributed Lag (ARDL) model	Positive relationship exists between Fiscal Policy and economic growth during the period under study
11	Ogar, Mkamare& Emon (2014)	Nigeria	Impact of Fiscal Policy on Economic Growth of Nigeria	OLS method of Statistical analysis	Positive relationship exists between Fiscal Policy and Economic growth
12	Kareen, Afolabi,Ra heen&Rash ir (2012)	Nigeria	Impact of Fiscal Policy on Real GDP	Descriptive Statistics, Regression & Correlation Analysis	Government Capital & recurrent Expenditure & Broad Money are positively related to RGDP
13	Onuoha (2015)	Nigeria	Effects of Nominal Lending, Credit volume on banks performance	OLS method of Regression and Error Correlation models (ECM)	Statistical significant and positively Correlated

Source: Researchers Compilations

2.5 Review Summary

The role on taxation and government expenditure on the performance of deposit money banks in Nigeria cannot be over emphasized. Through government taxation and government expenditures, the performance of the banking sector have been enhanced. For example, Nigerian government had in many occasions given either tax cuts, or directed specific spending or sold securities to deposit money banks in order to improve the economic activities and encourage economic growth. Deposit money banks are the intermediaries through which the government sells and buys securities or influence the level of economic activities. The financial activities of the DMBs in various ways have contributed to the economic growth of the Nation. For example, when the taxes paid by these banks are reduced, their credit creation or lending capacities will be at increase and vice versa. This will subsequently encourage investors to borrow from banks and Gross Domestic Product (GDP) will be at increase.

Table 2.2 shows the summary of the empirical studies by researchers outside and within Nigeria. On the whole, a total of 13 works were reviewed from the preceding empirical studies and most of them used either SVAR or VAR or Regression Techniques for data analysis. It may be inferred that the relationship between taxation and government expenditure and banks performance indices or similar indicators such as GDP, inflation, interest rates, lending rates etc were found to be either positive or negative depending on the varying economic factors and environment in question. For instance, in Nigeria, evidence shows that a close examination of the structure of the selected macroeconomic indicators of performance of fiscal policy on banks revealed that Nigeria situation had been far from being ideal. On this premise, Abata, Kahinde and Bolarinwa (2012) argued that despite the lofty place of economic policies in the management of the economy, the banking sector is yet to come on path of sound growth and development. They added that the behavior of economic policies in Nigeria has followed the unsteady pattern.

2.6 Knowledge Gap

(i)   One of the gaps observed in the review is that most of the works reviewed were based on general broad views such as inflation, economic growth, exchange rate, economic development, gross domestic product and so on as were reflected by the works of Ogar, Mkamere & Emon(2014), and Osuala and Jones(2004) but this study

is financial sector-based. Hence, with this study one can compare between the impact of fiscal policy on general broad views and fiscal policy on sector-based.

(ii)   Another gap identified in the review was that there were no direct studies on the influence of taxation and government expenditure on the performance indicators of banks (capital base, credit creation, liquidity and asset base). This study, therefore, intends to fill the gap and establish the true position of taxation and government expenditure on the named indicators of deposit money banks performance used in this study for the period studied.

(iii)   Most of the works reviewed used either Structural Vector Autoregressive (SVAR) or ordinary Least Square (OLS) or Error Correction Model (ECM) etc. but this study used Autoregressive Distributed Lad (ARDL) form of regression because of its stationarity properties of the series studied and its efficiency when different Orders of Integration are involved (i.e. I(0) and I(1)).

(iv)   Deposit money banks being the biggest institute found in the financial sector complemented with its pivotal and strategic roles in the economy, the study investigated the effects of taxation and government expenditure on the banks performances.

2.7   Conceptual Model

On the basis of doubts and arguments on whether taxation and government expenditure had positive and significant effects on deposit money banks, this study was embarked upon. The dependent variables involved in the study include capital base, credit creation and asset base of Deposit Money Banks while the independent variables include taxation and government expenditure.

Hence (i)   Capital Base   = f (Taxation)

(ii)   Credit Creation   = f (Government Expenditure)

(iii)   Credit Creation   = f (Taxation)

(iv)   Asset Base   = f (Government Expenditure)

With respect to the objectives and hypotheses formulated, theories and empirical reviews, Keynesian Theory was found to be the basic foundation of this study in which government spending and taxation are found to be major economic weapons used to control the fluctuations in the economy. This is in line with the views of Yuchan (2014) who found out that the economic policies have positive and significant effects on the key variables of Deposit Money Banks.

CHAPTER THREE
METHODOLOGY

3.1   Research Design

This study adopts the analytical and Ex-Post-Facto research design to analyse the effect of taxation and government expenditure on the performance of the deposit money banks in Nigeria. This method according to Onwumere (2009:44) and Panneerselvan (2011) is suitable for research works that aimed at determining, establishing or measuring the relationship between one variable and another in which the variables involved are not expected to be manipulated by the researcher. The analytical research design used quantitative analysis, graphs, tables and charts to illustrate the estimates of the data used. Also, Asika (2001) explains that research design helps to structure investigations aimed at identifying variables and their relationships to one another. The ex-post-facto research design according to Springer (2010) denotes a casual- comparative research. Equally, Akuezuilu (1993) and Happner, Wampold and Kiulighan (2008) described it as after -the-fact research. In this case, the after- the- fact research is an investigation that is carried out after the events have taken place and the variables of interest cannot be manipulated by the researcher. Instead, the differences in the variables will manifest naturally as applied.

Also, Kerlinger and Rint (1986) and Godwin (1995) described casual- comparative as a design used to establish a cause and effect relationship among variables based on some condition that are not manipulative and at the same time allowing the researcher to investigate whether there are differences between two or more groups on the variables being studied.

All these views expressed so far are used to substantiate the choice of ex-post-facto and analytical designs as being very appropriate for this study which seeks to investigate the impact of fiscal policy on the performance of deposit money banks in Nigeria.

3.2   Nature and Sources of Data

In carrying out this study, annual time series secondary data were used for estimates in the models. According to Onwumere (2009:139) and Koutsoyiannis (1977:17) time series data are data collected over a period of time which give information about the numerical values of variables. Brooks (2008) explains that these data are ordered in frequencies which are either annually, quarterly or monthly. This study utilized the time series data for a period of thirty

seven years (1981- 2017). The study used data from CBN publications, National Bureau of Statistics, Textbooks, journal publications, World Bank publications, Deposit money bank profit and loss account etc.

3.3 Area of Study

The area of this study is on taxation and government expenditure environment in Nigeria with particular focus on the deposit money banks in Nigerian financial industry.

3.4 Study Population/Sample

Population according to Gujaranti (2011) denotes a well- defined entity which may include people, firms, cities, states, countries and so on for the purposes of statistical or econometric analysis. Aneke (1998) posits that population in academic research as data and not necessarily people, even though people in many cases do form objects of the study. On this note, the population of this study comprises of the deposit money banks in Nigeria existing within the period of the study; 1981- 2017.

The study used deposit money banks in Nigeria (as earlier listed in chapter two) that are in existence within the period studied which have the required data for analysis. The deposit money banks in existence within the period of the study were not up to thirty in number and as such all the banks and their macro- aggregate performances were examined.

3.5 Model Specification

This study is modelled after the financial system sensitivity model of Poole(1970). The model is anchored on the transmission effect of the macroeconomic environments on the financial/monetary system in which banks feature prominently. The functional presentation of the Poole(1970) model appears thus:

$$FSP = f(Macroenv) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \qquad \text{Eqn. 1}$$

$$FSP = \lambda_0 + \lambda_1 GOVREV + \lambda_2 GOVEXP + \lambda_3 EXR + \lambda_4 INTR + \lambda_5 MR \dots\dots\dots\dots. + \lambda_N$$
$$\text{Eqn. 2}$$

Where FSP= *Financial System Performance*

$Macroenv$ =*Macroeconomic Environment (Government Revenue, Government Expenditure, Exchange Rate, Interest Rate and controlling for other unmodelled macroeconomic variables)*

In our study, FSP is represented by bank performance indicators while Macroeconomic variables stand proxy for the taxation and government expenditure.

3.6 Modified Models for Testing the Hypotheses

3.6 .1 Hypothesis One (model 1)

$$CAPBASE_t = \partial_0 + \partial_1 LTAXREV_t + \partial_2 LIQRTIO_t + \mathcal{E}_t \dots\dots\dots\dots\dots. Eq.3$$

Where CAPBASE = Capital Base, $LTAXREV$= Total Tax Revenue, while ∂_0 is the constant term or intercept; $\partial_1\ and\ \partial_2$ are coefficient of the parameter estimates and $\mathcal{E}_t$ is the error or stochastic term. Liquidity Ratio is used as the moderator or control variable.

3.6.2 Hypothesis Two (Model 2)

$$TOTALCREDIT_t = \partial_0 + \partial_1 LGOVEXP_t + \partial_2 LIQRTIO_t + \mathcal{E}_t \dots\dots\dots\dots\dots. Eq.4$$

Where TOTALCREDIT = Total Credit Creation, GOVEXP = Aggregate Government Expenditure while ∂_0 is the constant term or intercept; $\partial_1\ and\ \partial_2$ are coefficient of the parameter estimates and $\mathcal{E}_t$ is the error or stochastic term. Liquidity Ratio is used as the moderator or control variable.

3.6.3 Hypothesis Three (model 3)

$$TOTALCREDIT_t = \partial_0 + \partial_1 LTAXREV_t + \partial_2 LIQRTIO_t + \mathcal{E}_t \dots\dots\dots\dots\dots. Eq.5$$

Where TOTALCREDIT = Total Credit; $LTAXREV$ = Total Tax Revenue, while ∂_0 is the constant term or intercept; $\partial_1\ and\ \partial_2$ are coefficient of the parameter estimates and $\mathcal{E}_t$ is the error or stochastic term. Liquidity Ratio is used as the moderator or control variable.

Hypothesis Four (model 4)

$$ASSETBASE_t = \partial_0 + \partial_1 LGOVEXP_t + \partial_2 LIQRTIO_t + \mathcal{E}_t \dots\dots\dots\dots. Eq.6$$

Where ASSET BASE = Total ASSET BASE; $LGOVEXP$ = Total GOVERNMENT EXPENDITURE while ∂_0 is the constant term or intercept; $\partial_1\ and\ \partial_2$ are coefficients of the parameter estimates and $\mathcal{E}_t$ is the error or stochastic term.

3.7   Description of Model Variables

The variables employed in this study consist of dependent and independent variables.

3.7.1   Dependent Variables

The dependable variables in this study include the following:

- **Capital Base(CAPBASE)**;Capital base of deposit money banks is the amount of capital banks or other financial institutions have to hold as required by its financial regulators. The strength of the bank depends on the capital funds available to the banks. Nzotta (2004) explains that the liquidity crisis and distress in the Nigerian banking system over the last 10 years has generated interest in the capital base of banks in the system. He added that the issue of capital adequacy and safety of banks in Nigeria is very important for macro-economic stability. The study shall determine the extent to which government taxation influences the capital base of the banks.

- **Credit Creation (TOTALCREDIT)**; Credit creation is the situation in which banks make more loans to consumers and investors. It is a unique power of the banks to multiply loans and advances, and hence deposit. Singh (2016) asserts that credit creation is the most important function of deposit money banks. The credit creation helps banks to have cash requirements with the Central Bank and deposits as loans to both investors and individuals. It is the power of banks to expand or contract demand deposits through the process of more loans, advances and investments. It is one of the most outstanding functions of a modern bank. The study will investigate the impact of government expenditure on the credit creation of the banks.

- **Asset Base (ASSETBASE)**; This is the underlying worth of the deposit money banks ownership. It could be current or fixed assets. The greater the asset base of a bank, the greater the performance of such bank. Hataj (2013) opines that a model of bank's asset is to account for optimizing the behaviour of banks under adverse economic conditions. Hence, banks are expected to respond in an optimizing manner to changes in their economic environment (eg. Interest rate and credit risk shocks, funding disruptions etc). In other words, the model of assets is based on the risk-return optimal programme in which banks aim at particular composition of their assets to maximize risk-adjusted returns while taking into account regulatory capital and liquidity constraints. This study will investigate the impact of government debts on the asset base of DMBs.

3.7.2 Independent Variables

The independent variables used in this study include the following:

- **Government Taxes (TAXREV)**; This is the total income collected from both direct and indirect taxes by the government of Nigeria in a fiscal year. These include; Company Income Tax, Capital Gains Tax, Petroleum Profit Tax, Exercise Tax, Value Added Tax and Personal Income Tax. Rostrepo (2013) explains that government tax adversely affect financial intermediation when it is increased. By decreasing the real return obtained on bank deposits, economic agents with excess savings have an incentive to shift away from depositing their money into the financial system. However, if the tax is reduced, the reverse is the case. The study will establish the effect of government tax on the capital base and credit creation of DMBs within the period of study.

- **Company Income Tax (CIT)**; This is a tax charged on the profit made by companies. In Nigeria, most deposit money banks pay this tax according to the regulation of the government fiscal policy authorities. Anyafo (1996) posits that income tax is a tax on the rent, wages, interest and profits of individuals and organizations (deposit money banks inclusive). The amount of company income tax charged on the bank's profit will affect its performance.

- **Capital Gain Tax (CGT);** This is a tax on capital structures such as lands and reaches estates that are found mainly in urban cities.

- **Government Expenditure (GOVTEXP);** This is the aggregate spending of the government on capital projects and expenses incurred from time to time.

- **Recurrent Expenditure (RE);** This is government expenditure made on regular basis from year to year. It includes travel & transport, utility services, telephone services, stationery, maintenance of office furniture etc.

- **Capital Expenditure (CE);** This is government expenditure on new projects, land and building extensions, and acquisition of any other fixed assets like plants and machinery.

3.8 Preliminary Tests

Preliminary tests were used to determine the behavior of the data employed and goodness towards using them for model estimation. These tests include basic descriptive statistics such as the mean, median, variance, standard deviation, skewness, kurtosis and normality.

The mean, median, and mode were used to test the aggregation tendencies of the data set while the variance and standard deviation were used to ascertain the spread and variability of the data set. The Jaquebera test was conducted to confirm the normality of data distribution by verifying both the skewness and kurtosis of the data sets.

3.9 Method of Data Analysis

The collected data were analysed by the use of E-view statistical package and all the hypotheses were tested at 0.05 level of significant from which valid conclusion arising from the analysis were drawn. The fundamental steps observed include the following;

3.9.1 Test for Stationarity (i.e. Unit Root Test)

Stationarity indicates that the 'mean' and 'variance' are constant overtime and the value of the covariance between the two time periods depends only on the distance or lag between the two times periods and not the actual time at which the covariance is computed. If alternatively, the non-stationary series data are used, the spurious regression results would arise (Brook, 2008). On this note, this study employed Augmented Dickey Fuller Unit Root Test to test the presence or otherwise of the unit root either at 'level', 'first difference' or 'second difference'. The presence of unit root connotes that the series is non-stationary and vice versa. The unit root test used here follows the form that makes provision for structural break. See appendix 3 (A-D)

3.9.2 Regression Analysis (ARDL FORM)

Regression analysis is one of the most important statistical tools used by the econometricians. It involves the description and evaluation of the relationship between a given variable and one or more other variables (Brooks, 2008). In fact, it is an attempt to explain movements in a variable (say Y) with respect to movements in one or more other variable (s) (say X). Autoregressive distribution lag form of regression was used in testing the Hypotheses. Following the stationarity properties of the series studied, the ARDL form of regression was adopted given the following advantages:

i) It is convenient when small samples are involved.

ii) It is efficient when different orders of integration are involved 1(0), 1(1), excluding 1(2)

iii) It tends to overcome some diagnostic problem common with Ordinary Least Squares (OLS) because it is a dynamic model.

Some of the statistical tests carried out include the following;

- **The F and T Statistics**: These were used to test the significance of the overall regression and that of the parameter estimates, respectively. The F statistics in particular was designed to point out whether or not a significant relationship exists among all the variables fitted into the regression model. In other words, it measures the goodness of fit of the model (Hill, George and Williams, 2001). On the other hand, the T Statistics is purely for estimation purpose which shows the extent of change produced on the Y (dependent) variable as a result of changes in Xs, the (independent) variables.

- **The Correlation Coefficient (R^2):** This was used to assess the strength of the impact between two or more variables (in this case, fiscal policy instruments such as tax, expenditure and debts; and DMB's performance indicators).

- **Co-efficient of Determination ($\widetilde{R}^2$):** This was used to explain the degree of variations in some selected macroeconomic variables occasioned by their respective impact on the fiscal policy instruments variations. It makes allowance for the inclusion of more explanatory variables.

- **Auto-correlation:** This allows the extent to which the current value of a series (especially the error term) impact on its previous lags. Its presence can vitiate the overall regression results as well as causing either type 1 or type 2 errors. This study ascertained the presence (positive or negative) or absence of Auto -regression in all the models as a precursor for further statistical analyses. This was done using the Durbin Watson Statistic.

- **The Pairwise Granger Causality Test:** This was used to prove the direction of influence (i.e. to measure causal impact) among the variables of interest which can be uni-directional or bi-directional or none at all.

CHAPTER FOUR

PRESENTATION AND ANALYSES OF DATA

4.1   Data Presentation

Table 4.1 contains the variables covering the study period used in the statistical and empirical estimations for this study.

Table 4:1   Deposit Money Banks' Related Variables and Selected Macroeconomic Variables in Nigeria 1981-2017

Year	ASSETBASE	CAPBASE	TOTALCREDIT	TAXREV	GOVTEXP
1981	19.47750	0.497400	8.582900	4.726100	11.41370
1982	22.66190	0.667700	10.27530	3.618800	11.92320
1983	26.70150	0.845100	11.09390	3.255700	9.636500
1984	30.06670	0.966700	11.50360	2.984100	9.927600
1985	31.99790	1.128700	12.17020	4.126700	13.04110
1986	39.67880	1.298700	15.70160	4.488500	16.22370
1987	49.82840	1.545100	17.53190	6.353600	22.01870
1988	58.02720	1.932400	19.56120	7.765000	27.74950
1989	64.87400	2.692300	22.00800	14.73990	41.02830
1990	82.95780	3.712700	26.00010	26.21530	60.26820
1991	117.5119	4.300800	31.30620	18.32520	66.58440
1992	159.1908	26.49000	42.73680	26.37510	92.79740
1993	226.1628	29.58900	65.66530	30.66700	191.2289
1994	295.0332	32.14490	94.18390	41.71840	160.8932
1995	385.1418	43.18180	144.5696	135.4397	248.7681
1996	458.7775	55.63650	169.4371	114.8140	337.4176
1997	584.3750	73.88060	385.5505	166.0000	428.2152
1998	694.6151	101.3626	272.8955	139.2976	487.1134
1999	1070.020	141.9697	322.7649	224.7654	947.6900
2000	1568.839	196.6629	508.3022	314.4839	701.0509
2001	2247.040	364.2588	796.1648	903.4623	1017.997
2002	2766.880	500.7512	954.6288	500.9863	1018.178
2003	3047.856	537.2078	1210.033	500.8153	1225.988
2004	3753.278	686.0766	1519.243	565.7000	1461.894
2005	4515.118	950.5516	1976.711	785.1000	1840.700
2006	7172.932	1388.856	2524.298	677.5350	1942.488
2007	10981.69	2225.394	4813.489	1264.600	2348.551
2008	15919.56	3364.693	7799.400	1336.000	3078.252
2009	17522.86	4930.613	8912.143	1652.654	3280.763
2010	17331.56	2217.804	7706.430	1907.581	3993.312
2011	19396.63	3682.121	7312.726	2237.877	4233.062
2012	21288.14	3637.715	8150.030	2628.777	4199.857
2013	24301.21	3869.686	10005.59	2950.563	4323.341
2014	27526.42	4483.786	11475.20	3275.032	4210.060
2015	28363.50	4923.100	13222.70	3082.406	4650.330
2016	30836.80	5498.600	15829.30	2985.126	4813.383
2017	34593.90	5863.200	20086.20	3207.900	8302.100

Source: Central Bank Statistical Bulletin 2017.

Note: ASSETBASE   =   ASSET BASE

CAPBASE   =   CAPITAL BASE

TOTALCREDIT   =   TOTAL CREDIT

TAXREV   =   TAX REVENUE

From the table, the aggregate Asset Base, Capital Base, Total Credit Creation and of deposit money banks in Nigeria, generally increased proportionately while Government Tax and Expenditure fluctuate in their variations. The reason for this is that the apex authority is interested in the improvement of the performances of the banks while government tax and expenditures are readjusted according to the state of the economy at any point in time.

4.2   Data Description

Some basic statistical and time series properties of the variables under study are presented in this section. Table 4.2 below shows basic descriptive statistics of the series under study.

Table 4.2   Basic Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability	Observations
ASSETBASE	6748.817	882.3175	30836.80	19.47750	9838.349	1.252568	3.062126	9.419352	0.009008	37
CAPBASE	1221.714	121.6662	5498.600	0.497400	1790.201	1.207345	2.886486	8.765419	0.012491	37
CAPEX	368.1416	255.6700	1152.796	4.100100	372.3239	0.654051	2.058973	3.894995	0.142631	37
GOVTEXP	1431.198	594.0822	4813.383	9.636500	1687.540	0.887379	2.202651	5.678302	0.058475	37
LIQRTIO	46.21535	44.65000	65.10000	29.10000	9.738102	0.346440	2.502048	1.092060	0.579245	37
RECEXP	1063.057	313.8801	4178.595	4.750800	1352.555	1.050420	2.606155	6.852961	0.032501	37
TAXREV	792.8993	195.3827	3275.032	2.984100	1066.772	1.223689	3.045817	8.987641	0.011178	37
TOTALCREDIT	2955.554	354.1577	15829.30	8.582900	4477.542	1.405588	3.737742	12.67046	0.001773	37

Source: Author's Computations (2019)

The table above contains the averages like mean, median and mode for all the observations. These are measures of central tendency which show the closeness of the observations. The variation and dispersion in the observations are also shown by their reported standard deviation which lies between the minimum and the maximum.

A look at the descriptive statistics of the core bank performance indicators show that Asset base, Capital base, total credit and liquidity ratio posted an average ₦6748.617, ₦1221.714billion, ₦2955.554billion and 46.22% respectively within the studied period. The spread of Asset base, Capital base, total credit and liquidity ratio as indicated by the standard deviation across the 37year period are shown as 9838.34, 1790.20, 4477.54 and 9.74 respectively. This points to the volatility of the key variables in the industry and also the unstable nature of the business of banking in Nigeria.

The mean values of the studied macroeconomic variables are also shown in table 4.2. Tax revenue and aggregate government expenditure have mean values as ₦792.89 and ₦1431.20 in

billions respectively. The measures of dispersion also suggest a volatile macroeconomic environment as the standard deviation lies between 3589.8 to 1687 for government expenditure. Kurtosis and skewness are respective indicators of peakedness and degree of symmetry of the distribution. As contained in table 4.2 they show the normality of the distribution. In line with the behavior of most financial time series, greater percentage of the variables were found to be leptokurtic as their kurtosis lie above 3. All of them were also found to be positively skewed as all the figures for skewness were all found to be positive.

To measure the linear association of the series under study, Table 4.3 below presents the correlational matrices of the variables in a bivariate fashion.

Table 4.3 Correlation Matrix of the Variables Under Study.

Table 4.3 shows the correlation matrix of the variables used in this study

Correlation t-Statistic Probability	ASSETBASE	CAPBASE	GOVTEXP	TAXREV	TOTALCREDIT
CAPBASE	0.977935				
	27.29582				
	0.0000				
GOVTEXP	0.974406	0.954157			
	25.27504	18.58842			
	0.0000	0.0000			
TAXREV	0.984851	0.948071	0.973310		
	33.11755	17.38092	24.72978		
	0.0000	0.0000	0.0000		
TOTALCREDIT	0.991572	0.980032	0.955159	0.961750	
	44.62654	28.73931	18.80986	20.47213	
	0.0000	0.0000	0.0000	0.0000	

Source: Author's Computations (2019)

From the results posted in table 4.3, it can be inferred that the variables all share reasonably high degrees of positively significant correlation as shown by the correlation coefficient, t-statistics and the p-value. Capital and government expenditure share a correlation coefficient of 95%, Tax and Asset Base 98% with bank credit and tax revenue standing at 96%. These

correlation matrices are all found to be significant as all their t-statistics lie above 2.5 (rule of thumb) with the associated probability values being greater than 0.05 (level of significance). This gives a preliminary evidence of a positive association amongst bank performance indicators and the estimated macroeconomic variables; implying that bank performance indicators positively associate with the macroeconomic environment. This however is received cautiously as correlation means neither impact nor causation.

Given that the variables under study are time series which are quite exposed or susceptible to stationarity problem, it is imperative to show the stationarity/unit root properties of the series; and this is shown in table 4.4.

4.3   Summary of Breakpoint Unit Root Tests Results

Table 4.4   Summary of Breakpoint Unit Root Tests Results

Variables	ADF Stat	Critical Values @1%	Critical Values @5%	Critical Values @10%	P-value	Break Date	Order of Integration
Assetbase	-5.78	-5.72**	-5.18**	-4.89**	0.0000	1998	I(1)
Capbase	-9.43	-5.72**	-5.18**	-4.89**	0.0000	1992	I(1)
Totcredit	-6.80	-5.72**	-5.18**	-4.89**	0.0000	2009	I(1)
Tax	-5.21	-5.72**	-5.18**	-4.89**	0.0465	2001	I(0)
Govtexp	-11.08	-5.72**	-5.18**	-4.89**	0.0000	1988	I(1)

The unit root test follows the form that accounts for structural break. It is getting clearer that the traditional unit root test losses its power in the face of structural breaks and this usually causes the rejection of a wrong null hypothesis due to power of tests. From the results in table 4.4 above, the series present a combination of I(1) and I(0) variables. While Tax variable was found to be stationary at levels (ADF -5.21 is more negative than the critical value, that is -5.18 at (0.05) all the other variables (Govtexp, totalcredit, assetbase, capbase) needed to be in first difference to attain stationarity. This creates a combination of I(0) and I(1) variables.

In addition, the break dates fall majorly in the 1990's and 2000's. This implies a possible existence of structural outliers that affected the stationarity properties of the variables. A close look at the Nigerian banking history made us opine that periods around the 90's and 2000's had some turbulence for banks and it is not surprising why breaks were found in the behavior of the bank performance related variables. Specifically, the Soludo recapitalization happened between 2004 and 2005 while the late 90's represented the era of free bank

collapse and systemic distress. These happenings may have triggered the breaks seen in the series. The stationarity properties of the variables make the Autoregressive Distributed Lag Model (ARDL) form of regression the appropriate estimation model. This is due to the fact the ARDL model accepts variables that are stationary at levels I(0) as well as those that are stationary at difference I(1).

Where:

ADF STAT	-	Augmented Dickey-Fuller Test Statistics
P-VALUE	-	Probability Value
CAPBASE	-	Capital Base
GOVTEXP	-	Government Expenditure
TAXREV	-	Government Tax Revenue
TOTALCREDIT	-	Banks Total Credit Creation
ASSETBASE	-	Bank's Asset Base
LIQRTIO	-	Liquidity Ratio

4.4   Test of Hypotheses

Having gone through the basic statistical properties of the series, in this section tests of the hypotheses stated in chapter one and modeled in chapter three are carried out. Four steps were used in this regard as follows:

- Restating the hypotheses in Null and Alternative forms;
- Decision Rules
- Presentation of the method of estimation;
- Interpreting the results posted by the method of estimation,
- Using the decision criteria to accept or reject the null/alternative hypotheses by way of inference.

4.4.1 Test of Hypothesis One

4.4.2 Restatement of Hypothesis in Null and Alternate Form

Ho$_1$: Taxation does not positively and significantly affect deposit money bank's capital base in Nigeria.

Ha$_1$: Taxation positively and significantly affect deposit money bank's capital base in Nigeria

4.4.3 Decision Rules

- Accept H_{01} and reject H_{a1} if the coefficient estimate of taxation (7.692580) is not positively significant and (p = 0.0109) > 0.05.

- Reject H_{01} and accept H_{a1} if the coefficient estimate of taxation (7.692580) is positively significant and (p = 0.0109) < 0.05.

4.4.4 Interpretation of Estimates

From table 4.5 above, the overall regression is significant as the probability of F-stat (0.000000) is less than 5% (0.05) and the F-stat is far above the rule of thumb figure of 2.5. There is also goodness of fit as the R^2 is reasonably high at 99% indicating that 99% of the changes in Capital Base are jointly accounted for by the current and lagged values of tax and the moderating variable liquidity ratio.

It was also found that bank capital base is a positively significant function of tax revenue. The coefficient of the exogenous variable (Tax Revenue) is positive (7.692580) and statistically significant (0.0109). This suggests that a unit change in tax revenue produces a 7.7% annual change in capital base of banks. This is not unconnected with the fact that banks receive deposits on behalf of government by way of taxes implying that banks fractional reserves can be built up as more deposits flow in through tax revenue.

There is also no suspicion of autocorrelation as the Durbin statistics (2.04) by rule of thumb is approximately equal to 2. The model is hence good enough for testing hypothesis one.

4.4.5 Test Statistics: Autoregressive Distributed Lag (ARDL) Model form of regression.

Table 4.5 shows the summary of the ARDL Estimate for Hypothesis 1

Table 4.5: Summary of the ARDL Estimates for Hypothesis 1
Dependent Variable: Capital Base

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LCAPBASE(-1)	13.865040	2.13068	6.507331	0.0000
LTAXREV	7.692580	2.84140	2.707320	0.0109
LIQRTIO	-0.063760	0.11346	-0.561960	0.5781
C	-3.536000	7.87804	-0.448843	0.6567

R^2	99%		
Adjusted R^2	99%		
F-statistic	1068.288	Durbin-Watson stat	2.040047
Prob(F-statistic)	0.000000		

Source: Extract from the ARDL Estimates in Appendix 2A

4.4.6 Decision

Given the above, we reject the null hypothesis and accept the alternate hypothesis and conclude that taxation positively and significantly impacted on the deposit money bank's capital base in Nigeria within the period studied.

4.5 Test of Hypothesis Two
4.5.1 Restatement of Hypothesis in Null and Alternated Form.

Ho_2: Government expenditure does not have positive and significant influence on deposit money bank's credit creation in Nigeria.

Ha_2: Government expenditure has positive and significant influence on deposit money bank's total credit creation in Nigeria.

4.5.2 Decision Rules

- Accept Ho_2 and reject Ha_2 if the coefficient estimate of government expenditure (4.40164) is not positively significant and (p = 0.0014) > 0.05

- Reject Ho_2 and accept Ha_2 if the coefficient estimate of government expenditure (4.40164) is positively significant and (p = 0.0014) < 0.05.

4.5.3 Interpretation of Estimates

From table 4.6 above, the overall regression is significant as the probability of F-start (0.000) is less than 5% (0.05) and the F-stat (1702.919) is far above the rule of thumb figure of 2.5. There is also goodness of fit as the R^2 is reasonably high at 99% indicating that 99% of the changes in total credit creation are jointly accounted for by the current and lagged values of government expenditure and the moderating variable liquidity ratio. There is also no suspicion of auto correlation as the Durbin-Watson statistics (1.99947) by rule of thumb is approximately equal to 2. The model is hence good enough for testing hypothesis two.

The coefficient of the exogenous variable (Government Expenditure) is positive (4.40164) and statistically significant (0.0014). This suggests that a unit change in government expenditure produces a 4.4% annual change in total credit creation of banks.

4.5.4 Test Statistics: Autoregressive Distributed Lag (ARDL) Model form of regression.
Table 4.6 shows the summary of the ARDL Estimate for Hypothesis two

Table 4.6:   Summary of the ARDL Estimates for Hypothesis 2
Dependent Variable: Total Credit

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LTOTALCREDIT(-1)	16.38704	1.042180	15.723810	0.0000
LGOVTEXP	4.40164	1.248560	3.525373	0.0014
LIQRTIO	-0.077160	0.071100	-1.085232	0.2864
LIQRTIO(-1)	0.166860	0.070700	2.360113	0.0250
C	-5.310700	4.249340	-1.249771	0.2210

R^2	99%			
Adjusted R^2	99%			
F-statistic	1702.919	Durbin-Watson stat		1.994723
Prob(F-statistic)	0.000000			

Source: Extract from the ARDL Estimates in Appendix 2B

4.5.5   Decision

On this note, we reject the null hypothesis and accept the alternative hypothesis and conclude that government expenditure has positive and significant influence on deposit money bank's total credit creation in Nigeria within the period studied.

4.6   Test of Hypothesis Three

4.6.1   Restatement of Hypothesis in Null and Alternative Form

Ho$_3$:   Taxation does not positively and significantly influence Total credit creation of deposit money banks in Nigeria.

Ha$_3$:   Taxation positively and significantly influence deposit money bank's total credit creation in Nigeria.

4.6.2   Decision Rules

- Accept Ho$_3$ and reject Ha$_3$ if the coefficient estimate of tax revenue (4.351720) is not positively significant and (p = 0.0015) > 0.05.
- Reject Ho$_3$ and accept Ha$_3$ if coefficient estimate of tax revenue (4.351720) is positively significant and (p = 0.0015) < 0.05.

4.6.3   Interpretation of Estimates

From table 4.7 above, the overall, regression is significant as the probability of F-stat (0.000000) is less than 5% (0.05) and the F-stat (1691.709) is far above the rule of thumb figure of 2.5. There is also goodness of fit as the R^2 is reasonably high at 99% indicating that

99% of the changes in Total credit creation are jointly accounted for by the current and lagged values of tax revenue and the moderating variable liquidity ratio. There is also no record of autocorrelation as the Durbin-Watson statistics (1.868447) by rule of thumb is approximately equal to 2. The model is hence good enough for testing hypothesis three.

The coefficient of the exogenous variable (Tax Revenue) is positive (4.351720) and statistically significant (0.0015). This shows that a unit change in Tax Revenue produces a 4.4% annual change in Bank credit creation

4.6.4   Test Statistics: Autoregressive Distributed Lag (ARDL) Model Form of Regression. Table 4.7 shows the summary of the ARDL Estimate for Hypothesis three

Table 4.7:   Summary of the ARDL Estimates for Hypothesis 3
Dependent Variable: Total Credit

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LTOTALCREDIT(-1)	15.980480	1.167360	13.689419	0.0000
LTAXREV	4.351720	1.248440	3.485726	0.0015
LIQRTIO	-0.054320	0.071460	-0.760146	0.4532
LIQRTIO(-1)	0.108240	0.071580	1.512154	0.1409
C	2.986820	3.911020	0.763693	0.4510

R^2	99%			
Adjusted R^2	99%			
F-statistic	1691.709	Durbin-Watson stat		1.868447
Prob(F-statistic)	0.000000			

Source: Extract from the ARDL Estimates in Appendix 2C

4.6.5   Decision

With respect to the above scenario, we reject the null hypothesis and accept the alternate hypothesis and conclude that tax revenue positively and significantly impact on deposit money bank's total credit creation of banks in Nigeria within the period studied.

4.7   Test of Hypothesis Four

4.7.1   Restatement of Hypothesis in Null and Alternate Form

Ho4:   Government Expenditure does not have positive and significant effect on deposit money bank's Asset Base in Nigeria.

Ha4:   Government Expenditure has positive and significant effect on deposit money bank's asset base in Nigeria.

4.7.2 Decision Rules:

- Accept Ho$_4$ and reject Ha$_4$ if the coefficient estimate of government expenditure (4.40164) is not positively significant and (p = 0.0036) > 0.05

- Reject Ho$_4$ and accept Ha$_4$ if the coefficient estimate of government expenditure (4.40164) is positively significant and (p = 0.0036) < 0.05.

4.7.3   Interpretation of Estimates

From table 4.7 above, the overall regression is significant as the probability of F-stat (0.000000) is less than 5% (0.05) and the F-stat (25.000) is far above the rule of thumb figure of 2.5. There is also goodness of fit as R^2 is reasonably high at 99% indicating that 99% of the changes in Asset Base are jointly accounted for by the current and lagged values of government expenditure and the moderating variable liquidity ratio. There is also no suspicion of autocorrelation as the Durbin statistics (1.948) by rule of thumb is approximately equal to 2. The model is therefore good enough for testing hypothesis four.

The coefficient of the exogenous variable (Government Expenditure) is positive (4.40164) and statistically significantly (0.0036). This suggests that a unit change in government expenditure produces a 4.4% annual change in asset base of banks.

4.7.4   Test Statistics: Autoregressive Distributed Lag (ARDL) Model Form of Regression.
Table 4.8 shows the summary of the ARDL Estimate for Hypothesis four

Table 4.8:   Summary of the ARDL Estimates for Hypothesis 4
Dependent Variable: Asset Base

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LASSETBASE(-1)	22.540160	3.557600	6.335777	0.0000
LASSETBASE(-2)	-4.719920	5.806280	-0.812991	0.4254
LASSETBASE(-3)	-8.573780	5.649740	-1.517553	0.1440
LASSETBASE(-4)	8.468960	3.007760	2.815703	0.0104
LGOVTEXP	4.40164	1.248560	3.525373	0.0014
LIQRTIO	-0.077160	0.071100	-1.085232	0.2864
LIQRTIO(-1)	0.166860	0.070700	2.360113	0.0250
C	-5.310700	4.249340	-1.249771	0.2210

R^2	99%	F-25.000)
Adjusted R^2	99%	
F-statistic	25.00	
Prob(F-statistic)	0.000000	
Durbin-Watson stat	1.948422	

Source: Extract from the ARDL Estimates in Appendix 2D

4.7.5. Decision

Given the above, we reject the null hypothesis and accept the alternate hypothesis and conclude that government expenditure positively and significantly impacted on the asset base of deposit money banks in Nigeria within the period studied.

4.8   IMPLICATIONS OF RESULTS

This study examined the effects of taxation and government expenditure on the performance of deposit money banks in Nigeria from 1981 to 2017. Following a detailed review of existing literature and empirical analyses, findings were made in line with set research objectives, questions as well as set and tested hypotheses. In this section, the extent to which the findings achieve the set objectives are presented. More so, alignment of the findings to positions of prior authors in existing literature is also made.

Objective One: Examination of the effect of taxation on the capital base of deposit money banks in Nigeria.

This was pursued using the results from table 4.5. The coefficient of the exogenous variable (Tax Revenue) is positive (7.7) and statistically significant (P=0.0109). This suggests that a unit change in tax revenue produces a 7.7% annual increase in capital base of banks. From the empirical finding, it is evident that tax revenue affected the capital base of banks in Nigeria within the studied period. Intuitively, it can be deduced that as more revenue is earned through taxation, deposits with money banks increase which may earn more for banks through increase in loanable funds; and the earnings may be capitalized by way of reserves leading to increase in capital funds of banks. This position is consistent with Kareen, Afolabi, Raheen and Rashir (2012) who found that in the Nigerian economy, tax savings and favourable fiscal policy can positively drive the performance of deposit money banks through increase in capital and reserves.

Objective Two: Assess the influence of government expenditure on credit creation by deposit money banks in Nigeria.

From table 4.6 the coefficient of the exogenous variable (Government Expenditure) is positive (4.4) and statistically significant (0.0014). This suggests that a unit change in government expenditure produces a 4.4% annual change in total credit creation of banks. This implies that a unit change in government expenditure produces a 4.4% annual increase in the credit creation of banks. From the empirical finding, it is evident that government total expenditure affected the credit creation of banks in Nigeria within the period studied.

Instinctively as government total expenditure increases, more money is injected into the economy and Deposit Money Banks will indirectly have more deposits to make loans available to the public. This situation is consistent with Bokreta & Benanaya (2016) who found that in Algerian economy, government expenditure can positively drive the performance of deposit money banks through increase in credit creation and the Gross domestic product in general. This finding equally reveals that both recurrent and capital expenditure are carried out through deposit money banks which invariably form loanable funds for the banks and subsequently enhances credit creation of the banks which boost the performances of the banks.

Objective Three: Determine the influence of taxation on the credit creation of deposit money banks in Nigeria.

From table 4.7, the coefficient of the exogenous variable (Tax revenue) is positive (4.4) and statistically significant (0.0015). This is an indication that a unit change in tax revenue produces a 4.4% annual increase in credit creation of the banks. From the empirical evidence, this shows that tax revenue affected the credit creation of the banks within the period studied. On this note, one can presume that as more revenue is earned through taxation, deposits with banks equally increase which subsequently optimizes credit creation of the banks and that eventually enhances the performances of the deposit money banks. This issue is consistent with Tate & Lucian (2006) who found out that in Romanian economy tax, revenue and profit financing can positively impact on banks performances through credit creation and other financial structures. In other words, as banks receive tax revenue on behalf of the government, the tendency to loan out funds to the public is enhanced and promoted.

Objective Four: Examine the effect of government expenditure on the asset base of deposit money banks in Nigeria within the period studied.

From table 4.8, the coefficient of the exogenous variable (Government expenditure) is positive (4.4) and statistically significant (0.0104). This suggests that a unit change in government expenditure accounts for a 4.4% annual increase in asset base of the banks. Empirical evidence shows that government expenditure affected the asset base of the banks within the period (1981-2017) studied. Intuitively, it can be deduced that as government expenditure increases through borrowing, an expansionary government spending will invariably lead to increased household and public consumption which subsequently favours deposit money banks in terms of loans and advances to investors. This position is consistent with Yuchan (2014) who investigated that in China, government expansionary spending was

positive and significant on the performance of deposit money banks. This shows that when government spends money on capital projects; the asset base of the deposit money banks equally increases and the economy at large is positively and significantly affected.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1   SUMMARY OF FINDINGS

The findings emanating from the specific objectives of this study with respect to the period (1981-2017) are as follows:

(i)   Taxation had a positive and significant effect on the capital base of deposit money banks in Nigeria.

(ii)   Government Expenditure had positively and significant influence on the credit creation of deposit money banks in Nigeria.

(iii)   Taxation had positive and significant effect on the credit creation of deposit money banks in Nigeria.

(iv)   Government Expenditure had positive and significant influence on the asset base of deposit money banks in Nigeria.

5.2   CONCLUSION

This study seeks to establish the empirical effect of taxation and government expenditure on the performance of deposit money banks in Nigeria. The empirical analysis carried out in the study includes taxation and government expenditure in various dispositions. In other words, the study examined the influence of taxation on capital base of deposit money banks; government expenditure on credit creation; taxation on credit creation and government expenditure on the asset base of deposit money banks. The study spanned over the period 1981-2017. Arguments in favour of taxation and government expenditure's effects on the performance of deposit money banks and contradictions to the postulations were reviewed from theoretical and empirical literature.

The result emanating from the study proved that taxation and government expenditure had positive and significant effects on the performance of deposit money banks in Nigeria. This implies that taxation and government expenditure are vital economic tools that can be used to improve the performance of banking industry if they are properly administered and managed.

5.3   RECOMMENDATIONS

In line with the specific objectives, we recommend as follows:-

(i)   That taxation is capital base enhancing in the banking industry in Nigeria given the positive and significant effect of tax revenue on capital base of deposit money banks in Nigeria. This implies that if tax revenue is properly administered in Nigeria, the capital

base of deposit money banks will significantly appreciate and Nigerian economy will have a high potential to accrue benefit from taxes. Hence, all the three tiers of government; the local council, the state and the national should fashion out good strategies and carryout enlightenment prorgammes on tax collection among the populace.

(ii) That Total Government Expenditure encourages banks credit creation as government intervention is an effective tool for uplifting the performance of the banking industry. Government spending should be focused on expansionary purposes to avoid inflation. This will encourage consumption and investment as well as creating jobs for the unemployed. Consequently, the economy in general will be favourably stimulated.

5.4   CONTRIBUTION TO KNOWLEDGE

This work made some contributions to knowledge in line with its style and methods of econometric/statistical estimations. A highlight of this is presented below;

i.   The study contributed to the existing body of knowledge on fiscal policy and related matters because it is sector based (i.e banking sector) while most of the works reviewed were based on broad views such as economic growth, inflation, exchange rate, gross domestic product and so on.

ii.   It also contributed through the use of Auto regressive Distribution lag (ADRL) form of regression in testing the hypotheses. As noted already, most works reviewed used either OLS or SVAR or ECM form of regression in analysis. Hence, the use of ADRL is a new dimension in this area of study because of its stationarity properties of the series and its efficiency when different Orders of Integrations are involved.

iii. Another body of knowledge contributed is that government expenditure generally has a positive and significant impact on the credit creation of deposit money banks in Nigeria. However, public expenditure on capital infrastructures promotes the performance of banks in the area of credit creation than recurrent expenditure. On this note, expenses incurred on provision of infrastructural facilities like: road construction, health facilities, power generation, bridges etc are capable of creating more jobs which enhances banks' credit creation and growth of economic activities of the country.

iv.   The study further proved that public spending on productive sectors like education, and agriculture enhances banks credit creation and government economic growth than government expenses on unproductive sectors. This implies that expenditure on productive sectors has the potentials of increasing productivity by way of creating employment and expansion of investment ventures which invariably increase the standard of living of Nigerian citizens.

v.   Another profound contribution of the study to knowledge is government expenditure has a positive and significant effect on the asset base of deposit money banks. This implies that if government can package sale of their securities and Treasury Bills to deposit money banks, this will boost the asset base of the banks which subsequently enhances the performance of the banks and the economy at large will be favoured and promoted.

Suggestions for further Studies

i.   The result of this study cannot be generalized or evenly adopted for other developing or developed countries in other to avoid unwarranted arbitrariness. The fact still remain that there are variations in geographical, political, economical, moral and endowment disparities among nations and as such this type of comprehensive fiscal study should be done in other developing or developed countries to unravel the macroeconomic dynamics that characterized the fiscal sector of each of the countries.

ii.   This study on fiscal policy was sector-based and other sectors such as manufacturing sector, mining sector. Agricultural sector etc should be investigated as most of the literature reviewed were fiscal policy and a broad view area like economic growth, gross domestic product etc.

iii.   Also, this study recommends for further studies on the use of other models such as General Auto regressive Conditional Heteroscedasticity Model. (GARCH), Structural Vector Auto-Regressive Model (SVAR) etc to study impact of fiscal policy on the performance of deposit money banks in Nigeria.

iv.   The time frame of this study ended in 2017. Further studies should be done on a wider time frame to update the government knowledge and awareness about the

dynamics of the fiscal sector to ensure constantly sound management of the sector.

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APPENDIX ONE: FULL UNIT ROOT TEST RESULTS

APPENDIX ONE A: Capital Base

Null Hypothesis: D(LCAPBASE) has a unit root
Trend Specification: Trend and intercept
Break Specification: Trend and intercept
Break Type: Innovational outlier

Break Date: 1992
Break Selection: Minimize Dickey-Fuller t-statistic
Lag Length: 0 (Automatic - based on Schwarz information criterion,
    maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-9.426848	< 0.01
Test critical values:	1% level	-5.719131	
	5% level	-5.175710	
	10% level	-4.893950	

*Vogelsang (1993) asymptotic one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LCAPBASE)
Method: Least Squares
Date: 01/12/19   Time: 11:54
Sample (adjusted): 1983 2016
Included observations: 34 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LCAPBASE(-1))	-0.172568	0.124386	-1.387361	0.1763
C	0.183378	0.170384	1.076262	0.2910
TREND	0.012427	0.030058	0.413423	0.6824
INCPTBREAK	0.145854	0.181945	0.801639	0.4295
TRENDBREAK	-0.024880	0.031080	-0.800516	0.4302
BREAKDUM	1.414722	0.258209	5.478973	0.0000

R-squared	0.638716	Mean dependent var	0.265181
Adjusted R-squared	0.574201	S.D. dependent var	0.356509
S.E. of regression	0.232634	Akaike info criterion	0.080085
Sum squared resid	1.515321	Schwarz criterion	0.349443
Log likelihood	4.638554	Hannan-Quinn criter.	0.171944
F-statistic	9.900257	Durbin-Watson stat	2.126094
Prob(F-statistic)	0.000016		

Dickey-Fuller t-statistics

APPENDIX ONE B: Credit Creation

Null Hypothesis: D(LTOTALCREDIT) has a unit root
Trend Specification: Trend and intercept
Break Specification: Trend and intercept
Break Type: Innovational outlier

Break Date: 2009
Break Selection: Minimize Dickey-Fuller t-statistic
Lag Length: 0 (Automatic - based on Schwarz information criterion,
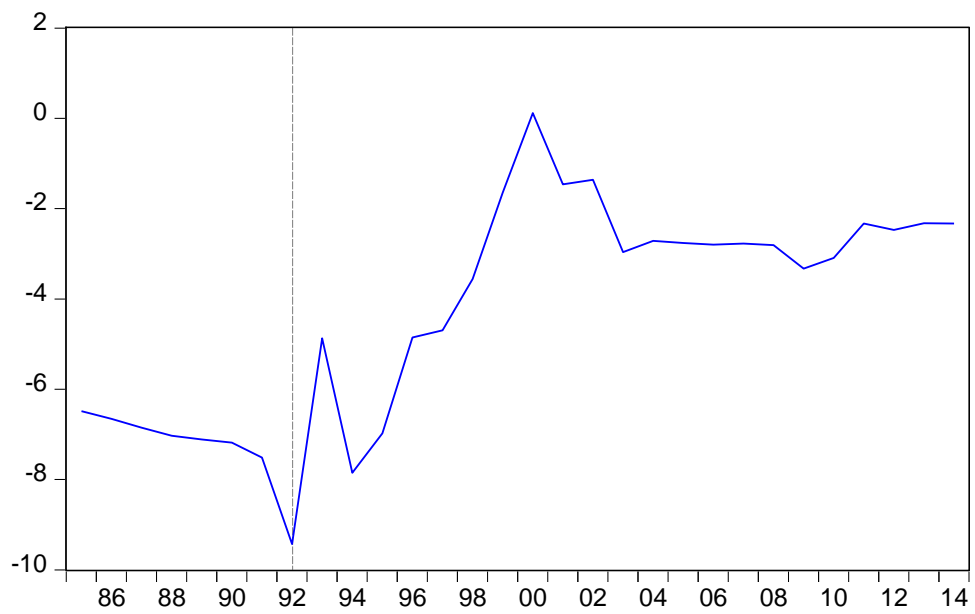   maxlag=9)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-6.804584	< 0.01
Test critical values: 1% level	-5.719131	
5% level	-5.175710	
10% level	-4.893950	

*Vogelsang (1993) asymptotic one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LTOTALCREDIT)
Method: Least Squares
Date: 01/12/19   Time: 11:57
Sample (adjusted): 1983 2016
Included observations: 34 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LTOTALCREDIT(-1))	-0.230744	0.180870	-1.275747	0.2125
C	0.118332	0.079337	1.491515	0.1470
TREND	0.014290	0.005339	2.676763	0.0123
INCPTBREAK	-0.674063	0.222938	-3.023542	0.0053
TRENDBREAK	0.042439	0.036616	1.159025	0.2562
BREAKDUM	0.372184	0.267714	1.390230	0.1754

R-squared	0.331845	Mean dependent var	0.215879
Adjusted R-squared	0.212532	S.D. dependent var	0.215240
S.E. of regression	0.191003	Akaike info criterion	-0.314269
Sum squared resid	1.021501	Schwarz criterion	-0.044912
Log likelihood	11.34258	Hannan-Quinn criter.	-0.222411
F-statistic	2.781293	Durbin-Watson stat	2.027928
Prob(F-statistic)	0.036711		

Dickey-Fuller t-statistics
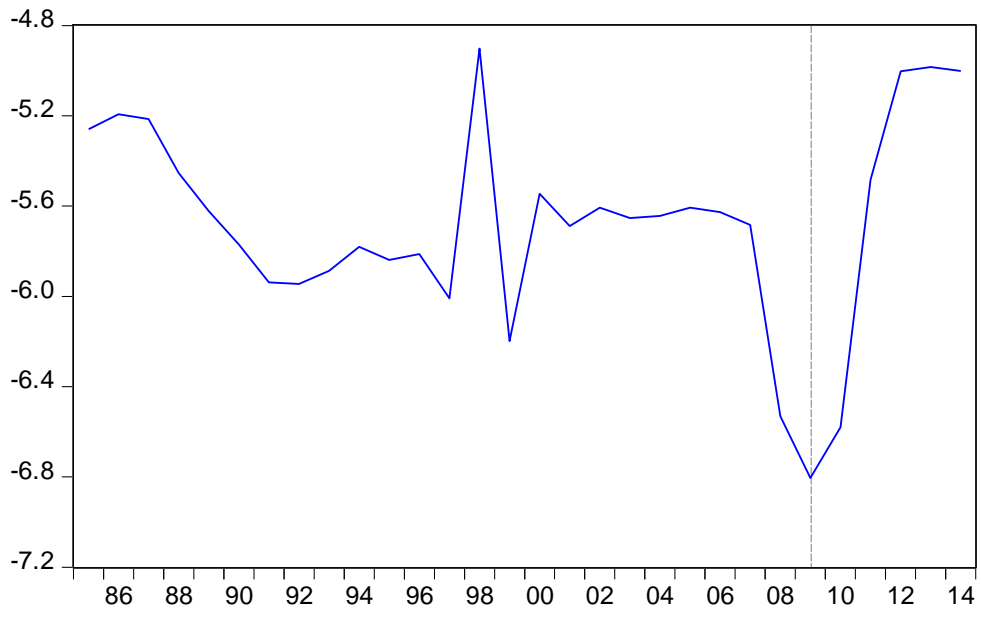
APPENDIX ONE C: Government Tax

Null Hypothesis: LTAXREV has a unit root
Trend Specification: Trend and intercept
Break Specification: Trend and intercept
Break Type: Innovational outlier

Break Date: 2001
Break Selection: Minimize Dickey-Fuller t-statistic
Lag Length: 0 (Automatic - based on Schwarz information criterion,
     maxlag=9)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-5.205347	0.0465
Test critical values: 1% level	-5.719131	
5% level	-5.175710	
10% level	-4.893950	

*Vogelsang (1993) asymptotic one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: LTAXREV
Method: Least Squares
Date: 01/12/19   Time: 12:04
Sample (adjusted): 1982 2016
Included observations: 35 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTAXREV(-1)	0.329073	0.128892	2.553090	0.0162
C	0.286256	0.123956	2.309333	0.0282
TREND	0.192408	0.034734	5.539512	0.0000
INCPTBREAK	0.001462	0.192771	0.007586	0.9940
TRENDBREAK	-0.086121	0.022754	-3.784874	0.0007
BREAKDUM	0.863998	0.273275	3.161646	0.0037

R-squared	0.991581	Mean dependent var	5.037342
Adjusted R-squared	0.990129	S.D. dependent var	2.395539
S.E. of regression	0.238001	Akaike info criterion	0.121721
Sum squared resid	1.642689	Schwarz criterion	0.388352
Log likelihood	3.869888	Hannan-Quinn criter.	0.213762
F-statistic	683.1029	Durbin-Watson stat	2.098093
Prob(F-statistic)	0.000000		

Dickey-Fuller t-statistics
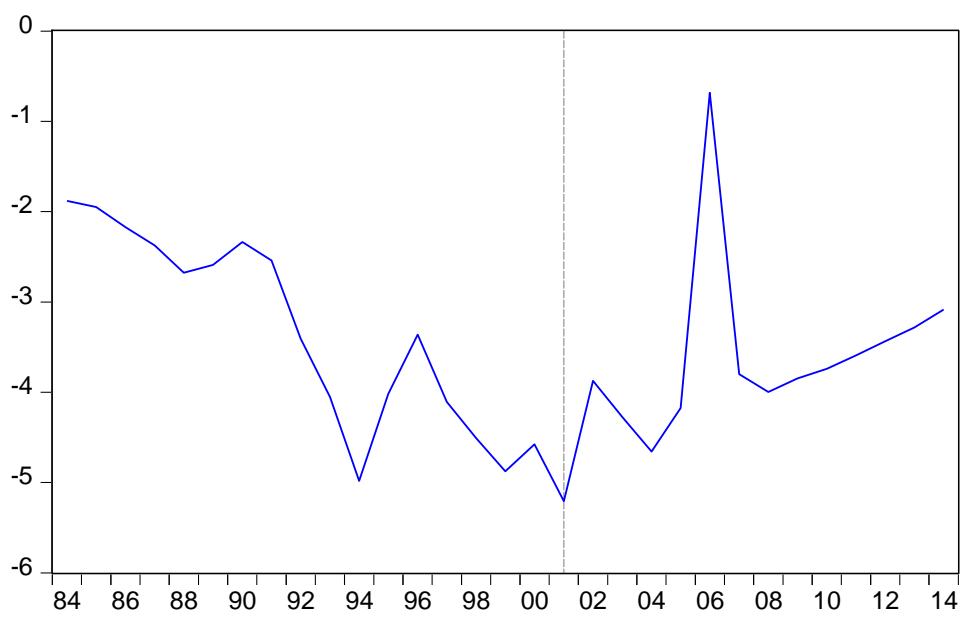
APPENDIX ONE D: Government Expenditure

Null Hypothesis: D(LGOVTEXP) has a unit root
Trend Specification: Trend and intercept
Break Specification: Trend and intercept
Break Type: Innovational outlier

Break Date: 1988
Break Selection: Minimize Dickey-Fuller t-statistic
Lag Length: 0 (Automatic - based on Schwarz information criterion,
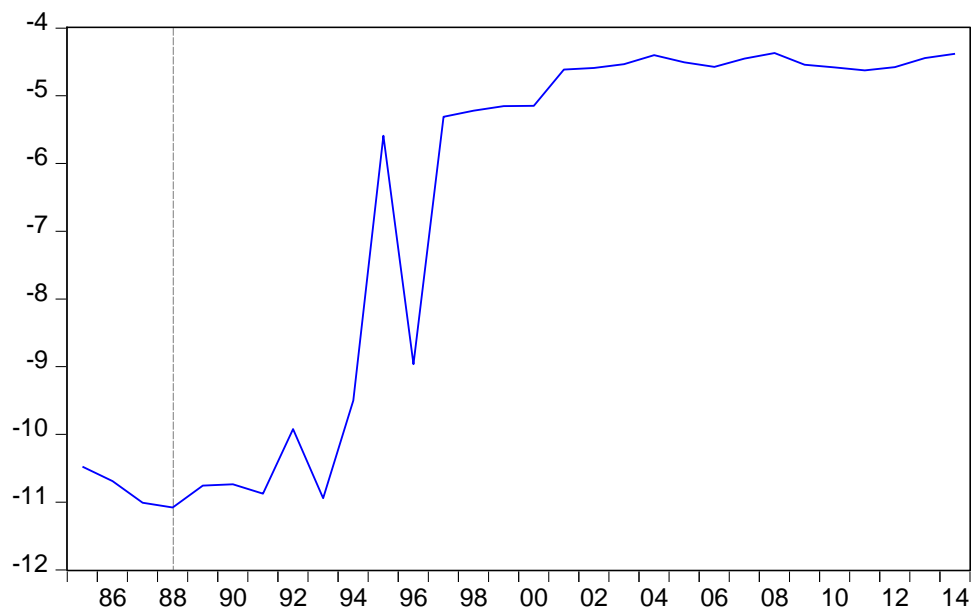   maxlag=9)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-11.07953	< 0.01
Test critical values: 1% level	-5.719131	
5% level	-5.175710	
10% level	-4.893950	

*Vogelsang (1993) asymptotic one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LGOVTEXP)
Method: Least Squares
Date: 01/12/19   Time: 12:07
Sample (adjusted): 1983 2016
Included observations: 34 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LGOVTEXP(-1))	-0.605347	0.144893	-4.177887	0.0003
C	-0.353993	0.166408	-2.127256	0.0423
TREND	0.173083	0.051008	3.393222	0.0021
INCPTBREAK	0.079024	0.138476	0.570666	0.5728
TRENDBREAK	-0.191830	0.051546	-3.721505	0.0009
BREAKDUM	-0.155489	0.168239	-0.924210	0.3633

R-squared	0.555925	Mean dependent var		0.176490
Adjusted R-squared	0.476626	S.D. dependent var		0.216600
S.E. of regression	0.156699	Akaike info criterion		-0.710198
Sum squared resid	0.687526	Schwarz criterion		-0.440841
Log likelihood	18.07337	Hannan-Quinn criter.		-0.618340
F-statistic	7.010477	Durbin-Watson stat		2.554899
Prob(F-statistic)	0.000233			

Dickey-Fuller t-statistics

APPENDIX ONE E: Asset Base

Null Hypothesis: D(LASSETBASE) has a unit root
Trend Specification: Trend and intercept
Break Specification: Trend and intercept
Break Type: Innovational outlier

Break Date: 1998
Break Selection: Minimize Dickey-Fuller t-statistic
Lag Length: 2 (Automatic - based on Schwarz information criterion,
    maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.778457	< 0.01
Test critical values:	1% level	-5.719131	
	5% level	-5.175710	
	10% level	-4.893950	

*Vogelsang (1993) asymptotic one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LASSETBASE)
Method: Least Squares
Date: 01/12/19   Time: 11:52
Sample (adjusted): 1985 2016
Included observations: 32 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LASSETBASE(-1))	-0.211272	0.209619	-1.007888	0.3236
D(LASSETBASE(-1), 2)	0.568884	0.174461	3.260811	0.0033
D(LASSETBASE(-2), 2)	0.482149	0.162352	2.969775	0.0067
C	0.161195	0.053467	3.014832	0.0060
TREND	0.015502	0.006956	2.228456	0.0355
INCPTBREAK	0.096143	0.062695	1.533511	0.1382
TRENDBREAK	-0.034028	0.009271	-3.670373	0.0012
BREAKDUM	-0.210382	0.095541	-2.201998	0.0375

R-squared	0.666759	Mean dependent var	0.216658
Adjusted R-squared	0.569564	S.D. dependent var	0.125849
S.E. of regression	0.082567	Akaike info criterion	-1.938101
Sum squared resid	0.163614	Schwarz criterion	-1.571667
Log likelihood	39.00962	Hannan-Quinn criter.	-1.816639
F-statistic	6.860003	Durbin-Watson stat	1.967631
Prob(F-statistic)	0.000158		

Dickey-Fuller t-statistics
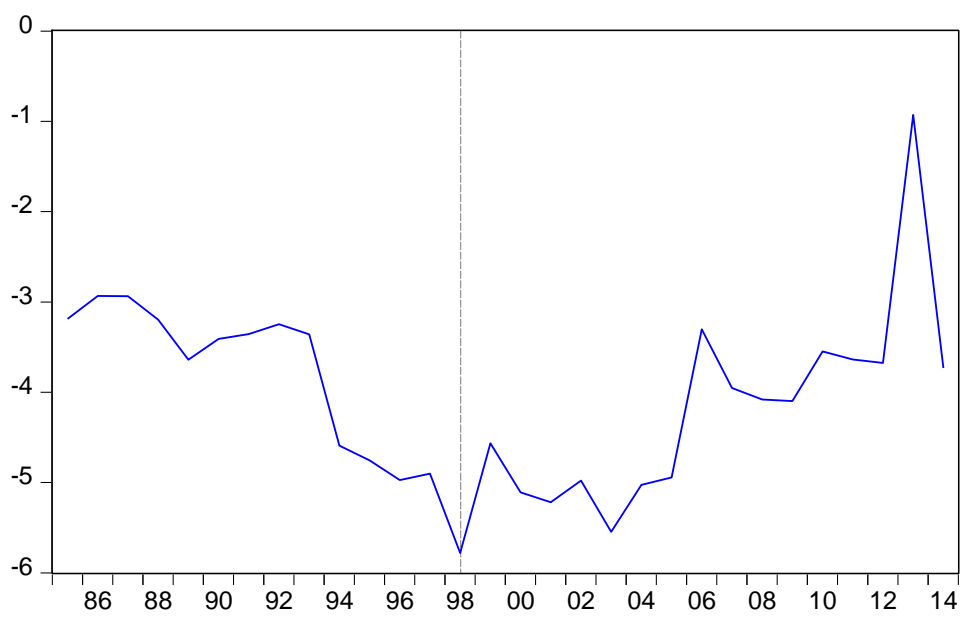
APPENDIX TWO: FULL ARDL RESULTS

APPENDIX TWO A

Dependent Variable: LCAPBASE
Method: ARDL
Date: 01/27/19   Time: 18:31
Sample (adjusted): 1982 2016
Included observations: 35 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (4 lags, automatic): LTAXREV LIQRTIO
Fixed regressors: C
Number of models evaluated: 100
Selected Model: ARDL(1, 0, 0)
Note: final equation sample is larger than selection sample

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LCAPBASE(-1)	13.865040	2.13068	6.507331	0.0000
LTAXREV	7.692580	2.84140	2.707320	0.0109
LIQRTIO	-0.063760	0.11346	-0.561960	0.5781
C	-3.536000	7.87804	-0.448843	0.6567

R-squared	0.990420	Mean dependent var		4.656070
Adjusted R-squared	0.989493	S.D. dependent var		3.143083
S.E. of regression	0.322181	Akaike info criterion		0.679805
Sum squared resid	3.217822	Schwarz criterion		0.857559
Log likelihood	-7.896591	Hannan-Quinn criter.		0.741166
F-statistic	1068.288	Durbin-Watson stat		2.040047
Prob(F-statistic)	0.000000			

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

APPENDIX TWO B

Dependent Variable: LTOTALCREDIT
Method: ARDL
Date: 01/27/19   Time: 18:34
Sample (adjusted): 1982 2016
Included observations: 35 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (4 lags, automatic): LGOVTEXP LIQRTIO
Fixed regressors: C
Number of models evaluated: 100
Selected Model: ARDL(1, 0, 1)
Note: final equation sample is larger than selection sample

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LTOTALCREDIT(-1)	16.38704	1.042180	15.723810	0.0000
LGOVTEXP	4.40164	1.248560	3.525373	0.0014
LIQRTIO	-0.077160	0.071100	-1.085232	0.2864
LIQRTIO(-1)	0.166860	0.070700	2.360113	0.0250
C	-5.310700	4.249340	-1.249771	0.2210

R-squared	0.995615	Mean dependent var	5.963457
Adjusted R-squared	0.995030	S.D. dependent var	2.564796
S.E. of regression	0.180805	Akaike info criterion	-0.451229
Sum squared resid	0.980716	Schwarz criterion	-0.229036
Log likelihood	12.89650	Hannan-Quinn criter.	-0.374528
F-statistic	1702.919	Durbin-Watson stat	1.994723
Prob(F-statistic)	0.000000		

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

APPENDIX TWO C

Dependent Variable: LTOTALCREDIT
Method: ARDL
Date: 01/27/19   Time: 18:35
Sample (adjusted): 1982 2016
Included observations: 35 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (4 lags, automatic): LTAXREV LIQRTIO
Fixed regressors: C
Number of models evaluated: 100
Selected Model: ARDL(1, 0, 1)
Note: final equation sample is larger than selection sample

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LTOTALCREDIT(-1)	15.980480	1.167360	13.689419	0.0000
LTAXREV	4.351720	1.248440	3.485726	0.0015
LIQRTIO	-0.054320	0.071460	-0.760146	0.4532
LIQRTIO(-1)	0.108240	0.071580	1.512154	0.1409
C	2.986820	3.911020	0.763693	0.4510

R-squared	0.995586	Mean dependent var	5.963457
Adjusted R-squared	0.994998	S.D. dependent var	2.564796
S.E. of regression	0.181401	Akaike info criterion	-0.444653
Sum squared resid	0.987186	Schwarz criterion	-0.222461
Log likelihood	12.78143	Hannan-Quinn criter.	-0.367952
F-statistic	1691.709	Durbin-Watson stat	1.868447
Prob(F-statistic)	0.000000		

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

APPENDIX TWO D

Dependent Variable: LASSETBASE
Method: ARDL
Date: 01/27/19   Time: 18:39
Sample (adjusted): 1985 2016
Included observations: 32 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (4 lags, automatic): LTOTALDEBT LEXTDEBT
        LDOMDEBT
Fixed regressors:
Number of models evaluated: 500
Selected Model: ARDL(4, 0, 4, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LASSETBASE(-1)	22.540160	3.557600	6.335777	0.0000
LASSETBASE(-2)	-4.719920	5.806280	-0.812991	0.4254
LASSETBASE(-3)	-8.573780	5.649740	-1.517553	0.1440
LASSETBASE(-4)	8.468960	3.007760	2.815703	0.0104
LGOVTEXP	4.40164	1.248560	3.525373	0.0014
LIQRTIO	-0.077160	0.071100	-1.085232	0.2864
LIQRTIO(-1)	0.166860	0.070700	2.360113	0.0250
C	-5.310700	4.249340	-1.249771	0.2210

R-squared	0.999203	Mean dependent var	7.263442
Adjusted R-squared	0.998824	S.D. dependent var	2.311497
S.E. of regression	0.079264	Akaike info criterion	-1.965772
Sum squared resid	0.131939	Schwarz criterion	-1.461925
Log likelihood	42.45235	Hannan-Quinn criter.	-1.798761
Durbin-Watson stat	1.948422		

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

Appendix 3A

A graph of the relationship is presented in Fig. 4.1 below, from the slope, a positive linear relationship is inferred between tax revenue and capital base of banks within the studied period.
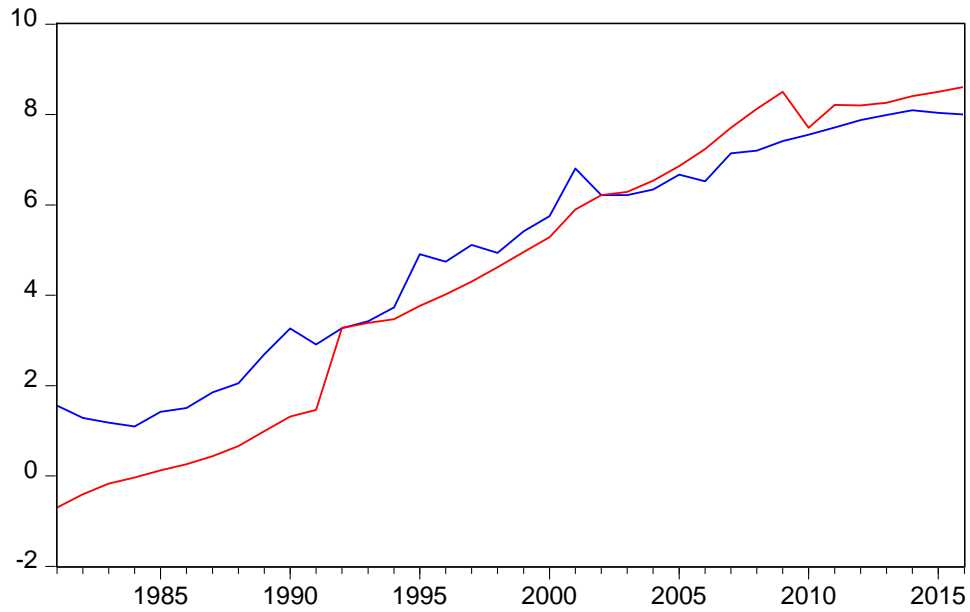

Line Graph of Capital Base and Tax Revenue 1981-2016

LTAXREV ——— LCAPBASE

Fig. 4.1 A Line Plot of Capital Base and Tax Revenue 1981-2016.

Appendix 3B

A graph of the relationship between bank's credit creation and government expenditure is presented in Fig. 4.2 below. From the slope of the graph, a positive linear relationship exists between government expenditure and credit creation of banks within the period studied.
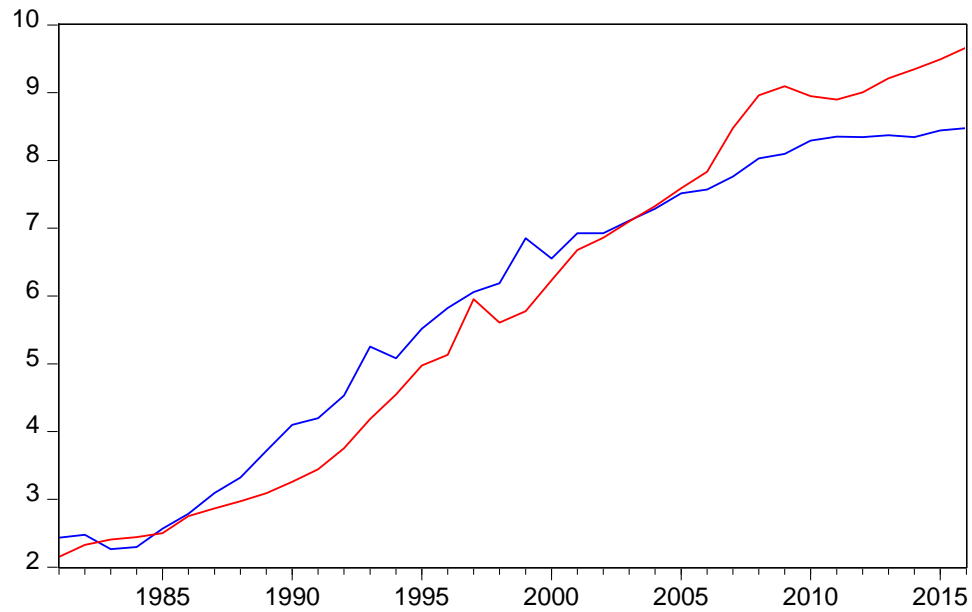

Line Graph of Total Credit and Government Expenditure 1981-2016

LGOVTEXP   LTOTALCREDIT
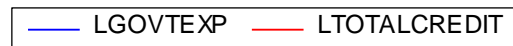
Appendix 3C

Graph of the Relationship between Taxation and Total credit creation of banks.

A graph of the relationship is presented in Fig 4.3 below. From the slope of the graph, a positive linear relationship is inferred between tax revenue and bank credit within the period studied.

Line Graph of Tax Revenue Versus Bank Credit 1981 - 2016

LTAXREV   LTOTALCREDIT
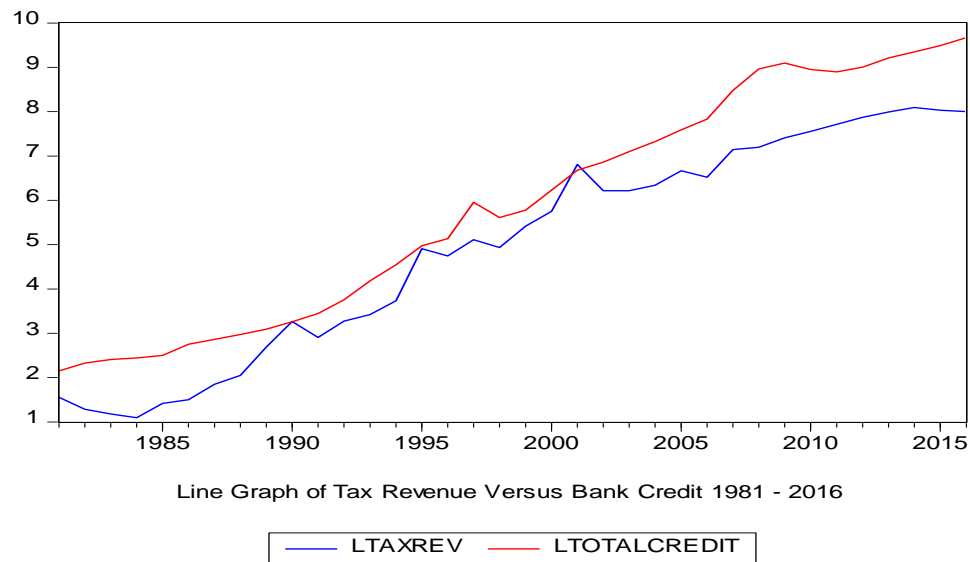
Appendix 3D

Graph of the relationship between Government Expenditure and Asset Base of banks

A graph of the relationship between Government expenditure and bank's asset base is presented in fig 4.4 below. From the slope of the graph, a positive linear relationship exists between government debt and asset base of banks within the period studied.
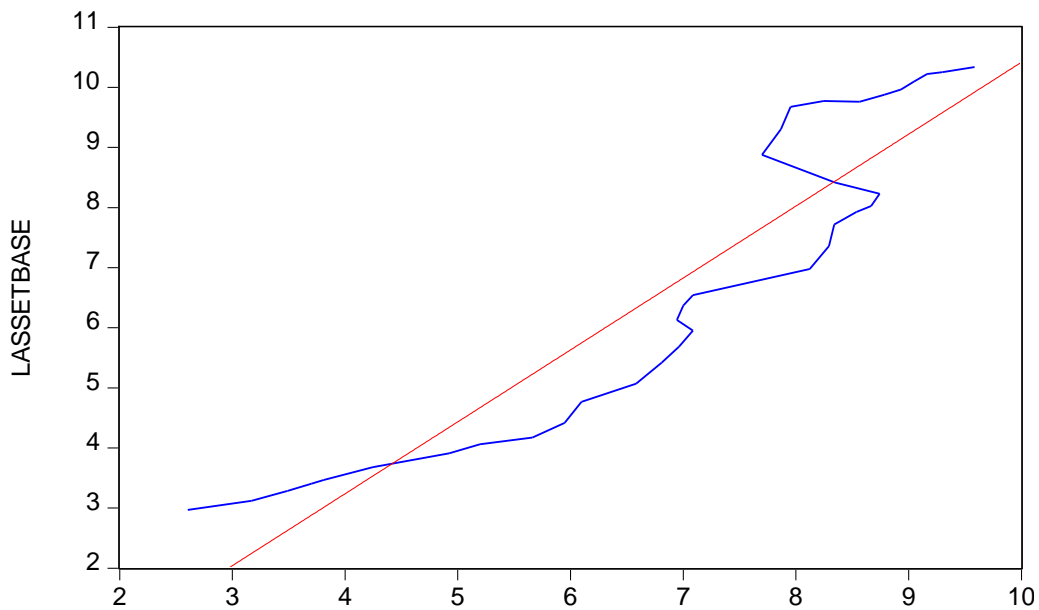
XY Line Plot of Asset Base and Total Government Debt 1981-2016