Journal of Management World **2025**, 4: 159-168
DOI: 10.53935/jomw.v2024i4.1185

Fiscal Policy Uncertainty and its Impact on Business Stability in Emerging Market Economies

Samuel Olaniyi Akinyemi[1*], Bright Onyedikachi Asonye[2]

[1,2]Rome Business School, Nigeria; Niyi.Akinyemi@Nasbconsult.Com (S.O.A.) Brightasonye@Gmail.Com (B.O.A.).

Abstract. This study critically examines the impact of fiscal policies uncertainty on businesses in emerging market economies, with Nigeria as a focal point. Given the volatile nature of fiscal policies in such economies, this research aims to provide both quantitative and qualitative evidence on how policy inconsistency affects key economic variables, including exchange and interest rates, trade and investment, imports and exports, and taxation. These disruptions, in turn, shape the operational landscape for businesses across diverse sectors such as manufacturing, agriculture, services, oil and gas, and small and medium-sized enterprises. Utilising a mixed- methods approach, this study integrates empirical data analysis with insights from policy reviews to establish a nuanced understanding of the relationship between fiscal instability and business performance. Findings reveal that inconsistent fiscal policies create an unpredictable business climate, deterring investment, stiffening growth, and undermining job creation, ultimately weakening economic resilience. These results align with existing scholarly perspectives and World Bank reports that emphasise the critical role of stable and business-friendly policies in fostering economic expansion, job creation, and wealth distribution. The practical implications underscore the urgent need for policy coherence to enhance business confidence, drive sustainable economic growth, and improve government revenue through stable taxation frameworks. By offering a comprehensive analysis of fiscal policy volatility, this study contributes original insights into how emerging economies can navigate policy instability to create a more conducive environment for businesses, thereby reinforcing economic development strategies.

Keywords: Business stability, Emerging markets, Fiscal policy, Government, uncertainty.

1. INTRODUCTION

Emerging market economies play a crucial role in global economic development, contributing significantly to global output and employment. However, these economies often grapple with fiscal policy volatility, which creates an unpredictable business climate, discourages investment, and hinders sustainable economic growth (da Silva & Vieira, 2017; Wu & Pan, 2021). Fiscal policy, comprising government taxation, spending, and debt management directly influence key economic variables such as exchange and interest rates, trade and investment flows, national imports and exports, and economic infrastructure development. Stability in these areas is critical for fostering business growth, attracting investment, and ensuring long-term economic resilience (Kim *et al*., 2021). Yet, in many emerging markets, the lack of policy consistency has led to an unstable economic environment, making it difficult for businesses to plan, expand, and contribute effectively to national development.

Nigeria, Africa's largest economy, offers a compelling case study of the effects of fiscal policy inconsistency on business stability. Over the years, successive governments have introduced and reversed economic policies, creating an environment of uncertainty for businesses. From fluctuating tax regimes and trade policies to inconsistent monetary interventions, the Nigerian economic landscape reflects the broader struggles of emerging markets in maintaining fiscal discipline. This unpredictability has deterred investment, increased the cost of doing business, and reduced overall economic competitiveness. Studies have shown that stable fiscal policies create an enabling business environment that fosters innovation, enhances productivity, and facilitates long-term capital accumulation (Aghion & Bolton, 1997). Conversely, fiscal policy reversals have been linked to reduced investor confidence, higher unemployment rates, and diminished government revenue from personal and corporate taxes.

Despite the extensive research on fiscal policy in developed economies, the complexities of fiscal management in emerging markets remain under explored. Many existing studies focus on how fiscal policy affects economic stability at a macro level, often overlooking the direct and nuanced effects on businesses. Additionally, while international financial institutions such as the World Bank and International Monetary Fund (IMF) emphasize the importance of a stable business environment for national prosperity, empirical studies on how fiscal inconsistencies shape business realities in emerging markets remain scarce. This research seeks to fill these gaps by critically assessing the direct and indirect impacts of fiscal policy volatility on businesses operating in emerging economies, using Nigeria as a focus.

The findings of this study hold significant implications for a broad spectrum of stakeholders. Policymakers and government officials will gain insights into how fiscal inconsistencies affect economic development and business sustainability, enabling them to design more stable and growth-oriented policies. Investors and business leaders will better understand the risks associated with inconsistent fiscal policy and how to navigate an unpredictable economic environment. Additionally, economic researchers and scholars will benefit from a deeper analysis of the interplay between fiscal policy and business stability in emerging markets, contributing to a more comprehensive body of knowledge in this field.

* Correspondence: Niyi.Akinyemi@Nasbconsult.Com

2. LITERATURE REVIEW

2.1. Introduction

Fiscal policy serves as a fundamental instrument for governments in shaping economic growth, stabilising business environments, and enhancing social welfare (Moreno- Dodson, 2012). Governments utilize public finance mechanisms to collect resources from taxation and other sources, which are then allocated to public spending, infrastructure development, and social programs. The effectiveness of fiscal policy, however, is contingent upon its consistency and predictability.

In emerging economies, where economic vulnerabilities are pronounced, policy inconsistency can significantly impact business stability and investor confidence. Sen (1988) emphasized that fiscal policy plays a critical role in fostering social welfare, particularly in societies grappling with high poverty rates (Levine, 2005). Inconsistent fiscal policies, corruption, and regulatory unpredictability have been identified as major deterrents to foreign investment and economic growth. There is the need for macroprudential regulations and sound policy frameworks to mitigate economic risks.

This literature review critically examines the implications of fiscal policy volatility on business stability in emerging markets. It explores global policy uncertainty, productivity-enhancing reforms, financial system development, inflationary pressures, and other economic factors influenced by fiscal policy inconsistencies. By reviewing existing scholarship, this section establishes the foundation for understanding the complex relationship between fiscal policy and business stability.

2.2. Global Policy Uncertainty and Business Stability in Emerging Markets

Economic uncertainty at the global level has significant spillover effects on emerging markets. Baker, Bloom & Davis (2016) and Jurado, Ludvigson & Ng (2015) noted that 2016 marked the highest level of global policy uncertainty in over three decades, driven by trade tensions between the U.S. and China, Brexit, and geopolitical conflicts. Policy unpredictability discourages investment by increasing risk perceptions and reducing long-term business planning confidence. Studies indicate that policy uncertainty in advanced economies negatively influences investment decisions in emerging markets, as seen in the Eurozone crisis (Khan, 2017). The volatility in fiscal and monetary policies in these regions further exacerbates business instability, discouraging capital inflows and economic expansion.

2.3. Corporate Productivity-Enhancing Reforms

Slowing productivity growth has been a persistent challenge for emerging economies. The World Bank (2018a) reported that potential growth in developing countries declined from 5.9% (2003-2007) to 4.7% (2013-2018), attributed to declining private sector investments and structural inefficiencies. This growth decline trajectory was further compounded by Covid-19 which made many developing countries economy to go into recession in the years that followed. Berg, Ostry and Zettelmeyer (2012) argued that ambitious fiscal reforms could boost productivity by enhancing human and physical capital investments. However, persistent governance weaknesses, rigid labor markets, and weak financial institutions hinder these efforts (Bernard, Jensen & Schott, 2006). Reallocating resources to more competitive sectors, reducing market distortions, and promoting trade liberalization could enhance business growth and productivity. Nonetheless, inconsistent fiscal policies undermine these reforms, leading to investor hesitation and slower economic expansion.

2.4. Fiscal Policy Inconsistency and Financial System Development

A well-functioning financial system is crucial for business stability. Jiao (2024) posited that for developing countries, financial support is a key driver of economic growth and a crucial factor in enhancing their ability to compete internationally. Levine (2005) and Levine, Loayza and Beck (2000) highlighted the role of financial development in fostering economic growth by improving capital allocation and investment efficiency. However, fiscal policy volatility disrupts financial market confidence, restricting credit availability and investment opportunities. IMF (2012) observed that weak financial institutions in emerging economies exacerbate macroeconomic volatility, making businesses more vulnerable to external shocks. Moreover, limited access to financial services impairs firms' ability to scale operations, reducing overall business resilience.

2.5. Fiscal Policy Inconsistency and Inflation

Following the termination (and then partial reinstatement) of fuel subsidy by President Tinubu of Nigeria, rising energy prices and growing food prices were the main causes of inflation, which hit a 28-year high of 28.9% in December 2023. Food inflation reached 33.9% during this same period. Food security issues were made worse by the steep rise in the price of rice, wheat, and other staple grains as well as the more expensive fertilizer (Bureau of Economic and Business Affairs, 2024). Inflation volatility is another consequence of erratic fiscal policies. Olaoye *et al.* (2024) concluded in their study on soaring inflation in Sub Saharan Africa that the recent inflation surge has fiscal roots, which may render monetary policy ineffective in curbing inflationary pressures. Mishkin (2008) and

Ha *et al.* (2019) noted that inflationary uncertainty raises borrowing costs, disrupts business planning, and discourages long-term investment. Reinhart, Rogoff, and Savastano (2003) found that emerging economies with weak monetary frameworks experience higher inflation volatility, making them more susceptible to financial crises. Exchange rate pass-through effects further exacerbate inflationary pressures, particularly in economies with fragile central bank autonomy (Kose *et al.*, 2019; Ha *et al.*, 2019). Establishing credible, transparent fiscal and monetary policies is essential for maintaining price stability and fostering business confidence.

2.6. Fiscal Policy Inconsistency and Energy Subsidies

Energy subsidies remain a major policy challenge in many emerging economies. The World Bank (2018b) estimated that global fossil fuel subsidies reached $300 billion in 2017, disproportionately benefiting wealthy individuals and large corporations (Clements *et al.*, 2013; Rentschler & Bazilian, 2017). While subsidy reductions can enhance fiscal sustainability, abrupt policy changes create economic uncertainty and deter investment in energy-intensive sectors (Stocker *et al.*, 2018). Due to loose monetary policies, two major devaluations of the naira, which has since lost 70% of its value against the US dollar, and the President's attempt to end Nigeria's long-standing fuel subsidy, inflation is expected to reach its highest annual rate since the 1990s in 2024, averaging 28.7%. Growing price pressures, especially those related to food inflation, will significantly reduce household purchasing power and worsen financial hardship (Fitch, 2024).

2.7. Fiscal Policy Inconsistency and Climate Change

Climate change poses a significant threat to business stability, particularly in agriculture-dependent emerging economies. The World Bank (2017) found that climate-related disruptions disproportionately affect the poor, limiting their ability to invest in resilience-building measures. Policy inconsistencies in climate adaptation funding and agricultural support programs further compound vulnerability. Lack of implementation details such as the Climate Change Policy (2019) and the 15th Plan (2019/2020–2023/2024) acknowledge the impact of climate change on health but fail to provide detailed implementation mechanisms or coordination strategies to address these impacts effectively (World Bank, 2024). Sustainable fiscal policies that promote environmental resilience are crucial for long-term economic stability.

2.8. Summary of the Literature Review

Despite extensive research on fiscal policy and economic growth, critical gaps remain in understanding how fiscal policy volatility specifically affects business stability in emerging markets. Existing studies primarily focus on macroeconomic indicators such as GDP growth and inflation, overlooking firm-level impacts. Moreover, methodological gaps exist in quantifying the long-term effects of fiscal policy uncertainty on business investment decisions. Policy frameworks in many studies remain theoretical, with limited empirical validation in emerging economies. This study aims to bridge these gaps by providing an empirical analysis of fiscal policy volatility's direct and indirect effects on business stability, contributing to policy recommendations that foster economic resilience.

3. METHODOLOGY

3.1. Introduction

The objective of this study is to contribute to the growing body of knowledge in public policy management by assessing the relationship between fiscal policy volatility and business stability, providing evidence-based recommendations for policymakers.

To achieve this, a mixed-method research approach has been chosen, integrating both qualitative and quantitative research methodologies. This approach allows for a more comprehensive examination of fiscal policy fluctuations by employing both statistical data analysis and interpretative insights from policymakers, economists, and business leaders. The study will employ a pragmatic research philosophy, combining empirical data with theoretical perspectives to generate well-rounded conclusions.

3.2. Research Philosophy

Research philosophy defines the assumptions and beliefs that guide the research process, influencing the methods used to collect and analyse data. Williams and May (1996) state that philosophy in research is concerned with identifying the nature of reality and the justification for knowledge acquisition. Since this study seeks to evaluate the real-world impact of fiscal policy volatility on businesses, it adopts a pragmatic research philosophy (Heinonen & Strandvik, 2022).

The pragmatic approach is particularly suitable for this study because it bridges theoretical research with practical applications. It allows the researcher to employ diverse methodologies, ensuring that both objective (quantitative) and subjective (qualitative) perspectives are considered. In this case, statistical trends in fiscal policy and business performance will be combined with expert opinions and policy reviews.

By following a pragmatic paradigm, this study aligns itself with practical, problem- solving research, enabling the

classification of fiscal policies based on their effects, whether they contribute to economic stability or instability.

3.3. Research Method

A mixed-method research approach has been selected as the most effective means of analysing the complex relationship between fiscal policy fluctuations and business stability. This approach integrates quantitative data analysis, which captures macroeconomic trends and financial indicators, with qualitative insights, which provide context for understanding policy shifts and business responses. Some of the advantages of mixed-method research is that it enables comprehensive data triangulation, ensuring robust and reliable findings (Fielding, 2012). It allows for both exploratory and confirmatory research, ensuring that patterns identified in quantitative data can be validated with qualitative insights. However, mixed-method research also presents challenges, including increased resource demands and the requirement for expertise in both data collection and analysis techniques.

3.4. Data Collection

The study utilises secondary data collection, sourcing information from publicly available macroeconomic reports, government fiscal records, and academic journal articles. According to Doolan & Froelicher (2009), secondary data collection offers several advantages such as the cost-effectiveness and time-efficiency that allows for extensive data coverage; an enhancement of research credibility as relevant data is sourced from reputable institutions such as the IMF, World Bank, Fitch and Central banks as well as the facilitation of longitudinal analysis, enabling researchers to track fiscal policy trends over time. However, secondary data collection also presents limitations such as the data being incomplete or biased, requiring critical evaluation; the data not being able to directly answer the research question, necessitating triangulation with multiple sources. Also, there is a risk of misinterpretation, as the data was not originally collected for this specific study (Saunders, Lewis & Thornhill, 2023).

To mitigate these challenges, the study employs data triangulation (Stake, 1995), ensuring that multiple sources corroborate key findings. This approach enhances the reliability and validity of the research by cross-referencing economic data with qualitative insights from policymakers, industry reports, and academic literature.

4. FINDINGS

This section presents research findings using text and infographics, based on secondary data, to evaluate the impact of fiscal policy volatility on business stability. The study examines how government policies on trade and investment, foreign exchange and taxation influence key sectors, including manufacturing, agriculture, mining, and oil & gas.

4.1. Political and Economic Outlook

Nigeria, the largest economy in Sub-Saharan Africa and a key emerging market, plays a pivotal role in global oil exports as a member of OPEC. While hydrocarbons account for over 80% of export earnings and nearly 50% of government revenue, the agriculture and services sectors contribute more significantly to GDP. However, persistent instability in the northern region due to insecurity, compounded by high inflation and unemployment, raises concerns about the feasibility and acceptance of essential but politically sensitive fiscal and economic reforms. According to data released by Nigeria's National Bureau of Statistics (NBS) in February 2024, real GDP growth rose significantly to 3.5% year-on-year in Q4 2023, up from 2.5% in Q3. This improvement was largely fueled by a strong rebound in the oil sector, which expanded by 12.1% after experiencing a prolonged downturn since 2020 (see RHS chart below). The non-oil sector also saw improved performance, growing by 3.1% compared to 2.7% in the previous quarter, supported by increased activity in agriculture and manufacturing.

Contribution to Real GDP Growth (LHS) & Real Growth by Sector, % y-o-y (RHS)

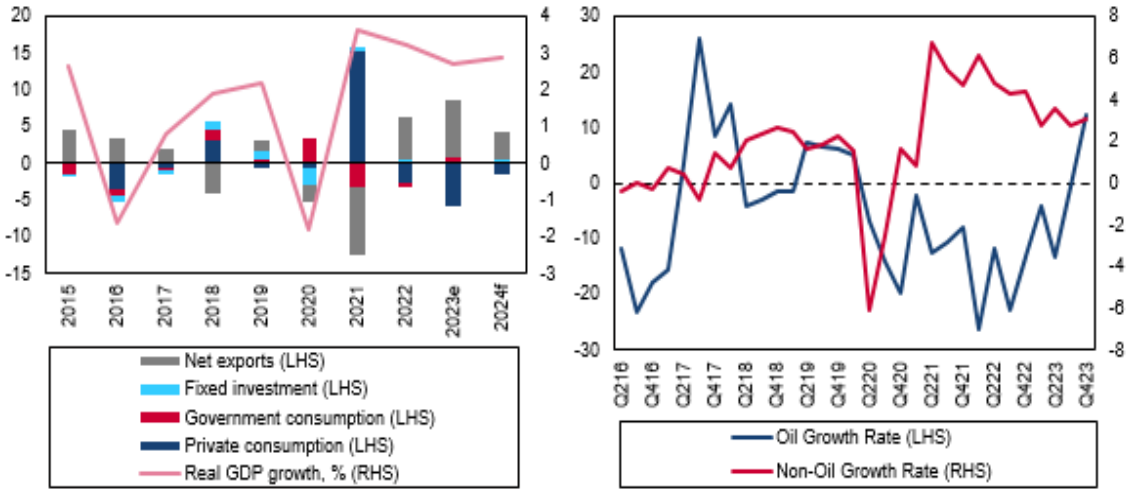

Figure 1: Exhibit 1: Nigeria - Contribution to GDP Growth.

Source: Fitch/ Nigeria Country Report Q3 2024.

The table below (Exhibit 2) illustrates the impact of economic policy on agriculture, industry, and services. The industrial sector suffered the most between 2017 and 2021, entering recession for two consecutive years. The services sector also declined from 2017 to 2020, with a partial recovery in 2021. The industrial sector exhibited unstable growth cycles, falling into recession every three years, making long-term investment and economic planning highly uncertain. Craven (2021a) notes that while the Central Bank of Nigeria (CBN) and the government actively promote indigenous businesses, however, conflicting policies worsens macroeconomic imbalances.

Table 1: Exhibit 2: Industry Data.

GDP	**2017[a]**	**2018[a]**	**2019[a]**	**2020[a]**	**2021[b]**	**2022[c]**	**2023[c]**
Nominal GDP (US$ bn)	375.7	421.7	475.3	432.9	465.1	505.8	530.8
Nominal GDP (N bn)	114,899	129,087	145,639	154,252	186,175	212,761	227,716
Real GDP growth (%)	0.8	1.9	2.2	-1.8	2.7	3.4	3.8
Expenditure on GDP (% real change)							
Private consumption	-0.4	4.6	-1.0	2.3	2.7	1.1	2.2
Government consumption	-12.4	39.9	8.8	61.6	5.2	1.1	0.9
Gross fixed investment	-3.0	9.7	8.3	-7.6	9.2	6.1	6.3
Exports of goods & services	8.2	-0.9	15.0	-25.8	-4.7	11.0	9.5
Imports of goods & services	4.8	49.2	27.3	-19.9	-2.0	8.2	8.7
Origin of GDP (% real change)							
Agriculture	3.4	2.1	2.4	2.2	2.9	2.0	1.0
Industry	2.2	1.8	2.3	-5.8	-6.7	8.5	12.2
Services	-0.9	1.8	2.2	-2.2	6.4	2.2	2.0
Population and income							
Population (m)	190.9	195.9	201.0	206.1	211.4	216.7	222.2
GDP per head (US$ at PPP)	5,190	5,279	5,353	5,187	5,375	5,582	5,811
Fiscal indicators (% of GDP)							
Public-sector revenue	2.6	3.2	3.4	2.4	2.5	3.1	4.3
Public-sector expenditure	5.3	6.0	6.7	6.1	6.1	6.4	7.1
Public-sector balance	-2.7	-2.8	-3.3	-3.7	-3.6	-3.4	-2.8
Net public debt	16.0	15.9	15.6	17.6[b]	21.5	24.6	28.2

Note: a. Actual. b. EIU estimates. c. EIU forecasts.
Source: IMF, International Financial Statistics

4.2. Effects of Fiscal and Trade Policies on Businesses

4.2.1. Manufacturing

Increased import restrictions have led to supply shortages, smuggling, and inflation, as local production struggles to meet demand. The Nigeria Customs Service (NCS) imposes high import duties — 70% on fully assembled cars, 10–35% on commercial vehicles, and 20% on imported tires—to support domestic auto

manufacturing (Fitch, 2022a). Meanwhile, local auto assembly plants benefit from duty-free imports of completely knocked-down vehicles and 5% tariffs on semi- knocked-down imports. However, inflation, currency instability and policy inconsistencies raise production costs, driving higher consumer prices. The Federal Ministry of Industry, Trade, and Investment (FMITI), reform in 2011, oversees manufacturing, implementing policies to boost industrialization, attract investment, and expand SMEs. The Nigeria Export Processing Zone Authority (NEPZA), established in 1992, regulates Free Zones (FZs), fostering export-driven industrialization and employment. Nigeria has 15 active special economic clusters, including seven in Lagos. The Dangote Refinery at Lekki Free Zone is expected to improve local fuel production and reduce import dependency (Fitch, 2022a). Key industry policies include the Economic Recovery and Growth Plan (ERGP) 2017–2020, the National Enterprise Development Programme (NEDEP), and the Nigerian Industrial Revolution Plan (NIRP). These focus on textiles, food processing, petrochemicals, light manufacturing, mineral extraction, and industrial park development. Tariff incentives, reduced bureaucracy, and infrastructure projects aim to support emerging industries, easing supply chain challenges.

4.2.2. Agriculture

According to Fitch (2022a), Nigeria's government reluctance to sign an EU free trade agreement has hurt Nigerian cocoa producers, as competitors in Ghana, Côte d'Ivoire, and Cameroon enjoy duty-free access to European markets, making Nigerian exports less competitive. Since 2011, local cocoa processing has operated below capacity due to higher costs. Agriculture growth remains slow due to underinvestment, weak policies, and technical challenges. However, the government plans a $1 billion crop-processing complex in northern Nigeria to increase agricultural exports. In July 2024, a 150-day duty-free period was implemented for essential food imports —such as wheat—under the Presidential Accelerated Stabilization Advancement Plan running through December 2024, the initiative aims to lower the cost of critical imports and ease the economic strain on citizens. At the same time, measures are being taken to decrease dependence on food imports and enhance domestic production (Thomas & Turk, 2023).

4.2.3. Industry and Mining

Nigeria's import substitution policies restrict forex access for 43 major product categories and ban nearly 700 imported goods. Sugar imports are tightly controlled, with raw sugar imports requiring presidential approval under the Nigerian Sugar Master Plan, which aims for self-sufficiency. Cement imports are restricted, with bagged cement bans and N500 (33 cents) per ton levies, supporting local production (Fitch, 2022a). In 2013, Nigeria announced a progressive fish import ban, increasing import taxes during the transition. However, according to CBN (2023) the foreign exchange limitations on 43 import products that were put in place eight years ago have been formally lifted by the Central Bank of Nigeria. The goal of this action, according to the bank, is to improve liquidity in the Nigerian foreign exchange market, provide price stability, and provide industrial inputs, however, inflation could occur, raising the cost of the impacted goods. In mining, Nigeria plans to invest $42 million to explore minerals, attract investors, and reduce reliance on oil.

4.2.4. OIL & GAS

The Petroleum Industry Act (PIA), passed in August 2021, introduced progressive taxation, emphasizing royalties over corporate earnings. While this enhances investment attractiveness, onshore and shallow-water operations remain costly, driving companies like Shell to sell assets. Domestic firms struggle to match the investment capacity of departing oil majors, keeping oil production below 2011–2014 levels. The PIA also transformed the Nigeria National Petroleum Cooperation (NNPC) into a commercially driven entity, NNPC Limited. Despite reforms, the government continue to retain fuel subsidies, affecting fiscal sustainability (Craven, 2021b). However, what seemed like an unexpected announcement according to Orluchukwu and Thankgod (2024) on May 29, 2023, President Tinubu, announced in his inaugural address that "the Fuel Subsidy is gone!" This announcement signified the end of the Premium Motor Spirit (PMS) subsidy in Nigeria. This ground-breaking decision has impact not only domestically but even internationally. Nationwide, PMS prices were immediately adjusted as a result of the announcement.

4.3. Effect of Foreign Exchange Restriction Policy on Businesses

Nigeria's protectionist trade policies, high tariffs, limited forex access for 43 import categories, and outright ban, aim to boost domestic agriculture and manufacturing. The CBN argues these measures stabilize forex reserves and promote job creation, but capital constraints make sourcing essential inputs difficult. While the naira is stabilizing, policy uncertainty hinders economic growth. Nigeria's FX system remains inefficient, leading to misallocation of capital and business disruptions. In 2021, Nigeria adopted a variable exchange rate, effectively devaluing the naira three times (Fitch, 2022a). After much discussion, the federal government has formally announced that it will no longer provide fuel and foreign exchange subsidies. Due to the elimination of FX subsidy,

businesses (such as manufacturers and fuel importers) that depended on low-cost foreign currency for imports will now have to pay more for dollars. Short-term inflation may result from businesses passing on the higher costs to customers, which could raise the cost of imported goods. Nigerian companies may be encouraged to concentrate more on domestic manufacturing rather than importing goods as a result of higher FX costs. By boosting homegrown businesses and lowering the nation's dependency on imports, this could promote economic diversification.

4.4. Effect of Taxation Policy on Businesses

Nigeria's corporate income tax (CIT) rate was reduced from 35% to 30% in 1996, making it regionally competitive despite being higher than South Africa (28%) and Ghana (25%) (Fitch, 2022b). Non-resident companies providing professional, consultancy, management, or technical services in Nigeria are taxed at 10% of final payments.

Businesses may qualify for tax incentives based on size and industry. For instance:

- Pioneer industries (e.g., steel, fertilizer, glass) get a 3-year tax holiday, extendable by 2 years.
- Solid mineral mining firms are tax-exempt for the first three years.
- SMEs in primary agriculture get a 4-year tax exemption, extendable by two years.
- Companies in rural areas receive tax discounts based on proximity to basic infrastructure.
- Gas-utilising companies enjoy 5-year tax holidays and tax-free dividends during the exemption period.

Real estate investment firms approved by the Securities Exchange Commission (SEC) are exempt from income tax on rental and dividend income, provided at least 75% is distributed within the fiscal year. Additionally, businesses in the Road Infrastructure Development Scheme can offset construction/rehabilitation costs against CIT liabilities, with credits transferable to other firms. Nigeria's VAT rate stands at 7.5% on goods and services, including imports. Oil and gas firms, government agencies, and resident entities engaging with non-residents must withhold and remit VAT to the Federal Inland Revenue Service (FIRS) (Fitch, 2022c). There is a tax reform bill being discussed by the national assembly seeking to change the face of Nigeria system.

4.5. Key Consideration

The government's tendency to reverse policies under political pressure creates uncertainty in economic and fiscal reforms. However, unpopular measures, particularly regarding taxes and subsidies, are necessary to prevent a fiscal crisis (Craven, 2021c). Although export diversification has long been a priority trade policy have failed to significantly boost non-oil sector exports. Given the volatility of oil prices, diversifying exports is critical for economic stability (Nwosa & Fasina, 2020).

Exhibit 3: Graphical analysis of industry export between 1970 – 2017 in percentage

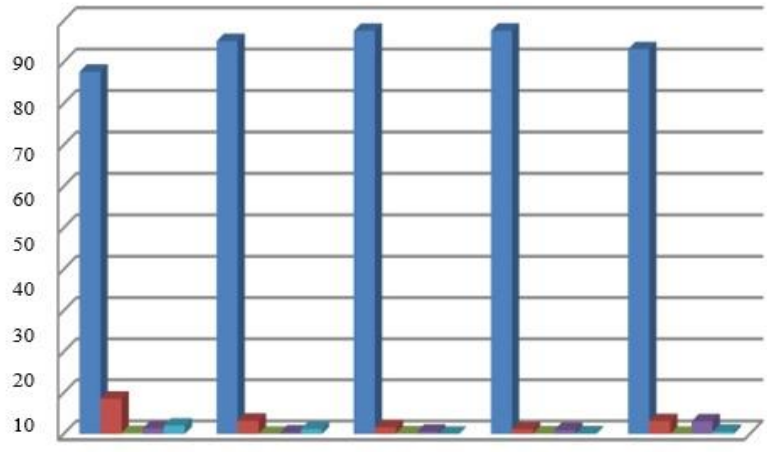

Figure 2: Exhibit 3: Graphical analysis of industry export between 1970-2017 in percentage.

	1970-1980	1981-1990	1991-2000	2001-2010	2011-2017
Oil	88.69	95.11	97.6	97.63	93.15
Agric	8.61	3.24	1.64	1.15	3.15
Minerals	0.28	0.06	0.13	0.13	0.03
Manufacturing	1.37	0.36	0.58	0.97	3.08
Others	2.04	1.22	0.05	0.13	0.58

Source: Central Bank of Nigeria, Nigeria Bureau of Statistics, Nwosa & Fasina

The pictorial evidences in Exhibit 3 below show that despite agriculture and manufacturing's economic significance, their export shares remain below 10% and 4%, respectively. Mineral exports have consistently remained below 1% over five decades, despite Nigeria's abundant resources. These figures highlight Nigeria's slow progress in export diversification, leaving the economy vulnerable to external shocks.

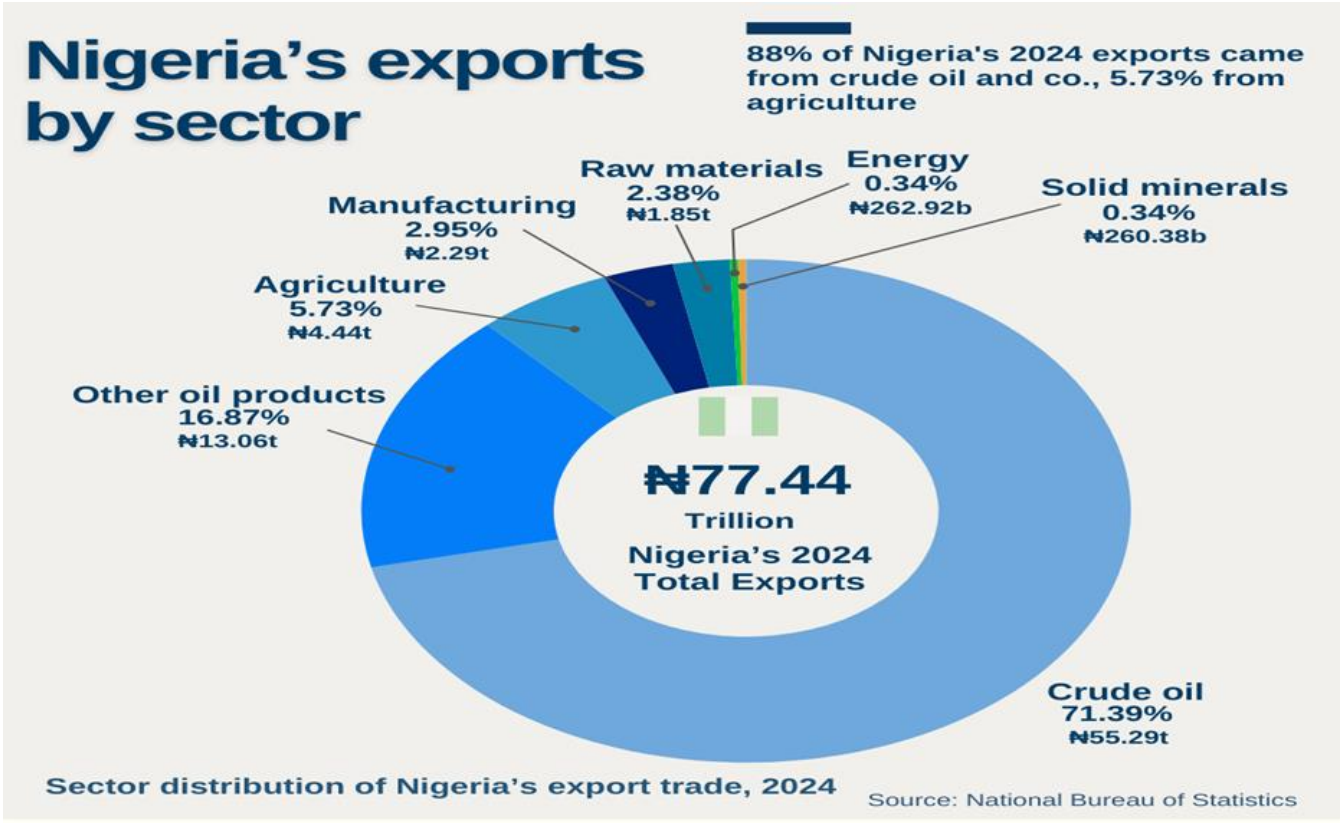

Figure 3: Exhibit 4: Pictorial analysis of industry export in 2024.

Source: National Bureau of Statistics

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

This study critically examined fiscal policy uncertainty and its impact on business stability in Nigeria, an emerging market economy. Findings highlight how policy unpredictability negatively affects exchange and interest rates, taxation, economic development, and key sectors such as manufacturing, agriculture, industry and mining, oil and gas, and SMEs. The study reinforces the World Bank's assertion that a stable business environment, supported by consistent and business-friendly policies, is crucial for economic growth, job creation, and increased government revenue.

One key revelation is that fiscal policy inconsistency significantly disrupts business operations, erodes investor confidence and hinders long-term economic planning. The persistent uncertainty surrounding tax administration, unstable exchange rates, high inflation and lending rates, restrictive import policies has created a volatile business climate.

For policymakers, the study underscores the urgent need for structural reforms. A minimum operational period for fiscal policies should be established to prevent abrupt changes that destabilise businesses. Additionally, stakeholder engagement, including business associations in the policymaking process is essential to ensure practical and sustainable economic strategies. Without policy coherence and transparency, Nigeria and by extension emerging economies risk further economic stagnation, capital flight, and constrained private-sector development, ultimately jeopardizing its long-term growth trajectory.

Furthermore, the study highlights the urgent need for a predictable and transparent tax regime. The uncertainty surrounding tax rate adjustments, coupled with poor tax compliance and a large informal sector, weakens revenue generation and exacerbates the government's fiscal deficit. A structured and enforceable medium-term tax policy framework is necessary to enhance compliance and foster economic stability.

Nigeria's import substitution policies, aimed at reducing foreign dependence, have yielded mixed results. While they have spurred local investments in agriculture and manufacturing, widespread smuggling, corruption, and inefficient administration have undermined their effectiveness. The study suggests that government should adopt a phased approach to import substitution, complemented by incentives for domestic producers to scale up

competitiveness.

The government can regulate the overall rate of inflation by implementing policies such as raising interest rates, controlling government spending, and encouraging local production. They can also invest in infrastructure, incentives for farmers and security to boost agricultural productivity and lower food prices.

For businesses, engagement in policy advocacy is critical. Industry associations must play a more active role in influencing economic policies, ensuring that business realities are adequately represented in decision-making processes. Collaborative policy formulation, where the government, private sector, and financial institutions work together, will reduce uncertainty, improve investor confidence, and foster a more resilient business environment.

5.2. Limitations and Future Research

A key limitation of this study is the lack of access to comprehensive and up-to-date economic data from domestic sources such as the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS). This constraint necessitated reliance on international institutions like the IMF, World Bank and Fitch Solutions which may not fully capture the localized impact of policy inconsistency on Nigerian businesses.

Future research should focus on sector-specific analyses to provide deeper insights into how policy fluctuations affect different industries, particularly SMEs, agribusiness, and energy. Additionally, longitudinal studies tracking the effects of policy reversals over extended periods would offer more precise assessments of business adaptability and economic resilience.

REFERENCES

Aghion, P., & Bolton, P. (1997). A theory of trickle-down growth and development. *The Review of Economic Studies*, *64*(2), 151–172.

Baker, S. R., Bloom, N., & Davis, S. J. (2016). Vol. 131, November 2016, Issue 4. *The Quarterly Journal of Economics*, *131*(4), 1593–1636.

Berg, A., Ostry, J. D., & Zettelmeyer, J. (2012). What makes growth sustained? *Journal of Development Economics*, *98*(2), 149–166.

Bernard, A. B., Jensen, J. B., & Schott, P. K. (2006). Trade costs, firms, and productivity. *Journal of Monetary Economics*, *53*(5), 917–937.

Bureau of Economic and Business Affairs. (2024). 2024 investment climate statements: Nigeria. U.S. Department of State, White House.

Central Bank of Nigeria (CBN). (2023). What you need to know about CBN's lifting of FOREX restriction on 43 items.

Clements, B. J., Coady, D., Fabrizio, S., Gupta, S., Alleyne, T. S. C., & Sdralevich, C. A. (2013). Energy subsidy reform: Lessons and implications. *International Monetary Fund*.

Craven, B. (Ed.). (2021a). *Economist Intelligence Unit, Country report: Nigeria* (p. 6).

Craven, B. (Ed.). (2021b). *Economist Intelligence Unit, Country report: Nigeria, October 2021* (p. 6).

Craven, B. (Ed.). (2021c). *Economist Intelligence Unit, Country report: Nigeria, October 2021* (p. 4).

da Silva, C. G., & Vieira, F. V. (2017). Monetary and fiscal policy in advanced and developing countries: An analysis before and after the financial crisis. *The Quarterly Review of Economics and Finance*, *63*, 13–20.

Doolan, D. M., & Froelicher, E. S. (2009). Using an existing data set to answer new research questions: A methodological review. *Research and Theory for Nursing Practice*, *23*(3), 203–215.

Fielding, N. G. (2012). Triangulation and mixed methods design: Data integration with new research technologies. *Journal of Mixed Methods Research*, *6*(2), 124–136.

Fitch Solutions. (2022a). *Nigeria: Trade & investment risk report Q3. Economic Openness* (pp. 15–21). Fitch Solutions, London.

Fitch Solutions. (2022b). *Nigeria: Trade & investment risk report Q3. Economic Openness* (p. 28). Fitch Solutions, London.

Fitch Solutions. (2022c). *Nigeria: Trade & investment risk report Q3. Economic Openness* (p. 29). Fitch Solutions, London.

Fitch Solutions. (2024). *Q3 2024 Nigeria country risk report. Economic Outlook* (p. 10). BMI, UK.

Ha, J., Ivanova, A., Montiel, P., & Pedroni, P. (2019). Policy research working paper 8934, Inflation in low-income countries (pp. 1–42).

Heinonen, K., & Strandvik, T. (2022). Applying pragmatism to stimulate service research and practice–a European perspective. *Journal of Services Marketing*, *36*(4), 467–475.

International Monetary Fund (IMF). (2012). Enhancing financial sector surveillance in LICs: Financial deepening and macro stability, motivation. Washington, DC.

Jiao, R. (2024). Research on the impact of financial structure on economic growth. *Advances in Management and Applied Economics*, *14*(3), 77–95.

Jurado, K., Ludvigson, S. C., & Ng, S. (2015). Measuring uncertainty. *American Economic Review*, *105*(3), 1177–1216.

Khan, T. (2017). Gulf economic monitor: Sustaining fiscal reforms in the long term. *World Bank Group Publication for the Gulf Cooperation Council Economic*, 1–37.

Kim, J., Wang, M., Park, D., & Petalcorin, C. (2021). Fiscal policy and economic growth: Some evidence from China. *Review of World Economics*, *157*(3), 555–582.

Kose, A., Matsuoka, H., Panizza, U., & Vorisek, D. (2019). Policy research working paper 8785, Inflation expectations: Review and evidence (pp. 1–63).

Levine, R. (2005). Finance and growth: Theory and evidence. *Handbook of Economic Growth*, *1*, 865–934.

Levine, R., Loayza, N., & Beck, T. (2000). Financial intermediation and growth: Causality and causes. *Journal of Monetary Economics*, *46*(1), 31–77.

Mishkin, F. (2008). Does stabilizing inflation contribute to stabilizing economic activity? A speech at the East Carolina University's Beta Gamma Sigma Distinguished Lecture Series, Greenville, North Carolina, February 25, 2008 (No. 366). *Board of Governors of the Federal Reserve System*.

Moreno-Dodson, B. (Ed.). (2012). *Is fiscal policy the answer? A developing country perspective*. World Bank Publications.

Nwosa, P. I., & Fasina, O. T. (2020). Trade policy and export diversification in Nigeria in the years 1970–2017: A sectoral analysis. *Entrepreneurial Business and Economics Review*, *8*(1), 127–142.

Olaoye, O. O., Omokanmi, O. J., Tabash, M. I., Olofinlade, S. O., & Ojelade, M. O. (2024). Soaring inflation in sub-Saharan Africa: A fiscal root? *Quality & Quantity*, *58*(1), 987–1009.

Orluchukwu, G., & Lilly-Inia, T. (2024). Fuel subsidy removal in Nigeria: Problems and prospects. *Journal of Policy and Development Studies*,

17(2), 92–108.
Reinhart, C. M., Rogoff, K. S., & Savastano, M. (2003). Debt intolerance. *Brookings Papers on Economic Activity*, 1–74.
Rentschler, J., & Bazilian, M. (2017). Policy monitor—principles for designing effective fossil fuel subsidy reforms. *Review of Environmental Economics and Policy*, *11*(1), 138–155.
Saunders, M., Lewis, P., & Thornhill, A. (2023). *Research methods for business students* (9th ed., pp. 360–362). Pearson.
Sen, A. (1988). The concept of development. *Handbook of Development Economics*, *1*, 9–26.
Stake, R. (1995). *The art of case study research* (pp. 109–110). Sage Publications.
Stocker, M., Baffes, J., Some, M., Vorsek, D., & Wheeler, C. (2018). The 2014-16 oil price collapse in retrospect: Sources and implications. *Policy Research Working Paper 8419*, 1–35.
Thomas, A. H., & Turk, R. A. (2023). Food insecurity in Nigeria: Food supply matters. *International Monetary Fund*.
Williams, M., & May, T. (1996). *Introduction to the philosophy of social research* (1st ed., p. 24). Taylor & Francis Group.
World Bank. (2017). Climate and disaster resilient transport in small island developing states: A call for action. Unique vulnerability of small island developing states to natural disaster and climate change impacts. *World Bank Group*, Washington, DC.
World Bank. (2018a). *Global economic prospects: Broad-based upturn, but for how long?* Potential growth in the Middle East and North Africa (p. 123). *World Bank Group*, Washington, DC.
World Bank. (2018b). *Energy sector management assistance program: Annual report 2018* (p. 40). Reforming energy subsidy in a sustainable way. *World Bank Group*, Washington, DC.
World Bank. (2024). *Nepal: Climate and health vulnerability assessment, adaptive capacity of the health system* (p. 40). *World Bank Group*, Washington, DC.
Wu, S., & Pan, Q. (2021). Economic growth in emerging market countries. *Global Journal of Emerging Market Economies*, *13*(2), 192–215.