

GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

The research focused at how government spending affected Nigeria's economic growth from 1981 and 2025. To be more precise, the research looked at how capital expenditures affected economic growth, how recurring expenditures affected economic growth, and how overall expenditures affected economic development in Nigeria. The study used an ex post facto research design. The CBN Statistical Bulletin provides secondary statistics for the research period, which spans from 1981 to 2025. This contains data on capital expenditures, recurring expenditures, and total expenditures as a stand-in for government spending, as well as real gross domestic product as a measure of economic growth. The research uses descriptive statistics, correlation matrices, stationarity tests, autoregressive distributed lag, and error correction model tests. The results of the analysis demonstrated a long-term correlation between Nigeria's economic development and government spending. The lower and upper critical limit values at 5% are superseded statistically by the F-statistics value of 5.259. According to the long-term results, Nigeria's economic growth is positively and significantly impacted by government capital expenditure ($\beta_1 = 0.180994$, $p < 0.05$), positively and insignificantly impacted by government recurrent expenditure ($\beta_2 = 0.741473$, $p > 0.05$), and positively impacted by government total expenditure ($\beta_3 = 0.260034$, $p < 0.05$). The research comes to the conclusion that government spending significantly and favourably affects Nigeria's economic development.

Keyword: Total Government expenditure, Recurrent expenditure, capital expenditure, Real GDP

1 INTRODUCTION

Public spending, which is mostly funded by taxes and foreign aid, is essential for accomplishing macroeconomic goals and enhancing the provision of public services (Nisar et al., 2023). Strategic government spending allocation may promote the development of human capital and expedite inclusive growth in emerging nations, including Nigeria (Mohamud & Abdulle, 2025; Raheem et al., 2018). Through investments in infrastructure, education, health, defence, technological advancement, and institutional frameworks, public spending serves as a stabilising tool during downturns, a catalyst for structural transformation, and a foundation for long-term competitiveness across economies (Salah, 2025). However, whether government spending has an expansionary, neutral, or contractionary effect depends on its size and makeup since wasteful spending may discourage private investment, exacerbate budget deficits, and impede productivity development (Okunlola et al., 2024).

Furthermore, Keynesians contend that government spending boosts aggregate demand, which in turn stimulates the economy. But the Keynesian model also implies that wasted and excessive government spending may be detrimental to economic expansion (Keynes, 1936). This suggests that the government has to be resolute when it comes to the prudent use of its resources. The government must eliminate the corruption gap in order to guarantee maximum stimulation of public spending on growth, since this opens the door to resource waste. Corruption, for example, has a negative impact on company operations and lowers economic performance, which significantly reduces the efficiency of government resources (Banerjee et al., 2022). The use of government resources rises in tandem with government spending. Furthermore, the distribution and use of resources in an economy would be adversely affected if corruption is not reduced (Oyadeyi 2023a).

The two primary types of governmental spending in Nigeria are current and recurring. According to Onuoha and Okoye (2020), government initiatives on infrastructure, such as road development and health care, are included in capital expenditures, while recurrent expenditures include spending on government management. One of the main justifications for governmental spending has been the provision of public facilities. According to Aluthge et al. (2020), government spending is rising since it is very expensive to provide and maintain these infrastructure services.

Therefore, recurring spending does not encourage growth, but capital investment does (Luca et al., 2024).

Unarguably, the country will benefit economically and socially from government investment and expenditure on infrastructural amenities including health, roads and housing constructions, agriculture, transportation, industrial output, education, power etc. Yet, government must distribute resources evenly for capital and recurrent expenses throughout the economy to maximise growth (Okoye et al., 2019).

Previous research on the relationship between spending and growth has produced inconsistent findings. While some research (Ogunsanwo et al., 2025; Joseph et al., 2024; Tammar, 2021) found that public spending stimulates economic development, others (Iwo & Adagi 2025; Chandana et al., 2021) found little or detrimental impacts. While Garba and Umar (2026) discovered that recurrent spending is a booster of economic development, another set of research indicated that capital expenditure considerably promotes economic growth (Mensah & Adukpo, 2025; Nwakwanogo, 2025; Odubuasi et al., 2020). The spending component, sample period, and econometric approach all affect how inconsistent these findings are. By separating government spending into recurrent and capital expenditures and evaluating their long-term connection with GDP in Nigeria for the years 1981–2025—a period that has gotten relatively little empirical evidence in the literature—this research adds to the discussion. The study's main goal is to find out how government spending affects Nigeria's economic growth. The precise goals, however, are to look at how recurrent government spending affects Nigeria's economic development, look at how capital government spending affects Nigeria's economic growth, and look at how total government spending affects Nigeria's economic growth.

2 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Government Expenditures

According to Garba and Musa (2026), government spending refers to funds owed to government agencies for the efficient execution of their administrative and developmental tasks. It may also be seen as a financial instrument for managing the government's goals of growth, development, employment, and poverty reduction (Emmanuel, 2022). Capital and recurring expenditures are two

categories of government spending. The term "recurrent expenditure" describes continued spending on public sector everyday services and government activities. According to Luka et al. (2024), capital expenditures, on the other hand, are funds allocated to long-term infrastructure projects that have the potential to foster development, such as the creation of schools, factories, and roadways. According to Aluthge et al. (2020), capital expenditures are sometimes utilised to expand the scope of a physical asset or extend the useful life of an already-existing capital asset.

2.1.2 Economic Growth

Economic development, according to Anyiwe and Oziegbe (2020), is characterised by improvements in health, urbanisation, technology, education, production, and national income. In another way, it can be seen as the process by which a country increases the breadth and depth of its domestic economy over time (Gukat & Ogboru, 2017). This is accomplished by adapting to market needs via technological innovation and institutional and ideological shifts. The GDP of a country may rise as a result of its economic progress, but the exact measurements employed to measure this phenomenon may vary (Osasona et al., 2024). According to Kimberly (2019), it is a rise in a state's ability to produce products and services over a certain time period.

2.2 Empirical Review

According to Garba and Umar's (2026) research, recurring expenditures have a greater impact on economic growth than capital expenditures. According to Mohamud and Abdulle's (2025) findings, population growth and government spending both boost economic development. Luka et al. (2024) highlighted that expenditures spent on housing and building, agricultural sector and industrial sector support economic growth more strongly. In contrast, data from Ugochukwu and Oruta (2021) suggested that government is disingenuous with her growing spending with no constructive outcome. According to Osasona et al. (2024), the government does not provide sufficient capital incentives to achieve sustainable growth. In contrast, Ogunsanwo et al. (2025) applied the same method within the period of 1981 to 2023 and concluded that public spending had considerable influence on economic development in Nigeria. According to Okunlola et al. (2024), prudent government spending enhances growth stability when there is no political unrest or corruption.

3.0 METHODOLOGY

3.1 Research Design, Data and Model Specification

Basically, this study adopts ex-post facto research design in its discourse. Annual time series data on GDP (measurement of economic growth), total capital expenditure and total recurrent expenditure (parameters of explanatory variables) between the period of 1981 to 2025 are obtained from CBN statistical bulletin (2025).

The study presents the model specification in line with the study of Mensah and Adukpo (2025) as:

$$RGDP = f(GCE, GRE, GTE) \text{ --- 3.1}$$

where;

RGDP = Real GDP

GCE = Government capital expenditure

GRE = Government recurrent expenditure

GTE = Government totl expenditure

To put in econometric form, the equation becomes:

$$\ln RGDP = \beta_0 + \beta_1 \ln GCE_t + \beta_2 \ln GRE_t + \beta_3 \ln GTE_t + U_t \text{ --- 3.2}$$

Where:

$\ln$ = natural logarithm; $\beta_1 - \beta_3$ = parameters to be estimated; μ_t = error term

A – priori Expectation

$\beta_1 > 0, \beta_2 > 0$, and $\beta_3 > 0$

3.2 Estimation Techniques

The Autoregressive distributed lag model (ARDL) bound test is employed to determine whether a long-run relationship exists among GDP, recurrent spending, capital spending, and total government spending efficiency. Furthermore, long and short run (ECT) test are determined for discussion importance.

The ARDL model is stated as follows:

$$\begin{aligned} \ln(RGDP)_t = & \lambda_0 + \sum_{i=1}^n \lambda_1 + \Delta \ln(GCE)_{t-1} + \sum_{i=1}^n \lambda_2 + \Delta \ln(GRE)_{t-1} + \sum_{i=1}^n \lambda_3 \\ & + \Delta \ln(GTE)_{t-1} + \beta_0 \ln(RGDP)_{t-1} + \beta_1 \ln(GCE)_{t-1} + \beta_2 \ln(GRE)_{t-1} \\ & + \beta_3 \ln(GTE)_{t-1} + \mu_{it} - - - - - 3.3 \end{aligned}$$

Where: t-1 = time, Δ = change, others as earlier defined.

ECT (Short run) model is stated as:

$$\begin{aligned} \ln(RGDP)_t = & \lambda_0 + \sum_{i=1}^n \lambda_1 + \Delta \ln(GCE)_{t-1} + \sum_{i=1}^n \lambda_2 + \Delta \ln(GRE)_{t-1} + \sum_{i=1}^n \lambda_3 \\ & + \Delta \ln(GTE)_{t-1} + (ECT)_{t-1} - - - - - 3.4 \end{aligned}$$

4 RESULT AND DISCUSSION

4.1 Preliminary Statistics

Table 4.1 Descriptive Statistics

Variables	Mean	Stand. Deviation
RGDP	3.93	1.10
GCE	2.33	0.94
GRE	2.63	1.10
GTE	2.84	1.06

Source: Author's Computation, 2026.

According, the result revealed that RGDP, government capital expenditure (GCE), government recurrent expenditure (GRE) and government total expenditure (GTE) have mean coefficient of 3.93, 2.33, 2.63 and 2.84 with standard deviation of 1.10, 0.94, 1.10 and 1.06 respectively.

Table 4.2 Pairwise Correlation Matrix

	RGDP	GCE	GRE	GTE
RGDP	1.00	0.55	0.56	0.61
CSE	0.55	1.00	0.54	0.63
RSE	0.56	0.54	1.00	0.60

TSE	0.61	0.63	0.60	1.00
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Source: Author's Computation, 2026.

Following the result presentation in Table 4.2, CSE, RSE and TSE all positively associate with RGDP by 0.55%, 0.56% and 0.61% respectively. Thus, the variables moved directly with each pair of the variables.

Table 4.3 Unit Root Test

UNIT ROOT TEST RESULTS TABLE (ADF)					
<u>At Level</u>					
		RGDP	GCE	GRE	GTE
With Const.	t-Stat.	-2.1630	-2.6533	-0.9634	-1.0544
	<i>P.V</i>	0.9917	0.0092	0.9080	0.7247
		n0	***	n0	n0
<u>At First Difference</u>					
		d(RGDP)	d(GCE)	d(GRE)	d(GTE)
With Const.	t-Stat.	-3.8047	-6.4449	-8.6848	-7.7990
	<i>P.V</i>	0.0261	0.0000	0.0000	0.0000
		**	***	***	***

Notes:

a: (*); (**); (***) Significant at the 10%; 5%; 1% respectively

Source: Author's Computation, 2026.

Basically, the result in Table 4.3 showed that only CSE attained stationarity at level while other variables including RGDP, GRE and GTE attained stationarity at first difference. By implication, long run analysis can be put to test.

4.2 ARDL Estimation Test

Table 4.4 Bound Test for Cointegration

F-stat.	5.259603
K	3
5% criterion @ I(0) & I(1)	2.79 and 3.67

Source: Author's Computation, 2026.

Presentation of the result in Table 4.4 indicated that F-statistics value of 5.259603 cannot be compared with the values available at 10%, 5%, 2.5% and 1% at I(0) and I(1) bounds respectively. Assuredly, this implies evidence of long run relationship between government expenditure and economic growth in Nigeria.

Table 4.5 Short Run Dynamics

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RGDP(-1))	0.194102	0.109191	1.777627	0.0863
D(GCE)	0.446662	0.114945	3.885868	0.0006
D(GCE(-1))	0.260034	0.085127	-3.054674	0.0049
D(GRE)	0.023714	0.080043	0.296263	0.7692
D(GRE(-1))	0.088476	0.090484	0.977816	0.3365
D(GTE)	0.285829	0.086664	3.298144	0.0027
D(GTE(-1))	0.180994	0.058427	3.097766	0.0044
ECT(-1)*	-0.285829	0.052137	-5.482233	0.0000
Adjusted R-squared	0.663101	Durbin-Watson stat		1.616671

Source: Author's Computation, 2026.

Emphatically, the result presentation in table 4.5 made it clear that GCE and D(GCE(-1)) positively and significantly impact economic growth by 4.46% and 2.60% respectively. Furthermore, GRE and D(GRE(-1)) positively and insignificantly affect economic growth by 0.02% and 0.08% respectively. Also, GTE and D(GTE(-1)) positively and significantly impact economic growth by 2.85% and 1.80% respectively. Finally, rate of change from short run to long run stood at -0.285829 which is significant at 5%. It means that 28.58% of the short-run inconsistencies are being corrected and incorporated into the long-run equilibrium relationship in each period. Moreover, the adjusted R-squared verified the importance and inclusion of the explanatory variables in the model to the tune of 66.31% of the changes in RGDP in the short run.

Table 4.6 ARDL Long Run Multiplier Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GCE	0.180994	0.074117	2.442014	0.0212

GRE	0.741473	0.486399	1.524412	0.1386
GTE	0.260034	0.091664	2.836834	0.0084
C	1.562688	0.242450	6.445399	0.0000

$$EC = RGDP - (0.1809 \cdot GCE + 0.7415 \cdot GRE + 0.2600 \cdot GTE + 1.5627)$$

Source: Author's Computation, 2026

Notably, table 4.6 showed that GCE and GTE have positive and significant effect on economic growth to the tune of 1.80% and 2.60% while GRE has a positive and insignificant effect on economic growth to the tune of 7.41% respectively. This showed that government expenditure has a positive and significant effect on economic growth in the long run.

4.3 Post-Estimation Test

Table 4.7: Diagnostic Test

Serial Correlation LM Test:

F-statistic	1.556328	P.V. F(2,26)	0.2299
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Heteroscedasticity Test

F-statistic	2.104839	P.V. F(1,37)	0.1553
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Stability Test

	Value	df	Probability
F statistics	0.051374	(1, 27)	0.8224

Source: Author's Computation, 2026.

Report of Table 4.7 indicated that F-statistics probability values for serial correlation, heteroscedasticity and stability are valued at 0.2299, 0.1553 and 0.8224 which are greater than 0.05% significant level. This showed that, the model is free from no serial autocorrelation, homoscedastic, and stable over time.

4.4 Discussion of Findings

Empirically, the study established that capital expenditure and total expenditure have positive and significant effect on economic growth in Nigeria. This result implies that government expenditure on capital infrastructures has been efficiently sponsored to a large extent, thereby bringing productive investment, reducing production costs, and stimulating private investment in the economy at large. Nonetheless, it does not mean that government capital expenditure is totally free from poor policies and programmes resulting from corruption and abandoned projects (Garba & Umar, 2026). Moreover, the total expenditure suggests that irrespective of bottlenecks and other odds, government expenditure on operational activities of government still support economic growth. This connotes that government has been investing efficiently on human and capital assets that can further affect the growth process of the country significantly. This proposition aligns and supports the Keynesian idea that public sector investment propels growth through infrastructures and human capital development (Mohamud & Abdulle, 2025). The empirical finding of aligns with studies of Ogunsanwo et al. (2025) and Mohamud and Abdulle (2025), that the expenditure quality interfaces substantially with growth other than expenditure size. Hence, government expenditure should be prioritized in order to stimulate the growth process of a nation.

5 CONCLUSION

Empirically, the study investigated the effect of government expenditure on economic growth in Nigeria from 1981 to 2025. The finding demonstrates that capital expenditure and total expenditure has positive and significant effect on economic growth. This expresses that government expenditure on infrastructures like building and construction, healthcare, education, defence etc can promote the growth process in Nigeria. When government circulate money in the economy, it leads to productive investment which in turn promotes economic growth in the long run. On the other hand, recurrent expenditure has positive and insignificant effect on economic growth in Nigeria. This implies that, government has many issues reoccurring from ghost workers, corruption, leakages, padded budget among others that has undermine the growth process of the economy significantly. The finding corroborates with the conclusion of Nwakwanogo (2025) that government expenditure positively and significantly affect economic growth in Nigeria.

The following recommendations are proffered.

- i. It is noteworthy that increasing investments in capital expenditures might accelerate economic development. This is due to the fact that it can provide the infrastructure required for Nigeria's economic growth.
- ii. Government should efficiently allocate resources to the sectors where funds can promote growth. Moreso, factors like corruption, leakages and mis-allocation that can question inefficiency of funds should be principally curbed.

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