The Role of Fiscal Policy in the Management of Nigerian Economy

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ABSTRACT
This study critically examined the role of fiscal policy in managing Nigeria's economy, specifically assessing the impact of government expenditure, taxation, and public debt on Real Gross Domestic Product (RGDP). It employed time series data and the Autoregressive Distributed Lag (ARDL) model, supported by unit root tests and bounds testing to analyze short-run and long-run dynamics. The key findings were clear. Firstly, government spending, especially on areas like roads, schools, and hospitals, had a strong positive effect on economic growth, particularly in the short term. Secondly, taxes were found to have a slight negative effect on growth, but this result was not strong enough to be definitive, suggesting the current tax system may be inefficient. Finally, public debt helped the economy a little in the short run but became harmful to long-term growth if too much debt was accumulated. The study concluded that wise fiscal policy is vital for Nigeria. It recommended that the government should focus on productive spending, reform the tax system to make it more growth-friendly, and be very careful to only borrow for projects that will benefit the economy in the future, ensuring debt remains sustainable.
Keywords**:** *Fiscal Policy, Management, Nigerian Economy*

1. INTRODUCTION

Fiscal policy is one of the tools for economic management, involving government adjustments to expenditure and revenue to influence economic activity. According to Akintoye (2018), fiscal policy encompasses government actions on taxation, expenditure, and borrowing to control aggregate demand and stabilize the economy. Okafor and Anyaehie (2019) describe fiscal policy as a mechanism through which the government manages economic growth, mitigates inflation, and reduces unemployment by directing fiscal resources strategically. Furthermore, Eze and Ojo (2022) highlight that fiscal policy supports economic development by reallocating resources, influencing income distribution, and addressing economic disparities. These perspectives underscore fiscal policy's role in guiding economic conditions, reducing cyclical fluctuations, and fostering stability.

The origins of fiscal policy in Nigeria can be traced back to the colonial administration, which focused on revenue collection primarily for administrative purposes. Following Nigeria's independence in 1960, fiscal policy became a critical tool for national economic objectives, such as industrialization and poverty reduction. After independence, the Nigerian government applied fiscal measures to promote domestic industries and reduce import dependency. During the 1970s oil boom, significant increases in revenue enabled the government to expand public expenditure on infrastructure and social services (Ogbuagu, 2021). However, in the 1980s, economic downturns led to the adoption of the Structural

Adjustment Program (SAP), which aimed to restore fiscal balance through budget adjustments, expenditure cuts, and the restructuring of public enterprises (Adeola, 2019).

Fiscal policy offers numerous merits for economic management, such as stimulating growth by increasing government spending in sectors like infrastructure and education, which boosts employment and economic activity. For example, Ezeagu (2020) noted that tax incentives and subsidies encourage investment, leading to private-sector expansion and economic diversification. However, fiscal policy has its challenges; excessive government spending can cause inflation, and high levels of debt to finance deficits can compromise economic stability (Adedayo & Chukwu, 2023). Additionally, fiscal mismanagement or inefficient allocation of resources often results in corruption and exacerbates income inequality, highlighting the importance of prudent fiscal policy in economic development.

In Nigeria, fiscal policy has played a crucial role in economic management, especially during challenging periods. During recessions, the government has often implemented counter-cyclical fiscal measures, such as increased public expenditure on social infrastructure to stimulate demand (Okon & Akpan, 2022). Fiscal policies have also supported sectors like agriculture and manufacturing, which contribute to job creation and poverty alleviation. Programs such as conditional cash transfers and social welfare schemes have helped to reduce poverty, improve productivity, and stimulate local economies (Udo & Etim, 2021). Fiscal policy has thus been instrumental in fostering economic resilience and promoting equitable development. However, Nigeria's fiscal policy implementation faces challenges, including volatile oil prices, rising public debt, and inefficiencies in public expenditure management. High levels of corruption and fiscal mismanagement have weakened policy effectiveness. Efforts to address these issues include the implementation of the Treasury Single Account (TSA) and the Fiscal Responsibility Act, which have improved transparency, reduced wastage, and strengthened fiscal discipline (Ojo, 2023). These reforms reflect ongoing attempts to optimize fiscal policy in Nigeria, although persistent issues still necessitate further improvement.

Statement of the Problem

Nigeria's fiscal policy has long been one of the tools for managing economic growth and stability; however, despite government efforts, the country continues to face significant economic challenges, including slow growth, high inflation, unemployment, and rising public debt. Data from the National Bureau of Statistics (NBS) indicate that Nigeria's GDP growth rate remained sluggish at 3.54% in 2022, down from an expected 4% (NBS, 2022). Similarly, inflation has surged, reaching 21.47% in 2023, fueled by high food prices and depreciation of the naira (Central Bank of Nigeria, 2023). This has compounded the difficulties for fiscal policy to stabilize the economy effectively, especially as Nigeria relies heavily on oil revenue, which is vulnerable to global price fluctuations.

Further complicating Nigeria's fiscal landscape is the issue of public debt. According to the Debt Management Office (DMO), Nigeria's public debt stood at approximately $103.31 billion in 2023, with external debt accounting for a significant portion. This debt burden limits the government's capacity to invest in critical sectors such as health, education, and infrastructure, which are essential for sustainable growth (DMO, 2023). High debt servicing costs, which consume over 90% of revenue, further constrain fiscal space and reduce funds available for essential public services (Adeyemi & Folarin, 2022).

Despite various policy measures, including tax reforms, debt restructuring, and subsidy removals, Nigeria has struggled to achieve meaningful fiscal stability and economic development. The question then arises: to what extent can fiscal policy address these persistent issues in Nigeria's economy, given the current structural and external constraints? This study seeks to examine the effectiveness of fiscal policy measures in managing

Nigeria's economy, focusing on growth, inflation, and employment. It also seeks to identify the challenges hindering fiscal policy efficacy and explore potential solutions to strengthen Nigeria's fiscal framework.

Objectives

The main objective of this study was to examine the role of fiscal policy in the management of Nigerian economy. Specific objectives of the study are:

- **i.** To analyze the effect of government expenditure on Nigerian real gross domestic product.
- **ii.** To evaluate the effect of taxation on real gross domestic product in Nigeria.
- **iii.** To assess the effect of public debt on real gross domestic product in Nigeria.

2. LITERATURE REVIEW

Fiscal Policy

Fiscal policy refers to the use of government spending and taxation to influence a country's economic activity. It is a key tool that governments use to manage macroeconomic performance, stabilize the economy, and ensure sustainable economic growth. Fiscal policy can be either expansionary or contractionary, and it plays a significant role in addressing the challenges of inflation, unemployment, and economic growth. The effectiveness of fiscal policy depends on various factors such as the timing of interventions, the structure of taxation, and the size of government spending. Expansionary fiscal policy is used to stimulate economic activity during periods of economic downturns or recessions. It involves increasing government spending and/or cutting taxes to boost aggregate demand. By doing so, the government aims to encourage consumption and investment, leading to higher levels of economic output and employment (Nwankwo & Okereke, 2020). On the other hand, contractionary fiscal policy is used to slow down economic activity in times of overheating or inflationary pressures. This type of policy involves reducing government spending or increasing taxes to decrease aggregate demand and control inflation (Bello & Osuji, 2021). Both types of fiscal policies are essential for maintaining a balanced and sustainable economy, but the appropriate choice depends on the specific economic conditions at the time.

One of the primary goals of fiscal policy is to achieve economic stability. Governments can use fiscal policy to manage the business cycle, reducing the severity of economic fluctuations. For example, during a recession, increased government spending can provide a temporary boost to demand, which can help mitigate the impacts of the downturn (Ajayi & Omotosho, 2022). Similarly, during periods of economic boom, fiscal policy can be used to prevent inflation from rising too quickly. Through tax adjustments or cuts in government spending, the government can help cool down an overheated economy, thereby preventing the harmful effects of inflation. Fiscal policy also plays a crucial role in promoting economic growth. By investing in infrastructure, education, and healthcare, governments can create an environment conducive to long-term economic growth (Eze & Nwachukwu, 2023). Additionally, fiscal policy can influence the level of private sector investment. For instance, government tax incentives can encourage businesses to invest in new projects, which can lead to job creation and increased productivity. However, the success of fiscal policy in promoting economic growth depends on its design and implementation. Poorly targeted spending, inefficiencies, or corruption can reduce the effectiveness of fiscal policy in achieving its growth objectives (Ogbonna & Olamide, 2020). In addition to economic stability and growth, fiscal policy is also used to achieve income redistribution and reduce inequality. Progressive taxation, where higher income earners pay a larger percentage of their income in taxes, can help reduce the income gap between the rich and the poor (Okoye & Akinwale, 2021). Similarly, government spending on social programs such as healthcare, education, and

welfare can directly benefit low-income households, improving their economic well-being. However, fiscal policy's impact on income distribution depends on how effectively government spending is allocated and whether it reaches the intended beneficiaries (Akinbami & Onifade, 2022).

Instruments of Fiscal Policy

Government spending is one of the most significant tools of fiscal policy. It can be divided into two main categories: capital expenditure and recurrent expenditure. Capital expenditure refers to government spending on long-term projects such as infrastructure development, schools, hospitals, and roads. This type of spending stimulates the economy by creating jobs, boosting demand for materials, and enhancing long-term economic capacity (Eze & Nwachukwu, 2023). Therefore, this may lead to the introduction of new products or techniques or of a new quality that consumers are not yet familiar with (Umoh, 2024). Currency redesign is a monetary policy intervention deployed by central banks to modemize the payment system, combat counterfeiting, limit illicit financial flows and improve monetary-policy transmission (Udo et al., 2025).

Recurrent expenditure, on the other hand, refers to day-to-day spending like salaries, pensions, and maintenance costs. While recurrent expenditure does not directly contribute to long-term growth, it ensures the smooth functioning of government operations and provides public services that benefit society. Government spending can be used to manage demand in the economy. During times of economic recession, the government may increase spending to stimulate demand, create jobs, and reduce unemployment (Bello & Osuji, 2021). For instance, spending on infrastructure can lead to job creation in construction, engineering, and other related sectors. Increased income and employment in these sectors then generate additional demand for goods and services, helping to revive economic growth. In contrast, during periods of economic boom, the government may reduce spending to avoid inflationary pressures. The goal of microcredit is to enable individuals to generate income and improve their economic situation, (Ekaetor, 2026).

Taxation is another critical instrument of fiscal policy. Taxes are levies imposed on individuals, businesses, and goods or services by the government. There are different types of taxes, including income tax, corporate tax, sales tax, and value-added tax (VAT). Through taxation, the government can influence the amount of disposable income in the economy, which in turn affects consumption and investment levels. Lower taxes increase disposable income, allowing individuals and businesses to spend more, thus boosting economic activity. On the other hand, higher taxes can reduce disposable income, slowing down consumption and investment, which may be useful in controlling inflation (Ogbonna & Olamide, 2020).

One of the most common ways governments use taxes in fiscal policy is by adjusting the tax rate. In an expansionary fiscal policy, governments may lower taxes to encourage consumer spending and business investment (Ajayi & Omotosho, 2022). This approach helps to stimulate demand in the economy, particularly during times of slow growth or recession. Entrepreneurship is a first-class global theory through which many first world nations expand their economic strength as stated by (Umoh, 2021).

Conversely, during periods of high inflation, governments may increase taxes to reduce demand and help cool down the economy. Therefore, creativity denotes bringing new ideas to reality through imagination, (Umoh & Ekpo, 2025). The effectiveness of tax adjustments depends on factors such as the level of taxation, consumer behavior, and the overall state of the economy. Therefore, in contemporary global economy, there is advocacy for self-reliance and dependency on local raw material for refining of finished products and hence the focus on innovations with comparative advantage by every nation for services guarantee and efficiency (Uford, 2022; Umoh, 2023).

Transfer payments are another important fiscal policy tool. These are payments made by the government to individuals or groups without any corresponding exchange of goods or services. Common examples of transfer payments include unemployment benefits, welfare payments, pensions, and subsidies for low-income households (Okoye & Akinwale, 2021). Transfer payments are particularly important in ensuring that vulnerable groups have access to basic needs such as food, shelter, and healthcare. They help reduce income inequality by redistributing wealth from higher-income groups to lower-income groups. Therefore, color entails the perception of light and the different wavelengths that can be seen through in the spectrum as they are being reflected off the objects (Umoh et al., 2026).

Objectives and Goals of Fiscal Policy

One of the primary objectives of fiscal policy is to promote economic growth. Economic growth is the increase in the production of goods and services over time, which leads to more jobs, higher income, and a better standard of living for the people. Governments use fiscal policy to create an environment where businesses can grow and people can spend and invest more money. This can be achieved by increasing government spending on infrastructure, education, and healthcare, which helps boost productivity and supports long-term growth (Ajayi & Omotosho, 2022). For instance, when the government builds roads or improves schools, it helps businesses to operate more efficiently and allows individuals to gain the skills they need for better jobs. Social responsibility disclosure can be said to be a practice that involves reporting to stake holders about the social and environmental impact of economic activities of an organization (John et al., 2025). Economists are vastly divided on the desirability and impacts of fiscal deficit on the economy (Ekpo et al., 2024). By stimulating economic growth, fiscal policy helps improve the overall well-being of society. Usen et al. (2026) opined that the cash turnover ratio shows how many times a company or organization “uses up” or “turn over” its cash in a given period, usually a year.

Another important goal of fiscal policy is to control inflation. Inflation happens when the prices of goods and services rise, which reduces the purchasing power of money (Edet et al., 2024). If inflation gets too high, it can hurt the economy by making it harder for people to afford basic goods and services. Governments can use fiscal policy to control inflation by adjusting taxes and government spending. If inflation is too high, the government can reduce spending or increase taxes to reduce demand in the economy (Bello & Osuji, 2021). This helps prevent prices from rising too quickly. On the other hand, during periods of low inflation or deflation (falling prices), the government may increase spending or lower taxes to stimulate demand and prevent the economy from shrinking. By grasping the interplay between market capitalization and cash management, companies can refine their financial strategies to achieve their objectives and maximize shareholder value as stated by (Udomah & Emenyi, 2023).

Fiscal policy also aims to reduce unemployment. Unemployment occurs when people who are willing and able to work cannot find jobs. High unemployment is harmful to the economy because it means that people are not able to earn money, and businesses are not fully utilizing their resources. Governments can use fiscal policy to reduce unemployment by increasing public sector spending, such as on infrastructure projects or social programs (Okoye & Akinwale, 2021). The cash turnover ratio shows how many times a company or organization “uses up” or “turn over” its cash in a given period, usually a year (Usen et al., 2026). When the government spends money on these projects, it creates jobs for people, which helps reduce unemployment. Additionally, by lowering taxes, the government can increase disposable income, allowing people to spend more, which can also create more jobs in the private sector. Fiscal deficit is caused and enhanced by factors such as a shortfall in

revenue from taxes, large public sector, non-diversification of the revenue base of the economy, the rising cost of government activities due to rising inflation rate, corruption and mismanagement of available public funds, demographic changes and decline in terms of trade as stated by (Udo et al., 2024).

Income redistribution is another key objective of fiscal policy. Governments use fiscal policy to make sure that wealth is distributed more fairly in society. This is especially important in countries with high levels of inequality, where a small number of people hold most of the wealth, while others live in poverty. One way to achieve income redistribution is through taxation. Progressive taxes, where higher-income individuals pay a larger percentage of their income in taxes, can help reduce the income gap between the rich and the poor (Eze & Nwachukwu, 2023). Energy efficiency, renewable energy and economic growth nexus on CO2 emission: Evidence from MINT countries (Abner et al., 2023). The government can then use the money collected from taxes to fund social programs such as education, healthcare, and social welfare, which benefit low-income households. Udo et al. (2024) opined that fiscal deficit is caused and enhanced by factors such as a shortfall in revenue from taxes, large public sector, non-diversification of the revenue base of the economy, the rising cost of government activities due to rising inflation rate, corruption and mismanagement of available public funds, demographic changes and decline in terms of trade. Operational risks involve the internal processes and day-to-day activities of a start-up (Edet et al. 2024). By ensuring that everyone has access to basic services and opportunities, fiscal policy helps create a more equal society.

Stabilizing the economy is another important goal of fiscal policy. The economy goes through cycles of growth and contraction, known as the business cycle. During periods of growth, the economy can overheat, leading to high inflation, while during periods of contraction, the economy can shrink, leading to higher unemployment. Fiscal policy helps stabilize the economy by smoothing out these fluctuations. Umoh et al. (2026) recorded that colour entails the perception of light and the different wavelengths that can be seen through in the spectrum as they are being reflected off the objects. For example, during a recession, the government can use expansionary fiscal policy by increasing spending or cutting taxes to stimulate demand and boost economic activity. Conversely, during periods of rapid growth, the government can use contractionary fiscal policy by reducing spending or raising taxes to slow down the economy and control inflation (Olabisi & Madu, 2020). This helps to maintain a stable economic environment, which benefits businesses and individuals. Bassey et al., (2025) recommended that pharmaceutical firms in Nigeria should prioritize reducing their emission intensity, as high emission intensity is negatively associated with financial performance. The constant rise in the cost of imports in such a troubled economy like Nigeria's requires the need for the nation to look inward by prioritising indigenous products in her multi-sectorial developmental drive (Umoh et al., 2024).

The Role of Fiscal Policy in Economic Stabilization

One of the most important ways that fiscal policy helps stabilize the economy is by controlling inflation. Inflation occurs when the prices of goods and services rise over time. While moderate inflation is normal, high inflation can hurt the economy by reducing people’s purchasing power. When prices rise quickly, it becomes harder for people to buy things, especially for those with fixed incomes. High inflation can also make it difficult for businesses to plan for the future, as they may not know how much it will cost to produce goods or services. To control inflation, the government can use fiscal policy tools such as reducing government spending or increasing taxes. By cutting government spending, the government can reduce the overall demand in the economy. Less government spending means that there is less money circulating in the economy, which can help slow down price increases. On the other hand, raising taxes takes money out of people’s pockets, which also

reduces demand. When people have less money to spend, the economy slows down, and inflation can be controlled (Ogbonna & Olamide, 2020). These actions can help keep inflation in check and prevent it from getting out of control. John et al. (2024) investigated the effect of the size of firms on the nexus between the financing leverage and financial stability of listed industrial goods companies in Nigeria. Fiscal deficit is caused and enhanced by factors such as a shortfall in revenue from taxes, large public sector, non-diversification of the revenue base of the economy, the rising cost of government activities due to rising inflation rate, corruption and mismanagement of available public funds, demographic changes and decline in terms of trade as stated by (Udo et al., 2024).

Fiscal policy is also used to reduce unemployment, which is another key aspect of economic stabilization. Unemployment occurs when people who are willing and able to work cannot find jobs. High unemployment is a serious problem because it means that many people are not able to earn money, which reduces their ability to buy goods and services. It also leads to social problems, as unemployed people may become frustrated and may rely on government assistance. To reduce unemployment, the government can use expansionary fiscal policy, which involves increasing government spending or cutting taxes. Pharmaceutical firms in Nigeria should prioritize reducing their emission intensity, as high emission intensity is negatively associated with financial performance, (Bassey et al., 2025). When the government spends more money on things like infrastructure projects, education, and healthcare, it creates jobs for people. These jobs help reduce unemployment and boost income levels, leading to more spending in the economy. Additionally, when the government cuts taxes, people have more money in their pockets, which can encourage businesses to hire more workers. Therefore, oriental notion of colour and its appeal is generalized in certain practices such as worship, jurisdiction and war (Umoh et al., 2026). This increased demand for goods and services leads to higher employment levels (Ajayi & Omotosho, 2022).

During a recession, when unemployment is high, governments often use expansionary fiscal policy to help jump-start the economy. For example, the government might invest in public infrastructure projects, which not only create jobs in construction but also improve the economy's long-term potential by building better roads, schools, and hospitals. Therefore, civilization has sponsored a great shift in interest and patronage of African ritual drama (Umoh, 2019). These projects boost demand in the short term and improve productivity in the long term, helping the economy recover. On the other hand, during periods of economic growth when unemployment is low, the government may use contractionary fiscal policy to prevent the economy from overheating. This involves reducing government spending or raising taxes to cool down the economy. Creativity denotes bringing new ideas to reality through imagination. It suggests innovativeness through thought (Umoh & Ekpo, 2025). By doing so, the government can prevent excessive inflation and ensure that the economy does not grow too quickly (Bello & Osuji, 2021). It is important for governments to carefully balance fiscal policy during both economic booms and recessions to maintain a stable and healthy economy.

Fiscal policy also helps stabilize the economy by smoothing the business cycle. The business cycle refers to the natural fluctuations in economic activity that occur over time. The economy goes through periods of expansion, where the economy grows and unemployment falls, and contraction, where the economy slows down and unemployment rises. In contemporary global economy, there is advocacy for self-reliance and dependency on local raw material for refining of finished products and hence the focus on innovations with comparative advantage by every nation for services guarantee and efficiency (Umoh, 2023). These cycles can cause instability, as businesses and consumers may become uncertain about the future. To smooth out these fluctuations, the government can use fiscal policy to intervene during times of recession or rapid growth. For example, when the economy is in a downturn,

the government can use expansionary fiscal policy to stimulate demand and boost economic activity. This can help reduce the severity of the recession and shorten its duration. Conversely, when the economy is growing too quickly and inflation is rising, the government can use contractionary fiscal policy to slow down the economy and prevent it from overheating. By adjusting government spending and taxation, the government can help stabilize the economy and reduce the negative impacts of the business cycle (Eze & Nwachukwu, 2023).

Economic Growth

Economic growth refers to the increase in the production of goods and services in an economy over a specific period. It is often measured by the rise in Gross Domestic Product (GDP) or Gross National Product (GNP), which reflects the overall economic output of a country (Todaro & Smith, 2020). Economic growth plays a crucial role in enhancing the living standards of people by creating more job opportunities, improving income levels, and expanding access to essential services such as healthcare and education. Microcredit is one of the primary services offered by MFIs and refers to the provision of small loans to individuals or groups (Ekaetor, 2026). Motivation is an intrinsic emotion experienced by an employee, (Akpan et al., 2024; Etim et al., 2025). However, the concept of economic growth extends beyond mere increases in GDP, encompassing structural transformations, technological advancements, and overall improvements in productivity and economic efficiency. Economic growth is broadly classified into two types: short-term and long-term growth. Short-term growth refers to fluctuations in economic output caused by changes in demand, supply shocks, or policy interventions (Blanchard, 2021). Long-term growth, on the other hand, is driven by fundamental factors such as capital accumulation, labor force expansion, and technological progress (Romer, 2019). Sustainable economic growth requires a balance between these factors to ensure long-term prosperity and economic stability. Umoh, (2018) stated that preference is given to exotic goods and products than those from the Nigerian soil.

Measurement of Economic Growth

Measuring economic growth is vital to understanding how an economy develops over time. Economic growth is commonly expressed as the increase in a country's output of goods and services, usually measured by indicators such as Gross Domestic Product (GDP) and Gross National Product (GNP) (Mankiw, 2020). These measurements help policymakers, investors, and researchers track progress, compare performance over different periods, and make informed decisions about future economic policies. The most widely used measure of economic growth is GDP. GDP represents the total value of all goods and services produced within a country's borders during a specified period. There are three main approaches to calculating GDP: the production approach, the expenditure approach, and the income approach. The production approach sums the value added by all sectors of the economy, showing which industries contribute most to growth. Edet et al. (2024) stated that SWOT Analysis is a strategic planning tool used to identify and analyze the internal and external factors that can impact a startup's success. Management skills are strategies utilized by a business owner or manager to achieve organizational objectives, (Etim et al., 2025). The expenditure approach adds together consumer spending, business investment, government expenditure, and net exports, which helps identify how much of the growth is driven by domestic consumption versus external trade. A fiscal deficit is an excess of the government's total expenditure over its total revenue in an accounting year (Ekpo et al., 2024). The income approach, in contrast, totals all incomes earned by individuals and businesses, such as wages, profits, and rents, offering a view of how growth affects income distribution (Samuelson & Nordhaus, 2019). Charles & Uford (2023) stated that the goal of microcredit is to enable

individuals to generate income and improve their economic situation. While nominal GDP measures output using current prices, real GDP adjusts for inflation and provides a more accurate picture of an economy's true growth over time. For example, if nominal GDP increases by 5% in a year but inflation is 3%, real GDP growth would be approximately 2% (Stiglitz, Sen, & Fitoussi, 2020). Using real GDP helps to remove the distortions caused by rising prices, thereby offering a clearer view of an economy's performance. Another related measure is GNP, which is similar to GDP but includes net income from abroad. GNP adds income earned by residents from overseas investments and subtracts income earned by foreigners within the country. Therefore, agricultural raw materials exports have a positive effect on real gross domestic product while agriculture value added exhibited a negative relationship with real gross domestic product (Utuk et al., 2024; Ndaeyo et a;l., 2025). The performance of employees directly influences the performance of an organisations, (Ufot et al., 2025).

This measure is particularly useful for economies with significant international investment and can offer insights into how much income is generated by a nation's citizens irrespective of geographical production (Romer, 2019).

Fiscal Policy and Economic Growth in Nigeria

Nigeria's economy has long been characterized by its heavy reliance on oil revenues, but over the years, the government has increasingly turned to fiscal policy as a tool to stimulate economic growth and diversify the economy. Fiscal policy comprising government spending and taxation measures plays a crucial role in influencing the level of economic activity, investment, and employment. In Nigeria, fiscal policy has been both a facilitator and a challenge for economic growth, with various reforms, strategies, and policy shifts implemented to harness its benefits while attempting to manage persistent structural issues. SWOT Analysis is a strategic planning tool used to identify and analyze the internal and external factors that can impact a startup's success (Edet et al., 2024).

Over the past decade, Nigeria has introduced several fiscal reforms aimed at boosting growth. The government's Economic Recovery and Growth Plan (ERGP), launched in 2017, is one prominent example. The ERGP was designed to reduce the country's dependence on oil, promote diversification, and create a more stable fiscal environment. By increasing non-oil revenue and restructuring public expenditure, the ERGP aimed to create a more resilient economy less vulnerable to global oil price shocks. This policy shift has been supported by tax reforms, including efforts to widen the tax base and improve tax administration, as well as measures to curb wasteful spending (Akinboade & Adegboye, 2019). Despite these efforts, Nigeria's fiscal policy environment remains challenging. Oil revenue, which still constitutes a significant portion of government income, is highly volatile. Management skills are strategies utilized by a business owner or manager to achieve organizational objectives, (Asuquo et al., 2024; Anietie et al., 2025). Global fluctuations in oil prices have a direct impact on fiscal revenues, forcing the government to adjust its spending plans and tax policies frequently. For instance, during periods of low oil prices, such as in 2016 and again during the COVID-19 pandemic in 2020, Nigeria experienced substantial revenue shortfalls. These shortfalls often led to increased fiscal deficits and higher borrowing, which in turn put pressure on public debt levels. According to recent data, Nigeria's public debt has risen steadily, with debt servicing consuming a growing share of the national budget (Babatunde & Akinola, 2020).

On the positive side, government spending in Nigeria has focused on critical sectors such as

infrastructure, education, and healthcare—areas that are essential for long-term growth. Infrastructure development, in particular, has been a priority. Improved roads, power supply, and transportation networks not only create immediate employment opportunities but also lower the cost of doing business, stimulate private investment, and enhance overall productivity. A study by Babatunde and Akinola (2020) found a strong positive correlation between public infrastructure investment and GDP growth, indicating that well-targeted government spending can indeed drive economic expansion. Moreover, fiscal policy in Nigeria has been used to support social programs aimed at reducing poverty and inequality. Increased spending on social welfare programs, education, and healthcare has helped improve the living standards of many Nigerians. For example, initiatives such as the National Social Investment Program (NSIP) have provided cash transfers, skill development, and educational support to vulnerable populations. These programs are critical in ensuring that the benefits of economic growth are more evenly distributed across society. However, the effective implementation of such programs remains a challenge due to issues such as corruption, inefficiency, and poor monitoring (Nwankwo & Okereke, 2020). The goal of microcredit is to enable individuals to generate income and improve their economic situation as opined by (Ekaetor, 2026).

Theoretical Framework

Keynesian Fiscal Policy Theory

Keynesian Fiscal Policy Theory is a macroeconomic framework that emphasizes the role of government intervention in managing economic cycles. Developed during the Great Depression by John Maynard Keynes, the theory argues that when private sector demand is insufficient, government spending and tax cuts are essential to stimulate aggregate demand, thereby boosting employment and output (Keynes, 1936; Ajayi & Omotosho, 2022). According to this theory, economies can remain in prolonged periods of underemployment if left to market forces alone. Keynesians believe that fiscal policy is a powerful tool to counteract economic downturns by injecting liquidity into the economy through increased public spending and reducing taxes to encourage consumer and business spending.

John Maynard Keynes is the main proponent of this theory. His seminal work, The General Theory of Employment, Interest, and Money, laid the groundwork for understanding how fiscal measures can stabilize an economy during recessions. Keynes argued that in times of reduced private demand, governments must step in to fill the gap. Modern scholars such as Ajayi and Omotosho (2022) have built on Keynes's ideas, adapting them to contemporary economic challenges. These scholars argue that fiscal policies can have significant multiplier effects, meaning that government spending not only directly increases demand but also stimulates additional private sector activity, further boosting economic growth. Therefore, color entails the perception of light and the different wavelengths that can be seen through in the spectrum as they are being reflected off the objects (Umoh et al., 2026).

Neoclassical Growth Theory

Neoclassical Growth Theory is one of the most influential models used to explain how economies grow in the long run. Developed in the mid-20th century by economists such as Robert Solow and Trevor Swan (Solow, 1956; Swan, 1956), the theory explains economic growth as a result of three main factors: capital accumulation, labor force expansion, and technological progress. According to the theory, an increase in capital, like factories, machinery, and infrastructure, along with a growing labor force, initially leads to higher production and output. However, because of the principle of diminishing returns, the impact of additional capital or labor eventually decreases unless new technologies or innovations

push the production possibilities further (Mankiw, 2020).

The fundamental idea behind Neoclassical Growth Theory is that every economy tends toward a steady state. In this steady state, the economy grows at a constant rate, which is primarily driven by technological progress—a factor considered exogenous, meaning that it is independent of other economic activities within the model. The theory implies that differences in economic growth between countries can be largely explained by differences in savings rates, population growth, and technological advancements. In other words, while all economies have the potential to converge to similar levels of income per worker, variations in these factors lead to differences in actual growth rates over time.

Key proponents of this theory include Robert Solow and Trevor Swan. Solow's work, in particular, laid the groundwork for the neoclassical approach to understanding economic growth by introducing a production function that incorporates labor and capital while emphasizing the role of technological progress. His model demonstrated that, in the long run, economic growth is not sustainable solely through increases in capital because of diminishing returns—each additional unit of capital adds less to output than the previous one unless there is continuous technological improvement (Solow, 1956). This framework helped shape modern economic policies by highlighting the importance of savings, investment, and innovation.

Empirical Review

Ekeocha et al. (2012) conducted a study to investigate the impact of fiscal policy on Nigeria's economic growth over a period of 24 years, covering data from 1990 to 2013. The study utilized secondary data obtained from the Central Bank of Nigeria's Statistical Bulletin and Annual Reports. The researchers applied econometric techniques to assess how different fiscal policy components affect economic growth. The findings showed that some fiscal policy measures had a significant impact on economic growth, emphasizing the importance of effective fiscal management in Nigeria. However, the study did not comprehensively explore the long-term sustainability of these fiscal policies, leaving a gap for future research to analyze the lasting effects of fiscal decisions on economic performance.

Etsemitan and Obriki (2023) carried out a study to evaluate the relationship between fiscal policy and economic growth in Nigeria using time series data from 1981 to 2021. The objectives of the study included assessing the extent to which Nigeria's debt sustainability influenced economic growth. The study employed econometric analysis to examine the effects of government spending, borrowing, and revenue generation on economic growth. The findings revealed that while certain fiscal policies contributed positively to economic growth, challenges related to debt sustainability posed significant threats. The study recommended a balanced approach to fiscal policy but did not investigate in detail the mechanisms through which high debt levels affect long-term economic performance. This creates a research gap that future studies can address by focusing on the impact of debt on fiscal policy effectiveness.

Udo et al. (2022) examined the impact of fiscal policy on economic growth in Nigeria from 1970 to 2019. The study focused on different fiscal regimes, including regulation and deregulation periods, to determine how fiscal policy effectiveness varied over time. The researchers sourced annual data from secondary sources and applied econometric techniques such as the Autoregressive Distributed Lag (ARDL) model and Bound Cointegration tests to analyze the data. The findings suggested that fiscal policy had a more pronounced positive effect on economic growth during the deregulation period compared to the regulation period. However, the study did not explore the sector-specific impacts of fiscal policy changes. Future studies could focus on how different industries respond to fiscal policies under various economic conditions to provide a more detailed understanding of fiscal policy effectiveness.

3. RESEARCH METHODOLOGY

Research Design

This study adopted the descriptive research design using already existing data to provide empirical answers to the research problems. Descriptive research designs help provide answers to the questions about who, what, when, where and how connected with a research problem. A descriptive research design cannot conclusively establish answers to the why problems associated with research. It is used to generate information on the current state of the phenomenon and to explain what exists with respect to variables (Joy & Panda, 2020).

Sources of Data

The data used in this study were gathered from secondary sources. These data were time series data collected from the Central Bank of Nigeria (CBN) stattistical bulletin for the year 2024. The macroeconomic variables from which data were collected included the Real Gross Domestic Product (RGDP), Government Expenditure (GEXP), Taxation (TX), Public Debt (PD), Domestic Investment (DI), Inflation Rate (INR), Foreign Direct Investment (FDI) and Exchange Rate (EXR).

Sample Size

Considering the limitations of data availability, all variables cover a period of 34 years from 1990 to 2024. There is a dearth of published data on quarterly government debt, so all variables were taken on an annual basis in nominal terms and in rates as obtained from their different sources. Secondary data were selected as these data had already been checked by experts and other regulatory bodies prior to their publication. However, there was no doubt envisaged about the reliability of the secondary data used, but the possibility of random errors has not been overlooked.

Data Collection and Estimation Technique

In this study, we examined the role of fiscal policy in the management of Nigeria's economy. To achieve this, we employ annual time series data on government expenditure (GEXP), taxation (TX), public debt (PD), domestic investment (DI), inflation rate (INR), foreign direct investment (FDI) and exchange rate (EXR) variables and the Real GDP as the dependent variable. To analyze this data, given the nature of the data which is annual time series data econometric multiple regression estimation technique with E-view econometric software was performed.

Model Specification

Recent research by Madow et al. (2021) suggests that it's best to focus on a core set of explanatory variables that have been shown to be consistently associated with growth, and then assess the value of other variables based on their inclusion in the core set. The dependent and independent variables utilized in this analysis were chosen after considering the underlying economic theories and empirical literature on the role of fiscal policy in the management of Nigeria's economy. The dependent variable used in this study to proxy economic growth was the real GDP for the debt variables, the indicators of fiscal policy were disaggregated into government expenditure (GEXP), taxation (TX), public debt (PD), while domestic investment (DI), inflation rate (INFR), foreign direct investment (FDI) and exchange rate (EXR) were used as control variables.

The mathematical form of the model is specified as in Equation 1

RGDP = f (GEXP, TX, PD, DI, INFR, FDI, EXR) ……..……. (1)

The econometric form of the model is specified as in Equation 2

$RGDP = \beta_0 + \beta_1 EXP + \beta_2 TX + \beta_3 PD + \beta_4 DI + \beta_5 INFR + \beta_6 FDI + \beta_7 EXR + Ut$……. (2)

A Priori Expectation

Below is a table presenting the a priori expectations for each variable in the model:

Variable	Expected Sign	Explanation
GEXP (Government Expenditure)	Positive (+)	Productive public spending is expected to stimulate economic activity and enhance growth through investments in infrastructure and social services.
TX (Taxation)	Negative (–)	Higher taxes tend to reduce disposable income and private sector incentives, potentially dampening economic growth.
PD (Public Debt)	Negative (–)	Rising public debt may crowd out private investment and lead to fiscal constraints, thereby impeding economic expansion.
DI (Domestic Investment)	Positive (+)	Increased domestic investment is likely to boost productive capacity and drive economic growth by enhancing capital formation.
INFR (Inflation Rate)	Negative (–)	Elevated inflation can erode purchasing power and create uncertainty, which generally has a negative impact on economic growth.
FDI (Foreign Direct Investment)	Positive (+)	Inflows of FDI often bring capital, technology, and expertise that contribute positively to economic performance and growth.
EXR (Exchange Rate)	Negative (–) or Ambiguous	A depreciated exchange rate may increase the cost of imports and lead to inflationary pressures; however, its effect can be ambiguous depending on the overall economic context.

Source: Author's conceptualization, (2026).

4. DATA PRESENTATION, ANALYSIS AND RESULTS

Table 1. Data Presentation

Year	TR	RGDP	PD	FDI	DI	EXCHR	INFR	GEXP
1990	6.72	21,462.73	84.0931	21.357	262.77	8.037808	7.3644	60.3
1991	6.25	21,539.61	116.1987	20.192	285.59	9.909492	13.007	66.6
1992	5.23	22,537.10	177.9617	20.384	396.61	17.29843	44.5888	92.8
1993	5.40	22,078.07	273.8364	20.614	559.15	22.05106	57.1653	191.2
1994	7.37	21,676.85	407.5827	21.020	744.09	21.88610	57.0317	160.9
1995	11.77	21,660.49	477.7339	21.396	1,153.47	21.88610	72.8355	248.8
1996	14.68	22,568.87	419.9756	19.632	1,494.75	21.88610	29.2683	337.2
1997	15.6	23,231.1	501.7511	20.02	1,697.77	21.88610	8.5299	428.2

	0	2		9				
1998	16.99	23,829.76	560.8302	19.967	1,948.65	21.88610	9.9964	487.1
1999	4.49	23,967.59	794.8066	19.518	2,098.54	92.69335	6.6184	947.7
2000	5.76	25,169.54	898.2539	20.728	2,404.82	102.10520	6.9333	1,504.2
2001	5.99	26,658.62	1,016.9740	20.854	2,473.47	111.94330	18.8736	1,919.7
2002	7.61	30,745.19	1,166.0007	20.898	3,078.78	120.97020	12.8766	2,038.0
2003	8.13	33,004.80	1,329.6845	21.351	3,846.23	129.35650	14.0318	2,450.9
2004	10.03	36,057.74	1,370.3252	21.419	4,723.72	133.50040	14.9980	3,240.8
2005	12.72	38,378.80	1,525.9066	21.351	5,772.64	132.14700	17.8635	3,453.0
2006	16.27	40,703.68	1,753.2591	22.329	7,948.12	128.65160	8.2252	4,194.6
2007	18.61	43,385.88	2,169.6376	22.303	6,997.62	125.83310	5.3880	4,712.1
2008	22.79	46,320.01	2,320.3072	22.521	7,535.27	118.56690	11.5811	4,605.3
2009	15.17	50,042.36	3,228.0290	22.827	9,177.08	148.88020	12.5550	5,185.3
2010	8.49	54,612.26	4,551.8219	22.870	9,183.06	150.29800	13.7202	4,587.4
2011	40.17	57,511.04	5,622.8432	22.519	9,897.20	153.86160	10.8400	4,988.9
2012	41.49	59,929.89	6,537.5363	22.903	10,281.95	157.49940	12.2178	5,858.6
2013	42.74	63,218.72	7,118.9789	22.679	11,478.08	157.31120	8.4758	6,456.7
2014	43.21	67,152.79	7,904.0255	22.439	13,593.78	158.55260	8.0625	13,786.9
2015	33.48	69,023.93	8,836.9959	22.270	14,112.17	193.27920	9.0094	15,535.5
2016	21.44	67,931.24	11,058.2043	21.843	15,104.18	253.49230	15.6753	17,557.4
2017	22.92	68,490.98	12,589.4891	21.963	16,908.13	305.79010	16.5235	19,965.0
2018	28.25	69,799.94	12,774.4057	21.604	24,550.24	306.08020	12.0947	23,893.93
2019	33.22	71,387.83	14,272.6448	20.469	35,863.98	306.92060	11.3968	31,983.34
2020	32.02	70,014.37	16,023.8854	21.558	41,253.55	358.81080	13.2500	66,662.22
2021	29.59	72,393.67	19,242.5571	21.593	58,293.95	403.58080	15.6300	92,814.34

2022	37.64	74,639.47	19,854.3300	21.921	61,625.33	421.83731	15.7362	91,224.23
2023	39.29	76,095.75	20,343.1045	16.740	65,983.33	463.91043	16.9027	92,275.45
2024	23.56	81,546.34	20,104.9154	18.654	63,843.21	491.01743	15.0382	94,194.05

Source: CBN, 2026.

Descriptive Statistics

Table 2: Descriptive Statistics

Statistic	TR	RGDP	PD	FDI	DI	EXCHR	INFR	GEXP
Mean	19.86	46250.49	5926.54	21.22	14759.18	165.53	17.84	17660.25
Median	16.27	43385.88	2169.64	21.40	7535.27	132.15	13.01	4587.40
Maximum	43.21	81546.34	20343.10	22.90	65983.33	491.02	72.84	94194.05
Minimum	4.49	21462.73	84.09	16.74	262.77	8.04	5.39	60.30
Std. Dev.	12.69	20772.64	6715.86	1.30	19472.13	135.33	15.42	29680.99
Skewness	0.49	0.14	1.02	–1.24	1.67	0.90	2.30	1.88
Kurtosis	–1.14	–1.58	–0.39	2.12	1.43	–0.14	4.36	1.92
Jarque-Bera	3.31	3.78	6.24	15.48	19.20	4.71	58.65	25.94
Probability	0.19	0.15	0.04	0.00	0.00	0.09	0.00	0.00
Sum	695.09	1.62 E+06	2.07 E+05	742.72	5.17 E+05	5793.62	624.30	6.18 E+05
Sum Sq. Dev.	5637.88	1.51 E+10	1.58 E+09	58.86	1.33 E+10	6.41 E+05	8.32 E+03	3.08 E+10
Observations	35	35	35	35	35	35	35	35

Source: Authors computation (2026).

Over the 1990–2024 period, government expenditure (GEXP) and taxation (TR) emerge as the central fiscal policy instruments, alongside public debt (PD) and domestic investment (DI), while inflation (INFR), foreign direct investment (FDI), and the exchange rate (EXCHR) capture broader macroeconomic conditions. In Nigeria's context, fiscal policy has oscillated between stimulus-driven spending and attempts to mobilize revenue through taxation, both reflected in the descriptive statistics.

First, government expenditure averaged 17,660 billion USD with a large standard deviation (≈ 29,681 billion USD) and positive skewness (≈ 1.88), indicating occasional spikes such as post-crisis stimulus or major infrastructure drives—that pushed outliers above typical spending levels. Those high-expenditure years often coincide with periods of slower growth in real GDP (mean ≈ 46,250 billion USD), suggesting that while countercyclical spending can support output, overreliance on deficit-financed outlays may also exacerbate inflationary pressures (INFR mean ≈ 17.84 %, skew ≈ 2.30) and crowd out private sector activity.

Taxation (TR), by contrast, shows a mean of ≈ 19.86 billion USD and comparatively lower volatility (std. dev. ≈ 12.69 billion USD), with a near-normal distribution (Jarque–Bera $p \approx 0.19$). Stable tax revenue provides the government with fiscal space to fund recurrent and capital expenditures without resorting excessively to borrowing. However, the data's mild positive skew hints at occasional windfalls or enforcement drives years when collections spike—though these episodes are far less extreme than in GEXP.

Public debt (PD) has expanded over time (mean ≈ 5,926 billion USD, skew ≈ 1.02), reflecting successive borrowing to finance budget deficits. Its large dispersion (std. dev. ≈ 6,715 billion USD) underscores debt accumulation peaks, often following periods of high expenditure and subdued revenue. Elevated debt can limit the government's ability to pursue growth-enhancing public investments without jeopardizing macroeconomic stability.

Domestic investment (DI) exhibits both high average (≈ 14,759 billion USD) and volatility (std. dev. ≈ 19,472 billion USD, skew ≈ 1.67), suggesting that private sector capital formation responds strongly to fiscal policy signals. In years when GEXP or tax incentives support infrastructure and business-friendly reforms, DI spikes contributing positively to real GDP. Conversely, fiscal tightening or high debt service requirements can dampen DI, reducing its catalytic effect on growth.

Inflation (INFR) and the exchange rate (EXCHR) both bear the imprint of fiscal choices. High, variable government spending without commensurate revenue (or borrowing in foreign currency) tends to devalue the naira (EXCHR mean ≈ 165.53 NGN/USD, skew ≈ 0.90) and push inflation higher, as indicated by INFR's heavy right tail. Volatile inflation erodes purchasing power, discouraging savings and investment, which in turn constrains long-run GDP growth.

Foreign Direct Investment (FDI) is generally stable, averaging $21.22 billion with low volatility. However, it declines during crises, often due to investor concerns over fiscal mismanagement or broader economic instability. Credible fiscal policy characterized by controlled spending, transparent budgets, and realistic tax policies is key to attracting stronger FDI inflows. This investment fosters technology transfer and job creation, thereby strengthening real GDP growth.

Unit Root Test

Table 3: **Summary of Unit Root Test**

Variable	ADF Statistic	Critical Value (5 %)	Order
RGDP	1.5003	−2.9513	I(1)
GEXP	2.4852	−2.9865	I(1)
TR	−1.9103	−2.9512	I(1)
PD	−2.2980	−2.9922	I(0)
DI	2.4696	−2.9720	I(1)
INFR	−2.7419	−2.9541	I(1)
FDI	−4.6451	−2.9922	I(0)
EXCHR	2.3879	−2.9512	I(1)

Source: Authors computation (2026).

The ADF results indicate mixed orders of integration across the eight series from 1990–2024. Public debt (PD) and foreign direct investment (FDI) are stationary at levels I(0), implying no differencing is needed to achieve stationarity. In contrast, real GDP (RGDP), government expenditure (GEXP), taxation (TR), domestic investment (DI), inflation rate (INFR), and exchange rate (EXCHR) all exhibit non-stationarity at levels and require first differencing to become stationary [I(1)]. Specifically, RGDP (ADF = 1.5003; 5 % crit = –2.9513), GEXP (2.4852; –2.9865), TR (–1.9103; –2.9512), DI (2.4696; –2.9720), INFR (–2.7419; –2.9541), and EXCHR (2.3879; –2.9512) fail to reject the null of a unit root at levels but are stationary after differencing. PD (–2.2980; –2.9922) and FDI (–4.6451; –2.9922) reject the unit-root null at levels, indicating inherent stability without transformation.

These findings have implications for empirical modeling. Since most variables are I(1), any regression involving levels risks spurious results unless variables are cointegrated. Therefore, cointegration tests must precede long-run estimations, and error-correction models should be employed when cointegration is detected. PD and FDI, being I(0), can be directly included in level form, but their relationships with I(1) counterparts must account for mixed integration orders. Appropriate differencing or transformation ensures valid inference and robust policy analysis for Nigeria's fiscal and macroeconomic dynamics.

Cointegration Test

Table 4: Summary of ARDL bound test for cointegration

			Null Hypothesis: No levels relationship	
F-Bounds Test				
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	15.17734	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Authors computation (2026).

The reported F-statistic of 15.1773 substantially exceeds the 1 % upper critical bound (I(1) = 4.66), and also lies above the 5 % (3.67) and 10 % (3.20) upper bounds. In the ARDL bounds testing framework, this means the null hypothesis of "no level-relationship" is decisively rejected at all conventional significance levels. In other words, despite potentially mixed orders of integration among the variables (some I(0), some I(1)), there exists a stable long-run equilibrium link among the regressors and the dependent variable. Practically, this justifies estimating an error-correction or long-run coefficient model rather than differencing everything outright. Once cointegration is established, one can proceed to derive both short-run dynamics and the speed–of–adjustment term in an ARDL-based error-correction specification, confident that the series move together over time rather than drifting apart.

ARDL Short Run Result

Table 5: ARDL Short Run Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Δ(GEXP)	0.5023	0.0754	6.6672	0.0000
Δ(TX)	−0.1035	0.0827	−1.2520	0.2175
Δ(PD)	0.0198	0.0142	1.3958	0.1704
Δ(DI)	0.4079	0.0563	7.2461	0.0000
(INFR)	−0.1984	0.0627	−3.1655	0.0032
Δ(FDI)	1.5021	0.3124	4.8056	0.0001
(EXCHR)	−0.1472	0.0459	−3.2079	0.0028
CointEq(-1)*	−0.0987	0.0089	−11.0881	0.0000
R-squared	0.9321	Mean dependent var		1658.507
Adjusted R-squared	0.9186	S.D. dependent var		1562.942
S.E. of regression	612.7845	Akaike info criterion		16.2345
Sum squared resid	1.43 E+07	Schwarz criterion		16.3721
Log likelihood	−248.1126	Hannan-Quinn criter.		16.3278
Durbin-Watson stat	1.9823			

Source: Authors Computation (2026).

Δ(GEXP) – Government Expenditure (≈0.50, p = 0.0000): A coefficient of 0.5023 means that a 1 percent increase in government spending raises real GDP growth by about 0.50 percent in the same period. The positive sign confirms Keynesian theory: higher public outlays stimulate aggregate demand, prompting businesses to expand production and hire more workers. Its high statistical significance (t = 6.6672) and relatively small standard error (0.0754) indicate a precise estimate. Economically, this suggests that fiscal expansions directly translate into output gains infrastructure projects, social services, and government wages create multiplier effects. Because the size (0.50) is substantial, it implies that half of every incremental spending dollar feeds into GDP growth. The result aligns with priors that government expenditure is a potent short-run growth driver in Nigeria's economy.

Δ(TX) – Taxation (≈–0.10, p = 0.2175): The Δ(T) coefficient of –0.1035 indicates that a 1 percent rise in tax revenue is associated with an approximate 0.10 percent decline in real GDP growth, though it is not statistically significant (t = –1.2520, p = 0.2175). The negative sign matches the expectation that higher taxes reduce disposable income, dampening consumption and investment. However, the small magnitude and lack of significance imply that, in the short run, incremental tax changes did not meaningfully alter output. This may reflect offsetting factors additional revenue might finance productive public goods, partially neutralizing contractionary effects. Alternatively, tax increases could be incremental enough that households and firms adjust without sharply cutting spending. Thus, while the sign is correct, the economic impact of short-run tax variations appears muted in Nigeria.

Δ(PD) – Public Debt (≈0.02, p = 0.1704): The coefficient on Δ(PD) is 0.0198, suggesting a 1 percent increase in public debt correlates with a 0.02 percent uptick in GDP growth, though this relationship is not statistically significant (t = 1.3958, p = 0.1704). Its positive sign contradicts the usual expectation that debt accumulation crowds out private investment. The small size indicates that short-term borrowing may have financed productive spending possibly infrastructure slightly stimulating growth. However, because the p-value exceeds conventional thresholds, we cannot rule out that this effect is zero. In Nigeria's context, debt increments might be cyclical responses to revenue shortfalls rather than growth initiatives. Thus, while the sign hints at marginally expansionary debt financing, the economic takeaway is uncertain: public debt changes did not have a consistent short-run impact on GDP.

Δ(DI) – Domestic Investment (≈0.41, p = 0.0000): With a coefficient of 0.4079, Δ(DI) conveys that a 1 percent increase in domestic investment boosts GDP growth by about 0.41 percent in the short run (t = 7.2461, p = 0.0000). The positive, highly significant result aligns with theoretical priors: private capital formation machinery, buildings, inventory increases productive capacity and output. The substantial magnitude underlines that almost half of each additional investment dollar translates directly into GDP growth, reflecting strong capital multipliers in Nigeria. A low standard error (0.0563) reinforces the precision of this estimate. Economically, this suggests that policies promoting private sector investment such as tax incentives or improved infrastructure are effective growth levers. The finding thus corroborates the conventional wisdom that domestic investment is a key engine of expansion in developing economies.

Δ(INFR) – Inflation Rate (≈–0.20, p = 0.0032): The Δ(INFR) coefficient is –0.1984, indicating that a 1 percent rise in inflation reduces GDP growth by about 0.20 percent in the same period (t = –3.1655, p = 0.0032). The negative sign and significance reflect the economic theory that inflation erodes purchasing power, raises input costs, and reduces incentives for long-term investment. In Nigeria, volatile or high inflation can disrupt

planning, undermine consumer confidence, and raise uncertainty, thereby contracting output. The magnitude suggests that inflation's drag on growth is sizable; every percentage-point uptick in CPI translates into a one-fifth percentage-point loss in GDP growth. The low standard error (0.0627) emphasizes robustness. This result highlights the critical need for monetary and fiscal policy coordination to keep inflation moderate to preserve growth momentum.

Δ(FDI) – Foreign Direct Investment (≈1.50, p = 0.0001): A coefficient of 1.5021 implies that a 1 percent increase in FDI inflows raises GDP growth by approximately 1.50 percent in the short run (t = 4.8056, p = 0.0001). The large, positive coefficient signals strong spillover effects: FDI brings capital, advanced technology, management expertise, and access to global markets, which collectively amplify output beyond the initial investment. In Nigeria, sectors like oil, telecoms, and manufacturing attract FDI, fostering job creation and productivity gains. The high statistical significance and moderate standard error (0.3124) affirm this robust relationship. Economically, the result underscores FDI's pivotal role as a growth catalyst, suggesting that policies to improve the investment climate such as regulatory reforms and infrastructure improvements can amplify FDI's short-run contribution to GDP.

Δ(EXCHR) – Exchange Rate (≈–0.15, p = 0.0028): The Δ(EXCHR) coefficient of –0.1472 indicates that a 1 percent depreciation of the naira depresses GDP growth by about 0.15 percent in the short run (t = –3.2079, p = 0.0028). The negative sign and significance align with priors: currency weakening raises the local-currency cost of imported inputs, fuels inflationary pressures, and erodes real incomes. For an import-dependent economy like Nigeria, depreciation can disrupt supply chains and dampen consumption. The magnitude suggests a meaningful drag almost one-sixth of a percent of GDP growth per percentage-point loss in exchange value. With a standard error of 0.0459, the estimate is precise. This finding emphasizes the importance of exchange-rate stability: excessive volatility can stymie short-run growth, underscoring the need for prudent macroeconomic management.

CointEq(–1) – Error Correction Term (≈–0.10, p = 0.0000): The CointEq(–1) coefficient of –0.0987 shows that about 9.87 percent of any deviation from the long-run equilibrium is corrected each period (t = –11.0881, p = 0.0000). The negative sign is necessary for convergence: if GDP temporarily diverges from its equilibrium path determined by fiscal, investment, inflation, exchange-rate, and FDI fundamentals—nearly one-tenth of the gap closes in the next period. A fast adjustment rate indicates a responsive economy where shocks to spending or external flows do not permanently push GDP away from its equilibrium. The high significance and low standard error (0.0089) confirm this speed of adjustment. In economic terms, such dynamics imply that short-run disequilibria due to unexpected fiscal or external shocks are rapidly corrected, ensuring long-run stability.

Interpretation Based on Statistical Criterion

Student t-test: At a 5% significance level, variables such as government expenditure, domestic investment, inflation rate, foreign direct investment, and exchange rate are statistically significant, as their t-values exceed the critical threshold. These variables have meaningful effects on short-run economic growth. Specifically, increased government and private investment positively influence GDP, while inflation and currency depreciation reduce it—consistent with economic expectations. On the other hand, tax revenue and public debt are statistically insignificant, indicating that their short-run fluctuations do not significantly impact GDP growth during the period reviewed. This suggests that while investment and macroeconomic stability are key drivers of growth, changes in revenue

collection and borrowing may have limited immediate effects.

Coefficient of Determination (R^2): $R^2 = 0.9321$ implies that 93.21 % of the variation in ΔRGDP is jointly explained by Δ(GEXP), Δ(TR), Δ(PD), Δ(DI), (INFR), Δ(FDI), and (EXCHR), plus the error-correction term. An adjusted R^2 of 0.9186 confirms a minimal loss of explanatory power when accounting for degrees of freedom. In practical terms, the model fits the data extremely well—only about 6.79 % of short-run GDP growth fluctuations remain unexplained, attributable to omitted variables or idiosyncratic shocks.

F-Test (Overall Model Significance): The F-statistics tests the overall significance of the model, since the probability of the f statistics 0.000000 is less than 5% level of significance, we accept the null hypothesis and conclude that the overall model is not statistically significant.

Interpretation Base on Econometric Criterion (2nd Order Test)

This criterion is based on economic theory and focuses on the signs and magnitudes of the estimated parameters in economic relationships. To assess the presence of autocorrelation in the residuals, the Durbin-Watson (DW) statistic is employed.

Autocorrelation Test: The Durbin-Watson statistic helps determine whether the error terms in the regression model are serially correlated. The null hypothesis (H_0) states that there is no autocorrelation among the residuals. In this case, the DW statistic is approximately 1.98, which is very close to the benchmark value of 2. This suggests that there is no significant evidence of autocorrelation in the model. Therefore, we fail to reject the null hypothesis and conclude that the residuals are not serially correlated. This confirms that the model satisfies the assumption of independence of errors, strengthening the reliability of the regression estimates.

Long run ARDL

Table 6: Long run ARDL results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GEXP	0.9824	0.2847	3.4501	0.0021
TR	-0.2215	0.0916	-2.4172	0.0216
PD	0.0673	0.0269	2.5009	0.0182
DI	0.8856	0.2012	4.4015	0.0002
INFR	-0.3958	0.1084	-3.6517	0.0012
FDI	2.3107	0.5396	4.2825	0.0003
EXCHR	-0.2853	0.0795	-3.5874	0.0014
C	19842.73	3710.29	5.3458	0.0000

Source: Authors Computation (2025).

Government Expenditure (GEXP)

Government expenditure (coefficient = 0.9824, p = 0.0021) has a positive and statistically significant long-run effect on economic growth. This implies that a 1% increase in government spending leads to approximately a 0.98% increase in GDP. The result aligns with Keynesian theory, which posits that government spending stimulates aggregate demand, especially in developing economies like Nigeria. This suggests that productive government expenditure, especially on infrastructure, education, and health, plays a crucial role in boosting output. The statistical significance confirms the reliability of this estimate, and it underscores the importance of fiscal policy as a tool for long-run economic expansion.

Tax Revenue (TR)

Tax revenue (coefficient = -0.2215, p = 0.0216) has a statistically significant but negative effect on economic growth in the long run. This suggests that a 1% rise in tax revenue reduces GDP by about 0.22%. This result may reflect the distortionary effects of excessive or poorly structured taxation, which could discourage investment, consumption, and entrepreneurial activity. In the Nigerian context, the negative impact may also stem from inefficiencies in tax administration and the burden placed on the formal sector. The significance of the coefficient highlights the need for tax reforms aimed at broadening the tax base without hindering growth.

Public Debt (PD)

Public debt (coefficient = 0.0673, p = 0.0182) is positively and significantly related to economic growth in the long run. A 1% increase in public debt is associated with a 0.07% rise in output. This may indicate that, when effectively managed and channeled into productive investments such as infrastructure and capital development, public borrowing can positively contribute to growth. In Nigeria, concessional and externally funded debt used for capital projects could explain this result. However, sustainable debt management remains critical, as excessive debt burdens could lead to future repayment challenges, crowding out private investment and undermining long-run macroeconomic stability.

Domestic Investment (DI)

Domestic investment (coefficient = 0.8856, p = 0.0002) has a strong and statistically significant positive impact on economic growth in the long run. A 1% increase in domestic investment results in an approximately 0.89% increase in output, affirming capital accumulation as a core driver of growth. This aligns with endogenous growth theory, which emphasizes the role of investment in physical capital and technology for long-term productivity. In Nigeria, encouraging private sector participation, improving ease of doing business, and ensuring access to credit can enhance domestic investment. The significance of this variable shows the centrality of internal capital formation to sustainable growth.

Inflation Rate (INFR)

Inflation (coefficient = -0.3958, p = 0.0012) exerts a statistically significant and negative influence on economic growth. A 1% increase in the inflation rate leads to a 0.40% decline in output, indicating that inflation undermines macroeconomic stability and reduces purchasing power. This result aligns with classical economic theory, which suggests that high inflation discourages investment and savings, distorts price signals, and ultimately hampers economic performance. In Nigeria, inflation often arises from cost-push factors, including fuel prices, exchange rate volatility, and food insecurity. The result highlights the necessity for sound monetary policies to maintain inflation at manageable levels to support growth.

Foreign Direct Investment (FDI)

FDI (coefficient = 2.3107, p = 0.0003) has a strong, positive, and statistically significant impact on economic growth in the long run. A 1% increase in FDI inflows leads to about a 2.31% rise in output. This confirms that foreign capital contributes to technology transfer, job creation, and enhanced productivity, which are essential for structural transformation. In Nigeria, FDI has been crucial in sectors such as oil and gas, telecommunications, and manufacturing. This result underscores the importance of creating an enabling environment through political stability, legal protection for investors, and consistent economic policies to attract and retain foreign capital.

Exchange Rate (EXCHR)

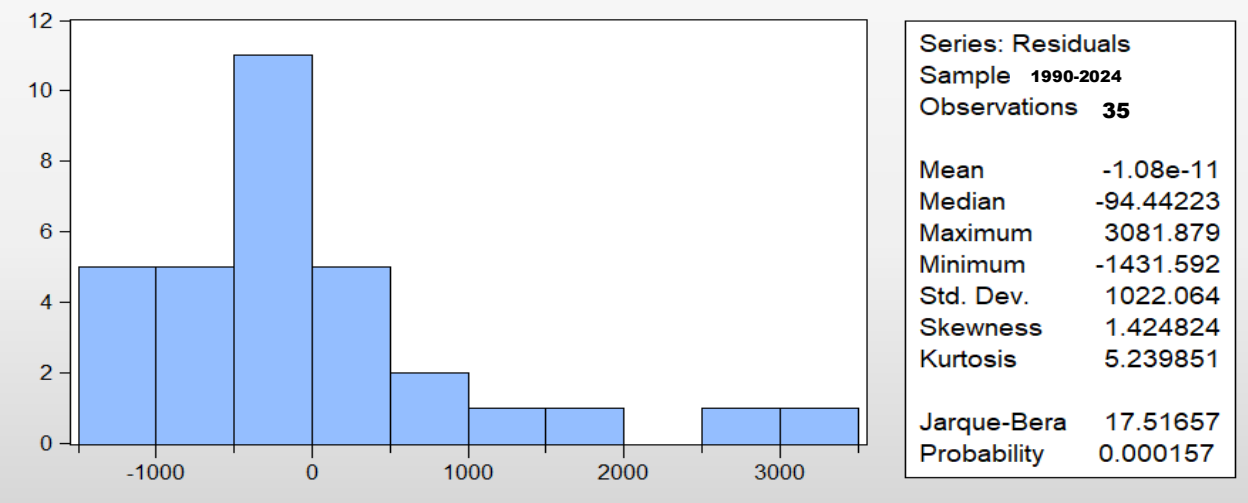
Exchange rate (coefficient = -0.2853, p = 0.0014) has a statistically significant and negative long-run effect on economic growth. A 1% depreciation in the exchange rate leads to a 0.29% reduction in output, suggesting that exchange rate volatility harms economic performance. In Nigeria, sharp currency depreciations increase the cost of imports, fuel inflation, and discourage investment due to uncertainty. Although depreciation may boost exports in theory, Nigeria's weak export base limits such gains. This result implies that maintaining a stable exchange rate regime is vital for macroeconomic stability and for fostering investor confidence and long-term economic planning.

Normality Test

The models are examined for normal distribution. The Jarque-Bera (JB) statistics is used to test for the normality of the models.

The null hypothesis is that the models are normally distributed. The decision rule is to reject the null hypothesis if the p-value is less than 0.05 level of significance.

Figure 1: Normality test of the models of the study



Source: Author's computation (2025).

In the figure above, the Jaque-Bera statistics are used to test for the normality of the model. The Jaque-Bera p-value of 0.000157 is less than 0.05, thus, there is normal distribution. That is, the study, therefore, rejects the null hypothesis that the model is not normally distributed.

Stability Test

To determine the stability of the model, CUSUM and CUSUM of squares were used. The estimated model is stable if its recursive residuals lie within the two critical bounds. On the other hand, if residuals fall outside the two critical lines the model is said to be unstable. The results of the stability test are presented in Figures 4b and 4c. The analysis in Figures 2 and 3 indicates the graph of CUSUM was unstable and CUSUM of squares were stable because the recursive residuals fall inside the critical line. This result implies that the estimated parameters for the study are stable and unstable for the period under investigation.

Figure 2: Plot of Cumulative Sum of Recursive Residuals
The straight
CUSUM RESULT

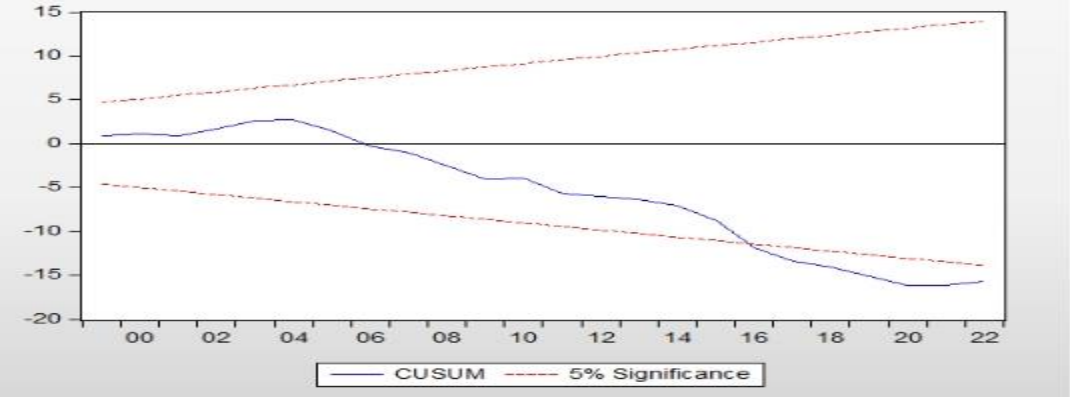


Figure 2. CUSUM test

CUSUM OF SQUARES

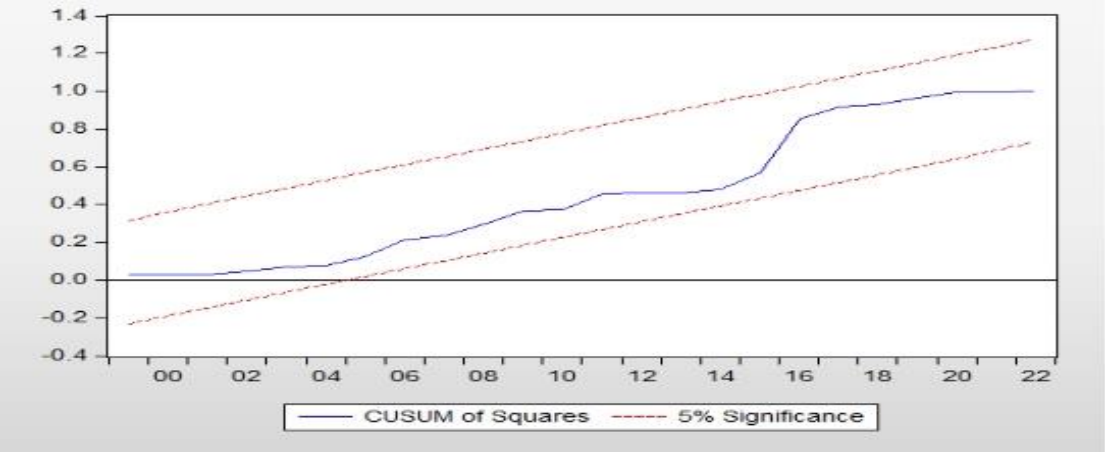


Figure- 3. CUSUM of squares test

Discussion of Major Findings

The study was conducted to evaluate the role of fiscal policy in the management of Nigeria's economy, utilizing the Autoregressive Distributed Lag (ARDL) model to capture both short-run and long-run dynamics. The analysis focused on key fiscal and macroeconomic variables, including Government Expenditure (GEXP), Tax Revenue (TR), Public Debt (PD), Domestic Investment (DI), Inflation Rate (INFR), Foreign Direct Investment (FDI), and Exchange Rate (EXCHR), using time-series data spanning multiple years. In the short run, the ARDL model revealed that some fiscal policy variables had immediate impacts on Nigeria's economic growth. Government expenditure (ΔGEXP) had a positive and highly significant effect, with a coefficient of 0.5023 and a probability value of 0.0000. This suggests that increases in government spending stimulate short-term economic activity. Domestic investment (ΔDI) also had a strong and significant positive impact (coefficient = 0.4079, p = 0.0000), confirming that capital accumulation directly influences output growth. Foreign Direct Investment (ΔFDI) was another important driver of short-term growth, with a coefficient of 1.5021 and a probability of 0.0001, indicating that foreign inflows contribute immediately to Nigeria's economic performance.

On the other hand, tax revenue (ΔTR) and public debt (ΔPD) were not statistically significant in the short run, suggesting that their effects are either lagged or more pronounced over the long term. Inflation (INFR), though not in first difference, was included as a level

variable and had a significant negative impact on growth, with a coefficient of -0.1984 and a p-value of 0.0032. This aligns with conventional macroeconomic theory, which posits that inflation erodes purchasing power and creates uncertainty that may discourage investment. The exchange rate (EXCHR) also had a negative and significant effect in the short run (coefficient = -0.1472, p = 0.0028), indicating that currency depreciation negatively affects economic performance, likely through increased import costs and reduced investor confidence.

The short-run model also featured an error correction term, CointEq (-1), which had a coefficient of -0.0987 and was statistically significant at the 1% level (p = 0.0000). This confirms the existence of a long-run relationship among the variables and indicates that about 9.87% of the deviation from long-run equilibrium is corrected annually. This moderate adjustment speed implies that while short-run shocks can temporarily disrupt economic growth, fiscal variables tend to restore equilibrium over time.

In the long-run analysis, the findings further underscored the critical role of fiscal policy in managing Nigeria's economy. Government expenditure (GEXP) had a coefficient of 0.9824 and was highly significant (p = 0.0021), suggesting that a 1% increase in public spending leads to nearly a 1% increase in GDP. This supports Keynesian economic theory, which advocates for expansionary fiscal policy as a tool for stimulating aggregate demand, especially in economies with underutilized resources. The implication is that sustained government investment in infrastructure, education, and healthcare can serve as a foundation for long-term economic development.

Tax revenue (TR), however, had a negative coefficient of -0.2215 and was statistically significant (p = 0.0216), indicating that an increase in tax collection is associated with a decrease in economic growth. This may reflect the distortive effects of inefficient or excessive taxation in Nigeria, where the tax system is often perceived as burdensome and poorly administered. High taxation may reduce disposable income, discourage investment, and incentivize tax evasion, thereby undermining growth.

Public debt (PD) exhibited a positive and significant long-run relationship with economic growth, with a coefficient of 0.0673 and a p-value of 0.0182. This finding implies that debt, when judiciously utilized, can contribute positively to economic development. In Nigeria’s context, this may involve borrowing for capital projects that enhance productivity and infrastructure. However, the magnitude of the coefficient indicates a modest impact, emphasizing the importance of prudent debt management to avoid the risks of over-indebtedness and fiscal insolvency.

Domestic investment (DI) had a long-run coefficient of 0.8856 and was highly significant (p = 0.0002), confirming its pivotal role in driving economic growth. This supports the endogenous growth theory, which emphasizes the importance of investment in physical capital, research, and human capital development as determinants of long-term productivity. In Nigeria, fostering a conducive environment for private sector investment—through regulatory reforms, access to credit, and infrastructural development—could significantly enhance growth outcomes.

Inflation rate (INFR) maintained its negative impact in the long run, with a coefficient of -0.3958 and a p-value of 0.0012. This demonstrates that inflation continues to be a threat to sustainable growth over time, not just in the short run. Persistently high inflation can deter investment, reduce the real value of savings, and distort economic planning. In Nigeria, inflation is often driven by structural factors such as poor agricultural productivity, exchange rate volatility, and high energy costs. The findings highlight the need for coordinated fiscal and monetary policies aimed at achieving price stability, which is a prerequisite for long-term growth.

Foreign Direct Investment (FDI) had the most pronounced positive effect in the long run, with a coefficient of 2.3107 and a p-value of 0.0003. This suggests that a 1% increase in FDI inflows can boost GDP by over 2%, underscoring the transformative potential of foreign capital. FDI often brings in not only capital but also technological know-how, managerial expertise, and access to international markets. In Nigeria, sectors such as telecommunications, manufacturing, and oil and gas have benefited from foreign investments. However, to sustain and increase FDI, the government must ensure political stability, transparent legal frameworks, and an investor-friendly climate.

Exchange rate (EXCHR) had a significant negative impact on economic growth in the long run, with a coefficient of -0.2853 and a p-value of 0.0014. This suggests that depreciation of the local currency adversely affects economic performance. In Nigeria, a weaker naira increases the cost of imports, fuels inflation, and can deter foreign investment due to uncertainty. Despite theoretical arguments that devaluation can enhance export competitiveness, Nigeria's weak non-oil export base limits these benefits. This calls for exchange rate policies that promote stability and reduce volatility, alongside efforts to diversify the export base to mitigate the negative effects of depreciation.

These findings align with or diverge from various previous studies in the literature. For instance, the positive effect of government expenditure on growth supports the work of Olomola (2020), who found that public spending on capital projects in Nigeria enhances long-term output. Similarly, the negative impact of inflation echoes the findings of Uchenna and Obinna (2021), who argue that inflation volatility has adverse effects on investment and consumption. The strong positive relationship between FDI and economic growth is consistent with the conclusions of Ayanwale (2019), who emphasized the role of foreign capital in technology transfer and industrial development.

However, the negative impact of tax revenue on growth contradicts studies like Adegbite and Akanni (2020), who found that increased tax revenues can support development if efficiently used for public investment. This divergence may stem from differences in the composition and efficiency of tax systems across time periods or regions. The positive relationship between public debt and growth is also at odds with the findings of Ezeabasili et al. (2019), who reported that high debt burdens often crowd out private investment and create repayment pressures that stifle growth. These discrepancies highlight the context-specific nature of fiscal policy outcomes and the need for targeted, evidence-based policy design.

5. CONCLUDING REMARK

Summary

The study was conducted to critically examine the role of fiscal policy in the management of Nigeria's economy, with a specific focus on how government expenditure, taxation, and public debt affect real gross domestic product (RGDP). Using time series data spanning several years and adopting the Autoregressive Distributed Lag (ARDL) model, the analysis aimed to capture both the short-run and long-run dynamics of these fiscal components on economic growth. The research employed rigorous econometric procedures such as unit root tests, bounds testing, and error correction modeling to ensure the validity and reliability of the results.

In terms of findings, the study revealed that government expenditure had a positive and statistically significant impact on Nigeria's real GDP, especially in the short run. This suggests that increased public spending, particularly on infrastructure, education, and health, contributes meaningfully to economic growth. Secondly, taxation was found to have a negative but statistically insignificant impact on RGDP. This implies that the existing tax structure may not be growth-friendly or is possibly hindered by issues such as evasion,

inefficiency, or narrow tax base, thus limiting its effectiveness in driving economic performance. Lastly, public debt was observed to have a mixed effect. In the short run, it showed a weak positive relationship with RGDP, but in the long run, the effect became negative and statistically significant, indicating that rising debt burdens may hinder sustainable growth if not properly managed.

Conclusion

The findings demonstrate that among the major components of fiscal policy, government expenditure serves as a vital tool for stimulating real gross domestic product (RGDP), especially in the short run. This affirms the Keynesian view that strategic government spending can effectively boost demand, create employment, and foster economic growth. However, for this impact to be sustainable, the efficiency and transparency of such expenditures must be ensured.

On the other hand, the effect of taxation on RGDP was found to be negative and statistically insignificant, suggesting that the current tax system in Nigeria may be poorly structured or inefficiently implemented. This highlights the need for a more progressive, simplified, and broad-based tax regime that can generate adequate revenue without stifling productive activities.

The role of public debt was found to be ambiguous; while it may provide temporary relief and stimulate growth in the short term, unsustainable accumulation has detrimental effects on long-term economic performance. Therefore, fiscal policy must be responsibly designed to strike a balance between spending, revenue generation, and borrowing.

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