

Effect of Fiscal Policy Tools on Economic Growth in Nigeria 2000-2023

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ABSTRACT

This study examines the effect of fiscal policy tools on Nigeria's economic growth from 2000 to 2023, focusing on government capital expenditure (GCAPEX) and government total revenue (GTREV). Fiscal policy is crucial for influencing economic performance, particularly in developing economies like Nigeria, where sustainable growth is a key objective. An ex-post facto research design was employed, utilizing secondary data from the CBN Statistical Bulletin, with Vector Autoregressive (VAR) analysis applied to test the hypotheses. The results indicate that while government capital expenditure revealed positive but statistically insignificant impact on GDP, with a coefficient of 2.432010 and a probability value of 0.5812, government total revenue exerts a negative and similarly insignificant effect, as indicated by its coefficient of -0.326735 and a probability value of 0.6979. These findings suggest that the interplay between capital expenditure and total revenue has an overall insignificant influence on economic growth in Nigeria during the period of study. In conclusion, increasing government capital expenditure, particularly in physical assets, education, medical care, and other capital-intensive sectors, could stimulate growth. Additionally, optimizing revenue collection methods is essential to reduce the economic burden on productive sectors, which can be achieved through efficient tax administration and avoiding excessive taxation. The study also recommends diversifying revenue sources to reduce dependence on a narrow range of income streams that negatively affect economic activity. Implementing these strategies may enhance the positive effects of capital expenditure while mitigating the adverse impacts of total revenue on Nigeria's economic growth, contributing to a more robust and sustainable economy.

Keywords: Fiscal policy, capital expenditure, government revenue, economic growth, Vector autoregressive model.

INTRODUCTION

Robust economic growth is a fundamental goal for every nation, including Nigeria, as it seeks to address macroeconomic challenges such as inflation, high exchange rates, low gross domestic product (GDP), and unemployment. Fiscal policy plays a critical role in managing these challenges, focusing on government decisions regarding expenditure and revenue generation (Okorie, 2023). Through fiscal policy, the government can strategically influence economic performance by adjusting its spending and revenue mobilization to either stimulate or control economic activities (Akinyemi & Lawal, 2023). For instance, a budget deficit can boost economic activity by increasing government spending, while a surplus may help moderate an overheated economy (Adefolaju, 2023). Thus, effective fiscal policy is a vital tool for economic stabilization, offering the government a way to manage economic conditions and promote growth (Bello & Yusuf, 2023).

In the case of Nigeria, fiscal policy is especially pivotal for driving economic growth, with government spending and revenue mobilization having a significant impact on the country's GDP when properly implemented. However, inefficiencies in government expenditure, poor revenue generation mechanisms, and rising fiscal deficits have undermined the country's economic progress. Nigeria has experienced inconsistent GDP growth rates, most notably a sharp decline during the 2020 recession, which underscores the urgent need for robust and well-formulated fiscal policies to ensure sustainable economic growth (World Bank, 2023).

The study seeks to answer the following questions: To what extent does government capital expenditure influence Nigeria's GDP, what effect does government revenue have on GDP?

This study aims to investigate the effect of fiscal policy tools, particularly government capital expenditure and total revenue, on Nigeria's GDP from 2000 to 2023. The research target is to evaluate the effect of fiscal policy tools, specifically government capital expenditure and revenue, on Nigeria's GDP from 2000 to 2023.

This research work test the following hypotheses:

H0₁:Total government capital expenditure has no significant impact on Nigeria's GDP.

H0₂:Total government revenue does not have significant influence on Nigeria's GDP.

REVIEW OF RELATED LITERATURE

Conceptual Review

Fiscal Policy

Fiscal policy, defined as government actions in spending and taxation, plays a vital role in influencing macroeconomic variables such as employment, national income, and aggregate demand (Schmidt, 2018; Jeffrey, 2019). Nigeria economic growth therefore has a foundation on the way government designs and

implements its fiscal policies. Bello and Hassan (2023) focus on the function of fiscal policy in driving inclusive economic growth. They argue that fiscal policy in Nigeria has often prioritized growth at the expense of equity, leading to unequal income distribution. They recommend policies that not only stimulate economic growth but also promote wealth redistribution through progressive taxation and social spending. The fiscal policy ought to be well developed and managed in line with the reality in the economy in order to impact positively on the GDP in Nigeria economy.

Government Capital Expenditure

Government capital expenditure consists of investments in infrastructure like roads, hospitals, and education, which are critical for economic growth (Ogujiuba & Ethigiamusoe, 2013). Government capital expenditure serve as a driver for economic progress and development as it aids the delivery of vital public services through the construction of social and economic infrastructures. Yusuf and Alabi (2023) argue that capital expenditures, when properly allocated to priority sectors such as transportation, housing, and energy, have the potential to significantly enhance the productive capacity of the economy and improve living standards. However, they caution that inefficiencies in budget execution and misallocation of funds can reduce the effectiveness of capital spending. It is through the spending by the government that firms and citizens are connected to various economic opportunities in the areas of manufacturing, agriculture, mining and quarrying, commercial activities and so on.

Government Revenue

Government revenue which is also referred as national earning is the money received by the government of a country from taxes and non-tax sources to help it provide essential services for its citizens. Government revenue which is derived from taxes and non-tax sources is used to fund essential services and is crucial for economic stability (Odinakachi et al., 2021). Abdullahi and Bello (2023) examine the connection between government revenue sources and economic development in Nigeria. They find that while oil revenue has been a crucial driver of the economy, it has also made Nigeria vulnerable to external shocks due to the volatility of global oil prices. They recommend diversifying government revenue sources, particularly by improving tax administration and increasing non-oil revenue to achieve more sustainable progress.

Economic Growth

Economic Growth connotes an economy's expanding ability to produce goods and services over different time periods. It can be estimated from real terms or nominal. Economic growth defines the increase in an economy's potential to provide goods and services over time, typically measured by GDP (Potters, 2021). Adediran and Afolabi (2023) explore the factors influencing economic growth in Nigeria, emphasizing the function of human capital development. They argue that investment in education and health services is essential for long-term economic growth, as a more educated and healthy workforce can contribute to higher productivity. They recommend policies aimed at improving access to quality education and healthcare as critical for boosting Nigeria's growth potential. Sustained economic development is vital for enhancing standards of living and alleviating poverty.

Economic Growth Components

Economic growth is driven by several key components that influence an economy's productivity and long-term development. Human capital, through education, skills, and health, enhances labor productivity, leading to sustained growth (Adediran & Afolabi, 2023). Physical capital, such as infrastructure and machinery, increases production capacity (Ogunleye & Adekunle, 2023). Natural resources, while important, can create vulnerabilities if economies rely heavily on them, as seen in Nigeria's dependence on oil (Chukwu & Nwachukwu, 2022). Technological innovation boosts productivity by improving production methods (Ogunleye & Adekunle, 2023). Labor force growth and capital formation further expand productive capacity (Bello & Sulaiman, 2022; Adediran & Afolabi, 2023). Additionally, strong institutions, aggregate demand, and productivity growth are vital for fostering economic stability and expansion (Okeke & Eze, 2021; Chukwu & Nwachukwu, 2022).

Theoretical Framework

A theoretical review involves examining key theory or theories that provide a framework for understanding the connection between government capital expenditure, total revenue, and economic development. One significant theory in this context is Musgrave's Theory of Public Expenditure.

Musgrave Theory of Public Expenditure

Musgrave (1959) stressed the relevance of efficient government outlay for economic growth. Ineffective expenditure can negatively impact the economy, and Musgrave advocated for efficiency in public capital spending to enhance economic growth. In Nigeria, the inefficiency in implementing public capital expenditure has hindered economic progress, underscoring the relevance of Musgrave's theory to this study. The theory highlights the need for efficient use of public resources to foster economic development.

Empirical Review

Andabi and Werigblegha (2024) examined the relationship between taxpayer adherence and government outlay in Nigeria: 1992 to 2022, using data from the CBN. The study analyzed variables such as capital and recurrent expenditure, tax compliance, and GDP. The results showed that government capital expenditure significantly boosts GDP, while recurrent expenditure, though statistically insignificant, still has a positive effect. Tax compliance also benefits the economy. The study found that 78% of economic variations could be explained by government spending. Recommendations included lowering tax rates to improve compliance, enhancing fiscal policies, and focusing on capital projects.

Adamu and Macclugard (2023) investigated the impact of government capital expenditure on Nigeria's economic progress, focusing on administration, social community service, and transfer capital expenditures. They also explored the role of the exchange rate in this relationship, using data from the Central Bank of Nigeria (1990-2021). Through descriptive statistics, unit root tests, and OLS regression via E-View 12, the study found that administration and social community service expenditures had insignificant impacts on real GDP, while transfer expenditure significantly boosted real GDP. The study

recommended increased funding for capital projects and better management collaboration in administrative departments.

Oladipupo (2023) evaluated the effect of government revenue and expenditure on Nigeria's economic growth from 2000 to 2021 utilizing data from CBN statistical bulletin. Research made use of Augmented Dickey-Fuller (ADF) test, revealing mixed stationarity: real GDP (RGDP) was stationary at level, while capital expenditure (CAPEX), non-oil revenue (NOILR), and recurrent expenditure (RECEXP) were stationary at first difference. The Auto Regressive Distributed Lag (ARDL) bounds test indicated that non-oil revenue and capital expenditure had a positive, though not statistically significant, impact on growth, while recurrent expenditure had a slight negative impact. The study recommended increasing capital expenditure and exploring new revenue sources, while controlling recurrent expenditure to foster growth.

Osamo et al. (2023) investigated the effect of tax revenue on Nigeria's economic development, utilizing Petroleum Profit Tax, Corporate Income Tax, Value Added Tax, and Certificate of Deposit Tax as proxies for tax revenue, and GDP as a gauge of economic development. The study employed an ex post facto design and utilized quarterly time series data sourced from CBN and Federal Inland Revenue Service statistical bulletins, covering the period from 2011 to 2020. The data were analyzed through descriptive statistics, unit root tests, bounds co-integration tests, and ARDL models. The results indicated that Petroleum Profit Tax, Corporate Income Tax, Value Added Tax, and Certificate of Deposit Tax had a positive but statistically insignificant influence on economic development. The study concluded that tax revenue does not significantly affect Nigeria's economic development and recommended the implementation of regular tax audits to minimize tax evasion and avoidance.

Chandana et al. (2021) examined the effect of Nigerian government expenditure, broken down into capital and recurrent expenditures, on economic growth making use of time series data from 1970 to 2019, sourced from the Central Bank of Nigeria's Statistical Bulletin. The study utilized the Autoregressive Distributed Lag (ARDL) model and incorporated structural breaks in both the unit root test and co-integration analysis to ensure the robustness of its outputs. Findings revealed that capital expenditure positively and significantly influenced economic progress in both the short and long run, but recurrent expenditure showed no significant effect in both the short or long term. Based on these results, the researchers recommended government channel more funds to capital expenditure, especially on impactful assets that directly benefit citizens' welfare. Additionally, the government should improve its recurrent spending strategy by reallocating resources more prudently regarding productive operations that support human development in the country.

METHODOLOGY

This research adopted *ex-post facto* design, as it relies on pre-existing secondary data that aids the study to investigate how government capital expenditure and total revenue affect economic growth.

Secondary data that were used were gathered from the CBN Statistical Bulletin from 2000 to 2023. The variables in which data were sourced on comprised of capital expenditure, total revenue and economic growth.

This study employed Ordinary Least Square Regression (OLS) within Vector Autoregressive (VAR) Model to examine the impact of fiscal policy tools on economic progress in Nigeria. The predictive equation for the two independent variables that would be used in this study is stated as follow:

$$Y_{it} = B_{0it} + B_1X_{1it} + B_2X_{2it} + \epsilon_{it} \text{-----}1$$

The model was adjusted to fit the purpose of the study as seen in equation 2 below

$$RGDP = (GCAPEX_{it} + GTREV_{it}) \text{-----}2$$

The equation was further transformed into an econometric model as seen in equ.3

$$RGDP_{it} = \alpha_0 + B_1 GCAPEX_{it} + B_2 GTREV_{it} + \epsilon_{it} \text{-----}3$$

Where:

α_0 = constant represents compounded figure of economic growth when all other explanatory variables are held constant;

B_1 - B_2 = coefficients of the explanatory variables;

ϵ_{it} = error terms in the economy i at time t;

$RGDP_{it}$ = compounded value of economic growth;

$GCAPEX_{it}$ = Government Capital Expenditure

$GTREV_{it}$ = Government Total Revenue;

The study employed econometric approach to analyze the data in order to determine the existence and degree of the influence of capital expenditure and government total revenue on economic growth in Nigeria. The data analysis was done utilizing Ordinary Least Square (OLS) within Vector Autoregressive analysis.

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Results of Data Analyses and Test of Hypotheses

Raw data on Capital Expenditure, Government Total Revenue and Economic Growth from 2000- 2023 were gathered from CBN Statistical Bulletin and were analyzed and the results are presented in table 1, 2, 3 and 4.

In this study, correction matrix test, unit root test, co-integration test and regression analysis were conducted. The unit root test was carried out in purposefully to know the stationarity of the study variables.

Correlation Matrix

Understanding how variables relate is key. Correlation measured by a coefficient between -1 and +1, shows whether variables move together. A value of -1 connotes a perfect negative relationship, +1 indicates a perfect positive relationship, and 0 signifies no linear relationship (Williams & Rast, 2020).

Table 1 shows the correlation between Nigeria's economic growth and fiscal policy tools (capital expenditure and total government revenue).

Table 1: Correlation Matrix Test Result

	RGDP	GCAPE	GTREV
RGDP	1.000000	0.901302	0.795679
GCAPE	0.901302	1.000000	0.795679
GTREV	0.795679	0.795679	1.000000

Source: Author's

Table 1 above showed that there is considerably high direct correlation between each of the fiscal policy variables and economic growth. RGDP is positively correlated with GCAPEX and GTREV with correlation coefficient 0.90130 (90%) and 0.795679(80%) respectively.

Unit Root Test Result

Schwartz Information Criterion (SIC) is utilized to find out for the presence of unit root of all selected variables in order to ascertain their order of stationarity. One acceptable general benchmark for decision in unit root test is to compare the estimated p-value of Schwartz Information Criterion (critical values) with 5% level of significance. A probability value less than 0.05 signifies the absence of unit root (stationary), a rejection null hypothesis and vice versa. Table 2 below summarizes results of Schwartz Information Criterion unit root test carried on the variables.

Table 2: Unit Root Test Result

Variable	SIC-statistics @ critical level	P r o b .	SIC-statistics @ 2 nd diff	P r o b .	Order of integration	R e m a r k
R G D P	8.164387	1 . 0 0 0 0	-3.052169	0 . 0 0 0 5	1 (2)	Stationary
GCAPEX	1.001915	0 . 9 9 4 6	-3.029970	0 . 0 0 0 0	1 (2)	Stationary
GTREV	-1.420265	0 . 5 5 4 6	-3.004861	0 . 0 0 1 5	1 (2)	Stationary

Source: Author's computation from E-view output, 2024

As shown in Table 2, all the selected variables are stationary at second difference, signifying that at critical level, they have unit root which disappears at second difference. The stationarity of these variables provides the basis for testing for co-integration and use of Ordinary Vector Autoregressive analysis to ascertain the link between the dependent and explanatory variables.

Co-integration Test Result

In this research, the Johansen co-integration test (Trace and Max-eigen) were employed to know whether the variables in this study have long-run relationship. Results of the Johansen co-integration tests were presented in table 3 below:

Table 3: Co-integration Rank Test (Trace and Max. Eigen value)

Co-integration Rank Test (Trace)

Hypothesized CE(s)	Trace value	Trace Statistics	Critical value 0.5	Prob.
None	0.834308	42.29862	29.79707	0.0011
At most 1	0.331718	8.143738	15.49471	0.4502
At most 2	0.025248	0.485873	3.841466	0.4858

Source: Author's computation from E-View output, 2024

Co-integration Rank Test (Maximum Eigenvalue)

Hypothesized CE(s)	Eigen value	Max-Eigen statistics	Critical value	Prob.
None	0.834308	34.15489	21.13162	0.0004
At most 1	0.331718	7.657865	14.26460	0.4145
At most 2	0.025248	0.485873	3.841466	0.4858

Source: Author's computation, 2024.

Variables are said to be co-integrated when the Trace or Max-eigen tests statistics are significant ($p < 0.05$).

From the Table 3 above, both the Trace and Max Eigen statistics are insignificant ($p > 0.05$) for two variables combined implying that there is no long run relationship between the variables.

Table 4: Summary of Vector Autoregressive Result

Variables	Coefficients	Standard error	t-statistics	P - value
RGDP (-1)	1.151844	0.525966	2.189960	0.0490
GCAPEX (-1)	2.432010	4.289164	0.567013	0.5812
GTREV (-1)	-0.326735	0.821774	-0.397597	0.6979
C	2392.527	2642.041	0.905560	0.3830

R - s q u a r e d	A d j u s t e d	F - s t a t i s t i c s	P - v a l u e o f f - s t a .	D u r b i n W a t s o n s t a . = 2.164310
0 . 9 9 7 2 0 1	R - s q u a r e d	= 7 1 2 . 6 5	= 0 . 0 0 0 0	
	= 0 . 9 9 5 8			

Source: Author's computation from E-View output, 2024

Table 4 shows the results of the Vector Autoregressive, Analysis displaying the variables alongside their coefficients, standard errors, t-statistics, and probability values. The model's coefficient of determination (R²) is 99%, with an adjusted R² of 99%, indicating that 99% of the variation in Nigeria's economic growth (RGDP) can be explained by the explanatory variables: Total Government Capital Expenditure and Total Government Revenue.

The F-statistic value of 712.65, with a corresponding probability of 0.0000, attests the model's statistical significance, demonstrating that the combined impact of the explanatory variables on economic growth is significant. Additionally, the Durbin-Watson (DW) value of 2.164310 suggests that the model does not suffer from autocorrelation.

Table 4 also reveals that government capital expenditure (GCAPEXP) possess a positive coefficient of 2.432010, indicating that a 1% increase in government capital expenditure results to a 2.432010% increase in economic growth. However, the p-value of 0.5812 exceeds the conventional 5% significance level, leading to the acceptance of the null hypothesis that total government capital expenditure does not have a significant effect on Nigeria's economic growth within the period of study.

Similarly, the coefficient for total government revenue is -0.326735, with a p-value of 0.6979, also exceeding 5% significance level. This indicates that a 1% increase in government revenue would lead to a 32.67% decrease in economic growth. Consequently, the study accepts the null hypothesis that government total revenue has no significant impact on economic growth in Nigeria.

Table 5: Summary of Hypotheses Testing

V a r i a b l e	Expected sign	Reported sign	P - v a l u e	Observation	D e c i s i o n
G C A P E X	P o s i t i v e	P o s i t i v e	0 . 5 8 1 2	P-value>0.05	Accept null
G T R E V	P o s i t i v e	N e g a t i v e	0 . 6 9 7 9	P-value>0.05	Accept null

Source: Researcher's computation

Discussion of Findings

This study explored the effect of fiscal policy tools specifically government capital expenditure (GCAPEX) and government total revenue (GTREV)—on Nigeria's economic growth. Using a Vector Autoregressive (VAR) technique, the analysis revealed nuanced insights into how these fiscal variables interact with Nigeria's real gross domestic product (RGDP).

Government Capital Expenditure (GCAPEX):

The analysis found a positive coefficient (2.43) indicating a positive link between GCAPEX and RGDP, though this link was statistically insignificant (p-value of 0.5812). This suggests that while an increase in capital expenditure is associated with an increase in economic growth, the effect is not strong enough to be considered statistically significant (p-value of 0.5812). This suggests that while an increase in capital expenditure is associated with an increase in economic growth, the effect is not strong enough to be considered statistically meaningful in this context. These results align with the findings of studies by Andabi and Weigblegha (2024), John and McStandford (2023), and Oladipupo (2023), all of which reported a similar positive yet insignificant relationship between government capital expenditure and economic growth. However, these findings contrast with the work of Chandana, et al (2021), who identified a significant positive impact of capital expenditure on Nigeria's GDP. The divergence in these findings might be attributed to differences in the methodologies, time periods, or underlying economic conditions considered in the respective studies.

Government Total Revenue (GTREV):

The study also evaluated the impact of government total revenue on RGDP. The results showed a negative coefficient (-0.326735) and an insignificant effect (p-value of 0.6979), indicating that an increase in government total revenue does not significantly influence economic growth and may, in fact, have a marginally negative association. This outcome challenges the initial expectations of the study, which anticipated a more substantial role of government revenue in fostering economic development. The negative but insignificant impact could be due to inefficiencies in revenue utilization, economic leakages, or structural issues within the Nigerian economy that hinder the effective translation of revenue into growth.

CONCLUSION AND RECOMMENDATIONS

The study concluded that neither government capital expenditure nor government total revenue has a significant influence on Nigeria's economic progress within the period analyzed. Although the relationship between these fiscal variables (capital expenditure and government revenue) and RGDP is positive for capital expenditure and negative for total revenue, the lack of statistical significance implies that other factors may play a more pivotal role in driving economic growth in Nigeria. This highlights the need for a more efficient allocation and management of fiscal resources to achieve desired economic outcomes. Future research could explore alternative models or consider additional variables to better explore the complexities of the connection between fiscal policy and economic development in Nigeria.

In respect of the findings of this research, the following recommendations were put forward:

- i. Increasing government capital expenditure, given its positive impact on GDP. Government should prioritize investments in infrastructure, education, healthcare, and other capital-intensive sectors to stimulate growth.
- ii. Optimizing revenue collection methods is crucial to minimize the economic burden on productive sectors, which can be achieved through efficient tax administration and avoiding excessive

taxation on key industries. Diversifying revenue sources to reduce reliance on a narrow range of income, particularly those negatively affecting economic activity, is also advised. Implementing these recommendations could enhance the positive effects of capital expenditure and mitigate the negative impacts of total revenue on Nigeria's economic growth, leading to a more robust and sustainable economic environment.

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