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Does Fiscal Policy Affect Economic Growth in Nigeria?

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Abstract: This study examined the impact of fiscal policy on Nigeria's economic growth from 1981 to 2022, covering a 41-year period. The research investigated the effects of government recurrent expenditure, government capital expenditure, and tax revenue on Gross Domestic Product (GDP), a proxy for economic growth. Using secondary data from reputable sources, the study employs an ex-post facto research design and purposive sampling technique to analyze the relationship between fiscal policy and economic growth. The findings revealed a complex relationship between government expenditures, tax policies, and economic growth outcomes in Nigeria. Contrary to expectations, government recurrent expenditure had a positive effect on economic growth, while government capital expenditure had a negative effect. Tax revenue also had a negative effect on economic growth. These findings have significant implications for policymakers, researchers, and stakeholders interested in understanding the impact of fiscal policy on economic growth in Nigeria. The study contributes to the existing body of knowledge on fiscal policy and economic growth, providing actionable insights for data-driven policy decisions to foster sustained economic growth, development, and prosperity in Nigeria.

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1. Introduction

The critical place of economic management for the world economies in the management of the fiscal policy of an economy. And this includes the government's delicate responsibility in taxation, spending, and borrowing to steer the economy. The fiscal policies of Nigeria are crucial in determining the direction of economic activities, affecting aspects such as investment, consumption, and overall economic expansion. Throughout its history, Nigeria has experienced ups and downs in its economic performance, influenced by both domestic and international factors. It is important to understand the historical background and trends in fiscal policy implementation to assess its effects on economic development.

The Nigerian economy continues to be battered with serious economic challenges due to fluctuations in economic activities, leading to regular spikes in all fiscal. These issues are compounded by poor fiscal discipline, coordination problems among different levels of government, and a weak foundation for tax revenue. These challenges underscore the need for a thorough examination of the role and effectiveness of fiscal policy in promoting sustainable economic growth. In response, the federal government has employed fiscal and monetary policies to manage the economy. Fiscal policy involves strategies to control the flow of money and achieve macroeconomic goals, aimed at countering negative trends. The success of these policies is vital for addressing the economic complexities faced by Nigeria.

In line with modern economic theories, fiscal and monetary policies are key tools used by the government to communicate its vision and direction for economic development. Fiscal policy is implemented through two main methods: taxation and government spending. Concurrently, monetary policy is carried out by the government in regulating the money supply and adjusting the exchange rate. The critical functions of fiscal policy, monetary policy, and trade policy are of great significance in any open economy, especially in the context of economic governance. Importantly, the efforts to achieve and maintain macroeconomic targets highlight the critical roles played by fiscal, monetary, and trade policies in both developed and developing economies, including Nigeria.

Fiscal policy can be described as the economic strategy or approach used by a country's government to stimulate economic growth. This is achieved by regulating public spending and tax rates (Idebi & Adesina-Uthman, 2022). Fiscal policy involves the strategic use of government spending and taxation to influence macroeconomic conditions, with the aim of fostering robust and sustainable growth and reducing poverty. It is a deliberate move by the government to manage the

economy through revenue and expenditure, which includes elements such as tax revenue, trade surplus, foreign aid, and both recurrent and capital spending. Fiscal policy acts as a macroeconomic tool to achieve specific economic objectives (Okedina et al.; 2019).

In Nigeria, fiscal policy has been instrumental in shaping macroeconomic outcomes. Researchers underscore the significance of government spending for economic growth in Nigeria, addressing issues such as inappropriate spending, revenue strategies, and public sector deficits. Fiscal policy in Nigeria can take the form of changes in taxes, government spending, and public debt. Achieving effective economic growth in Nigeria requires a blend of fiscal and monetary policies (Idebi & Adesina-Uthman, 2022).

1.2. Statement of the Problem

The Nigerian economy faces a variety of obstacles, including rising inflation, inconsistent fiscal policies from the government, unpredictable exchange rates, and a fluctuating gross domestic product. These issues lead to worsening payment imbalances and increasing rates of unemployment. The continuous need for borrowing by the Nigerian government is a result of these persistent fiscal, monetary, and trade deficits. Adegboye et al, (2021) posited that the condition of public services especially in areas of infrastructure and utilities are heavily reliant on government spending which affected the overall economic structure.

A major hurdle in the application of fiscal policy in Nigeria is the occurrence of crowding out and crowding in effects, as noted by Akhor and Ekundayo (2016). These effects can weaken the impact of fiscal policy tools, rendering both expansionary and contractionary policies less effective. Some economists argue that these forces are so powerful that changes in fiscal policy often fail to achieve the desired outcomes on overall demand. In an expansionary fiscal policy scenario, an increase in the money supply can reduce the value of currency, leading to higher prices due to increased demand for consumer goods. This situation can push inflation beyond an acceptable level. This issue complicates the task of fine-tuning the economy through fiscal policy alone, making it, at times, an unattainable goal for economic objectives. Moreover, the delay in seeing the effects of a new fiscal policy implementation is another barrier to its effectiveness in Nigeria. This delay makes it challenging to quickly adjust fiscal policy to influence the business cycle.

Despite fiscal policy's crucial role in managing an economy, Nigeria's economy has yet to achieve stable growth and development, continues to heavily rely on foreign technology, and still depends mainly on oil exports for its foreign currency earnings. This situation is further complicated by the frequent changes in leadership and policies (Oseni and Okwu, 2020). Attempts to explore how fiscal policy impacts the

real sector have led to differing views, with some studies showing a significant impact, particularly in how it moderates the effects of capital and recurrent spending (Aluthge, et al 2021; Cookey and Okorie, 2020; Morakinyo, David, & Alao, 2018; Cynthia, & Itode, 2018). However, these studies also disagree on whether the impact is positive or negative and in what direction it goes. This disagreement suggests that using fiscal policy alone may not be sufficient for managing the real sector. For example, Adegboye, et al (2021), Chinedu and Okafor (2022); Morakinyo, (2018), have found that the fiscal policy tools they used have generally had a negative impact on the real sector in both the short and long term, indicating that capital and recurrent spending, as well as taxation, could harm the real sector. This study highlights the need to evaluate how government fiscal policies affect the Nigerian economy, especially considering the increasing costs of goods and services, rising production expenses, and changes in exchange rates. The research seeks to analyze the influence of fiscal policy on the Nigerian economy over a 41-year period, from 1981 to 2022.

The objective of the study is to investigate the impact of fiscal policy on economic growth in Nigeria. And to specifically determine the impact of government recurrent expenditure, and tax revenues on Gross Domestic Product (GDP) in Nigeria.

2. Literature Review

2.1. Conceptual Review

2.1.1. Concept of Economic Growth

Nigeria is a developing market characterized by a diversified economy, a middle-income status, and the expansion of sectors such as banking, services, communications, and entertainment. Despite its developing nature, the country's manufacturing sector, which ranks third in West Africa and 30th globally in terms of GDP as of 2011, is currently underperforming. Nigeria, Africa's most populous Black Country and its central economic hub, has struggled to maintain a stable economy for an extended period. The economy faced challenges even before the second quarter of 2016, when it was officially recognized as being in a recession (Nuraini, 2018).

Ugwu (2020) notes that the economy is primarily focused on the production of primary goods, is heavily reliant on imports, driven by consumption, and lacks diversity. Manufacturing contributes less than 1% to total exports, while crude oil accounts for over 90% of exports and the bulk of the country's foreign exchange earnings (Nowak, 2018). Agriculture, which makes up 40% of the GDP and employs over 70% of the workforce, is a significant contributor to the economy. Despite the country's rich natural resources, including oil and gas, a large portion of its population, more than 206.1 million people, live below the global poverty line of US$ 1.25 per day (Deinne, & Ajayi, 2021).

The 2017-2020 Economic Recovery and Growth Plan highlights that the country's overall economic performance is negatively impacted by weak and ineffective institutional structures, corruption, insecurity, and poor governance (Ministry of Budget and National Planning, 2021).

On the flip side, economic growth is a key objective for every nation and is used to gauge the health of the economy. Typically, it is measured by the Gross Domestic Product (GDP), which represents the total monetary value of all goods and services produced within a country over a specific period (Chinedu and Okafor 2022).

From a population perspective, economic growth is defined as the increase in the total amount of goods and services produced by an economy over time, usually measured in years. It is also defined as the ratio of the total goods and services produced in a country to its population. The terms used to describe economic growth can be either real or nominal. For example, real economic growth is the overall increase in goods and services after adjusting for inflation. When there is a net increase in goods and services without deflation, nominal economic growth occurs (Owan et al.; 2020).

According to Nwogwugwu et al. (2021), economic growth is the continuous process by which the economy's productive capacity is expanded over time, leading to an increase in the national income level.

2.2. Theoretical and Empirical Review

2.2.1. Keynesian Aggregate Demand Theory

The Keynesian viewpoint on controlling overall demand suggests that during economic downturns or when the economy is operating below its full employment level, depending solely on market forces for a quick recovery is unreliable. Fundamentally, the Keynesian strategy believes that the private sector is inherently volatile and supports the use of proactive fiscal and monetary measures. This approach involves regularly tweaking fiscal and monetary policies to meet government objectives (Levacic and Rebmann, 1982).

Keynesian theory mainly emphasizes the role of public spending, especially through government budget deficits, to boost overall demand. It offers a framework for assessing how government spending affects economic activity, the impact of tax policies, and the appropriate size of intervention. Active stabilization policies can take the form of discretionary or feedback rules, with the latter setting a predetermined formula for adjusting policy variables over time. However, feedback rules are typically restricted to automatic stabilizers, which automatically adjust government spending and taxation in response to changes in national income, helping to stabilize the economy (Levacic and Rebmann, 1982).

In the Solow-Swan neoclassical model, the role of government spending is notably missing. To address this deficiency, various theories of economic growth have emerged, incorporating the overlooked elements of the neoclassical model (Bogunjoko, 2004). The Keynesian perspective views government spending as a crucial input in the aggregate production function, challenging the neoclassical model's sole reliance on labor and capital for production. According to Keynesian theory, increasing government spending can have a multiplier effect on aggregate demand, thereby affecting economic growth. This study supports the Keynesian theory despite criticisms it has received from economists.

Several scholars have explored various facets of fiscal policy, particularly focusing on its impact on the overall economy's macroeconomics. These studies range from country-specific to comparative analyses. A selection of these studies is presented for further examination:

Pillah (2023) delves into how fiscal and monetary policies influence economic growth in Nigeria, covering a period from 1991 to 2021. The review of these studies reveals that, at times, tax and money supply measures have adverse effects on economic output, suggesting these tools may not always be as effective or efficient as intended. Additionally, some studies show that, despite a significant drop in interest rates from 1991 to 2021, the rates of investment and economic growth remain modest, indicating a lower effectiveness of these policies.

Oseni and Oyelade (2023) explore the relationship between monetary and fiscal policies and economic growth in Nigeria, utilizing various economic indicators. Their research indicates that gross capital formation, the total number of employees, broad money supply, and lending interest rates are key determinants of economic growth in Nigeria. The study found that gross capital formation, the total number of employees, and broad money supply positively affect gross domestic product (GDP), whereas lending interest rates negatively impact GDP. The study suggests that the government should encourage increased private investment in Nigeria by reducing lending interest rates, which would, in turn, stimulate private investment in the country. Furthermore, the study recommends that government policies should focus on creating more employment opportunities in Nigeria, as this could lead to economic growth. The study concludes that monetary policy is more effective than fiscal policy in Nigeria, and the central bank should be careful in directing its policies towards sectors that can drive economic growth.

Dumisani (2022) utilized yearly time series data from the South Africa Reverse Bank (SARB) spanning from 1980 to 2020 to assess the impact of fiscal policy on economic development in South Africa. The study employed various statistical tests including Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests, Johansen Co-integration test, Granger causality test, and Vector Auto-Regression (VAR) method. The analysis used Real GDP per capita as a measure of economic

growth and Gross Fixed Capital Formation (GFCF), Government Expenditure (GEXP), and Government Deficit (GOVD) as indicators of fiscal policy. The ADF test results indicated that all variables were stationary at the first difference, with the exception of GFCF and GEXP, which were stationary at I(0), and the PP test results showed the same. The Maximum Eigenvalue analysis revealed that the four variables were not cointegrated. The Granger causality test showed a one-way causation from Government Deficit to Real GDP, as well as a two-way causation from Real GDP to Gross Fixed Capital Formation and Government Expenditure. The Error Correction Model Estimated using VAR demonstrated that Government Expenditure and Government Expenditure had a positive effect on Real GDP, whereas Government Deficit had a negative effect on Real GDP in the short term. The study also found that the residuals of the VAR were homoscedastic, indicating they were normally distributed and free from serial correlation.

3. Methodology

3.1. Model Specification

Augmented Dickey–Fuller (ADF) unit root test was performed to ensure that data possess the time series property of stationarity. This is examined based on the following model:

$$\Delta Y_t = \beta_1 + \delta Y_{t-1} + \sum_{i=1}^{m} \alpha_i \Delta Y_{t-i} + \varepsilon_t \qquad \text{(with intercept)} \text{- - - - - - - - - -} (3.5)$$

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \sum_{i=1}^{m} \alpha_i \Delta Y_{t-i} + \varepsilon_t \qquad \text{(with trend and intercept)} \text{- -} (3.5)$$

Where Y_t represents the values of each variable in the two equations. The Augmented Dickey-Fuller (ADF) test of the null hypothesis of no unit root tests would be carried out as follows: If the trend is of interest, that is, Ho: $\beta = \alpha = 0$, then the use of F-test, and if the trend is not of interest, that is, Ho: $\alpha = 0$, then the use of T-test. F-test was used to test simultaneously β and α while T-test was used to test for the individual parameters.

Descriptive Statistics

Table 3.1. Descriptive Statistics

	GDP	GRR	GCE	TAX
Mean	44521.72	70239.62	86066.13	884.5667
Median	41126.68	25677.50	44370.70	882.0000
Maximum	73382.77	256259.9	444370.0	1368.000
Minimum	21757.90	135.8000	639.6000	401.0000
Std. Dev.	19724.50	86672.50	111947.4	182.4203
Skewness	-0.388588	0.985278	1.741700	0.514348
Kurtosis	3.388152`	2.401713	5.558238	5.265044
Jarque-Bera	0.943330	5.301302	23.34832	7.735803
Probability	0.623962	0.070605	0.000009	0.020902
Sum	1672.746	2107189.	2581984.	26537.00
Sum Sq. Dev.	1083.471	2.18E+11	3.63E+11	965037.4
Observations	30	30	30	30

Source: Author's Computation, 2024.

Table 3.1 displays the summary statistics for the research. This table reveals that the GDP variable has an average of 4451.72 with a spread of 19724.5, indicating it is closely centered around this mean. Its highest and lowest values are 73382.77 and 21757.9, respectively. The distribution of this variable is negatively skewed, as measured by a skewness coefficient of -0.388588, and it is leptokurtic, as shown by a kurtosis value of -0.388588, which is greater than 3. The Jarque-Bera test indicates that the GDP distribution is approximately normal, with a value of 0.623962 for the Jarque-Bera Probability.

Additionally, the table indicates that the GRR variable has an average of 70239.62 with a spread of 86672.50, suggesting it is more spread out from the mean. Its highest and lowest values are 256259.9 and 135.8000, respectively. This variable is positively skewed, as indicated by a skewness coefficient of 0.985278, and it is platykurtic, as shown by a kurtosis value of 2.401713, which is greater than 3. The Jarque-Bera test also suggests that the GRR distribution is approximately normal, with a value of 0.070605 for the Jarque-Bera Probability.

Moreover, the table shows that the GCE variable has an average of 86066.13 with a spread of 111747.4, indicating it is also clustered around the mean. Its highest and lowest values are 444370.0 and 639.6000, respectively. This variable is positively skewed, as measured by a skewness coefficient of 1.741700, and it is leptokurtic, as indicated by a kurtosis value of 5.558238, which is greater than 3. The Jarque-Bera

test further suggests that the GCE distribution is approximately normal, with a value of 0.000009 for the Jarque-Bera Probability.

Lastly, the table reveals that the TAX variable has an average of 884.5667 with a spread of 182.4203, indicating it is clustered around the mean. Its highest and lowest values are 1368.000 and 401.0000, respectively. This variable is positively skewed, as measured by a skewness coefficient of 0.514348, and it is leptokurtic, as shown by a kurtosis value of 5.265044, which is greater than 3. The Jarque-Bera test also suggests that the TAX distribution is approximately normal, with a value of 0.020902 for the Jarque-Bera Probability. The study proceeds to calculate the correlation matrix in Table 3.2.

Table 3.2 Correlation Matrix

	LGRR	LGCE	LTAX
LGRR	1		
LGCE	0.69	1	
LTAX	0.13	0.07	1

Source: Author's Computation, 2024.

The relationship designed to examine the likelihood of multicollinearity in the predictors is displayed in Table 3.2. This table indicates that every variable is positively linked, with the highest correlation coefficient being 0.69, demonstrating the lack of multicollinearity among the variables, thus confirming their independence from one another. The steps taken to assess the stationarity test are outlined in Table 3.3.

Table 3.3. Unit Root Test

UNIT ROOT TEST RESULTS TABLE (ADF)						
Null Hypothesis: the variable has a unit root						
	At Level					
		LGDP	LGRR	LGCE	LTAX	
With Constant	t-Statistic	-2.2276	-2.2043	-0.6820	-4.8525	
	Prob.	*0.2014*	*0.2091*	*0.8355*	*0.0005*	
		n0	n0	n0	***	
	At First Difference					
		d(LGDP)	d(LGRR)	d(LGCE)	d(LTAX)	
With Constant	t-Statistic	-5.3461	-6.7490	-7.9468	-7.6535	
	Prob.	*0.0002*	*0.0000*	*0.0000*	*0.0000*	
		***	***	***	***	
Notes:						
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant						
b: Lag Length based on SIC						
c: Probability based on MacKinnon (1996) one-sided p-values.						

Source: Author's Computation, 2024.

The table 3.3, which is designed to assess the stationarity of the variables, is presented here. It indicates that only the Tax variable remains stationary at its original levels, whereas GDP, GRR, and GCE achieve stationarity after taking the first difference. The critical values for significance are set at 5%. Given the combination of integration orders, the ARDL estimations are suitable for the model. The research proceeds to identify the best lag structure for the analysis in Table 3.4.

Table 3.4. Optimal Lag Structure

Lag	LogL	LR	FPE	AIC	SC	HQ
0	87.85434	NA	2.94e-08	-5.989595	-5.799280	-5.931414
1	156.5191	112.8064*	6.95e-10*	-9.751365*	-8.799791*	-9.460459*
2	171.0517	19.72273	8.35e-10	-9.646547	-7.933712	-9.122916

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Source: Author's Computation, 2024

Table 3.4 presents the lag recommended by the different information criterions. All the criterions recommended lag for this study; hence this study adopts lag one as its optimal lag. Thus, lag one will be used throughout the course of this analysis. The moves to estimate serial correlation for the model are in Table 3.5.

Table 3.5. Serial Correlation

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.249770	Prob. F(2,16)	0.7820
Obs*R-squared	0.847728	Prob. Chi-Square(2)	0.6545

Source: Author's Computation, 2024.

The result of the serial correlation is presented in Table 3.5 above. The probability value of the chi-square shows that there is no serial correlation among the regressors with a value of 0.6545. hence, there is no autocorrelation in the model. The moves to estimate the stability test are in Table 3.5.

Table 3.6. Stability Test

|	Value	df	Probability
t-statistic	0.008234	17	0.9935
F-statistic	6.78E-05	(1, 17)	0.9935
Likelihood ratio	0.000112	1	0.9916

Source: Author's Computation, 2024.

The Ramsey rest stability test shows that the model is stable as the probability value of the t-statistics is 0.9935 great than 0.05 which indicates that the model is stable as opposed to the null hypothesis of the test which states that the model is not stable. The study moves to the multicollinearity test in Table 3.7

Table 3.7. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF
LGRR	0.088722	4.1269
LGCE	0.020298	2.53096
LTAX	0.082698	3.6411

Source: Author's Computation, 2024

The multicollinearity test estimated using variance inflation factors (VIF) indicates that all the variables are independent of each, this conclusion is made from the uncentred VIF which are all lesser than 10. Hence, the study concludes that regressors are fit to be regressed on inflation. The study moves to the model selection in Figure 3.1.
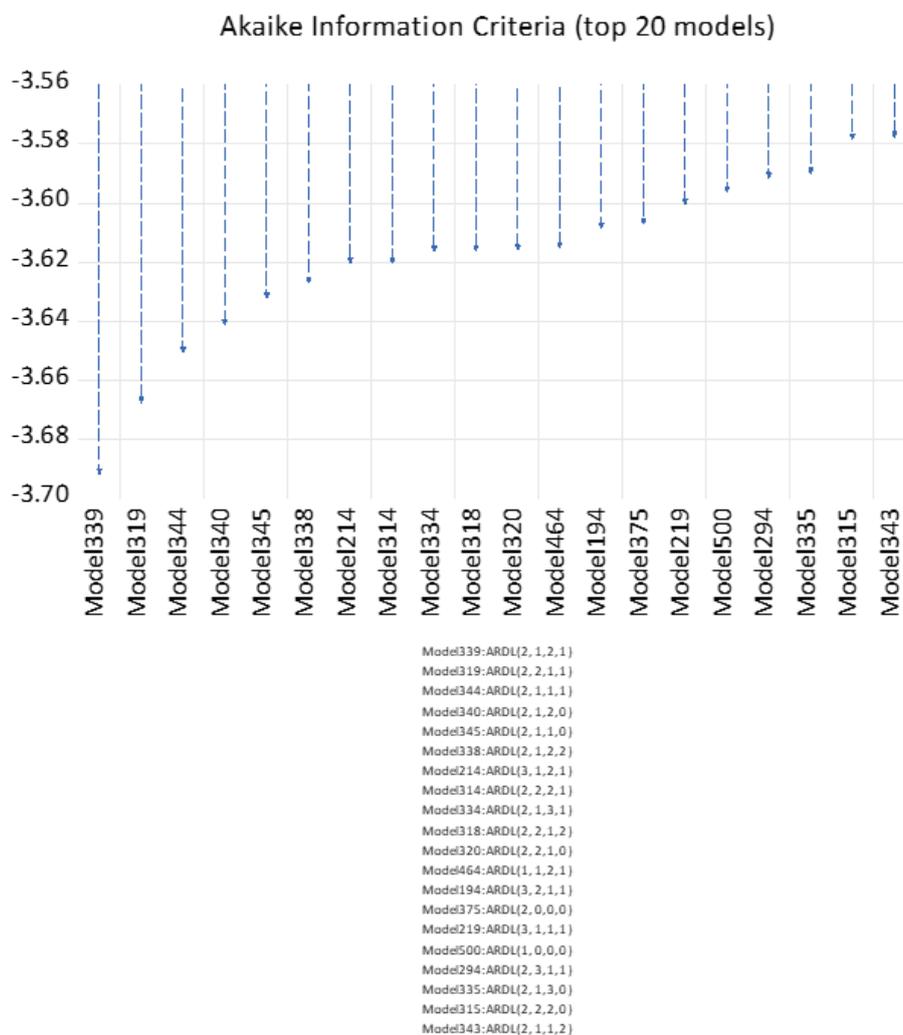
Figure 3.1 ARDL Model Selection
Source: Author's Computation, 2024.

The model ARDL model selection presented in Figure 3.2 shows that model 2,1,2,1 is the most appropriate for the study, this is so as the model has the lowest value among all the other models presented in the figure. The study moves to the interpretation of the result.

3.2. Interpretation of result

Table 3.7. Bound Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	4.984853	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Author's Computation, 2024.

The bound test shown in Table 3.7 is designed to check if there's a lasting connection in the model. The F-statistics figure of 4.984853 is higher than the lower and upper limits, set at 2.79 and 3.67, respectively, at a 5% significance level. This suggests the presence of a lasting connection in the model. The research then proceeds to calculate the long-term multiplier in Table 3.8

Table 3.8. Long Run Multiplier

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGRR	0.235104	0.065229	3.604288	0.0020
LGCE	-0.330484	0.077581	-4.259837	0.0005
LTAX	-0.226950	0.087859	-2.583111	0.0188
C	2.895186	0.305431	9.479033	0.0000

Source: Author's Computation, 2024.

The long run connection among the factors is displayed in Table 3.8. The findings reveal that Gross Regional Rate (GRR) positively and significantly impacts GDP, with a value of 0.235104, suggesting that an increase in GRR by 1 percent results in a 23 percent rise in GDP. Conversely, Gender Composition Effect (GCE) negatively and significantly impacts GDP, with a value of -0.330484, showing that an increase in GCE by 1 percent leads to a 33 percent decrease in GDP. Similarly, Taxation has a negative and significant impact on GDP, with a value of -0.226950, indicating that an increase in GCE by 1 percent results in a 22 percent decrease in GDP. Therefore, all the factors considered independently significantly influence GDP over the long term. The research then proceeds to explore the short-term impact in Table 3.9.

Table 3.9. Short Run Dynamics

ECM Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LGDP(-1))	0.371399	0.176531	2.103869	0.0497
D(LGRR)	0.061057	0.078443	0.778352	0.4465
D(LGCE)	-0.156937	0.091658	-1.712213	0.1040
D(LGCE(-1))	-0.063825	0.027493	-2.321490	0.0322
D(LTAX)	-0.108175	0.133006	-0.813309	0.4267
CointEq(-1)*	-0.259456	0.028190	-5.519329	0.0000
R-squared	0.641446	Mean dependent var		-0.002790
Adjusted R-squared	0.559957	S.D. dependent var		0.044101
S.E. of regression	0.029255	Akaike info criterion		-4.038122
Sum squared resid	0.018829	Schwarz criterion		-3.752650
Log likelihood	62.53371	Hannan-Quinn criter.		-3.950850
Durbin-Watson stat	2.062323			

Source: Author's Computation, 2024.

Table 3.9 indicates the short-run model, this analysis examines the immediate fluctuations of the variables in relation to the correction term of the research. Specifically, the research found that in the immediate period, the Gross Reproduction Rate (GRR) had a statistically minor but positive effect on Gross Domestic Product (GDP). This suggests that an increase in GRR by 1% leads to a 6% rise in GDP. Conversely, the Gross Capital Expenditure (GCE) had a statistically minor but negative effect on GDP in the immediate period. This indicates that an increase in GCE by 1% results in a 15% decrease in GDP. The findings also show that Taxation has a statistically minor impact on GDP in the immediate period, suggesting that a

1% increase in Taxation will result in a 125% decrease in GDP in the immediate period. In the immediate period, there is a positive and statistically significant effect of GDP on GDP in the present, while GCE has a negative and statistically significant effect on GDP in the immediate period. This means that in the immediate period, an increase in GDP leads to a positive and significant effect on GDP in the present, while an increase in GCE leads to a negative and significant effect on GDP in the immediate period. The analysis of the correction term, which reflects the rate at which the system adjusts from the immediate to the long-term, reported a negative sign and a significant value at a 5% level of significance, aligning with the theoretical expectations. The coefficient value is -0.259456 (p<0.05), indicating that 25% of the short-term inconsistencies are being addressed and integrated into the long-term equilibrium relationship each period. The R-squared value indicates that 64.1% of the GDP changes can be attributed to GRR, GCE, and TAX in the short term. Additionally, the Durbin-Watson statistic indicates the absence of autocorrelation among the variables with a coefficient of 2.062323, which is within the acceptable range of 1.79 to 2.40.

3.3 Discussion of Findings

The research revealed that recurring government spending positively impacts poverty economic development, showing that more government recurrent spending results in a higher poverty rate. This outcome matches the research of Ihenetu (2021), which found that loans from microfinance banks to different sectors significantly reduced poverty in Nigeria. The link between recurrent spending and poverty is consistent with the idea that spending on salaries and operational costs might not directly lead to productive investments that promote economic growth and poverty reduction. In agreement with this, the research by Ikechi et al. (2022) supports these conclusions, further emphasizing the positive connection between recurrent spending and poverty levels.

On the other hand, the research indicated that government spending on capital projects has a detrimental effect on economic expansion, showing that more capital spending leads to a decline in economic growth. This suggests that investments in infrastructure, productive assets, and development initiatives might not have effectively boosted economic growth during the period under review. The research by Idebi and Adesina-Uthman (2022) backs this up, possibly indicating that the current study's findings on the link between capital spending and economic growth might not align with the broader research.

Moreover, the research found that increased tax revenue has a negative impact on economic expansion, indicating that higher tax revenues lead to a decrease in economic growth. This goes against the common belief that higher tax revenues can provide the necessary funds for government spending and investment, which could

stimulate economic growth. However, the research by Idebi and Adesina-Uthman (2022) challenges this finding, suggesting that their results might not be in line with the current study's conclusions on the relationship between tax revenue and economic growth.

It's crucial to remember that these findings are specific to the context and time frame of the study, and their interpretation should take into account the wider economic, social, and political factors at play. More research and analysis might be needed to reconcile the conflicting results and gain a more complete understanding of the intricate relationship between government spending, tax policies, and economic growth outcomes.

4. Recommendations

Based on the findings of the study, the following recommendations are made:

1. Spending on capital projects should be directed towards key areas like transport, energy, and communications, using a mix of public-private collaborations and creative funding options to boost economic progress and development.

2. The process of collecting taxes should be made simpler, reduce the amount of tax evasion, and expand the range of taxable income.

3. It's essential for the government to strictly follow a budget to avoid overspending, ensure responsible handling of debt, and keep the economy stable.

4. The government should work together with the private sector to fund, carry out, and look after infrastructure projects, using the private sector's knowledge and resources to promote economic growth.

5.The government should make the development of its people a top priority, focusing on education, healthcare, and skills training to improve the efficiency and competitiveness of the workforce and

6. Nigeria needs to broaden its income streams beyond just oil earnings, by exploring new ways to finance projects and investing in sustainable industries to lessen its dependence on the fluctuating prices of commodities and improve its financial stability.

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