**FISCAL FEDERALISM AND MACROECONOMIC PERFORMANCE IN NIGERIA**

**BY**

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**Being**

**A Thesis Submitted in Partial Fulfillment**

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**Doctor of Philosophy (PhD)**

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**Ota, Ogun State**

**Nigeria.**

**August, 2011**

DECLARATION

I, **Olabanji Olukayode EWETAN,** declare that this thesis is my own original work and that no portion of the work referred to in this thesis has been or will be submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

**-------------------------------------------------------- ---------------------------------------**

 Signature Date

 Olabanji Olukayode EWETAN

CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance by Covenant University a dissertation/thesis entitled: “Fiscal Federalism and Macroeconomic Performance in Nigeria” in partial fulfillment of the requirements for the degree of Doctor of Philosophy (PhD) in Economics of Covenant University, Ota, Nigeria.

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DEDICATION

This thesis is dedicated to my LORD and SAVIOUR, JESUS CHRIST. “Who redeemed my life from destruction; who crowned me with loving-kindness and tender mercies” (Psalm 103: 4).

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LIST OF ABBREVIATIONS

ADF: Augmented Dickey-Fuller

CBN: Central Bank of Nigeria

EXC: Exchange rate

FDC: Fiscal Decentralization

GDP: Gross Domestic Product

INF: Inflation rate

INT: Interest rate

K: Capital

L: Labour

MS: Money Supply

RGDP: Real Gross Domestic Product

TDS: Total Domestic Savings

VAR: Vector Autoregressive

VAT: Value Added Tax

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ABSTRACT

Fiscal decentralization, which mirrors the amount of fiscal autonomy and responsibility accorded to subnational government, has been an important subject in the policy equation of many developing, transition, and developed countries. This thesis investigates the impact of fiscal decentralization on macroeconomic performance in Nigeria. Specifically, it seeks to analyze the effects of fiscal decentralization on economic growth, inflation rate, exchange rate, and interest rate in Nigeria, examine the evolution, structure, and practices of fiscal federalism in Nigeria, investigate the underlying factors promoting or inhibiting the true practice of fiscal federalism in Nigeria, and determine the extent of fiscal decentralization in Nigeria. Within the framework of a simple endogenous growth model, the Vector Autoregressive (VAR) estimation technique was employed in this thesis on a set of four dynamic time series data models with latent variables. Three indicators of fiscal decentralization, subnational fiscal autonomy, subnational spending share, and subnational dependency were used to measure the degree of fiscal decentralization in Nigeria. Data for the study were sourced from secondary sources. The findings are many and offer strong evidence that there is a connection between fiscal decentralization and macroeconomic performance in Nigeria. Fiscal decentralization has a significant positive impact on growth suggesting that fiscal decentralization promotes economic growth in Nigeria. However on the contrary fiscal decentralization has an insignificant negative impact on the other three indicators of macroeconomic performance in Nigeria: inflation rate, exchange rate, and interest rate. Nigeria has not operated as a true federation since it adopted a federal constitution in 1946 till date. Fiscal responsibility and taxing powers still remain considerably centralized, while subnational levels experience fiscal mismatch between spending and taxing powers. The true practice of fiscal federalism in Nigeria has been inhibited by several factors which include, the dominance of the federal government in the sharing of national financial resources from the Federation Account, the imposition of the command structure of the military on fiscal federalism, the pattern of assignment of responsibilities by the constitution among federating units, and over-reliance on the revenue from the Federation Account. No doubts, fiscal federalism is unarguably a potent economic strategy that can be used to maximize provision of public services as well promote macroeconomic stability. Central to the success of fiscal decentralization, is clarity in revenue and expenditure authority and responsibilities. The urgent reform that is required is the need for government to redress the prevailing fiscal mismatch at subnational government levels through appropriate policies to increase tax revenues to subnational governments as well as reforms of expenditure responsibilities to enhance their efficiency in the provision of public services.