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Incentive-Based Vs. Intervention-Based Fiscal Policy and Economic Growth: A Comparative Analysis of Nigeria and South Africa

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Abstract: This study compares the effectiveness of incentive-based and intervention-based fiscal policies on long-run economic growth in Nigeria and South Africa respectively, over the period 1990–2024. Employing unit root tests, Johansen cointegration, and Fully Modified Ordinary Least Squares (FMOLS) estimation, the findings reveal that Nigeria’s incentive-based fiscal policy exerts a significant negative effect on economic growth, attributable to weak institutional capacity, resource misallocation, and import-dependent trade structures. Conversely, South Africa’s interventionist fiscal policy produces a positive and statistically significant growth impact, underpinned by inflation control and trade openness. These contrasting outcomes suggest that intervention-based fiscal policy outperforms incentive-based approaches, though the success of either model is fundamentally conditioned by institutional quality and complementary macroeconomic fundamentals. The study recommends that Nigeria undertake public financial management reforms while South Africa addresses structural FDI limitations. Both nations should strengthen monetary-fiscal policy coordination and leverage the African Continental Free Trade Area (AfCFTA) for productive trade integration.

Keywords: Fiscal Policy; Economic Growth; Incentive; Intervention; FMOLS

JEL Classification: E62, H50, O40, O55, F43

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1. Introduction

The desire for countries to advance along the path of economic growth has generated many options and working models based on each country's fundamental economic orientation. For sub-Saharan African countries, a lot of the progress for economic growth rests so much on fiscal policy directions and ideologies. Two of such policy directions are incentive-based and intervention-based policies. While the incentive-based fiscal policy is mainly targeted at encouraging certain economic operations by means of fiscal tools like spending, subsidies and tax breaks (Kang et al., 2023), the intervention-led fiscal policy entails direct government intervention by means of higher targeted expenditures to stabilize the economy, especially when the economy is at its lowest. The incentive-based fiscal policy can be efficient in encouraging innovation in a company, as has been found in China, where fiscal subsidies have been found to be more effective in times of economic recession, and tax incentives more effective in times of economic boom (Kang et al., 2023). Such policies are meant to promote business investment and innovation by decreasing the financial load on the business, hence economic growth and stability.

On the other hand, intervention-based fiscal policy solution involves the use of economic stimulus packages where economic stimulus packages involve infrastructure development, tax reductions, and welfare to stimulate demand and investment which will eventually lead to consumer confidence and reduce the effects of recession (Adigozalov, 1996). However, these two policy directions might be permitted in continents and regions where regional policy guidelines are not specified for individual countries as was done in the European member countries by the EU Commission (Moro, 2001). The two methods are essential in controlling the economic cycles, but have different modalities and the targeted economic conditions.

Two of the sub-region's largest economies, Nigeria and South Africa, have adopted fiscal policies based on incentives and intervention, respectively. For sub-Saharan African countries, where such regional fiscal policy integrations are absent, comparing the incentive and stimulus-based fiscal policy-growth relationship in Nigeria and South Africa in relation to investment in the private sector entails the comprehension of the importance of fiscal policy as an instrument of national development and economic growth. In Nigeria, the dependency on unstable oil revenues and fiscal discipline issues has become a challenge to fiscal policy, and in South Africa, fiscal governance and targeted spending are stronger and lead to inclusive growth (Idris, 2024). In trying to compare these two fiscal policies in

Nigeria and South Africa, it is important to note that good governance and prudent fiscal interventions are critical in promoting the investment in the private sector and the sustainable economy development.

The case in point is that Nigeria and South Africa have decades of experience of knowing that they need some sort of private investment and they have done a lot in terms of policy changes to enhance the investment environment. This is what Nigeria did with the many policies and programmes such as the first national development plan of 1964 as well as the Second National Development plan of 1970-74, that were reactions to the relative non-performance of the private sector in general and the abysmal inflow of the foreign capital that was expected. On the other hand, the South African government introduced an expansionary fiscal policy since 1994 to help the economy recover and gain strength (Tendengu et al., 2022). This was done by a number of fiscal policy actions introduced by them since 1994 to enhance the growth of the economy. The first was the Reconstruction and Development Programme (RDP) in 1994 which aimed to mobilize people to create an inclusive South African society. Through this programme, the South African government focused on the social needs of South Africans like healthcare, education and housing to the previously disadvantaged individuals. Then there was the 1996 Growth, Employment and Redistribution (GEAR) policy whose main aim was to reinforce the macroeconomy to help the government in the earlier intervention programs. Trying to fill the gaps in the GEAR by eliminating the obstacles to inclusive growth, the South African government introduced the Accelerated and Shared Growth Initiative of South Africa (AsgiSA) to overcome the challenges in South Africa, including skill shortages, the lack of infrastructure and the inadequate conditions of health services.

Despite all of these different policy directions, the data report from the World Development Indicator (WDI) reported the GDP per capita in Nigeria was fluctuating with maximum of \$3088.67 in 2014 and minimum of \$480.67 in 1999, before ending at \$1596.64 in 2023, while that of South Africa experienced a more steady growth as per capita income increasing gradually from \$3093.49 in 1990 to \$6022.54 in 2023 (WDI, 2024). This scenario actually triggers the quest to compare the incentive-led fiscal policy in Nigeria and the interventionist government-driven fiscal policy to actually ascertain their relative effectiveness. This approach makes this study unique, because it understudied the fundamentals of policy ideologies to examine the relative effects of the fiscal policy on the economic growth of both Nigeria and South Africa, as against other studies that make appropriate comparison

on the basis of fiscal policy ideologies (Nelson et al., 2025; Chiadika & Egbon, 2024; Akaegbobi & Nwosu, 2025; Ngoc, 2023).

In this study, the attempt will be to comprehend the relative roles of fiscal policy in driving the economies of Nigeria and South Africa, and the pivotal position government incentives or intervention play in advancing economic growth. To accomplish this general objective, the research will be based on the long-run fully modified Ordinary Least Squares (FMOLS) regression method where the only objective is to explore the relative effects of incentive and interventionist-based fiscal policies on the level of economic growth. The result of this research will be used as a policy evaluation and correction guideline, bearing in mind that the two countries under comparison have varying fiscal policy strategies. Although the South Africa have been dependent on the government-tarted model, the Nigerian government have been dependent on the incentive-based model. The outcomes will also indicate which method has been more effective and recommendations will be given as to whether it is at all possible to propose what is more viable to the country whose path has not provided fruitful outcomes.

The other parts of the study are segmented into the following: the next segment is the literature review, followed by the section that deals with data, data sources, and methodology. The fourth part is the result section and the final part is the conclusion and recommendations.

2. Literature Review

2.1. Theoretical and Conceptual Literature

The role of fiscal policy in economy has been the focal point of the study with the main emphasis on the instillation of fiscal stimulus to boost activities in the private sector and economy to be driven by the private sector. The Keynesian theory explains how fiscal policy influence the growth of an economy to rely on the importance of state spending and intervention, especially during a downturn. Keynesians claim that aggregate demand, job creation, and recovery of the economy activity happen in the weak demand situation in the private sector with an increase in government spending (Nelson et al., 2025; Chiadika & Egbon, 2024). They view fiscal policy as a stabilisation tool that can provide macroeconomic goals of sustainable growth, employment and equal distribution of income. As an example, direct stimulation of productivity and long-term growth by spending on

infrastructure and human capital because of an investment in social welfare programmes raises household demand, which subsequently directs direct production and investment by the private indirectly (Akaegbobi & Nwosu, 2025). However, critics note that the high expenditure can overly retaliate in the domestic investments, increasing taxes, or causing an increase in the borrowing, which restricts the availability of the capital to the private sector (Ngoc, 2023; Maluleke et al., 2023). Despite such shortcomings, the fiscal multiplier illustrates the fact that the government should in most occasions correct market imbalances, restore confidence as well as stabilise the economies in its dark side. This move then stimulates economic growth in the long run.

2.2. Review of Related Studies

2.2.1. Fiscal Policy and Economic Growth

Ngoc (2023) used a VAR model to examine South Africa in the period 2000-2019 and found out that there were positive relationships between short-term economic growth and public expenditure. The model showed a neutral long-term relationship, thus, the study recommends the need to counteract the negative effects by controlled spending. Akaegbobi and Nwosu (2025) found a positive and non-significant impact of the government expenditure during 1999 to 2023 on the real GDP of Nigeria and highlighted the loopholes in planning and implementation. Udo et al. (2022) employed the ARDL Bound test to study the role of the fiscal policy of Nigeria on the development of the country over the period of 1970 to 2019. They found that government capital expenditure significantly retarded economic growth whereas government recurrent expenditure encouraged it. Pamba's (2022) study looked at how well South Africa's fiscal policy worked to boost economic growth from 1980 to 2020. They applied the Granger causality test to demonstrate that there was a one-way relationship between the deficit of the government and the Real GDP per capita. There was a bi-directional relationship between real GDP per capita and gross fixed capital formation as well as government spending.

Using the data on the 21 Central and Eastern European (CEE) countries between 2000 and 2018, Hodzic et al. (2020) examined the fiscal policy and economic growth nexus and concluded that increasing taxes contributes to the growth of the economy. Yovo (2017) studied the public spending and growth relationship, as well as how this extends to public and private investment relationship in Togo from 1980 to 2013.

They found out that the increasing expenditure by the government causes more difficulty among the private investors in terms of investing their money in things. Babalola (2015) investigated the impact of the fiscal policy on the growth of Nigeria between 1981 and 2013, and discovered that government recurrent expenditures and investments are beneficial, but tax revenue is not.

The other strands of literatures that considered the associative influence of fiscal policy, not independently but based on the consideration of other economic factors, like private investment, and economic growth. Along this line of thought is Ologbenla (2021), who examined the relationship between FDI and fiscal policy and the impact of the two variables on the growth of the Nigerian economy between 1980 and 2019. The result indicated the relationship between FDI and fiscal policy was not a significant factor when it comes to the long-term economic growth, but it was when it comes to short-term economic growth. Awode (2019) applied the ARDL model to investigate the hypothesis of whether fiscal policy in Nigeria crowds out or crowds in the private investment. The capital expenditure and taxes were found to have a strong and positive impact on the personal investment. Omojolaibi et al. (2016) performed their research and applied the fixed effect model to understudy the relationship between fiscal policy and the private investment in five countries in the West African region between 1993 and 2014. The analyzed study found a validated connection with evidence of crowding in effect.

3. Data and Methodology

The purpose of this study is to compare the incentive and interventionist-based fiscal policies in major sub-Saharan African economies, that is, Nigeria and South Africa. The time series data utilized in this study is annual data between 1990 and 2024 in Nigeria and South Africa respectively. The sample period will be used to reflect the post-liberalisation period in both the countries, a period with major changes in fiscal policy e.g. the switch of Nigeria to incentive-based frameworks and South Africa to expansionary and interventionist fiscal programmes with the termination of apartheid in 1994. All data are obtained through the World Development Indicators (WDI) database of the World Bank (WDI, 2024), and with the help of the World Economic Outlook (IMF-WEO) database of the International Monetary Fund where needed. Table 1 shows the variables, definitions, measurements and the sources.

Inflation (INF) is also a control variable due to its established importance in the macroeconomic situation that determines the efficiency of fiscal policy transmission. Empirically, inflation plays in undermining the capacity of fiscal expenditure to pay long-run growth dividends (Ngoc, 2023; Maluleke et al., 2023). Foreign Direct Investment (FDI) is justified by Ologbenla (2021), who argued that the relationship between FDI and fiscal policy played an important role in the economic growth of Nigeria. Trade Openness (OPEN) represents the extent to which individual economies are open to world markets, which greatly defines the extent to which fiscal policy signals are passed to growth outcomes. An open economy permits fiscal expansions to potentially leak out in the form of increased imports, while a closed or import-dependent economy, like that of Nigeria, risks having fiscal stimulus consumed by demand of imports instead of domestic output.

Table 1. Variable Description, Measurement and Sources

Variable	Proxy		Measurement		Source	Expected Sign
Economic Growth (ECGRW)	GDP per capita		Constant USD	2015	WDI	—
Fiscal policy (FISPOL)	Government Expenditure		% of GDP		WDI	+/-
Foreign Direct Investment (FDI)	Net FDI inflows		% of GDP		WDI	+
Inflation (INF)	Consumer Price Index (CPI)	Price	Annual change	%	WDI	-
Trade Openness (TRADE)	Sum of exports and imports		% of GDP		WDI	+

Method of Data Analysis

Since the data are time series and the research is interested in the long-run relationships, a three-step econometric process is used in this study, which includes: (I) the Augmented Dickey-Fuller (ADF) unit root test, (II) the Johansen cointegration test, based on the Trace and Maximum Eigenvalue statistics, and (III) the Fully Modified Ordinary Least Squares.

Unit Root Test: Augmented Dickey-Fuller (ADF)

The initial step of the analysis involves finding the sequence of integration of all variables. The Augmented Dickey-Fuller (ADF) test is an extension of the simple

Dickey-Fuller regression by including lagged difference terms to remove serial correlation in the error term to obtain valid inference. The general ADF specification is given as:

$$\Delta Y_t = \alpha_0 + \alpha_1 t + \delta Y_{t-1} + \sum_{i=1}^p \beta_i \Delta Y_{t-i} + \varepsilon_t \quad 1$$

Where Y_t is the variable under examination at time t ; Δ is the first difference operator; α_0 is the constant (drift) term; $\alpha_1 t$ is the deterministic time trend; δ is the coefficient on the lagged level of Y_t , whose significance is the central focus of the test; p is the number of lagged difference terms included to control for serial correlation; and ε_t is a white noise error term. The null hypothesis of the ADF test is $H_0: \delta = 0$, indicating the presence of a unit root (non-stationarity), against the alternative hypothesis $H_1: \delta < 0$, implying stationarity.

Johansen Cointegration Test: Trace and Maximum Eigenvalue Statistics

The cointegration model is used to test whether there is a long-run equilibrium relationship between the variables. This methodology aligns with the empirical strategy that has been used in similar studies, such as Pamba (2022), who used the cointegration model and the Granger causality test to test the effectiveness of fiscal policy in South Africa during the years 1980 to 2020, and Udo et al. (2022), who used a bounds testing model to examine cointegration in the Nigeria fiscal policy. Johansen procedure is founded on the Vector Autoregressive (VAR) model in its error correction form that can be represented as:

$$\Delta Y_t = \Pi Y_{t-1} + \sum_{i=1}^{p-1} \Gamma_i Y_{t-i} + \mu + \varepsilon_t \quad 2$$

Two likelihood ratio test statistics are used to determine the cointegrating rank:

Trace Statistic:

$$\lambda_{trace}(r) = -T \sum_{i=r+1}^n \ln(1 - \hat{\lambda}_i) \quad 3$$

Maximum Eigenvalue Statistic:

$$\lambda_{max}(r, r+1) = -T \ln(1 - \hat{\lambda}_{r+1}) \quad 4$$

Where T is the number of usable observations and $\hat{\lambda}_i$ are the estimated eigenvalues of the Π matrix in descending order.

Fully Modified Ordinary Least Squares (FMOLS) Estimation

After establishing that there is cointegration, the Fully Modified Ordinary Least Squares (FMOLS) estimator which was developed by Phillips and Hansen (1990) is used to determine the long-term parameters of the fiscal policy-growth model in both Nigeria and South Africa.

If the overall FMOLS model of the study is set separately in Nigeria and South Africa as follows:

$$\ln ecgrw_t = \beta_0 + \beta_1 fispol_t + \beta_2 fdi_t + \beta_3 inf_t + \beta_4 trade_t + \varepsilon_t \quad 5$$

Where $\ln ecgrw_t$ is the natural logarithm of GDP per capita, which is the proxy of economic growth; $fispol_t$ is government spending as a percentage of GDP, the main fiscal policy instrument.

The FMOLS estimator alters the dependent variable $\ln GDP_t$ by a non-parametric long-run endogeneity and serial correlation correction, and the estimator is mathematically defined as:

$$\hat{\beta}_{FMOLS} = \left(\sum_{t=1}^T (\tilde{X}_t \tilde{X}_t')^{-1} \right) \left(\sum_{t=1}^T \tilde{X}_t \tilde{Y}_t^+ - T \hat{\Delta}_{\varepsilon\mu}^+ \right) \quad 6$$

X_t are the demeaned regressors; $\tilde{Y}_t^+$ is the semi-parametrically transformed dependent variable which corrects the serial correlation; $\hat{\Delta}_{\varepsilon\mu}^+$ is the bias correction term calculated using the long-run covariance matrix; T is the sample size.

Nigeria and South Africa are estimated individually in the model to retain country-specific fiscal policy dynamics and prevent the limiting assumption of homogeneity between the two structurally different economies on their parameters.

4. Analysis and Results

According to Table 2, Nigeria has a fairly low economic growth (EGRW mean = 1586.491) than that of South Africa, alongside a great degree of macroeconomic instability. The inflation is very high and fluctuating (mean = 18.54; max = 72.836) which means that the prices fluctuate persistently throughout the study period. Fiscal

policy is moderately variable, whereas foreign direct investment (FDI) is moderately low with some negative values, indicating the capital flight periods. The openness to trade is moderate yet volatile indicating the reliance on external trade, which is not diversified.

Table 2. Descriptive Statistics for Nigeria and South Africa (1990–2024)

Statistic	EGRW	FISPOL	FDI	INF	TRADE
Panel A: Nigeria					
Mean	1586.491	16.484	1.264	18.54	44.788
Maximum	3088.721	30.857	2.9	72.836	71.285
Minimum	480.669	9.761	-0.039	5.388	20.72
Std. Dev.	760.958	4.908	0.85	15.743	12.17
Observations	35	35	35	35	35
Panel B: South Africa					
Mean	5339.569	28.073	1.427	6.539	50.227
Maximum	8646.056	34.616	9.66	15.335	65.975
Minimum	2688.237	22.213	-0.06	-0.692	34.321
Std. Dev.	1779.119	3.174	1.806	3.333	8.921
Observations	35	35	35	35	35

Note: EGRW = economic growth (Nigeria and South Africa); FISPOL = fiscal policy; FDI = foreign direct investment; INF = inflation; TRADE = trade openness. N = 35 for all variables.

Table 2 also shows that South Africa has a more robust and stable macroeconomic picture. The economic growth is much greater (mean = 5339.569) and inflation is low and constant (mean = 6.539). There is less variability in the fiscal policy and it is more fiscally disciplined. FDI is more volatile, but its maximum value is greater, indicating that investment inflows in prosperous times are stronger. Trade openness has increased and remained constant compared to that of Nigeria indicating greater integration into world markets. The general statistics in Table 1 indicate that South Africa is much better off with regards to economic stability and scale.

Table 3 results show that the macroeconomic variables of Nigeria are associated with economic growth (LNEGRW) with most of them being of a negative nature. There is a very negative relationship between fiscal policy and growth (-0.795), which means fiscal policy measures might not be effective in spurring economic growth. On the same note, FDI and inflation are weakly to moderately associated with growth and imply that inflation and investment inflows have not been major promoters of

growth. The relationship between trade openness is also weakly negative implying low benefits of global trade.

Table 3. Correlation Matrix for Nigeria and South Africa

Variable	LNEGRW	FISPOL	FDI	INF	TRADE
Panel A: Nigeria					
LNEGRW	1				
FISPOL	-0.795***	1			
FDI	-0.360**	0.508***	1		
INF	-0.311*	0.138	0.018	1	
TRADE	-0.277	0.354**	0.551***	-0.06	1
Panel B: South Africa					
LNEGRW	1				
FISPOL	0.396**	1			
FDI	0.219	0.093	1		
INF	-0.547***	0.062	-0.194	1	
TRADE	0.736***	0.198	0.363**	-0.463***	1

*Note: Correlation coefficients are shown above p-values (in italics). LNEGR = log of economic growth. — = diagonal entries (self-correlation). * $p < .05$. Sample: 1990–2024, $n = 35$.*

Conversely, Table 3 indicates that South Africa has more desirable macroeconomic relationships. The fiscal policy has a positive, but significant correlation with growth (0.396), implying good fiscal management. The relationship between trade openness and growth (0.736) is positive, and it is significant as it indicates that it is a driver of growth. There is a significant negative correlation (-0.547) between inflation and inflation, as expected. FDI has a positive correlation, but not statistically significant with growth. All in all, Table 2 evidence confirms that there are more and effective economic connections in South Africa than there are in Nigeria.

Table 4 reported unit root results which indicated that all Nigerian variables are non-stationary at level but become stationary when they are first differenced implying that they are integrated of order one, $I(1)$. The non-stationarity at lower levels indicates structural inflexibilities and slower adjustment processes in the Nigerian economy. Equally, Table 3 reveals that variables in South Africa are largely of order one integrated but in other instances, FDI and inflation show some level of

stationarity at level. Such mixed order of integration implies that some macroeconomic variables in South Africa respond faster to equilibrium to shock.

Table 4. Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variable	Nigeria				South Africa			
	Level stat	t-	Δ t-stat	Order	Level stat	t-	Δ t-stat	Order
LNEGR	-1.954		-5.104***	I(1)	-1.83	-	4.255***	I(1)
FISPOL	-0.566		-4.756***	I(1)	-1.884	-	6.843***	I(1)
FDI	-2.146		-7.140***	I(1)	-5.822***	-	5.652***	I(0)/I(1)
INF	-2.394	-	10.054***	I(1)	-2.389**	-	5.953***	I(0)/I(1)
TRADE	-2.753		-7.877***	I(1)	-3.275*	-	6.177***	I(1)

*Note: Δ denotes first difference. $I(0)$ = integrated of order zero (stationary at level); $I(1)$ = integrated of order one (stationary at first difference). Critical values: *, ** and *** Significant at the 1%, 5% and 10% levels.*

Table 5 indicates that Nigeria has several cointegrating relationships between the variables. The trace and max-eigen statistics prove two or three cointegrating equations, which means that there is a strong long-run balance between economic growth, fiscal policy, FDI, inflation, and trade openness. This means that these variables will change together in the long-term in Nigeria, even though they vary in the short-term. In the case of South Africa, evidence of cointegration is also given in Table 4, but the evidence is not as strong as in Nigeria. Although the trace statistics indicate at least two cointegrating relations, the max-eigen statistics are less homogenous. Table 4 results thus demonstrate that Nigeria has a higher level of long-run interdependence between variables, but South Africa shows a higher degree of economic flexibility.

The long-run projections in Table 6 give a stark contrast of incentive-based fiscal policy regime in Nigeria and a more interventionist fiscal policy regime in South Africa. The fiscal policy (FISPOL) in Nigeria has a statistically significant, negative, economic growth impact, indicating that incentive-based policies, including tax changes and selective expenditures, have failed to yield productive economic results. The result is consistent with the evidence suggesting structural inefficiencies in fiscal implementation, such as a weak institutional capacity and mis-allocation of public resources (Akaegbobi & Nwosu, 2025; Udo et al., 2022; Babalola, 2015). This

interpretation is supported by the larger empirical literature, which suggests that although some aspects of fiscal policy (e.g. recurrent expenditure) can have a stimulatory effect on growth, capital expenditure can easily crowd out productive activity or is inefficiently implemented (Udo et al., 2022).

Table 5. Johansen Cointegration Test Results

Panel B: Nigeria			Panel B: South Africa	
No. of CE(s)	Trace Statistic	Max-Eigen Statistic	Trace Statistic	Max-Eigen Statistic
None	95.022***	41.379***	77.973***	29.731
At most 1	53.643**	25.308*	48.242**	21.603
At most 2	28.335*	15.033	26.639	16.001
At most 3	13.302	10.587	10.638	10.545
At most 4	2.715	2.715*	0.093	0.093

*Note: CE: cointegrating equations. Series: LNEGR, FISPOL, FDI, INF, TRADE. Trend assumption: linear deterministic trend. * Denotes rejection of the null hypothesis at the 0.05 level. ** MacKinnon-Haug-Michelis (1999) p-values.*

In addition, the positive and substantial contribution of FDI in Nigeria is indicative that foreign capital acts as a buffer to domestic fiscal drawbacks and the adverse impacts of inflation and trade liberalization are indicative of macroeconomic instability and foreign reliance on imports at the expense of fiscal performance. All these control variables undermine the transmission mechanism of fiscal policy, which means that the incentive-based approach in Nigeria is not organized enough and accompanied by a complementary macroeconomic environment (Ologbenla, 2021; Awode, 2019).

Table 6. Fully Modified Ordinary Least Squares (FMOLS) Estimates

Variable	Panel A: Nigeria			Panel B: South Africa		
	Coeff.	Std. Error	Prob.	Coeff.	Std. Error	Prob.
FISPOL	-0.0724	0.0029	0.000***	0.0386	0.0074	0.000***
FDI	0.1273	0.0188	0.000***	-0.0523	0.0134	0.001***
INF	-0.0146	0.0008	0.000***	-0.0132	0.0082	0.12
TRADE	-0.0115	0.0012	0.000***	0.0362	0.0031	0.000***

Constant	9.022	0.0583	0.000***	5.8207	0.2379	0.000***
R-sqd	0.6169			0.5522		
Adj. R-sqd	0.564			0.4904		
S.E. of reg.	0.3796			0.2532		
Long-run Var.	0.0049			0.0172		

Note: Dependent variable (DV): LNEGR (log of economic growth). Method: Fully Modified Least Squares (FMOLS). R-sqd = R-squared

Conversely, the fiscal policy in South Africa shows that it has a positive and significant effect on growth and hence stimulus-oriented interventionist policy is more effective in fostering economic performance in the long-run. This is aligned with previous results regarding the fact that government spending can have a positive impact on the short-term growth dynamics and ensure macroeconomic stability under appropriate management (Ngoc, 2023; Pamba, 2022). In contrast to Nigeria, supporting control variables in South Africa support the effectiveness of fiscal policy, such as trade openness, which had a strong positive impact, and fiscal expansion is complemented by external sector integration, and inflation is controlled and statistically insignificant and minimizes the distortion of the macroeconomic environment. The adverse influence of FDI however, adds a complex layer, perhaps in the form of structural problems like profit repatriation or industry concentration that inhibits its contribution to development. The greater effectiveness of the well-managed fiscal expansion over the fragmented incentive-based method, especially backed by well-established institutions and complementary macroeconomic policies, is further supported by comparative evidence in both developing and emerging economies (Hodzic et al., 2020; Yovo, 2017; Omojolaibi et al., 2016). Combined, the results indicate that the interventionist fiscal policy framework in South Africa is more conducive to growth compared to the incentive-based approach in Nigeria, in part because of better institutional coordination and more favorable macroeconomic policies.

5. Conclusion

This study has compared the effectiveness of incentive-based fiscal policy and intervention-based fiscal policy in stimulating the long-run economic growth in Nigeria and South Africa respectively, between 1990 and 2024, using unit root tests, the Johansen cointegration model, and FMOLS estimation. The descriptive and correlation analysis showed that South Africa has a more stable and growth-

conducive macroeconomic environment whereas Nigeria is typified by high inflation, fiscal instability and low trade diversification. The FMOLS estimates of the long-run estimates were the most definitive estimates: the fiscal policy of Nigeria had a strong negative impact on economic growth, which was the indication of poor institutional capacity, misallocation of resources, and an import-based structure of trade which in turn, undermine the fiscal transmission but the effect is compensated by FDI as a growth driver instead of an effective domestic policy. The interventionist fiscal policy of South Africa, on the other hand, generated a positive and statistically significant impact on growth, which is facilitated by controlled inflation and good trade openness, proved that a well-coordinated fiscal system is more effective in maintaining long-run economic performance.

The results have some key policy implications. To begin with, the fact that both countries are going through opposite results clearly indicates that the effectiveness of fiscal policy, irrespective of its purpose, should be supported by the corresponding institutional reinforcement to produce significant effects. Second, the adverse fiscal-growth nexus of Nigeria is indicative that the incentive-based policies are not adequate in structurally constrained economies with no diversified production base, competitive industries, and efficient financial markets that can translate fiscal signals into growth. Third, although the positive fiscal performance in South Africa confirms the productive nature of direct government intervention, the adverse FDI impact is a warning that fiscal growth should be coupled with structural transformation policies to, deal with the problem of profit repatriation, sectoral concentration, and inequality. Lastly, the results support the fact that trade openness and inflation management are not only macroeconomic goals by themselves, but are also important pre-requisites to successful fiscal transmission, a lesson that is especially relevant to Nigeria, where long-term inflation and reliance on imports are still undermining the real effects of fiscal actions.

According to the empirical evidence, there are various recommendations that can be made to policymakers in the two countries. Nigeria must move to a medium-term fiscal model that combines both deliberate strategic government investment in infrastructure and human capital with specific incentives and fiscal oversight mechanisms to overcome the long-term institutional weaknesses that have undermined the effectiveness of policies. South Africa, however, needs to resolve its structural FDI limitations by implementing local content policies, reinvestment policies, and sector-specific policies that channel foreign capital to trade and equality in the distribution of growth dividends. The two nations need to enhance

coordination of their monetary-fiscal policies to harmonize the goals of price stability with growth-focused spending policies, and both nations must harness regional arrangements like the African Continental Free Trade Area (AfCFTA) to enhance its productive trade integration.

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