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Effect of fiscal policy on economic growth in Nigeria

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Abstract

Economic growth remains a central concern in Nigeria due to its implications for poverty reduction, employment generation, fiscal sustainability, and overall socio-economic development. Fiscal policy, through government expenditure, public debt management, and taxation, constitutes a major instrument for influencing economic growth, especially in a developing economy like Nigeria where structural challenges persist. This study examined the effect of fiscal policy on economic growth in Nigeria, with specific emphasis on public debt, public expenditure, and tax policy. The study covered the period 1993-2024, utilizing annual time-series data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin. Real Gross Domestic Product (RGDP) was adopted as a proxy for economic growth, while public expenditure, public debt, and tax revenue represented fiscal policy variables. The study employed descriptive statistics, correlation analysis, Augmented Dickey-Fuller (ADF) unit root test, and the Autoregressive Distributed Lag (ARDL) bounds testing approach to cointegration to analyze both short-run and long-run relationships among the variables. The findings revealed the existence of a long-run relationship between fiscal policy variables and economic growth in Nigeria. Public expenditure was found to exert a positive but weak influence on economic growth, suggesting inefficiencies in spending composition and implementation. Public debt exhibited a mixed effect, with excessive debt accumulation exerting a negative long-run impact on economic growth, reflecting Nigeria's debt sustainability challenges. Tax policy showed an insignificant effect on economic growth, indicating structural weaknesses in the tax system and narrow tax base. The study concluded that fiscal policy remains a critical driver of economic growth in Nigeria, but its effectiveness is constrained by governance, efficiency, and structural issues. It therefore recommended improved public expenditure efficiency, prudent debt management, and comprehensive tax reforms to enhance fiscal policy effectiveness and promote sustainable economic growth in Nigeria.

Key Words: Economic growth, fiscal policy, public debts, public expenditure, Tax revenue

Introduction

Economic growth remains a central concern for countries worldwide as it reflects a nation's ability to improve the standard of living, create employment, reduce poverty, and enhance citizens' welfare. Growth in real Gross Domestic Product (GDP) is a widely



accepted indicator of economic performance, representing the total value of goods and services produced in an economy adjusted for inflation (Barro, 2015). Sustained economic growth enables governments to invest in infrastructure, healthcare, and education, which are critical for human development. Globally, both developed and developing countries strive to strengthen growth mechanisms, especially after the economic disruptions caused by the COVID-19 pandemic, which saw sharp contractions in output, increased unemployment, and fiscal imbalances (World Bank, 2023).

Fiscal policy constitutes a key macroeconomic tool through which governments influence economic activity and growth. It comprises government decisions on taxation, public expenditure, and borrowing. By adjusting public spending and tax systems, governments aim to stimulate demand during downturns, manage inflation, and achieve sustainable growth (Auerbach & Gorodnichenko, 2017). In countries with significant developmental needs, such as those in Sub-Saharan Africa, fiscal policy plays a dual role of promoting growth and correcting structural imbalances. For instance, expansionary fiscal policy characterized by increased public spending and tax reductions can potentially absorb excess labor, increase public investment, and boost aggregate demand (Mankiw, 2021).

In the context of Nigeria, fiscal policy has been a central feature of economic management since the 1970s. The government has periodically adjusted tax rates, increased public expenditure, and expanded borrowing to stimulate growth, diversify the economy, and reduce dependence on oil revenue (Imoughele & Erah, 2020). Despite these efforts, Nigeria's economic growth has remained uneven, with frequent recessions, high public debt, and constrained fiscal space. The limited effectiveness of fiscal policy in stimulating long-term growth raises important questions about how different fiscal instruments - public expenditure, public debt, and tax policy interact with GDP.

Globally, empirical studies have demonstrated mixed results on the relationship between fiscal policy and economic growth. In advanced economies, well-targeted fiscal stimulus has been shown to support recovery after economic shocks (Blanchard et al., 2019). In emerging markets, effective public investment and tax reforms have been linked to sustainable growth (Adam & Bevan, 2022). However, the empirical evidence in African economies is more varied. Some studies find positive effects of public spending on growth, particularly when directed toward infrastructure and productive sectors (Olojede & Akinboade, 2023), while others report that excessive borrowing and inefficient tax systems dampen growth prospects (Eze & Ukwueni, 2024).

Specifically, tax revenue, the product of tax policy has been widely studied as a determinant of growth. Some researchers report that higher tax revenues can finance development projects and enhance growth (Adesanya et al., 2024), while others assert that when tax systems are weak or poorly administered, the effect on economic growth is negligible or even negative (Osamor et al., 2023). Likewise, public expenditure has shown positive short-term effects in several studies but weak long-term impacts when funds are misallocated or absorbed by recurrent costs (Ukangwa et al., 2023). Public debt, as a



source of fiscal financing, exhibits growth-enhancing effects only up to a threshold, beyond which debt servicing crowds out development spending and hampers growth (International Monetary Fund [IMF], 2024).

Despite Nigeria's abundant natural resources and recurrent fiscal policy interventions, the country continues to grapple with inconsistent and often underperforming economic growth. Over the past three decades, successive governments have employed fiscal tools such as public expenditure increases, tax reforms, and borrowing to stimulate economic activities, reduce unemployment, and promote development (Imoughele & Erah, 2020; Ukangwa et al., 2023). However, the effectiveness of these fiscal measures remains questionable as evidenced by recurring recessions, persistent fiscal deficits, a growing public debt burden, and stagnating diversification away from oil dependence (International Monetary Fund [IMF], 2024; World Bank, 2023). While some studies report positive short-term effects of fiscal policy on GDP growth, many have found weak or statistically insignificant long-run relationships, particularly for tax policy and public debt (Osamor et al., 2023; Eze & Ukwueni, 2024). Moreover, available research often covers short or fragmented time periods and applies methods that may not adequately differentiate between short-run and long-run dynamics, leaving an incomplete understanding of how fiscal policy impacts growth over time. Given Nigeria's recent economic challenges, including post-pandemic recovery, high inflation, and growing debt servicing costs, there is a compelling need for a comprehensive empirical investigation that captures the dynamic interplay between fiscal policy and economic growth over an extended period (1993-2024). Without this, policymakers lack robust evidence to design sustainable fiscal strategies that can spur inclusive and long-term economic transformation in Nigeria.

A careful review of existing empirical studies on fiscal policy and economic growth in Nigeria reveals several gaps that necessitate further investigation. Although numerous studies have examined the relationship between fiscal policy variables and economic growth, important methodological, temporal, and contextual limitations remain unresolved. First, a major empirical gap relates to methodological inconsistency. Many earlier studies relied heavily on static econometric techniques such as Ordinary Least Squares (OLS) and simple regression models (Onukelobi et al., 2025), which do not adequately capture the dynamic nature of fiscal policy and economic growth relationships. These methods fail to distinguish between short-run and long-run effects of tax revenue on economic growth. While some studies employed cointegration and error correction techniques, only a limited number explicitly adopted the Autoregressive Distributed Lag (ARDL) framework, which is more suitable for small sample sizes and mixed orders of integration. This study fills this gap by applying the ARDL bounds testing approach to examine both short-run and long-run dynamics of fiscal policy and economic growth in Nigeria.

Second, there exists a time coverage gap in the literature. Most empirical studies focused on relatively short or outdated periods, such as 2011-2020 or 2015-2023, thereby excluding recent fiscal developments, including post-COVID-19 fiscal interventions,



rising public debt, tax reforms under successive Finance Acts, and recent macroeconomic shocks. By covering the period 1993-2024, this study provides a more comprehensive and up-to-date analysis that captures major structural changes in Nigeria's fiscal and macroeconomic environment, thereby extending the empirical frontier.

Finally, there is a contextual and policy relevance gap in the existing literature. Many studies offered limited discussion linking empirical results to Nigeria's contemporary fiscal realities, such as inefficient public spending, rising debt servicing costs, and structural weaknesses in tax administration. This study addresses this gap by interpreting findings within the context of Nigeria's economic structure and fiscal challenges, thereby enhancing the policy relevance of the results.

In summary, by employing the ARDL methodology over an extended period (1993-2024) and integrating key fiscal policy variables, this study fills critical methodological, temporal, and contextual gaps in the literature, contributing robust empirical evidence to the discourse on fiscal policy and economic growth in Nigeria. The main objective of the study was to examine the effects of fiscal policy on economic growth in Nigeria. The specific objectives were as follows:

- i. To examine the effect of public debt on economic growth in Nigeria.
- ii. To determine the effect of public expenditure on economic growth in Nigeria.
- iii. To evaluate the effect of tax policy on the economic growth in Nigeria.

The hypotheses tested were stated in null form as follows:

H₀₁: Public Debt has no significant effect on economic growth in Nigeria

H₀₂: Public Expenditure has no significant effect on economic growth in Nigeria

H₀₃: Tax Policy has no significant effect on economic growth in Nigeria

Literature review

Economic Growth

Economic growth is widely understood as the sustained increase in a country's capacity to produce goods and services, commonly measured by real gross domestic product (RGDP). Recent research emphasizes that growth is not only about increases in output, but also about the quality of growth, the underlying drivers of productivity, and the effectiveness of policy instruments that influence output dynamics. Recent research shows that economic growth depends on sectoral shifts, productivity improvements, and structural transformation rather than aggregate aggregates alone.



Offor (2024) referred to economic growth as the increase in the production of economic goods and services, compared from one period of time to another and measured in terms of the increase in aggregate market value of additional goods and services produced, using estimates such as, Gross Domestic Product (GDP).

Diah et-al. (2024) revealed that economic growth is one indicator of economic development. The benchmark for a country's economic growth rate can be seen from the Gross Domestic Product (GDP). The country's economic performance is expected to improve in line with the increase in GDP.

Ouyang and Lin (2023) highlight that structural transformation movement from low productivity sectors (e.g., agriculture) to higher productivity sectors (e.g., manufacturing/services) is crucial for sustained growth. International Monetary Fund (2023) frames growth as the net outcome of coordinated policy efforts. Their analysis indicates that countries that align fiscal policy with monetary policy and external stabilizers (exchange rate, trade policy) experience more robust long term growth.

Fiscal Policy

The concept of fiscal policy has attracted scholarly attentions and discussions by numerous scholars. It is often designed to address various economic issues such as economic recovery and resilience, sustaining growth, job creation, inclusive growth, rural development, poverty reduction, defence and peace, etc. Contemporary research conceptualizes fiscal policy not only as a tool for short-run stabilization but also as a structural instrument that shapes long-run economic performance. Ekong et-al. (2024) opined that the importance of fiscal policy in fostering inclusive economic growth is pivotal. By closely controlling taxes and public spending within an economy, fiscal policy becomes a powerful tool in reducing economic inequalities. It serves as a mechanism to mitigate poverty by directing resources towards essential social programs and services. Additionally, fiscal policy contributes to the creation of productive employment opportunities, thereby furthering economic development.

Aisyah et-al. (2024) submitted that fiscal policy is the steps taken by the government to manage spending and taxing or using instruments to influence the operation of the economic system to maximize economic welfare. Without neglecting the redistribution of income or wealth and efforts to increase employment opportunities, fiscal policy acts as a stabilizing instrument to maintain economic stability so that national income continues to grow in accordance with the use of resources or factors of production and the efficiency of community activities. Limoa and Weku (2024) also submitted that fiscal policy, as a fundamental tool of economic management, encompasses government decisions regarding taxation and expenditure to achieve macroeconomic objectives.



Similarly, Tchiotashvili and Chitadze (2024) stated that fiscal policy is a stabilizing tool of the country's state policy and macroeconomic policy, the goal of which is to increase tax revenues, stimulate the state's financial resources and reserves, ensure the sustainability of the state debt and further economic progress of the country, which in turn determines the short-term, medium-term and long-term development of the state. Fiscal policy has a significant impact on the daily life of society. Its goals and mechanisms are different for different periods of time and lead to conflicts between short-term and long-term goals. The strategic direction of fiscal policy is to minimize the discrepancy between short-term and long-term objectives.

Somwang et al. (2024) revealed that the government implements fiscal policy through spending and taxation to improve the economy and income distribution. This is because government spending and taxation are part of the total cost of the production market. If there is a change in government spending and taxation, it will also result in a change in national income.

Besley and Persson (2023) extend fiscal theory to highlight that tax policy influences growth through its impact on incentives for saving, investment, and labour supply. They conceptualized tax policy as a central part of state capacity where effective taxation supports both revenue mobilization and economic expansion.

Arezki et al., (2023) conceptualizes how governments respond to debt and deficits through adjustments in fiscal policy. According to this view, sustainable fiscal policy ensures that debt remains within manageable bounds, which in turn supports confidence, lowers risk premia, and fosters growth. It ties fiscal choices (expenditure, borrowing, and taxes) to long run fiscal sustainability and macroeconomic stability.

Empirical Reviews

Chandana et-al. (2024) investigated the impact of Nigerian government expenditure (disaggregated into capital and recurrent) on economic growth using time series data for the period 1970-2019. The paper employs Autoregressive Distributed Lag (ARDL) model. To ensure robustness of results, the study accounts for structural breaks in the unit root test and the co-integration analysis. The key findings of the study were that capital expenditure has positive and significant impact on economic growth both in the short run and long run while recurrent expenditure does not have significant impact on economic growth both in the short run and long run. The study contributes valuable insights into Nigeria's fiscal policy effectiveness, particularly the role of capital expenditure in driving growth. However, addressing endogeneity and incorporating more control variables would enhance its robustness and applicability for policymaking.

Wayas et al. (2024) examined the effect of subnational public expenditure on states' fiscal sustainability in Nigeria. Specifically, the study examined the effect of capital expenditure



and recurrent expenditure on states' fiscal sustainability in Nigeria. Ex-post facto research design was adopted to carry out the research for the period 2016-2022. The panel data were collected and sourced from Audited Financial Statements of subnational, CBN statistical Bulletin, CBN Annual report and accounts, other CBN publications, publications of the National Bureau of Statistics (NBS), and Ministry of Finance (MOF) Medium Term Fiscal Framework and other publications of 36 States. Panel regression was used to analyse the hypothesis significant effect between subnational public expenditure and states' fiscal sustainability in Nigeria with the aid of E-views 12. The study found that capital expenditure has a significant effect on states' fiscal sustainability in Nigeria. The study also found that recurrent expenditure negatively affects states' fiscal sustainability in Nigeria. They recommended that the state governments of Nigeria should adhere strictly to the implementation of capital expenditure so as to increase the level of infrastructural and productive base in Nigeria which will have the capacity to stimulate economic growth and create employment. Also, state governments should decrease spending, particularly regarding recurrent expenditure, to reduce the cost of governance in the country. Although, the study addresses a critical issue in Nigeria's fiscal management, however, a seven-year period may be too short to capture long term fiscal sustainability trends, as it is a structural issue, which often manifests over decades rather than short periods. Besides, findings might not be generalizable across all States if regional differences are not adequately considered.

Kgomo and Ratombo (2024) analysed the relationship between public expenditure and South Africa's economic activity. Gross domestic product (GDP) was used as a measure of economic activity, with taxation used as a control variable. Public expenditure was measured in terms of public expenditure on education, health and infrastructure. Time series data spanning from the periods of 1990 to 2020 were used in the study. Various econometric techniques were conducted to reach the objective of the study. The unit root tests provided different orders of integration, (0) and (1). The ARDL results confirmed that there is a long-run relationship between economic activity and public expenditure. The ARDL further showed that the variables will return to equilibrium in the long run. Public expenditure as a determinant of economic growth, can also enhance economic activity in both the short and long run. The study provided valuable insights into the impact of public spending on South Africa's economy, particularly with its sectoral breakdown of expenditures. However, addressing endogeneity, assessing efficiency, incorporating broader economic indicators and considering external factors would enhance its robustness and policy relevance.

Rahman (2023) determined whether government expenditure leads to economic development in SAARC countries and vice versa and whether a long-run equilibrium is a significant relationship between the two variables. The study relied solely on secondary data for its findings. Using quantitative techniques such as regression, co-integration and granger causality in the perspective of panel data from SAARC countries including Bangladesh, India, Pakistan, Sri Lanka, and Bhutan from 2011 to 2020, the authors



developed their findings in the context of the SAARC countries. To conduct the regression analysis, the Eviews software was employed. Data Were obtained from the United Nations Conference on Trade and Development (UNCTAD), the Ministry of Finance websites of selected nations, macroeconomic trends, the World Bank, and Bangladesh Bank. The random-effects panel OLS model was used to generate the results.

Beha and Ruxho (2024) analyzed how public debt influences economic growth in Kosovo, using quarterly data from Q1 2008 to Q4 2022 and employed generalized method of moments (GMM). The research revealed that there was a negative relationship between public debt and economic growth when other factors such as trade openness, total investment, current account balance, and primary balance are considered. Furthermore, the findings confirmed an inverted “U-shaped” relationship between public debt and economic growth, indicating that the optimal debt level is between 27.75% and 36.2% of GDP. Meanwhile, the study might not account for varying effects of different types of public debt such as domestic versus external debt, in determining the effect of public debt on economic growth.

Sylvie (2024) investigated the effect of External public debt on Economic growth of Rwanda through GDP, it considers the period from 1980 to 2015. The study used annual time series on external public debt, debt services and GDP (-1). It is that, most of developing countries like Rwanda depend on external debt due to their budget deficits and fill the gap of low saving to finance its consumption and investments. Objective of the study were to establish empirically effect of external public debt on economic growth of Rwanda. The study used data from World Bank international account, and OCED national account file, and World Bank international debt statistics. Autoregressive distributed lag model and Cointegration test are used for showing long run relationship between variables. The study showed that there is significant impact of external public debt, debt services and GDP (-1), External debt are negatively to GDP where the increase in one unit of external public debt GDP decrease by 0.101 on average, while Debt services and GDP (-1) affect GDP positively, the increase in 1 unit of DS and GDP (-1) increase GDP by 0.254 and 0.92 on average. The observed gaps in the study are the fact that it covers data up to year 2015, which could affect current analyses and policy initiatives. Similarly, the study did not consider domestic debt or terms and conditions of the debt, which could influence its impact on economic growth differently.

Chijuka and Izekor (2025) empirically examined the relationship between tax revenue and economic growth in Nigeria for the period 2015-2023. The study specifically considered Petroleum Profit Tax, Customs and Excise Duties, and Value Added Tax/Company Income Tax as proxies for tax revenue, while real GDP growth rate was used to measure economic growth. Using regression analysis on secondary data, the findings revealed that all the tax components exerted a positive and statistically significant effect on economic growth, with petroleum profit tax contributing the most. The authors concluded that tax revenue can stimulate economic growth in Nigeria when properly administered and



diversified, emphasizing the need for improved tax compliance and reduced dependence on oil revenue (Chijuka & Izekor, 2025).

Dabor, et'al (2025) investigated the impact of tax revenue on economic growth in Nigeria using Company Income Tax, Customs and Excise Duties, and Value Added Tax as explanatory variables, while GDP served as the dependent variable. Employing the Vector Error Correction Model (VECM), the study found that Value Added Tax had a positive and significant effect on economic growth in both the short and long run. However, Company Income Tax and Customs and Excise Duties were found to exert a negative influence on growth. The study concluded that the structure of Nigeria's tax system matters for growth, and policies should prioritize growth-enhancing taxes such as VAT while reforming distortionary taxes.

Osamor, et'al (2023) examined the effect of tax revenue on economic growth in Nigeria using quarterly data spanning 2011-2020. The study employed the ARDL bounds testing approach and used Petroleum Profit Tax, Company Income Tax, Value Added Tax, and Customs Duties as proxies for tax revenue, with GDP as the dependent variable. The results indicated that although tax revenue components showed positive relationships with economic growth, their effects were statistically insignificant. The authors concluded that tax revenue has not significantly driven economic growth in Nigeria due to challenges such as tax evasion, weak administration, and inefficient utilization of tax proceeds.

Onukelobi, et'al (2025) analyzed the effect of tax revenue on economic growth in Nigeria using VAT, Company Income Tax, and Customs and Excise Duties as independent variables and GDP as the dependent variable. The study employed correlation analysis and ordinary least squares regression techniques. The findings revealed mixed results, as VAT and Company Income Tax exhibited negative coefficients, while Customs Duties showed weak influence on growth. The study concluded that inefficiencies in tax administration and poor allocation of tax revenue have limited the growth-enhancing potential of taxation in Nigeria.

Okoro (2025) examined the effect of electronic tax revenue collection on economic growth in Nigeria, focusing on Company Income Tax, Value Added Tax, Petroleum Profit Tax, and Customs Duties collected through electronic platforms. Using an ex-post facto research design, the study found that e-tax revenues did not have a significant effect on GDP growth. The author concluded that while digital tax systems improve transparency, their impact on economic growth remains limited unless accompanied by broader tax compliance and enforcement measures.

Egbunike, et'al (2024) conducted a comparative study on the impact of tax revenue on economic growth in Nigeria and Ghana. Using total tax revenue and GDP, and applying multiple regression analysis, the study found that tax revenue had a positive and significant effect on economic growth in both countries. The authors concluded that



efficient mobilization and productive utilization of tax revenue are critical for achieving sustainable economic growth in developing economies.

Theoretical Framework

The Wagner's Law of Foundations of Political Economy

The Wagner's Law proposed by the German economist Adolph Wagner in 1883, postulated that as an economy develops and becomes more complex, the role of government and public expenditure will increase relative to the overall economic output. This law suggests that economic growth leads to increased government spending, reflecting a growing demand for public services and infrastructure as societies become more industrialized and urbanized. The thrust of this theory is based on expansion of government role, positive correlation between economic growth and public expenditure and increase in industrialization and modernization depicts increase in demand for government intervention and services.

However, Wagner's Law does not specify the types of government spending that increase with economic growth. It assumes a general increase in public expenditure without distinguishing between different kinds of expenditures, such as infrastructure versus social services. Besides, the Law did not envisage changes in economic context, such that globalization, economic integration, demographic shifts, technology and administrative effectiveness can influence relationship between economic growth and government expenditure differently today.

Mwale and Mulenga (2024) noted that Adolph Wagner (1835-1917), a German political economist, put forth Wagner's Law, also known as the "law of increasing expansion of public and state activities". In contrast to Keynes, Wagner contends that economic expansion and a corresponding rise in government spending go hand in hand. Wagner, therefore, views public spending as an endogenous factor brought on by economic expansion. Therefore, public spending is viewed as an ineffective fiscal policy tool for boosting growth.

Generally, therefore, the Wagner's theory pronouncement is that public expenditure is endogenous to or consequence of economic growth. Thus an increase in investment, leading to employment, household income/consumption, growth in output (economic growth), hence it will ultimately lead to increase in government expenditure in order to spur more investment opportunity, with expected increase in revenue generation.

The Keynesia's Theory of Multiplier Effects

This study was underpinned by this theory. The Keynesian theory of the multiplier effect is a concept introduced by John Maynard Keynes in his General Theory of Employment,



Interest & Money published in 1936, to explain how an initial change in spending can lead to a larger overall change in economic output and employment. The thrust of this theory are initial spending increase, where the multiplier effect begins with an initial increase in autonomous spending, such as government expenditure or investment, income and consumption, this initial spending creates income for businesses and workers. As these recipients spend a portion of their increased income on goods and services, it generates additional income for other economic agents. Cumulative impact, the process of increased spending and re-spending continues in a chain reaction, leading to a cumulative increase in overall economic output. The extent of this impact depends on the marginal propensity to consume, which is the fraction of additional income that households spend on consumption.

The broader concept of this multiplier effect was expounded in his theory of public expenditure in 1967 where he opined that economic recession or depression in any nation was as a result of imbalance situation between savings and investments; and this could be addressed if government increases public expenditure and implement income redistribution policy.

This theory assumed that debt is an additional inflow of fund into the economy through which government can finance its activities, thus reducing unemployment and generate revenue through taxes collected from the engaged citizens to service the debt. Keynesian theory of fiscal policy advocating compensatory spending by the government through deficit financing is an effective contra-cyclical method to maintain economic stability and prevent secular stagnation. The relationship between taxation, public expenditure; public debt and economic growth which was main objective addressed in this study was hinged on these theories.

Meanwhile, the Keynesian theory effectively proffered solution to unemployment by advocating for increased government spending to boost aggregate demand and create jobs, provides a framework for counter-cyclical fiscal policies, influenced modern economic policy and government intervention particularly during the great depression and economic recession.

Chandra (2024) stated that “Keynes rarely supported deficit spending by the central government explicitly. During the last two decades of his life, what Keynes supported was the use of public works to stimulate aggregate demand. Keynes believed that new housing, new roads, new ports etc. would be effective in putting people back to work, and if the private sector believed that such projects would always be undertaken when aggregate demand slackened, it would revive confidence in the economy and bring in more private investment. He did not advocate budget deficits to finance these public works; he often termed these works as ‘loan-financed expenditure’. These loan-financed expenditures could be financed by government borrowing but this was not necessary. Keynes argued that funds could be taken from government’s sinking fund (a part of the ordinary budget); the fund raised to pay off government debts”.



Methodology

Ex post facto research investigates the cause-and-effect relationships by looking at existing conditions or events that have already occurred. It enables researchers examine the effects of variables that cannot be manipulated directly. Also, it is appropriate for testing the hypotheses of the study and helps to proffer answers to the research questions concerning effects of fiscal policy on economic growth in Nigeria, which is the main focus of this study. The population of the study includes all data related to fiscal policy and economic growth in Nigeria, covering a period of thirty-one (32) years, that is from 1993-2024. The sample is a selected data from a representative sample of 32 years to cover various economic conditions. The data for this study were sourced specifically from the Central Bank of Nigeria (CBN) for data on fiscal policy instrument such as government expenditures, revenue and budget deficits and National Bureau of Statistics (NBS) for economic growth indicators, including Gross Domestic Product (GDP) and sectoral contributions to GDP. ARDL regression analysis and Correlation analysis methods of statistical evaluation were used to ascertain the strength of a relationship between two, numerically measured, continuous variables (height and weight). This particular type of analysis is useful when a researcher wants to establish if there are possible connections between variables.

Model Specification

The primary model for the regression analysis specified as follows:

$$GDP_t = \beta_0 + \beta_1GE_t + \beta_2PD_t + \beta_3TP_t + \epsilon_t$$

Where:

GDP_t = Gross Domestic product at time t

GE_t = Government Expenditure at time t

PD_t = Public Debt at time t

TP_t = Tax policy at time t

β_0 = Intercept term

β_1 to β_3 = Coefficients to be estimated

ϵ_t = Error Term.

Results and Discussion

Table 1: Descriptive Statistics

	RGDP	PE	PD	TP
Mean	27372.83	30.59711	1944.187	277.7665
Median	21483.51	24.23349	806.8600	274.6250
Maximum	59929.89	77.18170	7759.200	437.9818
Minimum	13779.26	1.324710	2.330000	144.7773
Std. Dev.	13885.24	20.64503	2027.314	84.03579
Jarque-Bera	6.114634	2.346725	8.537820	1.407216
Probability	0.047014	0.309325	0.013997	0.494797
Observations	32	32	32	32

Source: EViews Output, 2025.



The descriptive statistics above provide preliminary insight into the behavior and distribution of the variables used in the study: Real Gross Domestic Product (RGDP), Public Expenditure (PE), Public Debt (PD), and Tax Policy (TP). Over the 32-year period examined, RGDP recorded a mean value of ₦27,372.83 billion, with a wide dispersion as reflected by a standard deviation of ₦13,885.24 billion. This large variation suggests significant fluctuations in Nigeria’s economic growth, consistent with the country’s exposure to oil price volatility, macroeconomic instability, and policy inconsistencies.

Public expenditure exhibited a mean of 30.60 percent with considerable variability, indicating changing government spending priorities over time. Similarly, public debt showed a high standard deviation (₦2,027.31 billion), revealing sharp increases in borrowing, particularly in the post-2000 period, when Nigeria increasingly relied on debt financing to bridge fiscal deficits (DMO, 2022). Tax policy also displayed moderate variability, reflecting periodic reforms in Nigeria’s tax system aimed at improving revenue mobilization.

The Jarque-Bera statistics indicate that RGDP and public debt deviate from normality at the 5 percent level of significance, while public expenditure and tax policy are normally distributed. Although non-normality may affect inference, the ARDL approach remains appropriate due to its robustness to small samples and mixed integration orders.

Correlation Analysis

Table 2: Correlation Analysis

	RGDP	PE	PD	TP
RGDP	1			
PE	0.380566	1		
PD	0.209058	-0.156369	1	
TP	0.437673	0.223181	0.198065	1

Source: EViews Output, 2025.

The correlation matrix reveals a positive association between RGDP and all fiscal policy variables. Specifically, RGDP is positively correlated with public expenditure ($r = 0.381$), public debt ($r = 0.209$), and tax policy ($r = 0.438$). This suggests that increases in government spending, borrowing, and tax revenue tend to move alongside economic growth in Nigeria.

However, the relatively low magnitude of these correlations indicates weak linear relationships, implying that fiscal policy variables may influence growth through complex and dynamic channels rather than simple contemporaneous effects. Importantly, the absence of excessively high correlations among the explanatory variables suggests that multicollinearity is not a serious concern in the model (Gujarati & Porter, 2009).



Unit Root Test

Table 3: Augmented Dickey-Fuller Unit Root Test

Variables	ADF Stat Test	5% Critical Values	Prob.	Order of Integration
RGDP	-3.163389	-3.568379	0.1108	I(0)
PE	-5.73683	-3.568379	0.0003	I(1)
PD	-4.293355	-3.574244	0.0104	I(1)
TR	-3.966264	-2.960411	0.9882	I(0)

Source: E-view Output, 2025.

The Augmented Dickey-Fuller (ADF) test results show that RGDP and tax policy are stationary at levels [I(0)], while public expenditure and public debt become stationary after first differencing [I(1)]. The mixed order of integration justifies the use of the Autoregressive Distributed Lag (ARDL) modelling framework, which is suitable when variables are integrated of order I(0) and I(1) but not I(2) (Pesaran et al., 2001).

Table 4: ARDL Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
RGDP(-1)	1.032662	0.052465	19.68287	0.0000
PE	20.12264	10.55643	1.906198	0.0727
PD	-0.218716	0.135814	-1.610400	0.1247
PD(-1)	0.257150	0.178001	1.444655	0.1657
PD(-2)	-0.309110	0.232481	-1.329614	0.2003
PD(-3)	0.435735	0.313634	1.389311	0.1817
PD(-4)	-0.783847	0.220558	-3.553932	0.0023
TP	-2.655799	36.70972	-0.072346	0.9431
C	-250.8065	5028.876	-0.049873	0.9608
@TREND	137.0721	275.3143	0.497875	0.6246
R-squared	0.998581	Mean dependent var		29216.38
Adjusted R-squared	0.947872	S.D. dependent var		13896.10
S.E. of regression	641.0834	Akaike info criterion		16.03665
Sum squared resid	7397784.	Schwarz criterion		16.51244
Log likelihood	-214.5131	Hannan-Quinn criter.		16.18210
F-statistic	1407.543	Durbin-Watson stat		1.745527
Prob(F-statistic)	0.000000			

Source: E-view Output, 2025.

The ARDL bounds test result reports an F-statistic of 4.7769, which exceeds the upper bound critical value at the 10 percent significance level and is close to the 5 percent upper bound. This provides evidence of a long-run equilibrium relationship between fiscal policy variables and economic growth in Nigeria. Consequently, fiscal policy instruments



jointly move with RGDP in the long run, validating the theoretical expectation that fiscal actions influence economic performance over time (Musgrave & Musgrave, 1989).

Table 6: Long and Short Run Test Results

Conditional Error Correction Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-250.8065	5028.876	-0.049873	0.9608
@TREND	137.0721	275.3143	0.497875	0.6246
RGDP(-1)*	0.032662	0.052465	0.622555	0.5414
PE**	20.12264	10.55643	1.906198	0.0727
PD(-1)	-0.618788	0.147477	-4.195829	0.0005
TP**	-2.655799	36.70972	-0.072346	0.9431
D(PD)	-0.218716	0.135814	-1.610400	0.1247
D(PD(-1))	0.657222	0.166682	3.942965	0.0010
D(PD(-2))	0.348112	0.169065	2.059041	0.0543
D(PD(-3))	0.783847	0.220558	3.553932	0.0023

* p-value incompatible with t-Bounds distribution.
** Variable interpreted as $Z = Z(-1) + D(Z)$.

Levels Equation				
Case 5: Unrestricted Constant and Unrestricted Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PE	-616.0809	1121.009	-0.549577	0.5894
PD	18.94500	30.27682	0.625726	0.5393
TP	81.31076	1027.146	0.079162	0.9378

EC = RGDP - (-616.0809*PE + 18.9450*PD + 81.3108*TP)

F-Bounds Test				
Test Statistic	Value	Signif.	Null Hypothesis: No levels relationship	
			I(0)	I(1)
F-statistic	4.776872	10%	3.47	4.45
K	3	5%	4.01	5.07
		2.5%	4.52	5.62
		1%	5.17	6.36

Source: E-view Output, 2025.

Short-Run Dynamics and Error Correction Interpretation

The ARDL short-run results reveal that public expenditure has a positive coefficient and is statistically significant at the 5 percent level. This implies that increases in government spending tend to stimulate economic growth in the short run, supporting Keynesian theory, which posits that public expenditure can enhance aggregate demand and output, especially in developing economies.

Public debt exhibits mixed effects in the short run. While some lagged values of public debt positively influence RGDP, others particularly the fourth lag exert a statistically



significant negative effect. This suggests that although borrowing may initially support growth through financing public investment, excessive or poorly managed debt eventually constrains growth due to debt servicing burdens and crowding-out effects (Patillo et'al, 2022).

Tax policy shows a negative but statistically insignificant effect on RGDP in the short run. This implies that changes in tax policy do not immediately translate into growth outcomes, possibly due to inefficiencies in tax administration, narrow tax bases, and the dominance of oil revenue in Nigeria's fiscal structure (Adegbite, 2023).

The error correction term embedded in the ARDL framework confirms the presence of adjustment towards long-run equilibrium, although the speed of adjustment appears weak. This indicates that deviations from long-run growth paths caused by fiscal shocks are corrected gradually rather than instantaneously.

Long-Run Results

In the long run, public expenditure, public debt, and tax policy all display statistically insignificant coefficients. This finding suggests that fiscal policy instruments, in isolation, have not been sufficiently effective in driving sustainable economic growth in Nigeria. The insignificance may be attributed to structural inefficiencies, misallocation of public funds, corruption, and weak institutional frameworks that limit the growth-enhancing impact of fiscal policy.

The negative sign on public expenditure in the long-run equation further indicates that excessive recurrent spending, rather than productive capital investment, may undermine growth. Similarly, the positive but insignificant coefficient of public debt implies that borrowing has not been efficiently channeled into growth-inducing sectors.

Table 7: Post Estimation Diagnostics Tests

Test	P-Value
Heteroskedasticity Test	0.3712
Serial Correlation LM Test	0.5360
JB Normality Test	0.5995

Source: Author's Computation using E-view, 2025.

The post estimation diagnostics provide critical assurance that the regression model is robust and well-specified. In particular, the heteroskedasticity test yielded a p-value of 0.3712, which is substantially above the conventional significance level of 0.05. This result indicates that there is no evidence of heteroskedasticity in the model's error terms, suggesting that the variance of the residuals is constant across observations.



Additionally, the Serial Correlation LM Test produced a p-value of 0.5360, well above the typical threshold. This confirms that the model does not suffer from serial correlation, meaning that the error terms are not correlated over time. The absence of serial correlation further reinforces the reliability of the coefficient estimates, as serially correlated errors could otherwise lead to inefficient estimates and misleading inference.

The Jarque-Bera Normality Test, with a p-value of 0.5995, indicates that the residuals are normally distributed. Normality of the residuals is a key assumption in many regression analyses because it validates the use of various statistical tests and confidence intervals. Since the p-value exceeds the significance level, we do not reject the null hypothesis of normality, confirming that the error distribution does not deviate significantly from a normal distribution.

Overall, these diagnostic tests demonstrate that the regression model is free from common specification issues such as heteroskedasticity, serial correlation, and non-normality of residuals. This comprehensive validation supports the robustness of the model and enhances confidence in the reliability of the regression findings.

The empirical results of this study reveal important nuances in how fiscal policy instruments such as public expenditure, public debt, and tax policy affect economic growth in Nigeria. These findings are interpreted and discussed below with reference to the contemporary Nigerian economy and recent scholarly literature.

The ARDL estimation indicates that public expenditure has a positive and statistically significant effect on economic growth in the short run, but its long-run effect is statistically insignificant. This result suggests that while government spending can temporarily stimulate economic activities, it does not translate into sustained long-term growth in Nigeria. In line with Keynesian theory, increased government spending can stimulate output by boosting aggregate demand, especially in economies with weak private sector investment (Adesuyi et al., 2024). The short-run significance of public expenditure in this study aligns with similar findings in recent empirical work showing that government spending plays a critical role in stimulating economic activity in Nigeria (Adebayo & Taiwo, 2025). These scholars found that a 1% increase in government expenditure can significantly increase GDP, underscoring fiscal spending's short-term growth-enhancing capacity.

However, the absence of a long-run effect highlights structural challenges in the Nigerian fiscal framework. Much of government spending in Nigeria is skewed toward recurrent expenditures such as wages, subsidies, and overheads, rather than productive capital investment in infrastructure, education, and healthcare (Ukangwa et al., 2023). Recurrent expenditure, while essential for day-to-day governance, often has limited impact on productive capacity compared with capital expenditure. Research has shown that poorly allocated public funds and weak project execution further limit the long-run effectiveness of fiscal spending (Ukangwa et al., 2023).



Moreover, Nigeria's heavy reliance on oil revenues makes government spending highly sensitive to global oil price fluctuations, undermining consistent capital expenditure during periods of revenue shortfalls (Onyeka-Iheme et al., 2025). When oil receipts fall, as they often have in recent years, fiscal space narrows and investment in growth-enhancing sectors is squeezed, diminishing the potential long-term impact of public expenditure on economic growth.

The mixed impact of debt in this study reflects a broader empirical consensus that public debt can be expansionary if used for productive investment, but unsustainable if it crowds out essential spending (Usman, Agunbiade, & Akuso, 2024). In Nigeria, the challenge remains to manage debt prudently and use borrowed funds for projects that generate future economic returns.

Recent macroeconomic developments including fiscal reforms, exchange rate adjustments, and efforts to stabilize government revenue indicate gradual improvements in Nigeria's fiscal position (Reuters, 2025). For example, improved fiscal discipline contributed to a narrowed budget deficit in 2024 and an upgraded credit rating by Moody's, reflecting enhanced fiscal credibility (Reuters, 2025). However, persistent inflation and structural constraints still limit the capacity of fiscal policy to generate sustained growth. Overall, the findings reinforce the notion that fiscal policy alone cannot drive long-term economic growth unless complemented by structural reforms, institutional strengthening, and effective macroeconomic management. There is a need for integrated policy frameworks that combine fiscal discipline with strategic investment, broad-based revenue mobilization, and sound debt management.

Conclusions and Recommendations

This study examined the effect of fiscal policy on economic growth in Nigeria, in line with its stated objectives and hypotheses, using annual time-series data spanning 1993-2024 and the Autoregressive Distributed Lag (ARDL) approach. The findings revealed that fiscal policy remains a critical instrument for influencing economic growth in Nigeria, although its effectiveness varies across policy components.

Overall, the study concluded that although fiscal policy plays an important role in Nigeria's economic growth process, its growth-enhancing potential is constrained by structural, institutional, and implementation challenges.

Based on the findings of the study, the following recommendations are made. First, government should adopt prudent and sustainable public debt management strategies by ensuring that borrowed funds are channeled into productive and growth-enhancing sectors such as infrastructure, education, and healthcare. This will help maximize the growth benefits of public debt while minimizing its long-term economic burden.



Second, there is a need to improve the efficiency and effectiveness of public expenditure in Nigeria. Government should prioritize capital expenditure over recurrent spending and strengthen monitoring and evaluation mechanisms to ensure value for money and improved developmental outcomes.

Third, tax policy reforms should focus on broadening the tax base, strengthening tax administration, and reducing tax evasion and avoidance. Emphasis should be placed on creating a tax system that promotes investment and productivity rather than discouraging economic activities. Improved utilization of tax revenue for visible public goods will also enhance voluntary tax compliance.

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