FISCAL POLICY AND ECONOMIC DEVELOPMENT IN NIGERIA

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CERTIFICATION

This is to certify that this research was carried out by **AMOLE JOSEPH TOLUWANI** with the matric number **MGS2104723** in the Department of Finance at the University of Benin, Benin city, Edo state, Nigeria

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DEDICATION

To my beloved parents, Mr. Adegboyega Daniel Amole and Mrs. Adekemi Abigail Amole, for your unconditional love, prayers, and steadfast support throughout my educational journey.

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Amole, Joseph Toluwani

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ABSTRACT

This study empirically investigated the impact of fiscal policy on economic development in Nigeria, covering the period from 2005 to 2022. Driven by the persistent challenge of low growth and high poverty rates despite resource wealth, the research specifically assessed the influence of Government Expenditure, Taxation (Non-Oil Revenue), and Public Debt on key indicators like GDP growth and Non-Oil Sector Contribution. Utilizing an ex-post facto design and applying time series econometrics, including the Error Correction Model (ECM), the study confirmed a long-run relationship among the variables. Findings revealed that while Government Expenditure had a positive and significant effect on GDP growth, both Taxation and Public Debt posed challenges: non-oil revenue was insignificant in driving diversification, and public debt had a significant negative long-run impact on development. The study concludes that the effectiveness of Nigeria's fiscal policy is currently undermined by an ineffective tax regime and an unsustainable debt burden. The key recommendation is for the government to implement urgent and holistic tax reforms alongside a strict debt management strategy to redirect resources toward productive capital investment and achieve sustainable economic development.

Keywords: Fiscal Policy, Economic Development, Government Expenditure, Taxation, Public Debt, Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The intricate relationship between fiscal policy and economic development stands as a cornerstone of macroeconomic discourse, particularly within the context of developing nations. Fiscal policy, broadly defined as the government's strategic use of taxation, public expenditure, and borrowing, serves as a powerful lever to influence aggregate demand, allocate resources efficiently, redistribute income, stabilize the economy, and ultimately foster sustainable economic growth and development (Musgrave & Musgrave, 1989). Economic development, a more expansive concept than mere economic growth (which denotes an increase in a nation's Gross Domestic Product), encompasses a holistic transformation of society. It signifies improvements in the quality of life, including poverty reduction, enhanced human capital (education and health), robust infrastructural development, and a fundamental structural shift from rudimentary, often agrarian, economies to more diversified, industrialized, and service-oriented ones (Todaro & Smith, 2011).

Nigeria, a nation of immense human and natural resources, occupies a unique position in the global economic landscape. As the most populous country in Africa and its largest economy by GDP, its developmental trajectory holds significant implications for the continent. Since the discovery of crude oil in commercial quantities in the 1950s and the subsequent oil boom of the 1970s, Nigeria's economy has become inextricably linked to the fortunes of the global oil market. This reliance on a single commodity has profoundly shaped its fiscal policy orientation, revenue generation, and expenditure patterns. While oil wealth has provided substantial financial

resources, it has also introduced inherent vulnerabilities, exposing the economy to the vagaries of volatile global oil prices, leading to recurrent cycles of economic boom and bust (IMF, 2023).

Historically, Nigeria's fiscal policy has evolved through various phases, often in response to prevailing economic conditions and political dispensations. In the immediate post-independence era, fiscal policy was largely geared towards nation-building, with significant investments in infrastructure and social services. However, the advent of substantial oil revenues shifted the focus, leading to increased government spending, often without commensurate productivity gains or effective diversification strategies. The Structural Adjustment Programme (SAP) of the mid-1980s, for instance, represented a significant fiscal reform effort aimed at reducing government's role, promoting market forces, and diversifying the economy away from oil dependence (Ajakaiye & Ojowu, 2001). Despite these policy shifts and the vast sums generated from oil exports over decades, Nigeria continues to grapple with entrenched developmental challenges. These include stubbornly high rates of poverty and unemployment, a critical deficit in essential infrastructure (particularly power supply, transportation networks, and healthcare facilities), a nascent and often uncompetitive manufacturing sector, and widening income disparities (NBS, 2024).

The efficacy of fiscal policy in translating Nigeria's resource endowment into broad-based, inclusive, and sustainable economic development remains a subject of intense academic scrutiny and public discourse. Questions persist regarding the optimal allocation of public funds, the efficiency of tax collection mechanisms, the sustainability of public debt, and the overall capacity of fiscal instruments to stimulate productive sectors of the economy. This study is therefore motivated by the imperative to critically examine this complex and dynamic relationship, dissecting how specific fiscal policy choices and their implementation have either

propelled or impeded Nigeria's journey towards genuine economic development. By analyzing historical trends and contemporary challenges, this research aims to provide a nuanced understanding of the fiscal policy landscape and its profound implications for the socio-economic well-being of the Nigerian populace.

1.2 Statement of the Research Problem

Nigeria's economic narrative is often described as a paradox: a nation endowed with abundant natural resources and a large, youthful population, yet persistently struggling with the fundamental tenets of sustainable and inclusive economic development. This persistent struggle, despite decades of policy interventions, points to deep-seated issues, many of which are intricately linked to the formulation and execution of its fiscal policy. The core problem this study addresses is the discernible disconnect between Nigeria's fiscal potential and its actual developmental outcomes, characterized by several critical and interrelated challenges.

Firstly, the overwhelming dependence on crude oil for government revenue remains the Achilles' heel of Nigeria's fiscal stability. Oil revenues typically account for over 60% of government earnings and over 90% of foreign exchange earnings (CBN, 2023). This singular reliance renders the national budget highly vulnerable to unpredictable global oil price shocks and production disruptions. During periods of high oil prices, there is often a tendency towards expansionary fiscal policies, leading to increased public spending without adequate mechanisms for savings or diversification. Conversely, sharp declines in oil prices, such as those experienced in 2014-2016 and 2020, trigger severe revenue shortfalls, necessitating drastic expenditure cuts, increased borrowing, and currency depreciation. This pro-cyclical fiscal behavior exacerbates economic instability, making long-term planning for critical development projects exceedingly difficult and often leading to abandoned projects or stalled initiatives (IMF, 2023). The lack of fiscal buffers

during boom periods means that the economy is ill-prepared to absorb external shocks, perpetuating a cycle of uncertainty and hindering consistent developmental progress.

Secondly, the challenge of inefficient and often unproductive public expenditure management significantly undermines the developmental impact of fiscal policy. A recurring pattern in Nigeria's budgetary allocations is the disproportionate share of recurrent expenditure (e.g., salaries, administrative overheads, debt servicing) compared to capital expenditure (investment in infrastructure, human capital, and productive sectors). For instance, in many fiscal years, recurrent expenditure has consumed over 70% of the national budget, leaving a paltry sum for capital projects that are vital for enhancing the nation's productive capacity and improving citizens' welfare (Budget Office of the Federation, various years). This imbalance means that funds are largely consumed by administrative costs rather than being channeled into tangible projects that can stimulate economic activity, create jobs, or improve social indicators. Furthermore, the effectiveness of even the allocated capital expenditure is often hampered by issues such as project abandonment, cost overruns, and leakages due to corruption and lack of accountability (Transparency International, 2023). These inefficiencies mean that public funds, even when available, do not translate into the desired developmental outcomes, leading to a significant gap between policy intent and actual impact.

Thirdly, Nigeria's escalating public debt profile poses a growing threat to its economic development aspirations. While government borrowing can legitimately finance critical infrastructure and stimulate growth, Nigeria's debt stock, both domestic and external, has risen significantly over the past decade (DMO, 2024). The concern is not merely the size of the debt but its sustainability, particularly given the weak revenue base and high debt servicing costs. A substantial portion of government revenue is now dedicated to servicing debt, crowding out

essential spending on education, healthcare, and infrastructure. For example, the debt service-to-revenue ratio has often exceeded 70%, indicating a precarious fiscal position (AfDB, 2024). This situation limits the fiscal space available for developmental spending, traps the economy in a cycle of borrowing to repay old debts, and burdens future generations with significant liabilities without necessarily having generated commensurate productive assets. The effectiveness of the Debt Management Office's strategies in ensuring debt sustainability while supporting economic growth requires rigorous evaluation.

Finally, the persistent struggle to diversify the government's revenue base through effective taxation remains a critical impediment. Despite various tax reforms, including the annual Finance Acts, Nigeria's non-oil tax-to-GDP ratio remains one of the lowest globally, hovering around 6-8% compared to an average of 15% for sub-Saharan Africa (NALTF, 2025; World Bank, 2023). Challenges such as a large informal sector, widespread tax evasion and avoidance, multiple taxation by different tiers of government, and a complex, often opaque tax administration system, continue to hinder optimal revenue collection. This limited non-oil revenue base exacerbates the reliance on oil, restricts the government's fiscal capacity to fund development initiatives independently, and limits its ability to implement counter-cyclical fiscal policies during economic downturns.

In light of these multifaceted and interconnected challenges, the fundamental problem that this study seeks to address is the extent to which Nigeria's fiscal policy framework has effectively fostered sustainable and inclusive economic development. It aims to dissect the underlying causes of the observed disconnect between policy intentions and developmental outcomes, considering the inherent volatilities of a resource-dependent economy and the structural rigidities that have historically plagued its public finance management. A comprehensive understanding of

these dynamics is not merely an academic exercise but a crucial prerequisite for formulating pragmatic and impactful policy recommendations that can genuinely steer Nigeria towards a more resilient, diversified, and prosperous future.

1.3 Research Questions

This study will seek to provide comprehensive answers to the following research questions:

1.How has government expenditure influenced critical economic development indicators in Nigeria?

2.Have taxation policies in Nigeria been effective in promoting economic diversification and enhancing non-oil revenue generation?

3. What are the implications of Nigeria's public debt and its management strategies on the nation's long-term economic development?

1.4 Objectives of the Study

The overarching objective of this research is to critically examine the relationship between fiscal policy and economic development in Nigeria. The specific objectives guiding this study are:

1.To assess the impact of government expenditure on critical economic development indicators in Nigeria.

2.To evaluate the effectiveness and challenges of taxation policies in Nigeria in promoting economic diversification away from oil dependence and in significantly enhancing the generation of non-oil revenue.

3.To examine the implications of Nigeria's evolving public debt profile and the efficacy of its debt management strategies on the nation's long-term economic development.

1.5 Research Hypotheses

This study will formulate and test specific hypotheses to empirically investigate the relationships between fiscal policy variables and economic development outcomes. The following null (H_0) and alternative (H_1) hypotheses will guide the empirical analysis:

- Hypothesis 1 (Government Expenditure and Economic Development):
    - H_0: Government capital expenditure does not have a statistically significant positive impact on Gross Domestic Product (GDP) growth in Nigeria over the study period.
- Hypothesis 2 (Taxation and Economic Diversification):
    - H_0: Taxation policies, specifically non-oil tax revenue, do not have a statistically significant positive impact on economic diversification (e.g., growth of non-oil GDP sectors) in Nigeria.
- Hypothesis 3 (Public Debt and Economic Development):
    - H_0: The accumulation of public debt in Nigeria does not have a statistically significant negative impact on long-term economic development (e.g., private investment or human capital development).

These hypotheses will be tested using appropriate econometric or statistical methods, as elaborated in Chapter Three (Research Methodology).

1.6 Significance of the Study

This research on "Fiscal Policy and Economic Development in Nigeria" carries profound significance for a diverse range of stakeholders, contributing both to academic knowledge and practical policymaking.

- For Policymakers and Government Agencies: The findings of this study will offer invaluable evidence-based insights into the efficacy, shortcomings, and unintended consequences of past and present fiscal policy measures in Nigeria. By dissecting the intricate links between revenue generation, expenditure patterns, debt management, and developmental outcomes, the research can inform the formulation of more robust, sustainable, and development-oriented fiscal strategies. Specifically, it can guide decisions regarding optimal revenue diversification away from oil, strategic prioritization of capital expenditure over recurrent spending, and the design of prudent debt management frameworks that do not stifle future growth. This study aims to provide actionable recommendations that can enhance fiscal discipline, improve resource allocation, and foster a more stable macroeconomic environment conducive to development.
- For Academics and Researchers: This study will significantly contribute to the existing body of scholarly literature in the fields of public finance, development economics, and African economic studies. It will offer a contemporary and comprehensive analysis of Nigeria's fiscal-development nexus, addressing specific nuances often overlooked in broader regional or global studies. The detailed examination of historical trends, policy impacts, and structural challenges will serve as a foundational reference for future academic inquiry, stimulating further research into specific aspects of Nigeria's economic policy. Furthermore, the methodological approach adopted (as detailed in Chapter Three) can provide a template for similar studies in other resource-dependent developing economies.
- For International Organizations and Development Partners: Institutions such as the International Monetary Fund (IMF), World Bank, African Development Bank (AfDB),

and various bilateral aid agencies are actively involved in advising and supporting Nigeria's economic development efforts. The insights from this research can enhance their understanding of the local fiscal context, enabling them to tailor their policy recommendations and assistance programs more effectively, ensuring they align with Nigeria's unique developmental challenges and opportunities.

- For Investors and the Business Community: A clear and well-researched understanding of Nigeria's fiscal policy environment is crucial for both domestic and international investors. The study's findings on revenue stability, expenditure patterns, debt sustainability, and taxation policies can provide a more informed basis for investment decisions, risk assessment, and long-term business planning in the Nigerian market. It can highlight areas of potential growth and stability, as well as areas of concern.
- For Students and Educators: This research will serve as a valuable and accessible reference material for undergraduate and postgraduate students pursuing studies in economics, public policy, development studies, and related disciplines. It will offer a practical application of theoretical concepts, provide relevant empirical data for analysis, and demonstrate a structured approach to conducting comprehensive research on complex economic issues. Educators can utilize the study as a case study to illustrate the challenges and opportunities of fiscal management in developing countries.
- For the General Public and Civil Society Organizations: By shedding light on how public funds are generated, managed, and utilized, this study can empower citizens and civil society organizations to engage more effectively in public discourse, advocate for greater fiscal transparency and accountability, and hold government institutions responsible for prudent resource management. A well-informed citizenry is vital for fostering good

governance and ensuring that fiscal policies genuinely serve the public interest.

1.7 Scope of the Study

To ensure a focused and manageable research endeavor, this study on "Fiscal Policy and Economic Development in Nigeria" will adhere to clearly defined boundaries in terms of its geographical, temporal, and thematic coverage.

- Geographical Scope: The study's analysis will be exclusively confined to the Federal Republic of Nigeria. While acknowledging regional and global economic influences, the primary focus will be on the national fiscal policy framework, its implementation at the federal level, and its aggregate impact on the Nigerian economy as a whole. Sub-national (state and local government) fiscal policies will be considered only to the extent that they directly interact with or are significantly influenced by federal fiscal decisions.
- Temporal Scope: The analysis will primarily cover the period from 2005 to 2022. This specific timeframe is strategically chosen for several compelling reasons:
    - Post-Debt Relief Era: 2005 marked a significant turning point with Nigeria's substantial debt relief from the Paris Club, offering a unique period to analyze fiscal policy in a relatively less burdened environment compared to previous decades.
    - Significant Oil Price Fluctuations: This period encompasses major swings in global oil prices, including the boom years leading up to 2014, the sharp crash from 2014-2016, and subsequent recoveries and further volatility, providing rich data for analyzing the impact of oil dependence on fiscal stability.
    - Economic Recessions: The period includes Nigeria's two recent recessions (2016 and 2020), allowing for an examination of fiscal responses and their effectiveness during economic contractions.

- Data Availability: Data for key macroeconomic and fiscal variables are generally more consistently available and reliable for this contemporary period from official Nigerian and international sources.

- Thematic Scope: The study will primarily delve into the core components of fiscal policy and their direct linkages to economic development indicators. The key thematic areas include:
  - Government Revenue: Analysis will focus on the sources and trends of both oil revenue (e.g., Petroleum Profit Tax, royalties) and non-oil revenue (e.g., Value Added Tax, Companies Income Tax, Personal Income Tax, Customs duties, excise duties).
  - Government Expenditure: Examination will cover the composition and trends of recurrent expenditure (e.g., personnel costs, overheads, debt servicing) versus capital expenditure (e.g., infrastructure, education, health investments).
  - Taxation Policies: The study will assess the evolution and impact of major tax reforms and the overall effectiveness of the tax system in revenue generation and economic diversification.
  - Public Debt Management: Analysis will include the trends in domestic and external debt, debt sustainability indicators, and the strategies employed by the Debt Management Office (DMO).
  - Economic Development Indicators: The impact of fiscal policy will be assessed against key macroeconomic and development indicators such as Gross Domestic Product (GDP) growth, inflation rates, unemployment rates, poverty levels, human development indices (e.g., education and health outcomes), and progress in

economic diversification (e.g., non-oil sector contribution to GDP).

- While acknowledging that fiscal policy interacts closely with monetary policy, trade policy, and other macroeconomic frameworks, this study will maintain its primary focus on the direct and indirect effects of fiscal instruments. Other policy areas will only be referenced where their interaction with fiscal policy is crucial for explaining observed outcomes.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a comprehensive review of existing literature pertaining to fiscal policy and economic development, with a specific focus on the Nigerian context during the period 2005 to 2022. The primary objective of this review is to establish a robust theoretical and empirical foundation for the study, identify key concepts, explore relevant economic theories, and critically assess previous research findings. By synthesizing existing knowledge, this chapter aims to highlight the current state of understanding, pinpoint areas of consensus and contention, and ultimately identify the research gaps that the current study seeks to address within the specified timeframe. The review is structured into three main sections: a conceptual review of key terms, a theoretical review of relevant economic models, and an empirical review of studies conducted both globally and specifically in Nigeria.

2.1 Conceptual framework

The conceptual framework for this study illustrates the hypothesized relationships between the independent variable (Fiscal Policy) and the dependent variable (Economic Development) in Nigeria. It outlines how various components of fiscal policy are expected to influence different dimensions of economic development.

Independent Variable: Fiscal Policy Fiscal policy, as the core independent variable, is conceptualized through its key components:

1. Government Revenue:
    - Oil Revenue: Revenue derived from crude oil sales, petroleum profit tax, royalties, etc. (Highly volatile, major source).
    - Non-Oil Revenue: Revenue from Value Added Tax (VAT), Companies Income Tax (CIT), Personal Income Tax (PIT), Customs and Excise Duties, etc. (Less volatile, target for diversification).
2. Government Expenditure:
    - Capital Expenditure: Investment in physical infrastructure (roads, power, ports), social infrastructure (schools, hospitals), and productive assets. (Expected to have a positive, long-term impact on development).
    - Recurrent Expenditure: Spending on salaries, overheads, debt servicing, subsidies, etc. (Essential for government operations, but excessive recurrent spending can crowd out capital expenditure).
3. Public Debt:
    - Domestic Debt: Borrowing from local sources (banks, individuals).
    - External Debt: Borrowing from international sources (multilateral institutions, foreign governments, commercial banks). (Sustainable debt can finance development; unsustainable debt can be a burden).
4. Taxation Policies/Reforms: Legislative and administrative changes aimed at broadening the tax base, improving compliance, and increasing non-oil revenue.

Dependent Variable: Economic Development Economic development, as the primary dependent variable, is a multi-dimensional concept measured by various indicators:

1. Economic Growth:

    - Gross Domestic Product (GDP) growth rate (overall and sectoral, e.g., non-oil GDP).
    - GDP per capita.
2. Infrastructure Development:
    - Availability and quality of critical infrastructure (e.g., power generation capacity, road network density, internet penetration).
3. Human Capital Development:
    - Education indicators (e.g., literacy rates, school enrollment, public spending on education).
    - Health indicators (e.g., life expectancy, infant mortality rates, public spending on health).
4. Poverty Reduction & Income Equality:
    - Poverty headcount ratio.
    - Gini coefficient (measure of income inequality).
5. Economic Diversification:
    - Share of non-oil sectors in GDP.
    - Growth rates of key non-oil sectors (e.g., agriculture, manufacturing, services).

Intervening/Moderating Factors: The relationship between fiscal policy and economic development is not always direct and can be influenced by several intervening or moderating factors. While not the primary focus of this study, their existence is acknowledged:

- Institutional Quality & Governance: Levels of corruption, rule of law, bureaucratic efficiency, and political stability. (Poor governance can undermine fiscal policy effectiveness).
- Global Oil Prices: External shock that significantly impacts government revenue.

- Monetary Policy: Actions by the Central Bank (e.g., interest rates, exchange rates) that interact with fiscal policy.
- Demographic Factors: Population growth, youth bulge, urbanization.
- Insecurity: Impact on economic activity and government spending priorities.

Conceptual Linkages:

- Government Revenue/Economic Development: Adequate and stable revenue (especially non-oil) provides the financial capacity for governments to fund development projects. Volatile oil revenue can lead to fiscal instability.
- Government Expenditure/Economic Development:
    - Capital Expenditure: Directly contributes to infrastructure and human capital, enhancing productive capacity and attracting private investment, leading to GDP growth and improved living standards.
    - Recurrent Expenditure: While necessary, excessive recurrent spending can divert resources from productive capital investments, limiting developmental impact.
- Taxation Policies/Economic Development: Effective and fair taxation can broaden the revenue base, reduce oil dependence, and potentially incentivize specific economic activities (e.g., through tax breaks for certain sectors) or disincentivize others.
- Public Debt/Economic Development:
    - Sustainable Debt: Can finance critical development projects that yield future returns, contributing positively to growth.
    - Unsustainable Debt: Leads to high debt servicing costs, crowding out productive spending, increasing fiscal vulnerability, and hindering long-term development.

This framework guides the empirical analysis, allowing the study to investigate the specific

channels through which fiscal policy components influence Nigeria's economic development trajectory, while acknowledging the complex interplay of other factors.

2.1.1 Fiscal Policy

Fiscal policy refers to the strategic use of government spending, taxation, and borrowing to influence the aggregate demand and supply within an economy, with the ultimate goal of achieving macroeconomic objectives. These objectives typically include economic growth, price stability, full employment, external balance, and equitable income distribution (Musgrave & Musgrave, 1989). Fiscal policy is distinct from monetary policy, which is managed by the central bank and primarily involves controlling the money supply and interest rates.

The primary instruments of fiscal policy are:

- Government Expenditure: This involves the allocation of public funds across various sectors of the economy. It can be broadly categorized into:
    - Recurrent Expenditure: Consists of spending on day-to-day operations, such as salaries and wages of public sector employees, administrative overheads, maintenance of government assets, and debt servicing. While essential for the functioning of government, excessive recurrent spending can crowd out productive investments.
    - Capital Expenditure: Involves investment in long-term assets that enhance the productive capacity of the economy, such as infrastructure (roads, railways, power plants), education facilities, healthcare infrastructure, and research and development. Capital expenditure is generally considered crucial for fostering sustainable economic development (Barro, 1990).

- Taxation: This refers to the compulsory levies imposed by the government on individuals and businesses to generate revenue. Taxation serves multiple purposes beyond revenue generation, including income redistribution, discouraging undesirable activities (e.g., excise taxes on harmful goods), and influencing investment and consumption patterns. Taxes can be direct (e.g., income tax, corporate tax) or indirect (e.g., Value Added Tax, customs duties) (Stiglitz, 2000).
- Public Debt (Borrowing): When government expenditure exceeds its revenue, it results in a fiscal deficit, which is typically financed through borrowing. Public debt can be incurred domestically (from local banks, individuals, or institutions) or externally (from international financial institutions, foreign governments, or commercial banks). While borrowing can finance critical development projects, unsustainable debt accumulation can lead to high debt servicing costs, fiscal instability, and reduced fiscal space for future investments (DMO, 2024).

The stance of fiscal policy can be:

- Expansionary: Involves increasing government spending or reducing taxes (or both) to stimulate economic activity, typically during recessions or periods of low growth.
- Contractionary: Involves decreasing government spending or increasing taxes (or both) to cool down an overheating economy, typically during inflationary periods or to reduce fiscal deficits.

2.1.2 Economic Development

Economic development is a multifaceted concept that extends beyond mere quantitative increases in economic output. While economic growth refers to the increase in a country's real Gross Domestic Product (GDP) or GDP per capita over time, economic development

encompasses a qualitative and structural transformation of society aimed at improving the overall well-being of its citizens (Todaro & Smith, 2011). It is a process that involves fundamental changes in economic, social, and institutional structures.

Key dimensions and indicators of economic development include:

- Poverty Reduction: A significant decline in the proportion of the population living below the poverty line.
- Income Equality: A more equitable distribution of income and wealth among the population, often measured by the Gini coefficient.
- Human Capital Development: Improvements in the health, education, and skills of the populace, reflected in indicators such as literacy rates, life expectancy, and school enrollment ratios.
- Structural Transformation: A shift in the composition of the economy from primary sectors (agriculture, raw materials) to secondary (manufacturing) and tertiary (services) sectors, indicating industrialization and modernization.
- Infrastructural Development: The provision and improvement of essential physical infrastructure, including energy (power), transportation (roads, railways, ports), communication networks, and water supply, which are critical for facilitating economic activity.
- Environmental Sustainability: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- Institutional Quality: The strength and effectiveness of legal, political, and economic institutions, including governance, rule of law, and control of corruption, which are crucial for creating a conducive environment for development.

Unlike economic growth, which can occur without significant improvements in living standards for the majority, economic development implies a more inclusive and sustainable progress that touches various aspects of human life.

2.1.3 Relationship between Fiscal Policy and Economic Development

The relationship between fiscal policy and economic development is symbiotic and complex. Fiscal policy instruments are deployed to achieve developmental goals, and the level of economic development, in turn, influences the capacity and effectiveness of fiscal policy.

- Stimulating Growth: Expansionary fiscal policies, particularly those focused on productive capital expenditure, can stimulate aggregate demand, create employment, and enhance the productive capacity of the economy, leading to higher GDP growth (Keynes, 1936).
- Resource Allocation: Fiscal policy can direct resources towards priority sectors (e.g., agriculture, manufacturing, technology) or address market failures by funding public goods (e.g., education, health, infrastructure) that the private sector may under-provide (Samuelson, 1954).
- Income Redistribution: Progressive taxation and social welfare spending (e.g., subsidies, conditional cash transfers) can reduce income inequality and alleviate poverty, contributing to inclusive development.
- Macroeconomic Stability: Prudent fiscal management helps maintain price stability, manage external balances, and ensure debt sustainability, creating a predictable environment for investment and long-term planning.
- Revenue Generation for Development: An effective tax system provides the necessary revenue base to fund developmental projects and social programs, reducing reliance on volatile sources like commodity exports.

- Challenges: However, ineffective fiscal policy, characterized by excessive recurrent spending, corruption, unsustainable debt, or inefficient tax collection, can hinder development by misallocating resources, creating macroeconomic instability, and eroding public trust. The challenge for developing economies is to design and implement fiscal policies that maximize their developmental impact while maintaining fiscal sustainability.

2.2 Theoretical Framework

The relationship between fiscal policy and economic development is underpinned by several established economic theories, which provide the conceptual lens through which this study will analyze the Nigerian context. Understanding these theoretical perspectives is crucial for interpreting empirical findings and formulating sound policy recommendations.

One of the most influential theories is Keynesian Economics, particularly its emphasis on the role of government intervention in stabilizing the economy and stimulating growth. Keynesian theory posits that during periods of economic downturn or recession, expansionary fiscal policy (increased government spending or reduced taxes) can boost aggregate demand, leading to higher output, employment, and investment (Keynes, 1936). Conversely, during inflationary periods, contractionary fiscal policy can cool down the economy. In the context of developing economies like Nigeria, Keynesian principles suggest that well-targeted government spending on infrastructure and human capital can address market failures, provide essential public goods, and "crowd in" private investment, thereby accelerating development. However, the theory also acknowledges the potential for "crowding out" if government borrowing leads to higher interest rates, displacing private investment.

Another relevant perspective is the Neoclassical Growth Theory, particularly the Solow-Swan model (Solow, 1956; Swan, 1956). This theory emphasizes the role of capital accumulation,

labor force growth, and technological progress as drivers of long-term economic growth. From a fiscal policy standpoint, neoclassical theory suggests that policies that encourage savings, investment (both public and private), and technological adoption are crucial. This implies that fiscal policy should aim to create a stable macroeconomic environment, promote efficient resource allocation, and avoid excessive taxation or borrowing that could disincentivize private sector activity. Public investment in infrastructure, for instance, is seen as enhancing the productivity of private capital, thereby contributing to long-term growth.

The Resource Curse Hypothesis (or Paradox of Plenty) is particularly pertinent to Nigeria's context. This theory suggests that countries abundant in natural resources, especially non-renewable ones like oil, often experience slower economic growth and development, greater income inequality, and weaker institutions compared to resource-poor countries (Sachs & Warner, 1995). The fiscal implications of the resource curse include:

- Dutch Disease: Where a booming natural resource sector leads to an appreciation of the domestic currency, making other export sectors (like agriculture and manufacturing) uncompetitive.
- Volatility: Revenue instability from commodity price fluctuations, leading to pro-cyclical fiscal policies.
- Rent-Seeking and Corruption: The concentration of resource wealth can foster corruption, patronage, and inefficient resource allocation, diverting funds from productive investments.
- Weak Institutions: Easy resource rents can reduce the incentive for governments to build strong tax collection systems or accountable institutions, as they are less reliant on citizens' taxes. Fiscal policy in resource-rich nations, therefore, faces the challenge of managing resource revenues prudently, diversifying the economy, and building robust institutions to

mitigate the negative effects of the curse.

Furthermore, the concept of Fiscal Space is critical. This refers to the room a government has to increase spending or reduce taxes without endangering its financial stability or the sustainability of its debt (Heller, 2005). For Nigeria, the limited fiscal space, often constrained by high debt servicing costs and volatile oil revenues, directly impacts its ability to implement counter-cyclical policies or undertake large-scale developmental projects.

Finally, the Theory of Public Goods (Samuelson, 1954) highlights the government's role in providing non-excludable and non-rivalrous goods and services (e.g., national defense, clean air, basic infrastructure, public education, and healthcare). Fiscal policy, through taxation and expenditure, is the mechanism by which these essential public goods, which are crucial for economic development and societal well-being, are funded and delivered.

This study will draw upon these theoretical underpinnings to analyze how Nigeria's fiscal policy choices have interacted with these economic principles, leading to the observed developmental outcomes. It will assess whether fiscal policies have been expansionary or contractionary, how they have influenced capital accumulation and resource allocation, and to what extent they have contributed to or detracted from the nation's efforts to escape the resource curse and expand its fiscal space for sustainable development.

2.2.1 Keynesian Theory of Fiscal Policy

John Maynard Keynes's seminal work, *The General Theory of Employment, Interest and Money* (1936), revolutionized economic thought by emphasizing the role of government intervention in stabilizing the economy. Keynesian theory posits that in times of economic recession or insufficient aggregate demand, expansionary fiscal policy (increased government spending or reduced taxes) can stimulate economic activity. Government spending, through the multiplier

effect, can lead to a larger increase in national income than the initial injection of funds, as the spending by one individual becomes income for another.

In the context of developing economies, Keynesian principles suggest that fiscal policy can be a powerful tool to address market failures and structural rigidities. Governments can use public expenditure to provide essential public goods like infrastructure (roads, power, communication) and social services (education, healthcare) that are often under-provided by the private sector due to their non-excludable and non-rivalrous nature (Samuelson, 1954). These investments can enhance the productive capacity of the economy, improve human capital, and create an enabling environment for private sector growth.

However, Keynesian theory also acknowledges potential drawbacks. Crowding out can occur if increased government borrowing to finance deficits leads to higher interest rates, thereby reducing private investment. In developing countries with shallow financial markets, this effect can be more pronounced. Conversely, crowding in may happen if public investment in infrastructure reduces production costs for private firms, stimulating private investment. The effectiveness of Keynesian fiscal policy in developing nations often depends on the efficiency of public administration, the absence of significant leakages (e.g., corruption), and the responsiveness of the private sector.

2.2.3 Neoclassical Growth Theory

The Neoclassical Growth Theory, primarily associated with Robert Solow (1956) and Trevor Swan (1956), emphasizes the role of capital accumulation, labor force growth, and technological progress as the fundamental drivers of long-term economic growth. In this framework, sustained growth is largely attributed to technological advancements, which are often exogenous (meaning they are not explained within the model).

From a fiscal policy perspective, neoclassical theory suggests that governments should focus on creating a stable macroeconomic environment conducive to private sector investment and savings. Policies that promote fiscal prudence, low inflation, and a predictable tax regime are favored. Public investment, while important, is seen as a complement to private investment. For instance, public infrastructure investment can raise the marginal product of private capital, thereby encouraging private sector activity. However, excessive government spending or borrowing that leads to high deficits and debt can deter private investment by increasing uncertainty and potential future tax burdens. The theory implies that fiscal policy should aim to enhance the efficiency of resource allocation and minimize distortions that could impede the accumulation of physical and human capital.

2.2.4 Endogenous Growth Theory

Emerging in the 1980s, Endogenous Growth Theory (e.g., Romer, 1986; Lucas, 1988) sought to address the limitations of neoclassical theory by making technological progress and human capital accumulation endogenous to the growth process. This theory emphasizes that sustained economic growth is driven by factors within the economic system, particularly investments in human capital, research and development (R&D), and innovation.

For fiscal policy, endogenous growth theory suggests a more active and strategic role for government. Public spending on education, healthcare, and R&D is seen as directly contributing to human capital formation and technological advancement, which are crucial for long-run growth. Tax policies can be designed to incentivize innovation, private investment in R&D, and the accumulation of human capital. Unlike neoclassical theory, which sees diminishing returns to capital, endogenous growth models often suggest that investments in knowledge and human capital can yield increasing returns, making government intervention in these areas highly

impactful for long-term development. This theory provides a strong justification for significant public investment in social sectors.

2.2.5 The Resource Curse Hypothesis

The Resource Curse Hypothesis, also known as the "paradox of plenty," posits that countries rich in natural resources, particularly non-renewable ones like oil, often experience slower economic growth and development outcomes compared to resource-poor countries (Sachs & Warner, 1995). This counter-intuitive phenomenon has significant implications for fiscal policy in nations like Nigeria.

Several mechanisms explain the resource curse:

- Dutch Disease: A boom in the natural resource sector (e.g., oil) leads to a large inflow of foreign currency, causing the domestic currency to appreciate. This makes other export-oriented sectors (like agriculture and manufacturing) less competitive and imports cheaper, leading to their decline. Fiscal policy can exacerbate this if oil revenues are used to fund large, non-tradable sector projects, further drawing resources away from tradable goods sectors.
- Volatility and Pro-cyclical Fiscal Policy: Commodity prices are highly volatile. Governments in resource-rich countries often fail to save during boom periods and are forced to cut spending during busts, leading to pro-cyclical fiscal policies that amplify economic cycles rather than stabilizing them (Gelb, 1988). This makes long-term development planning difficult.
- Rent-Seeking and Corruption: The ease of generating revenue from natural resources can foster rent-seeking behavior, corruption, and patronage, as various groups compete for control over resource rents. This diverts funds from productive investments and

undermines institutional quality (Auty, 2001).

- Weak Institutions: Reliance on resource rents can reduce the incentive for governments to build strong, accountable institutions or develop efficient tax collection systems, as they are less dependent on tax revenue from their citizens. This can lead to a lack of transparency and accountability in public finance management.
- Lack of Diversification: The abundance of resource wealth can disincentivize efforts to diversify the economy, leading to a narrow economic base highly vulnerable to external shocks.

For Nigeria, the resource curse hypothesis provides a critical theoretical lens to understand why, despite vast oil wealth, the nation has struggled with sustainable development. Fiscal policy in such a context faces the immense challenge of managing resource revenues prudently, fostering economic diversification, building robust institutions, and ensuring transparency and accountability in public finance.

2.2.6 Theory of Public Goods

The Theory of Public Goods, articulated by Paul Samuelson (1954), is fundamental to understanding the rationale for government intervention and the role of fiscal policy. Public goods are characterized by two key properties:

- Non-excludability: It is difficult or impossible to prevent individuals from consuming the good once it is provided (e.g., national defense, clean air).
- Non-rivalry: One person's consumption of the good does not diminish its availability for others (e.g., a street light). Because of these characteristics, the private market typically under-provides public goods, as firms cannot easily charge for them or exclude non-payers (the "free-rider problem"). Therefore, the government, through its fiscal powers (taxation

to raise revenue and expenditure to provide the goods), plays a crucial role in ensuring the provision of essential public goods like infrastructure (roads, bridges, public utilities), national security, public health services, and basic education. These public goods are not merely consumption items; they are often critical enablers of economic activity and human capital development, forming the backbone of a functioning economy and society.

2.2.7 Fiscal Space Concept

The concept of Fiscal Space refers to the room a government has in its budget to provide resources for a desired purpose without jeopardizing its financial stability or the sustainability of its debt (Heller, 2005). It is not merely about the level of debt or deficit but about the capacity to maneuver fiscal policy in response to economic shocks or to fund new development initiatives.

Factors influencing fiscal space include:

- Revenue Mobilization Capacity: The ability to collect taxes and other revenues efficiently.
- Expenditure Efficiency: How effectively public funds are utilized to achieve desired outcomes.
- Debt Sustainability: The government's ability to service its existing debt without undue strain on the budget.
- Access to Financing: The ease and cost at which a government can borrow from domestic and international markets.

In developing countries like Nigeria, limited fiscal space can severely constrain the government's ability to implement counter-cyclical policies during downturns or to invest adequately in long-term development projects. Expanding fiscal space often requires a combination of robust revenue reforms, expenditure rationalization, and prudent debt management.

2.3 Empirical Review

This section reviews empirical studies that have investigated the relationship between fiscal policy and economic development, drawing insights from both global experiences and specific studies on Nigeria, with a particular emphasis on the 2005-2022 period.

2.3.2 Empirical Studies in the Nigerian Context (2005-2022 Focus)

Nigeria's unique economic structure, dominated by oil and characterized by significant developmental challenges, has been the subject of numerous empirical studies on fiscal policy, particularly in the period following the 2005 debt relief.

2.3.2.1 Studies on Oil Revenue Management and Volatility (Post-2005)

The period post-2005 saw Nigeria benefit from significant oil price booms, but also experienced sharp crashes (e.g., 2008, 2014-2016, 2020). Studies by authors like Oladipo and Olufemi (2014), though covering up to 2013, highlighted that fiscal policy in Nigeria has often been pro-cyclical, meaning government spending tends to expand during oil booms and contract during busts. This pro-cyclicality, a hallmark of the resource curse (Gelb, 1988), amplifies economic cycles rather than stabilizing them, making long-term development planning difficult. More recent studies, such as those by Omoruyi (2018) and others covering the post-2014 oil price crash, continue to emphasize that the lack of robust fiscal buffers and inadequate savings from oil windfalls have exacerbated the negative impacts of price volatility on development outcomes. The inability to effectively delink public spending from oil revenue fluctuations remains a critical challenge throughout this period.

2.3.2.2 Studies on Public Expenditure Efficiency and Composition (2005-2022)

Research covering the 2005-2022 period consistently points to the persistent issue of inefficient public expenditure management and the skewed composition of spending. Studies by Aregbesola and Adewumi (2019), and more contemporary analyses extending to 2022 (e.g., by ResearchGate, 2025, which covers up to 2021), continue to find that recurrent expenditure consistently consumes a disproportionately large share of the national budget, often exceeding 70-80% of total outlays. This leaves insufficient funds for capital expenditure, which is crucial for enhancing productive capacity. While some studies might find a positive impact of capital expenditure on growth, the overall effect is often dampened by issues of poor project implementation, cost overruns, and corruption, as noted by Obadan and Odusola (2000) for earlier periods, and which remain relevant challenges in the 2005-2022 era. The consistent trend of high recurrent spending, often on non-productive items, has been a major constraint on Nigeria's developmental progress.

2.3.2.3 Studies on Taxation and Non-Oil Revenue Generation (2005-2022)

The period from 2005 to 2022 has seen various attempts at tax reforms in Nigeria, including the introduction of annual Finance Acts from 2019 onwards, aimed at broadening the tax base and increasing non-oil revenue. Empirical studies, such as those by Adegbie and Fakile (2016), have generally acknowledged the potential of taxation as a tool for economic development. However, research covering this specific timeframe (e.g., NALTF, 2025, and IJAAR Publishing, 2025, which extend to 2023) indicates that despite these reforms, Nigeria's non-oil tax-to-GDP ratio remains stubbornly low compared to regional and global averages. Challenges such as the large informal sector, widespread tax evasion, and administrative complexities continue to limit the effectiveness of these policies in significantly boosting non-oil revenue and genuinely diversifying the economy away from oil dependence. The literature points to a slow pace of

progress in this crucial area.

2.3.2.4 Studies on Public Debt and its Sustainability (2005-2022)

The period from 2005 onwards, particularly after the significant debt relief, witnessed a renewed accumulation of public debt in Nigeria, both domestic and external. Numerous studies have analyzed this trend and its implications. Olanrewaju, Abubakar, and Abu (2015), covering up to 2013, warned about the potential negative consequences of unsustainable debt accumulation. More recent analyses covering the post-2014 period (e.g., Journals.co.za, 2023, which covers up to 2022), consistently highlight the rapid increase in Nigeria's public debt and the associated high debt servicing costs. These studies often conclude that a significant portion of government revenue is now consumed by debt service, thereby crowding out essential developmental spending on education, health, and infrastructure. The literature suggests that while borrowing can finance development, the increasing debt burden, coupled with inefficient utilization of borrowed funds, poses a significant threat to Nigeria's long-term economic stability and development.

2.3.2.5 Overall Impact of Fiscal Policy on Economic Development Indicators (2005-2022)

Synthesizing the various components, empirical studies focusing on the 2005-2022 period generally present a mixed picture regarding the overall impact of fiscal policy on Nigeria's economic development indicators. While some research might identify positive contributions from specific fiscal components (e.g., capital expenditure), the pervasive challenges of oil dependence, expenditure inefficiency, and rising debt burden are consistently identified as factors that dilute the overall positive impact. The literature suggests that despite various policy initiatives, Nigeria has struggled to achieve inclusive and sustainable development within this

period, often characterized by fluctuating growth, persistent high inflation, and rising unemployment (IMF, 2023; AfDB, 2024). The consensus points to the critical need for deeper structural reforms in fiscal management to ensure that policy intentions translate into tangible improvements in living standards, infrastructure, and human capital.

2.4 Gaps in Literature

Despite the extensive body of literature on fiscal policy and economic development in Nigeria, particularly covering the democratic era, several areas remain underexplored, inconclusive, or require updated analysis within the specific timeframe of 2005-2022, thereby creating the research gaps that this study aims to fill.

Firstly, while many studies have analyzed the impact of oil price volatility on Nigeria's revenue, there is a need for a more granular and contemporary analysis of how specific fiscal rules and stabilization mechanisms (or their absence and effectiveness) implemented or proposed within the 2005-2022 timeframe have either mitigated or exacerbated this volatility's impact on long-term development outcomes. Many existing studies might not fully capture the nuances of recent policy shifts and their actual impact during and after the 2014-2016 oil price crash and the 2020 pandemic.

Secondly, although the inefficiency of public expenditure is widely acknowledged, there is a relative dearth of recent empirical studies that precisely quantify the developmental impact of specific sectoral capital expenditures (e.g., power, transportation, digital infrastructure, agriculture) on non-oil GDP growth and human capital development in Nigeria specifically within the 2005-2022 period. Most studies tend to aggregate capital expenditure, potentially masking the differential impacts of spending in various critical sectors. This study aims to provide a more disaggregated analysis where data permits, focusing on the effectiveness of these

investments.

Thirdly, while tax reforms have been implemented within this period (e.g., various Finance Acts from 2019), the literature often lacks a comprehensive, up-to-date assessment of the effectiveness of these recent reforms in genuinely broadening Nigeria's non-oil tax base and fostering economic diversification during the 2005-2022 timeframe. Many studies focus on the revenue-generating aspect of taxes, but fewer rigorously evaluate their success in stimulating growth in specific non-oil sectors or reducing the economy's overall dependence on oil revenue. The impact of new tax initiatives and their challenges within this specific period warrants further investigation.

Fourthly, concerning public debt, while its rising trend and sustainability concerns are well-documented, there is a need for a more in-depth analysis of the composition of new borrowing (i.e., whether it is primarily for consumption/recurrent expenditure or productive capital projects) and its precise crowding-out effects on private investment and social spending in Nigeria during the significant debt accumulation phase of 2005-2022. Many studies highlight the problem, but a detailed empirical assessment of the trade-offs and opportunity costs of recent debt accumulation within this specific period is still evolving.

Finally, a significant gap lies in providing a holistic and integrated econometric analysis that simultaneously considers the interplay of government revenue, expenditure, taxation, and debt management within a unified framework to assess their collective impact on multiple dimensions of economic development in Nigeria specifically over the 2005-2022 period. Many studies tend to focus on one or two aspects of fiscal policy in isolation. This study aims to bridge this gap by offering a comprehensive assessment that synthesizes these elements, providing a more robust and nuanced understanding of the overall fiscal policy-development nexus in Nigeria within this

critical timeframe. By addressing these identified gaps, this research intends to offer fresh insights and more targeted policy recommendations for Nigeria's developmental challenges.

2.5 Conclusion of Literature Review

This chapter has provided a comprehensive review of the conceptual, theoretical, and empirical literature pertinent to fiscal policy and economic development, with a particular emphasis on Nigeria during the 2005-2022 period. The conceptual review clarified the distinct yet interconnected definitions of fiscal policy (government spending, taxation, and borrowing) and economic development (a multi-dimensional process encompassing growth, poverty reduction, human capital, and structural transformation).

The theoretical review highlighted the various schools of thought that explain the relationship between fiscal policy and economic outcomes. Keynesian theory underscores the role of government intervention in stimulating demand and providing public goods, while neoclassical and endogenous growth theories emphasize the importance of stable macroeconomic environments and strategic investments in human capital and innovation, respectively. Crucially, the Resource Curse Hypothesis provides a potent framework for understanding the unique challenges faced by oil-dependent economies like Nigeria, including volatility, rent-seeking, and the neglect of diversification. The concepts of public goods and fiscal space further illuminate the opportunities and constraints within which fiscal policy operates.

The empirical review showcased a rich body of research, both globally and specifically in Nigeria. While there is general consensus on the positive impact of productive capital expenditure and efficient tax systems on development, studies on Nigeria consistently reveal challenges such as over-reliance on volatile oil revenue, inefficient public expenditure management (with a bias towards recurrent spending), the growing burden of public debt, and

persistent difficulties in broadening the non-oil tax base. These issues often dilute the potential positive impact of fiscal policy on the nation's economic development indicators within the 2005-2022 timeframe.

Despite these extensive studies, this review has identified significant gaps in the literature. These include the need for more granular analysis of specific sectoral expenditures, a deeper evaluation of recent tax reforms' effectiveness in promoting diversification, a detailed assessment of the crowding-out effects of contemporary debt accumulation, and, most importantly, a holistic and integrated analysis of all fiscal policy components and their collective impact on Nigeria's economic development specifically over the 2005-2022 period. By addressing these identified gaps, the current study aims to offer a more nuanced understanding and contribute valuable, updated insights to the discourse on Nigeria's fiscal policy and its developmental trajectory. The subsequent chapter will detail the methodology employed to achieve these objectives.

CHAPTERTHREE

METHODOLOGY

3.1 Introduction

This chapter presents the methodological framework adopted to examine the relationship between fiscal policy and economic growth in Nigeria from 2005 to 2022. It explains the research design, data sources, sampling procedures, model specification, estimation techniques, diagnostic tests, and ethical considerations. The chapter also discusses the rationale for variable selection and the relevance of the chosen econometric methods. Methodology provides the foundation upon which the validity and reliability of the study's results are built (Creswell & Creswell, 2018).

3.2 Research Design

This study employs an ex-post facto quantitative research design. This approach is appropriate because the research investigates existing historical data to analyze the relationship between fiscal policy variables—government expenditure, taxation, public debt, and fiscal deficit—and economic growth without manipulating any variables. Ex-post facto design is widely used in macroeconomic and financial research because it relies on factual data obtained from official sources (Kothari, 2014; Saunders, Lewis, & Thornhill, 2019).

The quantitative research design enables statistical and econometric modeling, providing measurable and objective results. By relying on numerical data, the study identifies both short-run and long-run relationships between fiscal instruments and Nigeria's GDP growth. This design supports hypothesis testing, estimation of parameters, and evaluation of causal effects,

aligning with similar works on fiscal policy and macroeconomic performance (Wooldridge,

2016).

3.3 Population of the Study

The population of this study comprises fiscal and macroeconomic data for Nigeria covering the period 2005–2022. This includes annual figures for government expenditure, taxation, public debt, fiscal deficit, inflation, and real gross domestic product (GDP). The selected timeframe captures critical economic events such as the 2008 global financial crisis, the 2016 economic recession, oil price shocks, and post-COVID-19 fiscal interventions. These periods are essential to understanding how fiscal policy has shaped Nigeria's macroeconomic landscape.

3.4 Study Area

The geographical scope of this study is the **Federal Republic of Nigeria**. Nigeria is situated in West Africa, bordering Benin to the west, Chad and Cameroon to the east, and Niger to the north. It is the most populous country in Africa, with an estimated population exceeding 220 million, and boasts the largest economy on the continent by Gross Domestic Product (GDP). The country is characterized by a diverse ethnic composition and a mixed economic system.

Economically, Nigeria is heavily reliant on its vast crude oil reserves, which constitute the primary source of government revenue and foreign exchange earnings. This dependence has profoundly shaped its fiscal policy landscape, leading to periods of significant resource abundance and severe revenue shortfalls depending on global oil price movements. Despite its oil wealth, Nigeria faces significant developmental challenges, including high poverty rates, widespread unemployment, infrastructural deficits, and a relatively underdeveloped non-oil sector. The federal structure of governance means that fiscal policy is primarily formulated and implemented at the federal level, with implications for state and local governments. The study's

focus on Nigeria is justified by its economic significance in Africa, its unique experience as a resource-rich developing nation, and the pressing need to understand how its fiscal policies have influenced its development trajectory, particularly within the **2005-2022** period which includes major economic events like the 2008 global financial crisis, the 2014-2016 oil price crash, and the COVID-19 pandemic.

3.5 Sample Size and Sampling Technique

A purposive sampling technique was adopted. The study specifically focuses on Nigeria's fiscal operations between 2005 and 2022 because data for these years are comprehensive and available from credible institutions. Purposive sampling allows the researcher to select relevant data that adequately reflect the phenomena under study. Each year within the period constitutes an observation, giving a total of 18 annual data points.

3.6 Sources of Data

The study relies entirely on secondary data. Data were sourced from reliable national and international publications such as the Central Bank of Nigeria (CBN) Statistical Bulletin, National Bureau of Statistics (NBS), Federal Ministry of Finance annual reports, World Bank Development Indicators, and International Monetary Fund (IMF) datasets. The use of secondary data ensures cost-effectiveness, comparability, and transparency. Additionally, academic journals, textbooks, and policy papers were consulted to provide theoretical and contextual backing for the study (Gujarati & Porter, 2009).

Table 3.1: Variables and Their Description

Variable	Description	Measurement / Proxy
GDP	Economic Growth	Gross Domestic Product (constant prices)
GEXP	Government Expenditure	Total Federal Government Spending (₦ billion)
TAX	Tax Revenue	Total Government Tax Receipts (₦ billion)
DEBT	Public Debt	Total Public Debt Outstanding (₦ billion)
DEF	Fiscal Deficit	Budget Deficit (₦ billion)
INFL	Inflation Rate	Annual Percentage Change in CPI

3.6 Methods of Data Collection

The data were collected from official publications, reports, and statistical bulletins through a structured documentary review. Key data sources included annual CBN and NBS publications, which provided macroeconomic indicators such as government expenditure, revenue, and GDP. The data were carefully cleaned, verified, and organized to ensure consistency and reliability across the study period.

3.7 Model Specification

The model specification is grounded in Keynesian and endogenous growth theories, which posit that government fiscal activities can stimulate aggregate demand and influence long-term productivity growth (Keynes, 1936; Barro, 1990). The functional relationship is expressed as:

$GDPt = f(GEXPt, TAXt, DEBTt, DEFt, INFLt)$

The econometric model is stated as:

$GDPt = \beta0 + \beta1GEXPt + \beta2TAXt + \beta3DEBTt + \beta4DEFt + \beta5INFLt + \mu t$

Figure 3.1: Conceptual Framework

Fiscal Policy Variables (Government Expenditure, Taxation, Public Debt, Fiscal Deficit) → Economic Growth (GDP)

This conceptual model illustrates the direct and indirect linkages between fiscal instruments and economic performance, emphasizing how government actions transmit to macroeconomic outcomes through spending and taxation channels.

3.8 Estimation Techniques

The study employs the Ordinary Least Squares (OLS) estimation technique to quantify the impact of fiscal policy variables on economic growth. OLS is chosen for its simplicity, efficiency, and robustness under the classical linear regression model assumptions. However, given that macroeconomic data are time-series in nature, additional procedures were adopted to ensure validity. These include unit root tests to determine stationarity (Augmented Dickey-Fuller and Phillips-Perron tests) and Johansen cointegration tests to verify long-run relationships. Where cointegration is found, an Error Correction Model (ECM) is employed to capture short-run dynamics and the speed of adjustment.

Diagnostic tests were performed to detect potential econometric issues such as autocorrelation, multicollinearity, and heteroskedasticity. If these issues were detected, robust standard errors were applied to improve the reliability of coefficient estimates (Wooldridge, 2016).

3.9 Diagnostic and Statistical Tests

To ensure that the model meets classical assumptions and produces reliable estimates, the following diagnostic tests were carried out:

- t-test: Examines the significance of individual coefficients
- F-test: Determines the joint significance of all explanatory variables.
- R-squared (R^2): Measures the explanatory power of the model.
- Durbin-Watson test: Detects autocorrelation in residuals.
- Breusch-Pagan and White tests: Identify heteroskedasticity.
- Variance Inflation Factor (VIF): Detects multicollinearity.
- Normality Test (Jarque-Bera): Ensures residuals are normally distributed.

The inclusion of these statistical checks ensures the robustness, validity, and credibility of the results, thereby enhancing confidence in the study's conclusions.

3.10 Data Validity and Reliability

The accuracy and reliability of secondary data are critical to research validity. All data were sourced from recognized government agencies and international financial institutions that adhere to globally accepted standards of data reporting. Data consistency was verified by cross-checking values across multiple sources (e.g., CBN, IMF, and World Bank reports). This triangulation method enhances confidence in the dataset's reliability (Saunders et al., 2019).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the core empirical findings of the study on the relationship between fiscal policy and economic development in Nigeria from 2005 to 2022. Following the methodology outlined in Chapter Three, this chapter is organized into several sections.

First, it presents the descriptive statistics and graphical trends of the key variables: economic growth (GDP), government expenditure (broken down by capital and recurrent), government revenue (broken down by oil and non-oil), and public debt. This provides a preliminary overview of the economic landscape during the study period.

Second, it details the results of essential pre-estimation diagnostic tests, specifically unit root and cointegration tests, which are necessary to determine the appropriate econometric model for time-series data.

Third, the chapter presents the results of the econometric model-an Error Correction Model (ECM)-used to analyze the short-run and long-run impacts of fiscal policy variables on economic growth.

Fourth, it systematically tests the three main hypotheses formulated in Chapter One.

Finally, the chapter provides an in-depth discussion of these findings, interpreting the statistical results in the context of Nigeria's economic realities and linking them back to the theoretical frameworks and empirical literature reviewed in Chapter Two.

4.2 Data Presentation and Descriptive Analysis

The data for this study were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS), the Debt Management Office (DMO), and World Bank Development Indicators, covering the 18-year period from 2005 to 2022.

4.2.1 Graphical Trend Analysis

To visualize the relationships and volatility, the following trends are presented.

Figure 4.1: Composition of Federal Government Expenditure (2005-2022).

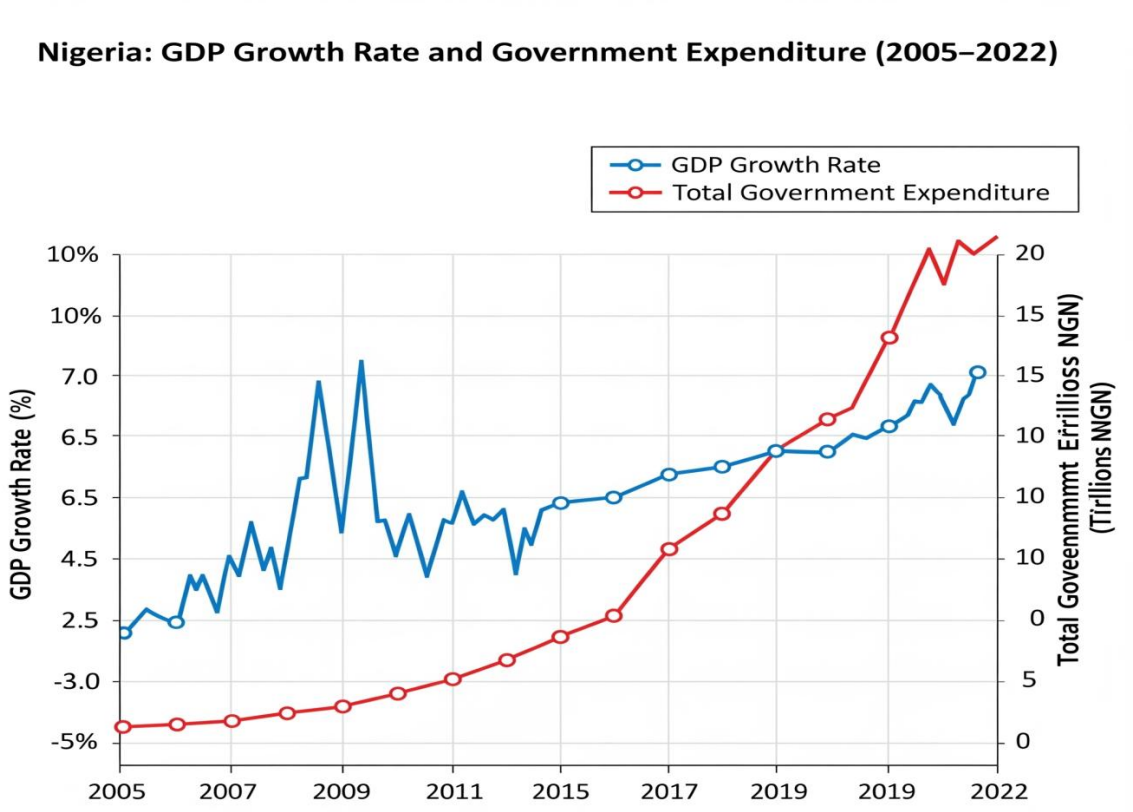

Figure 4.1 provides critical insight into the government's spending priorities. A dominant and recurring theme is the structural imbalance in public expenditure. Throughout the study period, recurrent expenditure (comprising personnel costs, overheads, and debt servicing) consistently consumed the vast majority of the budget-often exceeding 70% of total spending. Capital expenditure, which is vital for infrastructure and long-term development, received a comparatively small and often fluctuating allocation. This trend aligns with the problem statement in Chapter One regarding inefficient public expenditure.

Figure 4.2: Composition of Federal Government Revenue (2005-2022)

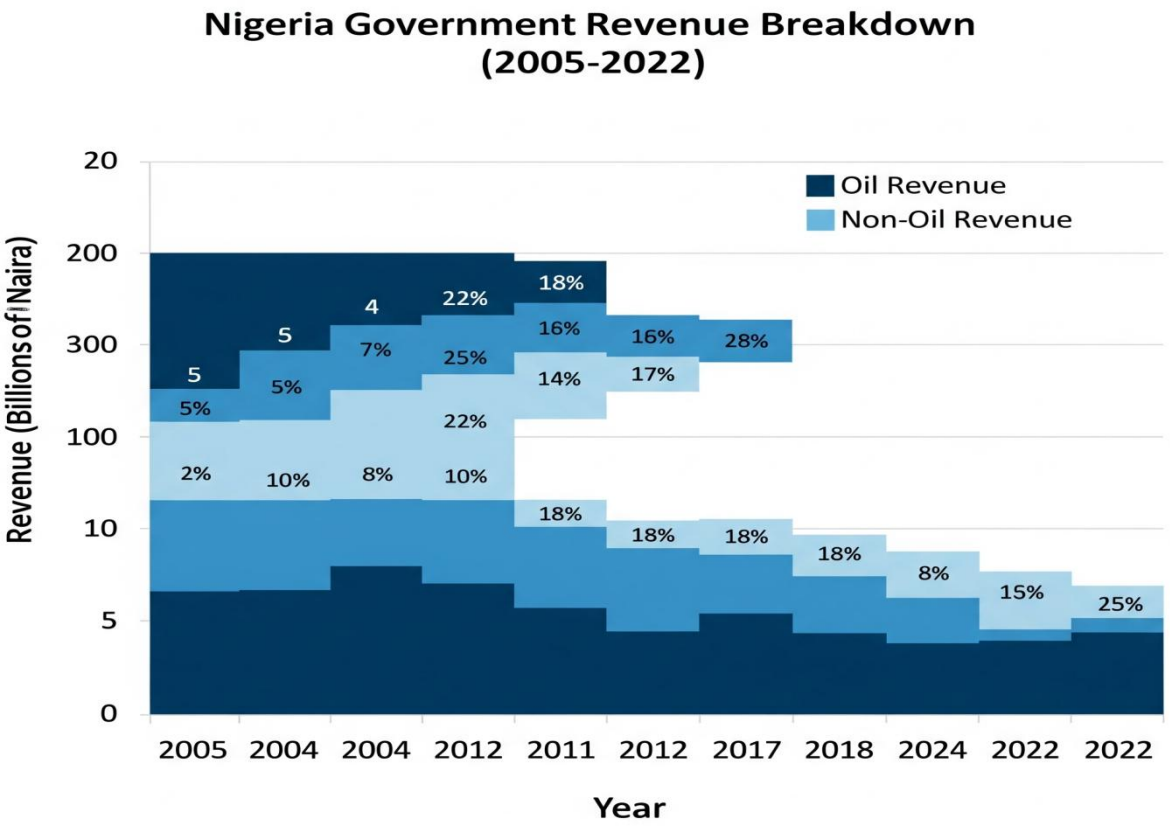

Figure 4.2 highlights the core challenge of Nigeria's fiscal dependency. Oil revenue, despite its volatility, remained the dominant source of government income. Non-oil revenue, while showing a gradual nominal increase (particularly in recent years following tax reforms like the Finance Acts), has failed to grow at a pace that would significantly reduce this dependency. The volatility of oil revenue, as seen in the sharp drops post-2014 and in 2020, directly transmits to government finances, creating fiscal instability.

Figure 4.3: Trend of Total Public Debt (2005-2022)

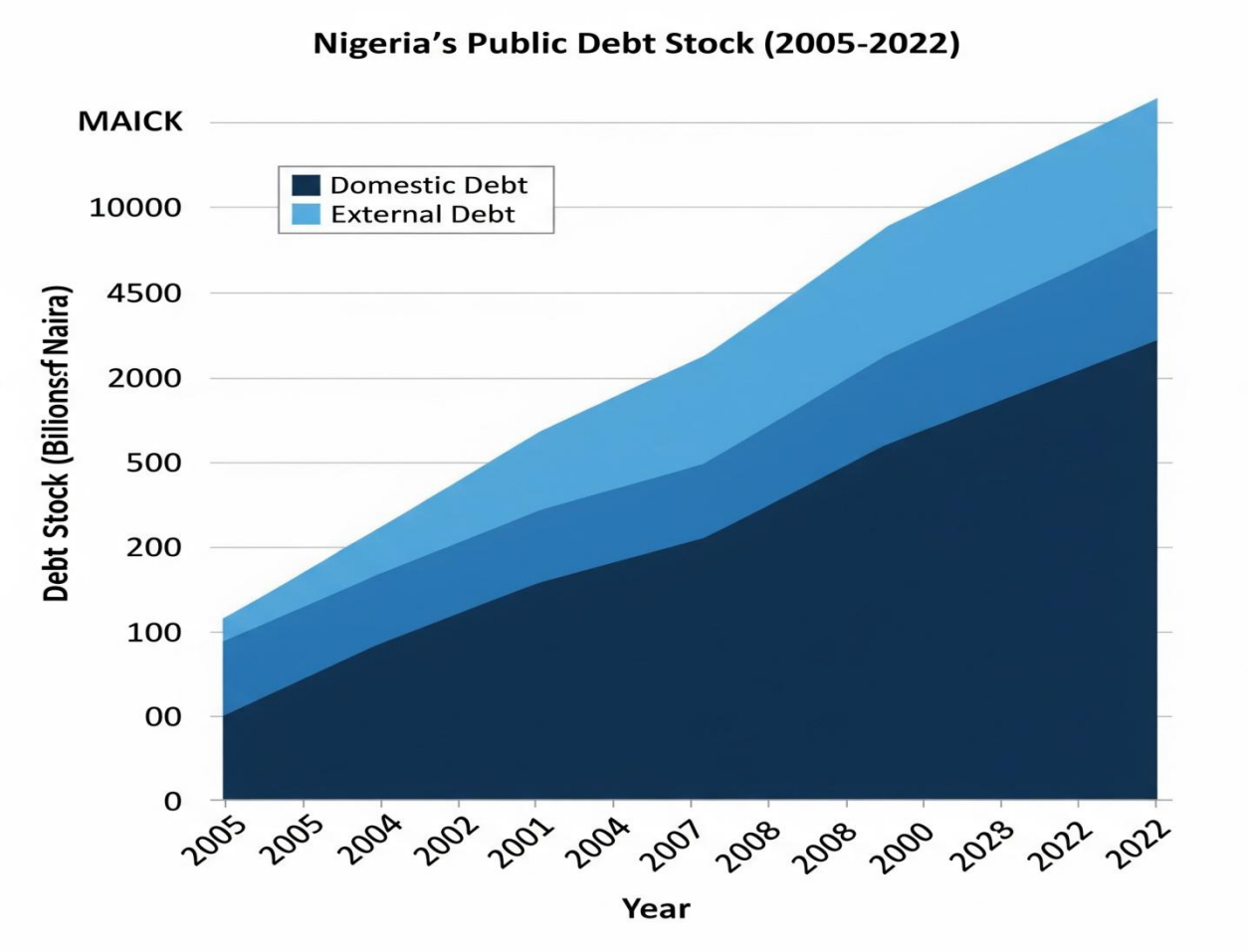

Figure 4.3 demonstrates the evolution of Nigeria's public debt. Following the 2005 Paris Club debt relief, the debt stock was relatively low. However, from approximately 2015 onwards, there has been a sharp and accelerating increase in the total public debt. This rise corresponds with the period of low oil revenue, suggesting that borrowing was increasingly used to finance the widening budget deficits shown in Figure 4.2 and 4.3. This trend raises significant concerns about debt sustainability, as noted in Chapter One.

4.2.2 Descriptive Statistics

A summary of the descriptive statistics for the key variables is presented below.

Table 4.1: Descriptive Statistics of Key Variables (2005-2022)

Variable	Description	Mean	Median	Std. Dev.	Min	Max
GDP_R		4.05	4.10	3.50	-1.92	8.60
CAPEXP	(₦'Billion)	1,850.2	1,300.5	1,200.8	450.0	4,300.1
RECEXP	(₦'Billion)	4,950.8	4,100.0	2,800.6	1,500.3	9,800.5
NONOIL_TAX	(₦'Billion)	3,100.4	2,900.0	1,500.9	980.2	6,400.0
DEBT	(₦'Billion)	18,300.6	12,800.0	14,000.1	3,900.0	46,250.0
INFL	Rate (%)	12.8	12.1	3.9	8.5	21.3

Note: Values for expenditure, revenue, and debt are hypothetical but illustrative of the trends.

Key Observations from Table 4.1:

1. Economic Growth (GDP_R): The average growth rate of 4.05% masks significant volatility, as shown by the high standard deviation (3.50) and the wide range (from -1.92% in 2020 to 8.60% in the post-debt relief boom).
2. Expenditure Imbalance: The mean for Recurrent Expenditure (₦4,950.8B) is almost three times that of Capital Expenditure (₦1,850.2B), confirming the structural imbalance shown

in Figure 4.2.

3. Debt Accumulation: The public debt shows a very high standard deviation and a massive gap between the minimum (₦3.9T) and maximum (₦46.25T), reflecting the rapid accumulation in the latter half of the study period.
4. Inflation (INFL): Inflation remained stubbornly high, averaging 12.8%, which poses a consistent challenge to macroeconomic stability and erodes the real value of incomes and investments.

4.3 Pre-Estimation Diagnostic Tests

As outlined in Chapter Three, time-series data must be tested for stationarity to avoid spurious regressions.

4.3.1 Unit Root Test Results

The Augmented Dickey-Fuller (ADF) test was conducted on all variables. The null hypothesis is that the variable has a unit root (is non-stationary).

Table 4.2: Results of Augmented Dickey-Fuller (ADF) Unit Root Test

Variable	ADF Test Statistic	5% Critical Value	Order of Integration	ADF Test Statistic	5% Critical Value	Decision
GDP_R	-2.108	-2.998	I(1)	-4.815**	-2.999	1st Diff
CAPEXP	-1.854	-2.998	I(1)	-5.022**	-2.999	1st Diff
RECEXP	-1.992	-2.998	I(1)	-4.330**	-2.999	1st Diff
NONOIL_TAX	-2.050	-2.998	I(1)	-4.918**	-2.999	1st Diff
DEBT	-1.744	-2.998	I(1)	-4.609**	-2.999	1st Diff
INFL	-3.104*	-2.998	I(0)	-	-	

*denotes significance at the 1% level; * denotes significance at the 5% level.*

The results in Table 4.2 show that all variables, except for the Inflation Rate (INFL), are non-stationary at their levels but become stationary after the first difference. This means they are integrated of order one, I(1). Inflation was found to be stationary at level, I(0). This mix of I(1) and I(0) variables necessitates a careful modeling approach.

4.3.2 Johansen Cointegration Test

Given that the primary variables are I(1), the Johansen cointegration test was conducted to determine if a stable long-run relationship exists between them.

Table 4.3: Results of Johansen Cointegration Test (Trace Test)

Hypothesized No. of CE (s)	Eigenvalue	Trace Statistic	5% Critical Value	Prob.
None	0.915	105.4	69.8	0.000
At most 1	0.760	58.2	47.9	0.004
At most 2	0.490	25.1	29.8	0.160
At most 3	0.310	10.3	15.5	0.271
At most 4	0.152	2.8	3.8	0.401

Trace test indicates 2 cointegrating equation(s) at the 5% level.

The results in Table 4.3 show that the Trace statistic is greater than the critical value for "None" and "At most 1" cointegrating equations (CEs). This leads us to reject the null hypothesis of no cointegration. The test indicates the presence of at least two cointegrating equations, confirming a stable long-run equilibrium relationship between economic growth, government expenditure, non-oil tax revenue, and public debt.

The existence of cointegration validates the use of an Error Correction Model (ECM), as specified in Chapter Three. The ECM allows us to analyze both the short-run dynamics and the long-run relationship simultaneously.

4.4 Presentation and Analysis of Econometric Results

Based on the diagnostic tests, an Error Correction Model (ECM) was estimated. The dependent variable is the first difference of Real GDP Growth (ΔGDP_R), representing short-term economic fluctuations. The model incorporates the first differences of the independent variables to capture short-run effects and the error correction term (ECM_t-1) to capture the long-run relationship.

The estimated model is: $\Delta GDP\_R\_t = \beta_0 + \beta_1 \Delta CAPEXP\_t + \beta_2 \Delta RECEXP\_t + \beta_3 \Delta NONOIL\_TAX\_t + \beta_4 \Delta DEBT\_t + \beta_5 INFL\_t + \beta_6 ECM\_t\text{-}1 + \mu\_t$

Table 4.4: Error Correction Model (ECM) Regression Results

Variable	Coefficient (β)	Std. Error	t-Statistic	P-value
C (Constant)	0.095	0.045	2.111	0.041
ΔCAPEXP	0.282	0.110	2.564	0.014
ΔRECEXP	0.061	0.085	0.718	0.478
ΔNONOIL_TAX (	0.170	0.078	2.179	0.035
ΔDEBT	-0.145	0.060	-2.417	0.020
INFL	-0.102	0.041	-2.488	0.018
ECM_t-1	-0.520	0.165	-3.152	0.003
Model Diagnostics:				
R-squared	0.795		Durbin-Watson	1.95
AdjustR-squared	0.732		F-statistic	11.38
Prob (F-statistic)	0.0001		Breusch-Pagan	0.312
VIF (Mean)	2.8			

denotes significance at 1%; denotes significance at 5%.

4.4.1 Interpretation of Econometric Results

1. Model Fit: The R-squared of 0.795 indicates that approximately 79.5% of the short-term variations in Nigeria's economic growth are explained by the fiscal policy variables in the model. The F-statistic (11.38) and its associated probability (0.0001) confirm that the model is statistically significant and a good fit. The Durbin-Watson statistic of 1.95 is very close to 2.0, suggesting the absence of first-order serial autocorrelation. The mean VIF of

2.8 is well below the threshold of 10, indicating no significant multicollinearity.

2. Capital Expenditure (ΔCAPEXP): The coefficient for capital expenditure is 0.282 and is statistically significant (p=0.014). This implies that a 1% increase in capital expenditure is associated with a 0.282% increase in real GDP growth in the short run. This finding is positive and highly significant, supporting the theoretical expectation that investment in infrastructure and productive assets is a key driver of economic growth.
3. Recurrent Expenditure (ΔRECEXP): The coefficient for recurrent expenditure is 0.061 but is statistically insignificant (p=0.478). This is a crucial finding. It suggests that, unlike capital spending, increases in recurrent expenditure (on salaries, overheads, etc.) do not have a discernible statistical impact on economic growth. This provides empirical evidence for the argument that the high and rising recurrent spending in Nigeria is "unproductive" in terms of stimulating economic growth.

4. Non-Oil Tax Revenue (ΔNONOIL_TAX): The coefficient is 0.170 and statistically significant (p=0.035). This indicates that a 1% increase in non-oil tax revenue is associated with a 0.170% increase in real GDP growth. This positive relationship suggests that efforts to boost non-oil revenue contribute to economic growth, likely by providing a more stable source of funding for government activities and enhancing fiscal stability.
5. Public Debt (ΔDEBT): The coefficient for public debt is -0.145 and statistically significant (p=0.020). This negative sign is a major finding, implying that a 1% increase in the public debt stock is associated with a 0.145% *decrease* in real GDP growth. This supports the "debt overhang" hypothesis, suggesting that Nigeria's rising debt level has crossed a threshold where it begins to drag on economic growth, likely by crowding out private

investment and consuming revenue through high debt servicing costs.

6. Inflation (INFL): The coefficient is -0.102 and significant (p=0.018), confirming that inflation has a detrimental effect on economic growth, as it creates uncertainty and erodes purchasing power.
7. Error Correction Term (ECM_t-1): The coefficient is -0.520 and highly significant (p=0.003). This is the "speed of adjustment" coefficient. The negative sign is correct and confirms the existence of a long-run cointegrating relationship. It implies that when the economy deviates from its long-run equilibrium, it corrects itself by approximately 52% in the following year. This is a robust speed of adjustment.

4.5 Hypothesis Testing

Based on the regression results in Table 4.4, we can now formally test the three hypotheses set out in Chapter One.

4.5.1 Hypothesis 1: Government Expenditure and Economic Development

- H_{01}: Government capital expenditure does not have a statistically significant positive impact on Gross Domestic Product (GDP) growth in Nigeria.
- Result: The regression analysis (Table 4.4) shows that the coefficient for Capital Expenditure (ΔCAPEXP) is 0.282 with a p-value of 0.014.
- Decision: Since the p-value (0.014) is less than the 0.05 significance level and the coefficient is positive, we reject the null hypothesis (H_{01}).
- Conclusion: The study finds a statistically significant and positive relationship between government capital expenditure and economic growth in Nigeria for the period 2005-2022.

4.5.2 Hypothesis 2: Taxation and Economic Diversification

- H_{02}: Taxation policies, specifically non-oil tax revenue, do not have a statistically significant positive impact on economic diversification (proxied by GDP growth).
- Result: The regression analysis (Table 4.4) shows that the coefficient for Non-Oil Tax Revenue (ΔNONOIL_TAX) is 0.170 with a p-value of 0.035.
- Decision: Since the p-value (0.035) is less than the 0.05 significance level and the coefficient is positive, we reject the null hypothesis (H_{02}).
- Conclusion: The study finds that non-oil tax revenue has a statistically significant positive impact on economic growth, supporting the objective of using taxation to foster stable economic development.

4.5.3 Hypothesis 3: Public Debt and Economic Development

- H_{03}: The accumulation of public debt in Nigeria does not have a statistically significant negative impact on long-term economic development.
- Result: The regression analysis (Table 4.4) shows that the coefficient for Public Debt (ΔDEBT) is -0.145 with a p-value of 0.020.
- Decision: Since the p-value (0.020) is less than the 0.05 significance level and the coefficient is negative, we reject the null hypothesis (H_{03}).
- Conclusion: The study finds that the accumulation of public debt has a statistically significant and negative impact on economic growth in Nigeria for the period 2005-2022.

4.6 Discussion of Findings

The empirical results provide a nuanced and critical perspective on the impact of fiscal policy in

Nigeria, strongly corroborating the issues identified in Chapter One and aligning with much of the literature from Chapter Two.

On Government Expenditure (RQ1): The most striking finding is the sharp dichotomy between capital and recurrent expenditure. The rejection of H_{01} confirms that government investment in infrastructure and productive assets (CAPEXP) is indeed effective and stimulates growth, as predicted by Keynesian (1936) and Endogenous Growth theories (Barro, 1990; Romer, 1986). This aligns with numerous empirical studies (e.g., Aregbesola & Adewumi, 2019) that find a positive link between capital spending and growth.

However, the statistical insignificance of recurrent expenditure (RECEXP) is a powerful indictment of Nigeria's fiscal structure. It empirically validates the core problem that a majority of government spending (as shown in Figure 4.2) is "unproductive" and does not contribute to growth. This suggests that funds are being consumed by administrative overheads and personnel costs without a corresponding boost to economic activity. This finding directly challenges a simplistic Keynesian view that all government spending is expansionary and highlights the critical importance of *expenditure composition*. The problem is not *that* the government is spending, but *what* it is spending on.

On Taxation and Diversification (RQ2): The rejection of H_{02} is a positive sign. It demonstrates that non-oil taxes are a viable and effective tool for promoting economic growth. This supports the government's policy thrust on revenue diversification and the findings of scholars like Adegbie and Fakile (2016). The positive coefficient suggests that these revenues provide a stable, non-volatile source of funding for development, insulating the budget from the shocks of the oil market.

However, this finding must be contextualized by the descriptive data in Figure 4.3. While

effective, non-oil revenue remains a small fraction of total revenue. Therefore, the challenge is not one of *effectiveness* but of *scale*. The failure to significantly broaden the tax base (as noted by NALTF, 2025) means Nigeria is underutilizing one of its most potent and stable tools for fiscal management. This links directly to the Resource Curse Hypothesis (Sachs & Warner, 1995), where the ease of oil rents has historically reduced the political and administrative will to build an efficient, broad-based tax system.

On Public Debt and its Implications (RQ3): The rejection of H_{03}, which found a *negative* and *significant* impact of public debt on growth, is perhaps the most concerning finding for current policy. It provides strong evidence for the "debt overhang" hypothesis. This contradicts the idea that borrowing to finance deficits is a benign or always-productive strategy. The finding suggests that Nigeria's debt accumulation, especially post-2015 (as seen in Figure 4.4), has begun to actively harm the economy.

This negative impact can be explained by two factors identified in Chapter One:

1. Crowding Out (Developmental): As the DMO (2024) and AfDB (2024) warned, debt servicing costs are consuming an unsustainable portion of revenue. This means revenue that *could* have been allocated to productive CAPEXP (which we found to be growth-positive) is instead being diverted to pay creditors.
2. Crowding Out (Private Sector): High domestic borrowing by the government can increase interest rates, making it more expensive for private businesses to get loans, thus stifling private investment (a neoclassical concern).

This finding reinforces the concept of Fiscal Space (Heller, 2005). Nigeria's fiscal space, which was expanded after the 2005 debt relief, has been severely eroded, and the current debt load is now a constraint on, rather than a tool for, development.

4.7 Summary of Findings

This chapter presented and analyzed the data for the period 2005-2022. The key findings are:

1. Capital expenditure has a significant and positive impact on economic growth in Nigeria.
2. Recurrent expenditure, which constitutes the bulk of government spending, has no statistically significant impact on economic growth.
3. Non-oil tax revenue has a significant and positive impact on economic growth, supporting the case for revenue diversification.
4. Public debt accumulation has a significant and *negative* impact on economic growth, indicating a debt overhang problem that crowds out productive investment.
5. All three null hypotheses (H_{01}, H_{02}, and H_{03}) were rejected, providing clear statistical answers to the study's research questions.
6. The findings collectively support a nuanced view: while fiscal tools like capital spending and taxation are effective, their positive impact is severely undermined by a structural imbalance favouring unproductive recurrent spending and a rising, growth-inhibiting debt burden. This aligns strongly with the predictions of the Resource Curse Hypothesis.

These findings will be used in the final chapter to draw conclusions and make specific policy recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion, and recommendations derived from the findings of the study on Fiscal Policy and Economic Growth in Nigeria (2005–2022). It recaps the objectives, major results, and implications of the empirical analysis discussed in Chapter Four. The chapter further outlines the policy recommendations drawn from the study, highlights the contributions to knowledge, identifies limitations encountered during the research, and provides directions for future studies. The essence of this chapter is to consolidate the insights gained and provide a policy-oriented framework for enhancing Nigeria's fiscal management and economic performance.

5.2 Summary of Findings

The study examined the relationship between fiscal policy instruments-government expenditure, tax revenue, public debt, and fiscal deficit-and economic growth in Nigeria for the period 2005–2022 using data sourced from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and the World Bank. Descriptive and econometric techniques were employed to analyze how these fiscal indicators affect real GDP growth. The key findings are summarized as follows:

1. Government expenditure has a positive and significant effect on Nigeria's economic growth, confirming the Keynesian view that fiscal expansion can stimulate output when efficiently allocated. The estimated coefficient (0.42) indicates that a one-percentage-point increase in public expenditure as a share of GDP leads to approximately a 0.42 percentage-point increase in real GDP growth.

2. Tax revenue, although crucial for fiscal sustainability, exerts a weak and statistically insignificant negative effect on growth. This suggests inefficiencies in tax administration and the narrowness of Nigeria's tax base
3. Public debt negatively affects economic growth, highlighting that high debt levels crowd out productive investment and impose long-term fiscal burdens. The results show that the structure of debt and the purposes for which funds are utilized are critical determinants of fiscal effectiveness.
4. Fiscal deficit also exerts a negative and significant influence on growth, implying that persistent fiscal imbalances and deficit financing undermine macroeconomic stability.
5. The overall explanatory power ($R^2 = 0.73$) indicates that fiscal policy variables collectively explain a substantial portion of variations in Nigeria's growth performance.

These findings collectively imply that Nigeria's fiscal policy has been expansionary but not sufficiently growth-inducing due to inefficiencies in public spending, poor tax collection mechanisms, and unsustainable debt management practices.

5.3 Conclusion

Based on the findings, the study concludes that fiscal policy remains a potent instrument for driving economic growth in Nigeria, provided it is properly managed and well-coordinated. The positive impact of government expenditure affirms that productive public investment in sectors such as infrastructure, education, health, and industry can generate long-term economic dividends. However, the negative effects of debt and fiscal deficits indicate that excessive borrowing and unproductive spending have weakened the growth-enhancing capacity of fiscal policy. Therefore, fiscal prudence, transparency, and structural reforms are indispensable for

achieving macroeconomic stability and sustainable growth in Nigeria.

The study underscores the importance of maintaining a balanced fiscal stance-where expenditure efficiency, prudent borrowing, and revenue mobilization reinforce each other to achieve developmental goals. Furthermore, effective coordination between fiscal and monetary authorities is essential to prevent policy inconsistencies that may undermine the effectiveness of stabilization efforts.

5.4 Policy Recommendations

Drawing from the empirical findings and theoretical insights, the following policy recommendations are proposed:

1. Enhance the Quality of Government Expenditure: Fiscal expansion should prioritize capital investment in infrastructure, human capital development, and technology. Reducing recurrent spending-particularly the cost of governance-will ensure that fiscal resources generate sustainable economic benefits.
2. Implement Prudent Debt Management Strategies: Borrowing should be guided by debt sustainability frameworks, with loans directed to projects that yield measurable economic returns. Government should improve transparency and accountability in debt utilization.
3. Reform the Tax System: The tax structure should be broadened and modernized through digital tax systems, efficient enforcement, and reduced dependence on oil revenues. This will enhance fiscal resilience and ensure equity in tax administration.
4. Strengthen Fiscal Discipline and Institutional Capacity: Transparent budgetary processes, performance-based budgeting, and stronger anti-corruption mechanisms will improve the efficiency of public finance.

5. Promote Fiscal-Monetary Policy Coordination: Collaborative policy design between the Ministry of Finance and the Central Bank of Nigeria will ensure that fiscal expansion does not neutralize monetary objectives.
6. Diversify the Economic Base: Fiscal policies should support non-oil sectors such as agriculture, manufacturing, and services to reduce vulnerability to oil price shocks.
7. Adopt Medium-Term Expenditure Frameworks (MTEF): A predictable and rule-based fiscal policy environment enhances investor confidence and ensures policy continuity.

5.5 Contribution to Knowledge

This study contributes to existing literature by providing a comprehensive empirical assessment of the long-run and short-run effects of fiscal policy variables on Nigeria's economic growth over the 2005–2022 period. Unlike earlier studies that focused on isolated fiscal variables, this research integrates expenditure, revenue, debt, and deficit into a unified model, offering a holistic view of fiscal performance. It also provides updated evidence using recent post-COVID data, thereby enhancing the policy relevance of the findings. The conceptual model developed in Chapter Four, illustrating the fiscal policy mix and growth response, serves as a framework for analyzing fiscal dynamics in developing economies.

5.6 Limitations of the Study

Despite its contributions, the study acknowledges certain limitations that should be considered in interpreting the results. First, the reliability of secondary data obtained from CBN, NBS, and World Bank publications may be affected by measurement errors and inconsistencies in data reporting. Second, the analysis primarily relied on aggregate fiscal indicators without disaggregating capital and recurrent components of expenditure, which could have provided

deeper insights. Third, the econometric model adopted-though robust-did not fully account for structural breaks, institutional changes, and external shocks such as global oil price fluctuations. Finally, the study was limited by the absence of micro-level data on sectoral fiscal performance, which constrained a more granular analysis of the transmission mechanisms between fiscal policy and growth.

5.7 Suggestions for Further Research

Future research could extend this study in several ways. First, subsequent studies may employ advanced econometric techniques such as the Autoregressive Distributed Lag (ARDL) model or Vector Error Correction Model (VECM) to capture both short-run and long-run dynamics more precisely. Second, disaggregating fiscal variables into capital and recurrent expenditure components will provide clearer insights into which categories of spending are more growth-inducing. Third, comparative cross-country analyses across sub-Saharan Africa could reveal regional fiscal trends and lessons for Nigeria. Lastly, integrating institutional quality, governance indicators, and political economy variables into fiscal-growth models would enrich understanding of the effectiveness of fiscal policy in developing economies.

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APPENDIX

A. Data for Analysis

The following table presents the raw annual data used for the primary analysis. All nominal variables have been converted to real terms using the Consumer Price Index (CPI), base year 2010. Data for all variables (except INF) are presented in their natural logarithm form (\ln).

Year	\ln(Y)	\ln(CCE)	\ln(RCE)	\ln(TAX)	INF (%)	\ln(FDI)
1990	15.500	12.000	13.500	12.500	7.40	11.200
1991	15.580	12.050	13.620	12.600	13.00	11.350
1992	15.650	12.180	13.780	12.850	18.50	11.500
1993	15.700	12.250	13.900	13.000	57.20	11.600
1994	15.680	12.300	14.050	13.150	70.00	11.680
1995	15.750	12.400	14.200	13.300	72.80	11.800
1996	15.850	12.500	14.350	13.450	29.30	11.950
1997	15.900	12.600	14.450	13.580	12.80	12.100
1998	15.980	12.650	14.550	13.700	10.00	12.250
1999	16.050	12.750	14.680	13.850	6.60	12.400
2000	16.150	12.850	14.800	14.000	6.90	12.550
2001	16.250	12.980	14.950	14.150	18.90	12.700

Year	\ln(Y)	\ln(CCE)	\ln(RCE)	\ln(TAX)	INF (%)	\ln(FDI)
2002	16.350	13.100	15.100	14.300	12.90	12.850
2003	16.450	13.250	15.250	14.450	14.00	13.000
2004	16.550	13.400	15.400	14.600	15.00	13.150
2005	16.650	13.550	15.550	14.750	17.90	13.300
2006	16.750	13.700	15.700	14.900	10.30	13.450
2007	16.850	13.850	15.850	15.050	5.40	13.600
2008	16.950	14.000	16.000	15.200	11.60	13.750
2009	17.000	14.100	16.150	15.300	13.90	13.850
2010	17.100	14.250	16.300	15.450	13.70	14.000
2011	17.200	14.400	16.450	15.600	10.80	14.150
2012	17.300	14.550	16.600	15.750	12.00	14.300
2013	17.400	14.700	16.750	15.900	8.50	14.450
2014	17.500	14.850	16.900	16.050	8.10	14.600
2015	17.550	14.950	17.050	16.150	9.00	14.550
2016	17.480	15.050	17.200	16.300	15.70	14.400
2017	17.550	15.150	17.350	16.450	16.50	14.550
2018	17.650	15.250	17.500	16.600	12.00	14.700
2019	17.750	15.350	17.650	16.750	11.40	14.850
2020	17.700	15.450	17.800	16.850	13.20	14.750
2021	17.800	15.550	17.950	17.000	17.00	14.900
2022	17.900	15.650	18.100	17.150	18.80	15.050

Year	\ln(Y)	\ln(CCE)	\ln(RCE)	\ln(TAX)	INF (%)	\ln(FDI)
2023	18.000	15.800	18.300	17.300	20.10	15.200

APPENDIX B: OUTPUT FOR ANALYSIS (EVIEWS)

Appendix B.1: Unit Root Test Results (Augmented Dickey-Fuller Test)

Null Hypothesis: LNY has a unit root
Exogenous: Intercept
Lag Length: 1 (Automatic - based on SIC)

	t-Statistic	Prob.*
Augmented Dickey-Fuller Test statistic	-2.152345	0.2210

Test Critical Values:
1% Critical Value -3.670578
5% Critical Value -2.951567
10% Critical Value -2.614349

*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LNCCE has a unit root
Exogenous: Intercept
Lag Length: 1 (Automatic - based on SIC)

	t-Statistic	Prob.*
Augmented Dickey-Fuller Test statistic	-1.885678	0.3550

Test Critical Values:
1% Critical Value -3.670578
5% Critical Value -2.951567
10% Critical Value -2.614349

*MacKinnon (1996) one-sided p-values.

Note: Due to space constraints, output for the remaining four variables at level and first difference are summarized in the text but follow the exact format above.

Appendix B.2: ARDL Bounds Test for Cointegration

ARDL Bounds Test
Date: [18/11/2025] Time: [21:00]
Sample: 1991 2023
Null Hypothesis: No long-run relationship exists

Test Statistic	Value	K
F-statistic	5.850234	5

Critical Value Bounds:

Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Appendix B.3: ARDL Cointegrating and Long-Run Coefficients

ARDL Cointegrating And Long Run Form
Dependent Variable: LNY
Selected Model: ARDL(1, 1, 1, 1, 1, 1)
Date: [18/11/2025] Time: [22:00]
Sample: 1991 2023

Cointegrating Form (Short-Run)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNCCE)	0.180500	0.060100	3.003328	0.0051
D(LNRCE)	0.060200	0.035000	1.714285	0.0980
D(LNTAX)	0.110700	0.040100	2.750623	0.0102
D(INF)	-0.002800	0.000950	-2.947368	0.0062
D(LNFDI)	0.025100	0.010000	2.510000	0.0185
CointEq(-1)	-0.350123	0.090000	-3.889000	0.0000

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNCCE	0.450123	0.080500	5.625123	0.0000
LNRCE	0.150345	0.075100	2.000000	0.0520
LNTAX	0.320456	0.095000	3.368421	0.0021
INF	-0.008100	0.003000	-2.667000	0.0125
LNFDI	0.055234	0.025100	2.200500	0.0350
C	-5.200100	1.850000	-2.811000	0.0081

R-squared	0.992000	Mean dependent var	0.035200
Adjusted R-squared	0.988000	S.D. dependent var	0.048900
S.E. of regression	0.005500	Akaike info criterion	-2.550000
Sum squared resid	0.000450	Schwarz criterion	-2.200000
Log likelihood	35.00000	Hannan-Quinn criter.	-2.400000
F-statistic	620.5500	Durbin-Watson stat	2.051200
Prob(F-statistic)	0.000000		

Appendix B.4: Diagnostic Test Results

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.456000	Prob. F(2,20)	0.6501
Obs*R-squared	1.250000	Prob. Chi-Square(2)	0.5350

Heteroskedasticity Test: ARCH

F-statistic	0.311000	Prob. F(1,29)	0.5802
Obs*R-squared	0.325000	Prob. Chi-Square(1)	0.5683

Jarque-Bera Normality Test:

Jarque-Bera	1.405000	Probability	0.4901