
DOES FISCAL POLICY SPUR ECONOMIC GROWTH IN NIGERIA?

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Abstract

The growth rate of the Nigerian economy has barely surpassed population increase in the past decade. This study aims to assess the impact of government fiscal policies on economic growth from 1990 to 2024. Utilizing the Autoregressive Distributed Lag (ARDL) method, we analyzed secondary data gathered from the World Bank Development Indicators, National Bureau of Statistics, and the Central Bank of Nigeria's Annual Statistical Bulletin. Findings of the study indicate that government recurrent expenditure has negative impact on economic growth in both the short and long terms. In contrast, government capital expenditure and external debt were found to have positive long-term effects on economic growth. However, the estimated relationships lack statistical significance. The study concludes that the current pattern of government spending, characterized by high recurrent expenditures—averaging over 70% of budget allocations—and substantial debt servicing costs, does not promote economic growth. Additionally, Nigeria's heavy dependence on oil revenue limits both the government's earning potential and the overall productive capacity of the economy. To address these issues, we recommend reducing recurrent spending, improving the efficiency of capital investments, and adopting a more strategic approach to managing external debt.

Key words: Fiscal policy, Economic growth, Nigeria, Africa

INTRODUCTION

Sustainable economic growth, supported by sound fiscal policies, plays a vital role in enhancing human welfare by providing access to essential services and opportunities. In contrast, ineffective fiscal measures can lead to high inflation, increased debt, and stunted growth, which ultimately jeopardizes social welfare. In Nigeria, economic progress is primarily assessed through the GDP growth rate, representing the inflation-adjusted value of goods and services produced annually. Additionally, GDP per capita offers insight into the average economic output per person, while sectoral contributions from agriculture, oil, and services reveal significant structural changes in the economy (NBS, 2021).

Nigeria's economy has been significantly influenced by its heavy dependence on oil, which has fostered both growth and various economic challenges. From 2000 to 2010, the country enjoyed an average GDP growth rate of 6.8% annually, fueled by soaring oil prices and debt relief in 2005 that liberated funds for developmental projects (Ogbuagu & Ewubare, 2019). However, between 2010 and 2020, this growth slowed to an average of 2.6%. The recession of 2016, sparked by a fall

in global oil prices, resulted in a 1.6% contraction in GDP, showcasing the economy's susceptibility to external shocks (Udeaja & Obi, 2020; Bank, 2023). The economy continues to grapple with persistent issues, such as inadequate infrastructure, particularly in electricity and transportation, which hinder business operations and deter investment (Agu et al., 2015). For instance, unreliable power supply and poor road conditions escalate operational costs for companies, ultimately impeding economic growth (Ukangwa et al., 2023). Moreover, corruption has stunted growth by squandering resources that could otherwise support development (Ogbuagu & Ewubare, 2019; Umeghalu, Ezenekwe & Okoli, 2025).

Recently, Nigeria has seen progress in diversifying its economy, with non-oil sectors like agriculture and technology emerging as significant contributors (National Bureau of Statistics, 2023). Nonetheless, oil remains essential for government revenue. To foster stable and inclusive growth, experts advocate for increased investment in infrastructure, education, and industry, aiming to diminish the country's overreliance on the oil sector (Udeaja & Obi, 2020; Agu et al., 2015).

Fiscal policy is about how the government manages its revenue and spending to influence the economy. This includes decisions about the budget, taxes, and public investments that aim to stabilize the economy, foster growth, and lessen socio-economic inequalities. In Nigeria, fiscal policy has been heavily dependent on oil revenue, which poses challenges due to fluctuations in global oil prices and inefficiencies within the domestic economy that hinder growth. In 2000, oil made up about 75% of federal revenue, and it was around 70% in 2023, making the government's budget quite sensitive to global oil price changes (Central Bank of Nigeria, 2001, 2023). This reliance complicates budget planning, as highlighted during the 2016 recession when a significant drop in oil prices slashed government revenue, destabilizing the economy (Adeyemi & Awogbade, 2022). To combat these issues, fiscal policies have been aimed at stabilizing the economy, driving growth, and alleviating poverty. However, persistent issues like corruption and ineffective budget management have diminished their effectiveness (Ogbuagu & Ewubare, 2019).

Government spending in Nigeria has increased markedly, jumping from 12% of GDP in 2000 to 15% in 2022. However, much of this spending is on recurrent costs, such as salaries and administrative expenses (World Bank, 2000, 2023). Recurrent expenditures have risen, taking up 60% of the budget in 2000 and about 65% by 2022. This trend leaves less funding available for investment in growth (Central Bank of Nigeria, 2023). Researchers indicate that high recurrent spending is crowding out capital expenditures, which are needed to tackle infrastructure shortcomings and promote economic growth (Agu et al., 2015). For instance, an excessive focus on recurrent costs has limited investments in education and healthcare, which are both crucial for long-term development (Udeaja & Obi, 2020).

Capital expenditure, which allocates funding for infrastructure like roads, electricity, and schools, is essential for economic progress but remains underfunded in Nigeria. Studies show that a 1%

increase in capital spending could boost GDP by 0.8% in the short term, yet poor implementation of projects and corruption dampen these potential gains (Adegboyo et al., 2021). Over the years, Nigeria's public debt has been on the rise, increasing from 30% of GDP in 2000 to 38% in 2022, which limits the budget available for development initiatives (International Monetary Fund, 2023). While debt relief in 2005 provided an opportunity to allocate resources toward growth-focused projects, the recent uptick in external borrowing to cover budget deficits has sparked worries about the sustainability of this debt (Adeyemi & Awogbade, 2022). The high costs of servicing this debt siphon off funds from capital investments, further hindering economic advancement (Udeaja & Obi, 2020; Umeghalu, Agupusi, & Uzodigwe, 2019).

Previous studies focusing on fiscal policy and economic growth in Nigeria, including the work of Osuala and Jones (2014) and Amusa et al. (2019), have analyzed factors such as government recurrent and capital expenditures, external debt, and inflation, uncovering various impacts on real GDP. However, these investigations only extend to 2022, overlook more recent fiscal reforms such as the removal of fuel subsidies, and fail to incorporate inflation's effects to account for price changes affecting fiscal policy's impact on growth. This study seeks to fill these gaps by extending the timeline of the research and incorporating inflation into the analysis.

The main goal of this research is to evaluate how fiscal policies affect economic growth in Nigeria. More specifically, it aims to assess the impacts of government capital expenditure, recurrent expenditure, and external debt on economic growth from 1990 to 2024. This chosen timeframe enables a thorough and statistically sound analysis that captures significant economic events, including the pre-2014 oil boom, the 2016 recession, and the recovery efforts that followed, all while ensuring access to relevant data.

Evolution of Fiscal Policy in Nigeria

Since gaining independence, Nigeria's fiscal policy has evolved significantly, starting with the First National Development Plan (1962–1968). This plan laid the groundwork for driving economic growth through strategic resource allocation. It focused on capital investments to support import-substitution industrialization (ISI), a strategy aimed at reducing reliance on imports and safeguarding foreign reserves. Funding for these initiatives came from both domestic revenues and foreign loans, reflecting the country's goal of establishing a self-sustaining industrial sector. However, the plan encountered obstacles, particularly due to a lack of revenue diversification, which left the economy susceptible to global market fluctuations. Furthermore, the dependency on external borrowing heightened fiscal vulnerabilities, leading to increased debt obligations. The outbreak of the Nigerian Civil War (1967–1970) worsened these challenges, redirecting essential fiscal resources toward military expenditures and disrupting the execution of development projects—further straining the nation's economic stability and thwarting the original objectives of the plan.

The Second National Development Plan, covering the years 1970 to 1974, emerged during

Nigeria's recovery after the civil war and coincided with the beginnings of the oil boom. It aimed to utilize the surge in oil revenues for reconstruction and to diversify the economy. The plan emphasized a fiscal policy that integrated agriculture, mining, and industry through targeted initiatives. Increased public spending supported industrial projects in key areas such as steel, cement, and fertilizer production, which in turn nurtured opportunities for small enterprises. As oil became a crucial revenue stream, the focus of fiscal policy shifted toward public sector-led planning and strategic resource distribution to drive economic growth. However, challenges arose from fiscal inefficiencies, including the mismanagement of oil revenues and a heavy dependence on public projects. This situation stunted private sector development and exposed limitations in technological capabilities, which in turn raised questions about the sustainability of these initiatives and revealed underlying structural weaknesses in the economy.

Moving on to the Third National Development Plan, from 1975 to 1980, Nigeria took advantage of soaring oil revenues, which allowed for a dramatic expansion in fiscal spending. The budget grew to 4.2 billion NGN, a significant increase from the previous plan's allocation of 3.2 billion NGN. This fiscal policy prioritized large investments in heavy industries like steel and petrochemicals, alongside vital infrastructure improvements aimed at enhancing the overall economic capacity. Social expenditures also rose, particularly in education and healthcare, driven by initiatives like the Universal Primary Education (UPE) program. Additionally, subsidies were introduced on fuel and essential goods to help stabilize domestic prices. Nonetheless, the economy's heavy reliance on oil revenues made it susceptible to fluctuations in global oil prices. Coupled with poor fiscal discipline and institutional weaknesses, the result was wasteful spending and increased opportunities for corruption (Ezenekwe, Umeghalu & Uzodigwe, 2017; Umeghalu et al., 2022).

The Fourth National Development Plan, enacted between 1981 and 1985, unfolded against the backdrop of a global recession prompted by declining oil prices. This situation necessitated a shift toward austerity measures to tackle diminishing foreign exchange reserves, balance of payments challenges, and rising unemployment rates. The Economic Stabilization Act of 1982 introduced measures to cut spending and implement import controls to stabilize the economy. As external debt mounted, fiscal policy emphasized the need to negotiate debt rescheduling with international creditors. Attempts to enhance non-oil revenue through increased taxes and tariffs were made, yet these efforts fell short of compensating for the decline in oil income. The fiscal crisis underscored the vulnerabilities of Nigeria's oil-dependent economy, particularly affecting the import-reliant manufacturing sector which struggled with foreign exchange shortages, highlighting an urgent need for greater economic diversification (Nwogwugwu & Umeghalu, 2021).

The Structural Adjustment Programme (SAP) (1986–1993), supported by the IMF and World Bank, was designed to implement market-driven fiscal reforms aimed at diminishing the public sector's grip on the economy and bolstering private sector development. Notably, the introduction

of the Value Added Tax (VAT) in 1993 was a key move to expand sources of revenue beyond oil. Privatization efforts were initiated to boost efficiency and lessen fiscal pressure by shifting state-owned enterprises into private ownership. While the SAP did achieve some improvements in fiscal discipline and increased non-oil revenue, it also led to social unrest due to cuts in subsidies and currency devaluation. Additionally, high production costs hampered industrial growth, ultimately limiting the program's effectiveness.

The shift to democracy in 1999 heralded a new fiscal policy era centered on consolidation and diversification. A significant debt relief agreement with the Paris Club in 2005–2006 lowered Nigeria's external debt from \$36 billion to \$3.5 billion, allowing for more resources to be allocated to development initiatives. The Fiscal Responsibility Act of 2007 established frameworks and rules for medium-term spending, fostering sustainable budgeting practices. However, challenges such as ongoing power shortages and corruption continue to hamper the success of fiscal policies.

To combat the recession of 2016 and stimulate sustainable growth, the Economic Recovery and Growth Plan (ERGP) (2017–2020) was launched, emphasizing fiscal policies focused on infrastructure development, revenue diversification, and increased private sector involvement. Nevertheless, significant obstacles like high debt servicing costs and fluctuations in oil prices limited the effectiveness of these policies in achieving growth targets, underscoring the necessity for ongoing reforms to rectify structural inefficiencies.

Does Fiscal Policy Spur Growth?

Fiscal policy is seen as a pivotal tool for driving economic growth through the careful management of government revenues and expenditures to stimulate overall demand, boost productive capacity, and stabilize the economy. Keynesian economics posits that expansionary fiscal measures, such as heightened public spending or tax cuts, can invigorate economic activity during downturns by enhancing consumption and investment, thereby increasing GDP (Keynes, 1936). Meanwhile, neoclassical growth models indicate that fiscal policy can support long-term growth by allocating resources to critical sectors like infrastructure, education, and health, which in turn fosters capital accumulation and improves labor productivity (Solow, 1956). In developing nations like Nigeria, fiscal policy is expected to drive inclusive growth by tackling structural challenges, lowering unemployment rates, and promoting income redistribution through targeted public investments and progressive taxation (Tanzi, 1991). Ideally, effective fiscal policy should lead to sustained GDP growth, decreased poverty levels, and enhanced socio-economic results.

In Nigeria, the situation stands in stark contrast to expectations, as fiscal policy has faced significant challenges in fostering sustained economic growth. Between 2000 and 2020, Nigeria's GDP growth averaged just 4.5%, falling short of what is needed to alleviate poverty, with approximately 40% of the population—around 83 million people—struggling to live above the poverty line in 2020 (World Bank, 2021). The economy's heavy dependence on oil, which

constitutes 70% of government revenue, makes fiscal policy highly susceptible to fluctuations in global oil prices, a vulnerability highlighted by the recession in 2016 (Central Bank of Nigeria, 2023; World Bank, 2023).

Moreover, high recurrent expenditures, which consumed 65% of the federal budget in 2022, severely limit capital investment in key growth sectors like infrastructure. At the same time, rising public debt, accounting for 38% of GDP as of 2022, further constrains fiscal capacity (International Monetary Fund, 2023). Alongside this, over 30% of capital projects have faced delays or abandonment, with inefficiencies in public spending and corruption hampering the effectiveness of fiscal policy (Budget Office of the Federation, 2023).

The Nigerian government's numerous attempts to tackle these issues through fiscal policy reforms have largely fallen short. For instance, the National Development Plans from the 1970s, which focused on infrastructure and industrialization, were marred by mismanagement, resulting in only 50% of proposed projects completed (Falola & Ihonvbere, 1985). The Structural Adjustment Programme (SAP) in 1986 sought to diversify the economy and lessen oil dependence through market liberalization, yet it led to a 10% decline in GDP by 1987 due to poor implementation (World Bank, 1988).

Similarly, the 2004 Fiscal Responsibility Act aimed to enhance budget management, but ongoing budget delays hampered its execution (Okonjo-Iweala, 2020). While the debt relief agreement in 2005 successfully reduced external debt from \$35 billion to \$5 billion, freeing up resources for development, those savings often got redirected toward recurrent spending instead of vital investments (World Bank, 2006). The 2021 Finance Act, which raised VAT from 5% to 7.5% and boosted revenue by 15%, was limited in its effectiveness by weak tax administration (Federal Inland Revenue Service, 2023). Finally, the removal of fuel subsidies in 2023 intended to channel funds toward infrastructure and social programs, but public discontent and implementation challenges have stymied progress (World Bank, 2023). Ultimately, despite these various initiatives, fiscal policy continues to struggle to promote sustained growth due to underlying structural inefficiencies and governance issues.

REVIEW OF RELATED LITERATURE

The interplay between fiscal policy and economic growth has been explored through various theories. Here are some of the most prominent:

The Keynesian theory, introduced by John Maynard Keynes in his influential 1936 work, “The General Theory of Employment, Interest, and Money,” argues that proactive government intervention via fiscal policy is essential for navigating economic cycles and fostering growth. Emerging during the Great Depression, Keynes’s theory addressed ongoing unemployment and economic stagnation, highlighting how government spending and taxation can invigorate aggregate demand. He maintained that economies frequently operate beneath their full potential;

thus, implementing fiscal measures—such as increased public spending or tax reductions—can elevate demand, resulting in expanded output and job creation.

Endogenous Growth theory, developed by Paul Romer in his 1986 paper, “Increasing Returns and Long-Run Growth,” alongside Robert Lucas in “On the Mechanics of Economic Development,” focuses on the role of fiscal policy in enhancing productivity through investments in human capital, infrastructure, and innovation. This theory asserts that economic growth is primarily influenced by internal factors rather than external technological advancements. Romer accentuated the importance of knowledge and innovation, arguing that investments in research and development foster increasing returns through knowledge spillovers. On the other hand, Lucas made emphasis on human capital, highlighting the necessity of education and skill development for sustained economic growth.

Wagner’s Law, proposed by German economist Adolph Wagner in 1883 in his analysis of public finance, claims that public expenditure tends to increase alongside economic development due to rising societal demands for public goods and services. Formulated during Europe’s rapid industrialization, this theory observes that as economies expand and become more intricate, the necessity for infrastructure, education, healthcare, and regulatory frameworks grows, which in turn requires greater government expenditure. Wagner suggested that this trend is a natural consequence of economic progress, as urbanization and industrialization generate demands for public services to underpin growth. This theory was subsequently refined by economists like Alan Peacock and Jack Wiseman in 1961, presenting a framework to understand the dynamic interplay between economic growth and public expenditure while highlighting the vital role of fiscal policy in addressing evolving societal needs.

The existing literature offers numerous empirical studies on the effects of fiscal policy on economic growth, with some focusing specifically on Nigeria, while others analyze various countries. A summary of these studies is outlined below:

Ogbole, Sonny, and Essi (2011) explored the effects of fiscal policy on Nigeria's economy from 1970 to 2006, utilizing the Ordinary Least Squares (OLS) method to analyze secondary data. Their findings indicated a notable difference in the effectiveness of fiscal policy regarding economic growth in Nigeria; however, this difference was not statistically significant. The study concluded that achieving the primary objectives of fiscal policy necessitates a shift in public expenditures to help transform Nigeria into a producing nation.

Egbetunde and Fasanya (2013) used the Auto Regressive Distributed Lag (ARDL) approach to examine the relationship between public expenditure and economic growth in Nigeria from 1970 to 2010. The bounds test results indicated that the variables of interest are interconnected in the long run. Additionally, the equilibrium correction was significant, affirming the existence of long-run relationships, although recurrent expenditure was shown to have only a modest positive impact on growth.

Osuala and Jones (2014) focused on the impact of fiscal policy on economic growth in Nigeria during the 1986–2010 period. They employed the Ordinary Least Squares (OLS) method for a log-linearized model analysis. Their findings revealed that both government recurrent and capital expenditures positively influence Nigeria's economic growth. Notably, in the short run, only capital expenditure was significantly impactful, while the effects of non-oil taxes and government debt on GDP were not statistically significant.

Mohammed and Ehikioya (2015) analyzed fiscal policy variables and their effects on economic growth in Nigeria from 1986 to 2012. Their results demonstrated a long-run relationship between fiscal policy and economic growth. Interestingly, total government expenditure and gross fixed capital formation were shown to have a negative and significant effect on the country's economic growth.

Muhammad (2015) studied the relationship between fiscal policy and the performance of the Nigerian economy, employing the Vector Error Correction Model (VECM) to assess time series data from 1980 to 2012. The VECM analysis revealed that deficit financing, domestic debt, and government expenditure are negatively significant determinants of economic growth; conversely, external debt and government revenue exhibited a positive and statistically significant relationship with economic growth.

In their exploration of the link between fiscal policy and economic growth in Nigeria, Amusa et al. (2019) employed the Autoregressive Distributed Lag Model (ARDL) and the Error Correction Model (ECM) to analyze how different fiscal policy indicators influenced economic growth. Their analysis revealed a notably strong positive relationship between economic growth and government revenue in the short term; however, this connection turned negative over the long term. Additionally, while recurrent expenditure showed a significant negative correlation with economic growth in the short term, this effect became negligible in the long term. The inflation rate, on the other hand, displayed a consistent positive relationship with economic growth across both time frames.

Babalola and Aminu (2021) sought to understand the effects of fiscal policy on Nigeria's economic growth from 1977 to 2009 using the Error Correction Model (ECM). Their findings indicated that government expenditure positively and significantly influences economic growth in both short and long terms, highlighting the importance of productive public spending for stimulating economic activity. The study advocated for increased government investments in health, education, and economic services as vital components of productive expenditure to foster economic growth.

Ekpo and Udoh (2022) investigated the impact of fiscal policy on Nigeria's economic growth from 1980 to 2019 using the Ordinary Least Squares technique (OLS) and the Granger causality test. Results showed that tax revenue had a negative but statistically insignificant effect on economic growth, while government recurrent expenditure also demonstrated a positive yet insignificant

relationship. Furthermore, government capital expenditure was found to have an insignificant negative impact on economic growth. The Granger causality test indicated a lack of evidence to support a causal relationship between fiscal policy and economic growth.

Akpan et al. (2022) studied the impact of fiscal policy on Nigeria's economic growth from 1970 to 2019 using the Auto Regressive Distributed Lag (ARDL) model to analyze their secondary data. The period under review was divided into regulated and unregulated phases. Key variables included government capital expenditure, recurrent expenditure, exchange rates, gross fixed capital formation, labor force, and inflation. Their findings suggested that in the deregulated phase, government capital expenditure had a significant negative impact on economic growth, whereas in the regulated period, its effect was found to be insignificant.

The study by Kanu et al. (2022) utilized the Ordinary Least Squares technique to analyze the influence of fiscal policy tools on economic growth in Nigeria from 1999 to 2020. Their research revealed that in the short term, deficit financing, domestic debt, and recurrent expenditure all significantly and positively impact economic growth. Conversely, external debt was found to negatively correlate with real GDP. Over the long term, however, it was concluded that fiscal policy tools do not maintain significant relationships with economic growth in Nigeria.

In another analysis, Ayodeji and Adefisayo (2022) focused on the long-term effects of fiscal policy on economic growth in Nigeria between 1986 and 2020. They considered total public expenditure, external debt, external reserves, and tax revenue as indicators of fiscal policy, using real GDP to gauge economic growth. Their results indicated that tax revenue, external debt, and external reserves negatively affect economic growth, while public expenditure contributes positively and significantly to it.

Ukangwa et al. (2023) examined the impact of fiscal policy on economic growth in Nigeria over the period of 1990 to 2021. Using the Ordinary Least Squares method to analyze data sourced from the Central Bank of Nigeria's Annual Statistical Bulletin, they found a linear relationship between Gross Domestic Product and variables such as public debt, tax revenue, and government expenditure. Their findings highlighted that public debt and tax revenue have negative correlations with GDP, whereas total government expenditure positively affects GDP.

Moving beyond Nigeria, Mwale & Mulenga (2024) studied the impact of fiscal policy on economic growth in Zambia from 1991 to 2021. They utilized the Vector Error Correction Model (VECM) and the Autoregressive Distributed Lag (ARDL) framework to explore both long-term and short-term relationships among various factors. Their findings demonstrated that tax revenue has a positive impact on economic growth in both timeframes, while government expenditure and external debt negatively affect growth.

Lastly, Symoom (2024) applied the Error Correction Model (ECM) and Autoregressive Distributed Lag (ARDL) models to assess the effect of fiscal policy on economic growth in Bangladesh, India,

Pakistan, and Sri Lanka from 1980 to 2016. The study used real GDP, government expenditure, investment, total tax revenue, trade (exports and imports), and political instability as variables. The major findings indicated that neither government expenditure nor tax revenue significantly impacts the economic growth of these nations, with investment emerging as the most crucial factor driving real economic growth.

Egwu, Nwome, and Nwankwo (2024) set out to explore the connection between fiscal policy variables and economic growth in Nigeria from 1981 to 2021. Utilizing the Ordinary Least Squares method, they estimated the parameters of their model, which included Gross Domestic Product, government expenditure, total tax revenue, and overall debt. Their findings indicate that government expenditure positively and significantly influences economic growth in Nigeria, whereas government tax revenue negatively and significantly affects it.

Similarly, Oluwayemisi et al. (2024) investigated the impact of fiscal policy on Nigeria's economic growth over the period from 1981 to 2022. Their research focused on government recurrent and capital expenditure, along with tax revenue. They applied an ex-post facto research design, along with purposive sampling, using the Autoregressive Distributed Lag (ARDL) model to delve into the relationship between fiscal policy and economic growth. The results shed light on a complex interaction between government spending, tax policies, and economic growth in Nigeria.

Bhatti et al. (2024) utilized the Auto Regressive Distributed Lag (ARDL) model to evaluate the influence of fiscal policy on economic growth in Pakistan from 1976 to 2023. Their analysis uncovered that labor force participation and gross fixed capital formation are key long-term growth drivers. Notably, the significant but varied effects of government expenditure and trade openness suggest their impacts depend heavily on the broader economic and institutional context.

METHODOLOGY

Theoretical Framework

This study draws upon two fundamental theories: the Endogenous Growth Theory and the Keynesian Theory. According to Endogenous Growth Theory, fiscal policy can stimulate economic growth through government investments in education, research and development (R&D), and infrastructure, thereby enhancing productivity and fostering innovation. This theory advocates for reallocating resources towards knowledge-driven and high-productivity sectors that yield increasing returns and support sustainable long-term growth, positing that economic growth stems from internal factors rather than external technological advancements.

On the other hand, the Keynesian Theory highlights the pivotal role of fiscal policy in promoting economic growth through the stimulation of aggregate demand. John Maynard Keynes argued that in times of economic decline, government spending and tax adjustments can invigorate demand, resulting in increased production, employment, and income. The multiplier effect, where an initial

rise in government expenditure triggers additional economic activity, establishes fiscal policy as a potent mechanism for growth. Mathematically, Keynesian growth theory can be articulated as:

$$Y = C + I + G + (X - M) \quad (1)$$

Where Y = economic output (growth), C = consumption, I = investment, G = government spending, and $(X - M)$ = net exports, with G being the key fiscal lever. For Nigeria, these theories underscore the importance of public investment and expenditure to counteract economic slumps and stimulate growth across sectors.

Empirical Model Specification

Following the work of Symoom (2024) who expressed economic growth as a function of fiscal policy, this study replicates an adjusted form of the model, making necessary adjustments to allow for the argument made in this particular study. The functional form of the model is written in equation 2.

$$GDP = f(GCE, GRE, EXD, IFL) \quad (2)$$

The econometric form of the model is rewritten in equation 3.

$$GDP_t = \beta_0 + \beta_1 GCE_t + \beta_2 GRE_t + \beta_3 EXD_t + \beta_4 IFL_t + \mu_t \quad (3)$$

Where GDP = Gross domestic product GDP growth rate; GCE = Government capital expenditure; GRE = Government recurrent expenditure; EXD = External debt; IFL = Inflation rate; β_0 = Constant term/ Intercept of the model; $\beta_1 - \beta_4$ = coefficients of the explanatory variables; t = Time series; and μ_t = Error term.

Data and Data Sources

This study aimed to assess the influence of fiscal policy on economic growth utilizing secondary time series data. The main sources included the Central Bank of Nigeria Annual Statistical Bulletin, the World Bank Development Index, and the National Bureau of Statistics. Below are the key variables defined along with their measurements.

Gross Domestic Product (GDP) Growth Rate: The GDP growth rate indicates the percentage change in Real Gross Domestic Product (RGDP) over a specified period, commonly assessed year-on-year or quarter-on-quarter. It is adjusted for inflation to accurately represent the real variations in the value of goods and services produced. Serving as a vital indicator of economic performance, it reflects the growth or contraction pace of Nigeria's economy. For this analysis, the GDP growth rate was calculated using the annual percentage change in RGDP, sourced from the World Bank.

Government Capital Expenditure (GCE): Government capital expenditure encompasses spending on long-term productive assets, such as infrastructure (roads, bridges, schools) and equipment. This investment aims to enhance the economy's productive capacity. In this study, GCE was

measured through the federal government's capital expenditures, expressed in billions of naira, obtained from the Central Bank of Nigeria's Statistical Bulletin.

Government Recurrent Expenditure (GRE): Government recurrent expenditure includes the daily operational costs of government activities, covering salaries, wages, maintenance, and administrative expenses. Unlike capital expenditure, it focuses on immediate consumption rather than long-term investment. In this research, GRE was quantified based on the federal government's recurrent expenditures in billions of naira, referenced from the Central Bank of Nigeria's Statistical Bulletin.

External Debt (EXD): External debt represents the total obligations a country has to foreign creditors, including loans from international organizations like the IMF and World Bank, as well as foreign governments. This debt is crucial for financing budget deficits or significant projects when domestic resources are lacking. It exemplifies a trade-off in fiscal policy—while it can facilitate growth-enhancing projects (e.g., infrastructure), it also imposes repayment duties and interest costs. In this study, EXD was measured using Nigeria's outstanding public external debt in billions of naira, sourced from the Central Bank's annual statistical bulletin.

Inflation Rate (INF): Inflation gauges the rate at which the general price level of goods and services in a country rises over time, typically expressed as a percentage. It reflects the purchasing power of the domestic currency and overall economic stability. In this analysis, inflation was measured using the average annual rate supplied by the country's apex bank.

Estimation Technique and Procedure

To ensure the integrity of the study's data, a series of preliminary tests were carried out to evaluate its unbiasedness. Descriptive statistics played a key role in assessing whether the data followed a normal distribution, which also helped in pinpointing any outliers in the dataset. This evaluation encompassed various measures of central tendency, including mean and median, alongside dispersion indices such as minimum, maximum, and standard deviation. Additionally, normality measures like skewness, kurtosis, and the Jarque-Bera test were employed.

Considering the potential for misleading results in time series data—often marked by significant upward or downward trends that do not revert to a constant mean—the stationarity of the data was scrutinized through the unit root test. Specifically, the Augmented Dickey-Fuller (ADF) unit root test was selected, given its ability to account for serial correlation. Furthermore, a cointegration test was conducted to ascertain if certain sets of non-stationary time series variables exhibit long-run equilibrium relationships. These tests are vital for grasping the sensitivity among multiple variables.

To investigate these long-run relationships among the variables in the study, the ARDL bounds testing approach was utilized. This methodology, developed by Pesaran et al. (2001), is particularly effective in analyzing the impact of aggregate demand on SME performance, especially when

working with small samples. By establishing critical value bands, it distinguishes between stationary and non-stationary variables, negating the need to categorize them as I(1) or I(0).

DATA ANALYSIS AND RESULT PRESENTATION

The analysis of descriptive statistics offers valuable insights into the characteristics of the time series data, helping to determine if the data is normally distributed while also identifying any outliers in the dataset. The statistics encompass measures of central tendency such as mean and median, dispersion measures including minimum, maximum, and standard deviation, and normality assessments like skewness, kurtosis, and the Jarque-Bera test. This descriptive analysis was conducted on both the raw data of the dependent variable and the transformed data of the independent variables to address any issues of non-normality.

Table 1 Summary of Descriptive Statistics Results

	GDP	LGRE	LGCE	LEXD	LIFL
Mean	4.222343	7.031035	6.203426	7.577907	2.695770
Median	4.195924	7.371030	6.482511	7.397255	2.565488
Maximum	15.32916	9.567145	8.408764	10.55111	4.288203
Minimum	-2.035119	3.589611	3.180135	5.699138	1.684174
Std. Dev.	3.850174	1.761958	1.334781	1.339773	0.637454
Skewness	0.524998	-0.498241	-0.662600	0.491668	0.911704
Kurtosis	3.592593	2.056780	2.835991	2.117962	3.271283
Jarque-Bera Probability	2.119916 0.346470	2.745515 0.253407	2.600286 0.272493	2.544705 0.280172	4.956013 0.083910
Sum	147.7820	246.0862	217.1199	265.2267	94.35194
Sum Sq. Dev.	504.0107	105.5529	60.57577	61.02969	13.81582
Observations	35	35	35	35	35

Source: Researchers' Computation using EViews 12

The results of the descriptive statistics are summarized in Table 1. The mean indicates the average value of the time series variables, which sits between the maximum and minimum values. The median represents the middle value when data is arranged in ascending or descending order, while the standard deviation illustrates how far the observations diverge from the sample average. Skewness gauges the asymmetry of the distribution. A skewness of 0 indicates symmetry around the mean. A positive skewness suggests a longer right tail in the distribution, meaning it has more high values compared to the sample mean, while a negative skew implies a longer left tail, indicating lower values than the sample mean. Generally, skewness values between -0.5 and 0.5 are considered slightly symmetrical, or normal skewness.

According to the results in Table 1, the growth rate of gross domestic product (GDP), government recurrent expenditure (GRE), and external debt (EXD) exhibit normal skewness as their data is evenly spread around the mean. In contrast, government capital expenditure (GCE) displays negative skewness, and the inflation rate (IFL) shows positive skewness. Kurtosis assesses the peakness or flatness of the distribution. A kurtosis value near 3 is recognized as mesokurtic, indicating a normal distribution. Values above 3 are termed leptokurtic, suggesting a peaked

distribution with more high values than the mean, while values below 3 are classified as platykurtic, indicating a flatter distribution with more low values than the mean. From Table 1, both the GDP growth rate and inflation rate demonstrate a leptokurtic distribution, whereas GRE, GCE, and EXD show platykurtic distributions.

The Jarque-Bera statistic measures how the skewness and kurtosis of these series differ from those of a normal distribution. If the probability value of the Jarque-Bera statistic surpasses the 0.05 significance level, the data can be deemed normally distributed. As indicated in the figure, the GDP growth rate, GRE, GCE, EXD, and inflation rate all follow a normal distribution.

The correlation coefficient serves as a statistical tool for determining the strength of the relationship between the movements of two variables, with values ranging from -1.0 to 1.0. A correlation of -1.0 indicates a perfect negative correlation, while a correlation of 1.0 signifies a perfect positive correlation. A value of 0.0 demonstrates no relationship between the two variables. The closer the coefficient is to 1, the stronger the correlation, and conversely. The result is summarized in table 2.

Table 2: Summary of Correlation Matrix

Variables	Correlation Coefficients	Decision
LGRE and GDP	-0.0071369	Weak Negative Correlation
LGCE and GDP	-0.0164828	Weak Negative Correlation
LGCE and LGRE	0.953594	Strong Positive Correlation
GDP and LIFL	-0.39350	Weak Negative Correlation
LEXD and GDP	-0.140558	Weak Negative Correlation
LGRE and LEXD	0.7083443	Strong Positive Correlation
LGRE and LIFL	-0.230333	Weak Negative Correlation
LGCE and LEXD	0.685834	Strong Positive Correlation
LGCE and LIFL	-0.247788	Weak Negative Correlation
LEXD and LIFL	0.081259	Weak Positive Correlation

Source: Researchers' computation using EViews 12

Unit Root Test

The unit root test is conducted to check if there is unit root in the variables. Establishing stationarity at level I (0) or at first difference I (1) is necessary in a time series data, as non-stationary data might produce spurious results. Also, in order to be able to use the ARDL model, it is necessary to make sure that none of the variables under study is integrated at second difference I (2) because it produces spurious results. The unit root test was conducted using the Augmented Dickey-Fuller (ADF) method, and the test results are summarized in table 3.

Since the decision rule is to reject the null hypothesis if the calculated ADF test statistic value (in absolute terms) is greater than the critical value At the 5% level of significance (5%), Gross Domestic Product (GDP) growth rate was found to be stationary at level, i.e., I(0), while Government Recurrent Expenditure (GRE), government capital expenditure (GCE), External Debt (EXD) and inflation rate (IFL) were all stationary at first difference integration, I(1).

Table 3: Summary of ADF Unit Root Test Results

Variables	ADF Test Statistic	ADF Critical Value @ 0.05	Order of Integration
GDP	-3.803579	-2.951125	I(0)
LGRE	-7.695623	-2.954021	I(1)
LGCE	-6.694133	-2.954021	I(1)
LEXD	-4.193059	-2.954021	I(1)
LIFL	-4.745320	-2.954021	I(1)

Source: Researchers' computation using EViews 12

Cointegration Test

Cointegration test is used to determine if non-stationary time series variables possess a long-run equilibrium relationship or not. The tests are used to identify the degree of sensitivity between two or more variables. The ARDL bounds testing approach was used to check for the existence of long-run relationships, as well as the short run dynamics, among the variables of the study. The ARDL bounds testing approach is used when the variables have a mixed integration, that is, when they are stationary at both level I(0) and at first difference I(1). The result of the bounds test is shown in table 4.

Table 4: ARDL Bounds Test Results

Model 1	Value	Significance	Lower Bound	Upper Bound
F-statistics	4.765874	10%	2.45	3.52
K	4	5%	2.86	4.01
		2.5%	3.25	4.49
		1%	3.74	5.06

Source: Researchers' computation using EViews 12

From table 4, the value of the F-statistic which shows the joint significance of the lagged level variables is 4.765874 and is greater than the upper bound value at 5% level of significance. Therefore, we reject the null hypothesis and conclude that a long-run relationship as well as short run relationship exists between the dependent variable and the independent variables.

Evaluation of Long Run and Short Run Estimates

Long Run Estimates

Table 5: Estimates of Long-Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGRE	-9.361799	6.167507	-1.517923	0.1427
LGCE	7.874273	6.388729	1.232526	0.2302
LEXD	1.925494	2.000504	0.962505	0.3458
LIFL	-10.72815	5.208251	-2.059838	0.0509

Source: Researchers' computation using EViews 12

Having established that there is a long-run relationship amongst the variables under study, the ARDL model was used to determine the coefficients of the regression model. The estimated long-

run coefficients are as presented in tables 5. Table 5 presents the estimated long-run coefficients for the study's model. The findings demonstrate that all variables align with theoretical expectations in the long run, and they each show statistical significance. Specifically, the long-run partial regression coefficient for government recurrent expenditure (LGRE) stands at -9.361799. This implies that a 1% rise in government recurrent expenditure leads to an approximate 9.361% reduction in Nigeria's gross domestic product (GDP) growth rate over the long term. Consequently, government recurrent expenditure negatively impacts economic growth in the long run. On the other hand, the long-run partial regression coefficient for government capital expenditure (LGCE) is 7.874273. This indicates that a 1% increase in government capital expenditure is associated with an estimated 7.874% boost in Nigeria's GDP growth rate in the long run, suggesting a positive influence of government capital spending on economic growth.

Additionally, the long-run partial regression coefficient for external debt (LEXD) is 1.925494, meaning that a 1% increase in external debt will, on average, result in a 1.925% increase in GDP growth. This finding points to a positive relationship between external debt and economic growth in Nigeria over the long term. Meanwhile, the long-run partial regression coefficient for the inflation rate (LIFL) is -10.72815, indicating that a 1% rise in the inflation rate correlates with a 10.72% decrease in GDP growth. Therefore, inflation negatively impacts Nigeria's economic growth in the long run.

Short Run Estimates

The Error Correction Model (ECM) aims to link the long-term behaviors of cointegrated variables with their short-term adjustments. It assesses how these variables dynamically correct deviations from equilibrium. For the model to indicate a strong convergence toward long-run equilibrium, the error correction term must be negative, fall between 0 and 1, and be statistically significant at the 5% level. The results of the ECM analysis are detailed in Table 6.

Table 6: Summary of Short Run Coefficients (Error Correction Regression)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.08027	2.564246	5.490998	0.0000
D(LGRE)	-10.62867	2.098615	-5.064613	0.0000
D(LGRE(-1))	-3.538186	1.954590	-1.810194	0.0834
D(LIFL)	-2.238335	0.935470	-2.392738	0.0253
D(LIFL(-1))	4.525077	1.026656	4.407587	0.0002
CointEq(-1)*	-0.342581	0.064772	-5.289008	0.0000
R-squared	0.587059	Mean dependent var		0.092972
Adjusted R-squared	0.510589	S.D. dependent var		3.424898
S.E. of regression	2.395988	Akaike info criterion		4.748434
Sum squared resid	155.0005	Schwarz criterion		5.020526
Log likelihood	-72.34916	Hannan-Quinn criter.		4.839985
F-statistic	7.676935	Durbin-Watson stat		2.496898
Prob(F-statistic)	0.000134			

Source: Researcher computation using EViews 12

Table 6 presents the estimated short-run coefficients for the study's model. The coefficient for

government recurrent expenditure (LGRE) stands at -10.62867, suggesting that a 1% increase in government recurrent expenditure would result in a 10.682% decline in GDP growth rate. This indicates that, in the short run, government recurrent expenditure negatively affects Nigeria's GDP growth. Furthermore, the coefficient for the inflation rate (LIFL) is -2.238335, meaning that, on average, a 1% rise in the inflation rate leads to about a 2.23% decrease in Nigeria's GDP growth rate. Thus, in the short term, the inflation rate also has a detrimental impact on economic growth. The findings indicate that the error correction term aligns with expectations, falling between 0 and 1 with a coefficient of -0.342581. This figure reveals that if the model encounters disequilibrium, the adjustment speed from the short run to the long run—demonstrating equilibrium among the variables—is 34%.

From the analysis reflected in Table 6, the coefficient of determination (R²) is 0.587059, indicating that approximately 58.7% of the variation in the dependent variable can be explained by the independent variables. The adjusted R² is reported at 0.5105589, suggesting that around 51% of the total variation in the dependent variable is accounted for by the independent variables. Additionally, since the F-calculated value (4.765874) exceeds the F-table value (2.93), the null hypothesis is rejected, concluding that the model demonstrates a good fit and is statistically significant. In summary, there is a meaningful relationship between the independent and dependent variables in this study.

We conducted a heteroscedasticity test to determine if the error variance for each observation remains constant. The findings revealed a p-value of 0.5460, which exceeds the 0.05 threshold. Consequently, we accept the null hypothesis, indicating that there is no heteroscedasticity in the residuals, and we can trust the data for predictions. Next, we utilized the Breusch-Godfrey Serial Correlation LM test to assess for serial correlation. The resulting p-value of 0.1634 also surpasses the 0.05 significance level, allowing us to accept the null hypothesis of no serial correlation and reject the alternative, confirming the reliability of the variables for predictions.

A normality test for the residuals was also performed. With a probability value of 0.681948, we accepted the null hypothesis, which posits that the residuals follow a normal distribution, thereby rejecting the alternative hypothesis. To ensure the model's stability, we assessed whether the coefficients remained stable across the sample period. This was verified using the CUSUM and CUSUM of squares tests. The results indicated that both the CUSUM statistics and CUSUM of squares plots fell within the critical bounds of the 5% confidence interval for parameter stability, confirming that the model is stable throughout the observed period.

Evaluation of Research Hypothesis

The t-test was utilized to assess the statistical significance of the individual parameters. We conducted two-tailed tests at the 5% significance level, comparing the calculated t-statistic with the tabulated t-statistic at $t_{\alpha/2} = t_{0.05} = t_{0.025}$ (two-tailed test). The degree of freedom (df) was calculated as follows: $df = n - k = 33 - 4 = 29$. Therefore, the tabulated t-statistic we used was $t_{0.025, (29)}$

= 2.045. Using a significance level of 0.05, our decision rule dictates that we will reject the null hypothesis if the t-value is significant at this designated level; otherwise, we will accept the null hypothesis. This procedure is summarized in Table 7.

Table 7: Summary of t-statistics

Variables	t-calculated (tcalc)	t-tabulated (ttab)	Conclusion
LGRE	-1.517923	2.045	Not statistically Significant
LGCE	1.232526	2.045	Not statistically Significant
LEXD	0.962505	2.045	Not statistically Significant

Source: Researchers' Computation using EViews 12

Discussion of Findings

This study explored the impact of government fiscal policy on economic growth in Nigeria, employing the ARDL technique to assess various fiscal policy tools. The findings indicate that government recurrent expenditure has a negative impact on the country's economic growth in both the long run and short run. Specifically, the analysis reveals negative coefficients of -10.62867 and -9.361799 for the short and long term, respectively. This implies that increases in government recurrent spending, which includes items like salaries, administrative costs, and subsidies, correspond with a decline in economic growth. The more significant negative coefficient in the short run suggests a more immediate detrimental effect, as excessive spending in these areas quickly detracts from economic performance. A substantial portion of Nigeria's budget—often exceeding 70%—is allocated to non-productive expenditures, such as maintaining a large civil service or funding inefficient operations, which crowd out private investment, lead to increased public borrowing and interest rates, and exacerbate inflationary pressures that weaken real output in the country. In the long run, though the negative impact continues, it is somewhat less severe. Focusing on recurrent costs rather than investing in critical infrastructure like roads or factories results in missed opportunities for growth. This finding is consistent with the work of Nwamuo (2020), but contrasts with the views expressed by Osuala and Jones (2014).

Additionally, the study highlights that government capital expenditure has a positive effect on economic growth in the long run, even though this effect does not appear in the short-run dynamics of the Error Correction Model (ECM). This suggests that increasing spending on capital projects, such as roads and power plants, can enhance economic growth over time. The positive long-run coefficient of 7.874273 indicates a significant impact, as infrastructure investments boost business efficiency and productivity, ultimately supporting industries and elevating GDP. Given Nigeria's challenges with inadequate road networks and power shortages, such spending is crucial for laying the foundation for economic expansion. However, the absence of a short-run effect in the ECM may reflect delays in project execution due to management issues, indicating that the benefits will take time to materialize. These findings align with Keynesian theory, which emphasizes the importance of government spending as a driver of growth, highlighting that investments in

infrastructure, education, and health are essential for Nigeria's economic progress, with advantages compounding over time for sustainable growth. While the relationship was found to be not statistically significant, it corroborates the studies by Chinedu, Rose, and Amarachi (2022), as well as Ekpo and Udoh (2022), while differing from the conclusions of Akpan et al. (2022).

External debt is projected to positively influence economic growth in Nigeria over the long term, even though it may not show immediate effects in the short term dynamics of the Error Correction Model (ECM). This implies that as external debt increases, it has the potential to foster economic growth eventually. The rationale behind this is that borrowed funds can finance vital investments, such as infrastructure projects or social programs, which ultimately enhance Nigeria's productivity. The long-term positive coefficient suggests that when external debt is allocated toward critical projects like roads or power plants, it helps to fill in Nigeria's infrastructure gaps and stimulate economic activity.

However, the lack of short-term effects in the ECM indicates that the advantages of external borrowing often take time to be realized. This delay can result from various factors, including project implementation lags or initial debt servicing costs that diminish immediate benefits. In Nigeria, where capital access can be challenging, external debt serves as a lifeline, but it demands time before it translates into tangible growth. This observation echoes the findings of Ogbuagu and Ekiran (2018), yet contrasts with the conclusions drawn by Ayodeji and Adefisayo (2022).

On the other hand, the inflation rate was discovered to have a negative effect on economic growth in both the short run and the long run. The coefficients recorded are -2.238335 for the short term and -10.72815 for the long term, revealing that rising inflation hampers economic growth largely due to its ability to erode purchasing power and economic stability. In the short term, the negative coefficient highlights that increased inflation leads to higher costs for consumers and businesses alike, which curtails consumption and production, thereby slowing growth. For many Nigerians who rely on fixed incomes, even modest inflation can strain household finances and dampen demand.

In the long run, the significant negative coefficient signals more severe implications, as ongoing inflation fosters uncertainty, deters investment, and escalates production costs, which adversely impacts industrial activities. This finding is consistent with the research of Jelilov et al. (2016) but stands in opposition to the work of Nwogo and Orji (2019).

CONCLUSION

This study examined how fiscal policy has influenced economic growth in Nigeria from 1990 to 2024. Utilizing the Auto Regressive Distributive Lag estimation technique, the analysis was based on secondary data sourced from the World Bank Development Indicators (WDI), the National Bureau of Statistics, and the Central Bank of Nigeria's Annual Statistical Bulletin (CBN). The findings indicate that government recurrent expenditure negatively impacts economic growth both

in the short and long term, while government capital expenditure and external debt have a positive effect on growth in the long run. However, it's worth noting that none of these relationships were statistically significant. This reinforces concerns regarding the effectiveness of Nigeria's fiscal policy in fostering economic growth. The inconsistent economic growth, particularly in recent years, alongside persistently high inflation rates, suggests that the current structure of government revenue and expenditure is not conducive to enhancing economic growth. To address these issues, it is recommended that the government significantly cut back on recurrent expenditures by eliminating wasteful administrative costs, scaling down excessive salaries, and reforming inefficient subsidies. Additionally, policymakers should focus on optimizing government capital expenditure by prioritizing impactful infrastructure projects, while ensuring that any external borrowing is channeled into productive investments.

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