



Fiscal Policy Dynamics and Economic Growth in Nigeria: ARDL and Structural Stability Evidence

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This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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Abstract

This study examines the effect of fiscal policy dynamics on economic growth in Nigeria using annual time-series data from 1981 to 2023. Real Gross Domestic Product was used as the measure of economic growth, while Total Government Expenditure, Oil Revenue, Non-Oil Revenue, Total Federally Collected Revenue, Federation Account Statutory Allocation, Federal Government Retained Revenue and Total Exports were used as fiscal policy indicators. The study applied the Autoregressive Distributed Lag framework, Error Correction Model, Newey–West robust estimation and structural stability diagnostics to assess both short-run and long-run relationships. The unit root results showed that all variables were integrated of order one, I(1). The ARDL bounds test confirmed a long-run equilibrium relationship among the variables, with an F-statistic of 6.7537 and statistical significance at the 1% level. The long-run results showed that Total Government Expenditure, Non-Oil Revenue, Federation Account Statutory Allocation and Total Exports had significant

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effects on economic growth, while Oil Revenue, Total Federally Collected Revenue and Federal Government Retained Revenue were not statistically significant. In the short run, Non-Oil Revenue and Federation Account Statutory Allocation had positive effects, whereas Total Exports had a negative effect. The error correction coefficient indicated that 13.1% of short-run disequilibrium was corrected annually. The findings emphasise the importance of non-oil revenue mobilisation, efficient public expenditure and fiscal discipline for sustainable economic growth in Nigeria.

Keywords: *Fiscal policy; economic growth; ARDL; structural stability; newey–west estimation; non-oil revenue; government expenditure; oil revenue; fiscal sustainability.*

1. Introduction

Fiscal policy continues to play a major role among macroeconomic policies in fostering economic growth, macroeconomic stability and sustainable development. Through government spending, taxation, public borrowing and revenue mobilisation, fiscal policy affects aggregate demand, investment, employment and productivity growth. In developing economies, fiscal policy is an important tool for addressing structural challenges, stimulating economic activity and improving overall welfare. This makes fiscal policy instruments increasingly important for governments pursuing economic growth and development (Ashakah, 2023; Atasié et al., 2026; Udonwa et al., 2026). Fiscal policy has a strategic role in Nigeria's economic policy because the country relies heavily on oil export earnings and government expenditure. Since crude oil became the government's primary income source, government operations have been highly susceptible to international oil price fluctuations. Although oil wealth has provided substantial funding for public spending, overreliance on oil revenue has also exposed the economy to external shocks, fiscal volatility and variations in economic performance (Jimoh et al., 2025). Therefore, when oil prices fall, government revenue, fiscal deficits and economic growth are often adversely affected.

Successive governments in Nigeria have introduced several fiscal measures aimed at accelerating economic growth through revenue diversification, infrastructure investment and increased public expenditure. Despite these interventions, the economy has continued to experience fluctuating periods of expansion, contraction and recovery. Recent research shows that government spending can support economic growth when it is efficiently channelled into productive sectors such as infrastructure, education and healthcare (Olayinka et al., 2023; Onifade et al., 2020). However, fiscal policy has not always achieved sustainable economic growth because of inefficiencies in public spending, weak institutional frameworks, corruption and poor project implementation (Ashakah, 2023). Recent empirical evidence further indicates that the growth effect of fiscal policy depends on both expenditure quality and revenue design, as studies from Nigeria and Tanzania report different short- and long-run outcomes when government expenditure and tax-related variables are jointly considered (Joseph et al., 2023; Utouh & Kitole, 2025).

In response to the challenges associated with dependence on oil, greater emphasis has been placed on non-oil revenue mobilisation as a means of improving fiscal sustainability and economic diversification. Tax-base expansion, capacity building in tax administration and increases in internally generated revenue have become important elements of Nigeria's fiscal policy framework. Empirical evidence suggests that non-oil revenue is not only a more reliable source of government revenue but also important for long-term economic growth because it reduces the government's vulnerability to external commodity price shocks (Idebi et al., 2024).

Likewise, fiscal deficits remain a major concern in the Nigerian economy. A moderate deficit can stimulate economic activity through increased public investment, but persistent fiscal imbalance can lead to high debt levels, crowd out private investment and undermine macroeconomic stability (Atasié et al., 2026). The empirical debate on the relationship between fiscal policy and economic growth remains substantial. Some studies attribute positive growth effects to government spending and revenue mobilisation, whereas others report weak, insignificant or even negative effects, depending on the composition of fiscal variables and prevailing macroeconomic conditions (Ashakah, 2023; Jimoh et al., 2025). These mixed findings highlight the possible interaction among expenditure, oil revenue, non-oil revenue, fiscal deficits and external-sector performance in shaping the effectiveness of fiscal policy. Previous literature has mainly concentrated on government spending and taxation or on the link between oil revenue and economic growth. Only a few studies have examined the combined effects of government spending, oil revenue, non-oil revenue, fiscal deficits, fiscal-growth indicators,

transfers and exports within a unified analytical framework. Olayinka et al. (2023) empirically examined the effect of government spending on economic growth in Nigeria from 1981 to 2016 using annual time-series data and the ARDL approach. The study explored the impact of different categories of expenditure on growth. The results showed that government spending had a positive and significant effect on economic growth in both the short run and the long run, implying that public spending on productive sectors supports economic growth in Nigeria. Using time-series data, Adegboyo et al. (2021) analysed the impact of fiscal, monetary and trade policies on Nigeria's economic growth using an endogenous growth framework and ARDL methods. The study found that fiscal-policy variables stimulate economic growth in the long run, thereby supporting the view that effective fiscal management is required for sustainable economic development. Recent African and cross-country evidence also suggests that fiscal deficits, public debt and fiscal-rule design may affect growth and fiscal performance differently across debt regimes, reinforcing the need to consider debt-servicing pressures and fiscal sustainability alongside expenditure and revenue variables (Falade et al., 2024; Mwigeka, 2026; Yelkesen & Iyidogan, 2025).

Ashakah (2023) studied the relationship among government expenditure, tax revenue and economic growth in Nigeria. The findings showed that government expenditure and tax revenue did not have significant effects on economic growth at the 5% level, suggesting that Nigeria had not fully harnessed the expected growth benefits of fiscal policy. Oluka et al. (2023) examined the effect of fiscal policy on real-sector growth in Nigeria using an ARDL modelling framework. Government expenditure, tax revenue and selected fiscal indicators were used as explanatory variables. The results showed that fiscal policy had significant effects on real-sector growth, with government spending having a greater effect than tax revenue. The study concluded that fiscal coordination provides an opportunity to improve economic performance. Using the ARDL bounds test approach, Idebi et al. (2024) investigated the effect of disaggregated tax revenues on economic growth in Nigeria. Company Income Tax, Petroleum Profit Tax and Value Added Tax were used as non-oil revenue indicators. The results revealed that tax revenue collection positively and significantly affects economic growth in the long run, thereby emphasising the importance of non-oil tax revenue mobilisation for sustainable development. Oguejiofor et al. (2024) examined the effect of fiscal policy on manufacturing-sector growth in Nigeria from 1980 to 2022 using regression and co-integration methods. They found that government spending and fiscal incentives were important factors in improving manufacturing output, while poorly designed fiscal policy implementation limited its effectiveness for sectoral growth. Opayinka (2025) studied fiscal policy, inflation and economic growth in Nigeria using the ARDL estimation technique. The study revealed a long-run equilibrium relationship among the variables. Fiscal policy variables had significant effects on economic growth, whereas inflation had a negative effect on economic performance. The study highlighted the importance of fiscal discipline for sustained growth.

Jimoh et al. (2025) analysed the dynamic relationship among oil revenue, government expenditure and economic growth in Nigeria using ARDL and Granger causality models. The findings indicated that oil revenue significantly affected government expenditure and economic growth. However, the study noted that excessive reliance on oil revenue increased the economy's exposure to external shocks, which could weaken long-term growth prospects. Lawali and Yusuf (2025) examined the effect of government spending on the growth of the Nigerian economy using ARDL and VAR frameworks. Their findings indicated that recurrent and capital expenditures had negative significant effects, while total government expenditure was insignificant and the ARDL bounds test did not support long-run co-integration. They therefore emphasised fiscal discipline, improved public financial management and greater transparency in government spending. Atasiye et al. (2026) investigated the dynamic relationship among fiscal policy, inflation, crude oil prices and economic growth in Nigeria using ARDL and Granger causality methodologies. The results showed that fiscal policy variables had significant effects on growth, while fluctuations in crude oil prices and inflation negatively affected economic performance. The study also confirmed the presence of a long-run equilibrium relationship among the variables. Zuma and Olushola (2026) used ARDL and ECM to analyse fiscal sustainability, fiscal deficits and economic growth in Nigeria. Their findings indicated that fiscal deficits may support growth in the short run but can weaken long-run growth when debt accumulation and recurrent expenditure pressures dominate fiscal outcomes.

Adegboyo et al. (2023) examined the impact of non-oil revenue on economic growth in Nigeria from 1981 to 2021 and found that non-oil revenue components were important for growth, reinforcing the need to strengthen revenue mobilisation outside oil. Ifarajimi and Ola (2017) analysed government expenditure and economic growth in Nigeria using Dynamic Ordinary Least Squares (DOLS) and found evidence that expenditure composition matters for economic performance. The study highlighted the importance of increasing investment

in infrastructure and productive sectors. Ejinkonye et al. (2024) examined the export trade-economic growth nexus in Nigeria from 1981 to 2022 and found that export performance contributes to economic growth, although Nigeria's export structure remains vulnerable to commodity dependence. Zuma and Olushola (2026) examined the effect of fiscal sustainability indicators on economic growth using ARDL and ECM. Their findings indicated that short-run fiscal expansion may support growth, whereas persistent fiscal instability, debt-service pressures and recurrent expenditure can weaken long-run economic performance. Onyeka-Iheme et al. (2025) evaluated the effect of fiscal policy on economic growth in Nigeria using ARDL regression and emphasised the relevance of infrastructure investment, tax reform and macroeconomic stability for sustainable growth. Mengistu (2022) adopted ARDL to study the long-run relationship between fiscal policy components and economic growth in Ethiopia and found a strong long-run relationship, highlighting the importance of efficient fiscal management. Similarly, Majenge et al. (2024) demonstrated, in their study of South Africa's fiscal and monetary policy effects on economic growth from 1980 to 2022, that fiscal policy had a significant effect on economic growth, indicating that fiscal and monetary policies work jointly to support macroeconomic stability. Sosvilla-Rivero et al. (2025) used a panel ARDL model in their study of public expenditure and economic growth in the European Union and showed that different public expenditure categories have different short- and long-run effects on economic performance. Together, these international studies indicate that the effectiveness of fiscal policy is determined not only by the scale of government intervention but also by the composition, efficiency and quality of fiscal measures, thereby providing wider empirical support for examining the fiscal policy-growth relationship in Nigeria.

Although the existing literature on fiscal policy and economic growth in Nigeria is extensive, some research gaps remain. Existing studies have largely focused on a narrow subset of fiscal policy measures, such as government spending, taxes or oil revenue, and have not sufficiently examined the simultaneous impact of a comprehensive set of fiscal indicators. Thus, the effects of Total Government Expenditure, Oil Revenue, Non-Oil Revenue, Total Federally Collected Revenue, Federation Account Statutory Allocation, Federal Government Retained Revenue and Total Exports on economic growth have received limited empirical attention within a single framework. In addition, although the Autoregressive Distributed Lag (ARDL) method is widely used, few studies have combined the ARDL approach with Newey-West robust standard errors and structural stability diagnostics to test parameter stability and improve the reliability of empirical results. Furthermore, many previous studies used earlier datasets that may not fully reflect recent changes and reforms in Nigeria's fiscal structure, revenue diversification, external shocks and macroeconomic trends. This study addresses these gaps by using time-series data from 1981 to 2023 to examine the dynamic relationship between fiscal policy and economic growth in Nigeria. Specifically, the study jointly examines how Total Government Expenditure, Oil Revenue, Non-Oil Revenue, Total Federally Collected Revenue, Federation Account Statutory Allocation, Federal Government Retained Revenue and Total Exports affect Real Gross Domestic Product using the ARDL bounds testing approach and Error Correction Model (ECM). Newey-West robust standard errors and structural stability diagnostics are also used to strengthen the robustness and credibility of the empirical results. By combining these complementary econometric tools in a single analytical framework, the study provides more robust, reliable and policy-relevant evidence on the fiscal policy-economic growth nexus in Nigeria. Accordingly, the remaining gap is not merely whether fiscal policy affects growth, but whether a wider combination of expenditure, revenue, allocation and external-sector indicators can explain Nigeria's growth performance within a model that explicitly checks robustness and structural stability.

1.1 Research Objectives

The general aim of this study is to investigate the effect of fiscal policy dynamics on economic growth in Nigeria.

The specific objectives are to:

- i. examine the long-run relationship between fiscal policy variables and economic growth in Nigeria;
- ii. determine the short-run effects of Total Government Expenditure, Oil Revenue, Non-Oil Revenue, Total Federally Collected Revenue, Federation Account Statutory Allocation, Federal Government Retained Revenue and Total Exports on economic growth in Nigeria;
- iii. evaluate the speed of adjustment from short-run disequilibrium to long-run equilibrium using the Error Correction Model (ECM);

- iv. assess the robustness and structural stability of the estimated ARDL model using Newey-West robust standard errors and structural stability diagnostics.

1.2 Research Hypothesis

The following null hypotheses are tested in this study:

- H₀₁:** Total Government Expenditure has no significant effect on economic growth in Nigeria.
H₀₂: Oil Revenue has no significant effect on economic growth in Nigeria.
H₀₃: Non-Oil Revenue has no significant effect on economic growth in Nigeria.
H₀₄: Total Federally Collected Revenue has no significant effect on economic growth in Nigeria.
H₀₅: Federation Account Statutory Allocation has no significant effect on economic growth in Nigeria.
H₀₆: Federal Government Retained Revenue has no significant effect on economic growth in Nigeria.
H₀₇: There is no significant relationship between Total Exports and economic growth in Nigeria.
H₀₈: There is no long-run equilibrium relationship between the fiscal policy variables and economic growth in Nigeria.

2. Methodology

This study used an ex-post facto research design to examine the effect of fiscal policy dynamics on economic growth in Nigeria. The design is appropriate because the variables investigated had already occurred and could not be controlled by the researcher. The study used annual time-series data spanning 1981-2023, obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin. Time-series econometric analysis was used to examine the short- and long-run relationships among fiscal policy variables and economic growth.

2.1 Model Specification and Estimation

The study is anchored on fiscal policy-growth theories, which posit that government expenditure, revenue mobilisation, fiscal deficits and external-sector performance influence economic growth. The functional relationship is expressed as:

The functional model is expressed as:

$$RGDP = f(TEXP, OIRE, NORE, TFCR, FDAS, FGRR, TOEX) \quad (1)$$

The econometric model is specified as:

$$RGDP_t = \beta_0 + \beta_1 TEXP_t + \beta_2 OIRE_t + \beta_3 NORE_t + \beta_4 TFCR_t + \beta_5 FDAS_t + \beta_6 FGRR_t + \beta_7 TOEX_t + \varepsilon_t \quad (2)$$

where RGDP represents Real Gross Domestic Product, TEXP denotes Total Government Expenditure, OIRE denotes Oil Revenue, NORE denotes Non-Oil Revenue, TFCR represents Total Federally Collected Revenue, FDAS denotes Federation Account Statutory Allocation, FGRR denotes Federal Government Retained Revenue, TOEX denotes Total Exports and ε is the stochastic error term.

2.2 Unit Root Test

Prior to model estimation, the stationarity properties of the variables are examined using the Phillips-Perron (PP) and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) unit root tests.

2.2.1 Phillips-Perron Test

The PP test is specified as:

$$\Delta Y_t = \alpha + \beta t + \delta Y_{t-1} + \sum_{i=1}^k \gamma_i \Delta Y_{t-i} + \varepsilon_t \quad (3)$$

2.2.2 KPSS Test

The KPSS model is:

$$Y_t = \xi_t + r_t + \varepsilon_t \quad (4)$$

where:

$$r_t = r_{\{t-1\}} + u_t \quad (5)$$

2.3 ARDL Bounds Test for Co-integration

The study utilises the Autoregressive Distributed Lag (ARDL) bounds testing approach of Pesaran et al. (2001) to test for the presence of a long-run equilibrium relationship among the variables under consideration.

The unrestricted ARDL model is presented as:

$$RGDP_t = \alpha_0 + \sum_{i=1}^p \phi_i RGDP_{\{t-i\}} + \sum_{j=0}^{q1} \beta_j TEXP_{\{t-j\}} + \sum_{j=0}^{q2} \gamma_j OIRE_{\{t-j\}} + \sum_{j=0}^{q3} \delta_j NORE_{\{t-j\}} + \sum_{j=0}^{q4} \theta_j TFCR_{\{t-j\}} + \sum_{j=0}^{q5} \lambda_j FDAS_{\{t-j\}} + \sum_{j=0}^{q6} \omega_j FGRR_{\{t-j\}} + \sum_{j=0}^{q7} \psi_j TOEX_{\{t-j\}} + \varepsilon_t \quad (6)$$

while the bounds test hypotheses are specified as follows:

$$H_0: \beta_1 = \beta_2 = \beta_3 = \dots = \beta_7 = 0 \quad (7)$$

(No Cointegration)

$$H_1: \beta_i \neq 0 \quad (8)$$

(Cointegration Exists)

2.4 Long-Run ARDL Model

Once co-integration is established, the long-run coefficients are estimated as:

$$RGDP_t = \beta_0 + \beta_1 TEXP_t + \beta_2 OIRE_t + \beta_3 NORE_t + \beta_4 TFCR_t + \beta_5 FDAS_t + \beta_6 FGRR_t + \beta_7 TOEX_t + \varepsilon_t \quad (9)$$

The long-run coefficients measure the permanent effect of fiscal policy variables on economic growth.

2.5 Error Correction Model (ECM)

The short-run dynamics are captured using the ECM:

$$\Delta RGDP_t = \alpha_0 + \sum_{i=1}^n \beta_i \Delta X_t + \lambda ECM_{\{t-1\}} + \varepsilon_t \quad (10)$$

where:

$$ECM_{\{t-1\}} = RGDP_{\{t-1\}} - \left(\beta_1 TEXP_{\{t-1\}} + \beta_2 OIRE_{\{t-1\}} + \beta_3 NORE_{\{t-1\}} + \beta_4 TFCR_{\{t-1\}} + \beta_5 FDAS_{\{t-1\}} + \beta_6 FGRR_{\{t-1\}} + \beta_7 TOEX_{\{t-1\}} \right) \quad (11)$$

The coefficient measures the speed of adjustment towards long-run equilibrium and is expected to be negative and statistically significant.

2.6 Newey-West HAC Robust Estimation

Given the possibility of serial correlation and heteroskedasticity in macroeconomic time-series data, the study employs Newey-West Heteroskedasticity and Autocorrelation Consistent (HAC) standard errors.

The Newey-West covariance matrix estimator is expressed as:

$$\hat{V}_{NM} = (X'X)^{-1} \left[\sum_{t=1}^T u_t^2 X_t X_t' + \sum_{j=1}^L w_j \sum_{t=j+1}^T \hat{u}_t \hat{u}_{t-j} (X_t X_{t-j}' + X_{t-j} X_t') \right] (X'X)^{-1} \quad (12)$$

This approach produces robust standard errors that remain valid in the presence of heteroskedasticity and autocorrelation.

2.7 Structural Stability Analysis

2.7.1 CUSUM Test

The CUSUM statistic is:

$$CUSUM_t = \sum_{i=k+1}^t \frac{w_i}{s} \quad (13)$$

where, (w_i) denoted as Recursive residuals, (s) represents Standard deviation

3. Results and Discussion

Table 1. Phillips-Perron (PP) and KPSS unit root test results

Variable	PP (Level) PP_I0	PP (1st Diff.) PP_I1	KPSS (Level) KPSS_I0	KPSS (1st Diff.) KPSS_I1	Integration Order
RGDP	0.5407	0.0472	0.01	0.1	I(1)*
TEXP	0.8644	0.01	0.01	0.1	I(1)
OIRE	0.9801	0.01	0.01	0.0827	I(1)
NORE	0.6787	0.01	0.01	0.1	I(1)
TFCR	0.99	0.01	0.01	0.0542	I(1)
FDAS	0.9765	0.01	0.01	0.1	I(1)
FGRR	0.9671	0.01	0.01	0.1	I(1)
TOEX	0.9331	0.01	0.01	0.1	I(1)

Source: Rstudio Computation

Table 1 presents the results of the unit root tests for each study variable at level using the Phillips-Perron (PP) and KPSS tests, which suggest that all study variables are non-stationary at level. At level, the PP test does not reject the null hypothesis of a unit root at the 5% significance level, while the KPSS test rejects the null hypothesis of stationarity for all variables. After first differencing, however, the PP test rejects the null hypothesis of a unit root, and the KPSS test does not reject the null hypothesis of stationarity for all variables. Therefore, all variables are stationary after first differencing, meaning that they are integrated of order one, I(1). These results suggest that the series under consideration have long-run stochastic trends and that co-integration techniques are appropriate for analysing long-run relationships among the variables.

Table 2. ARDL model estimation (Dependent Variable: RGDP)

Variable	Coefficient	Std. Error	t-Statistic	P-value	Decision
Constant	1.37221	0.41878	3.277	0.00331	Significant
RGDP(-1)	0.86896	0.0428	20.304	0	Significant
TEXP	-0.0145	0.10037	-0.144	0.88638	Not Significant
TEXP(-1)	0.19269	0.1073	1.796	0.08567	Significant at 10%
TEXP(-2)	-0.04622	0.03789	-1.22	0.2349	Not Significant
OIRE	0.13835	0.13666	1.012	0.32188	Not Significant
OIRE(-1)	-0.04172	0.02297	-1.817	0.08235	Significant at 10%
NORE	0.11978	0.05121	2.339	0.02839	Significant
TFCR	-0.14758	0.18351	-0.804	0.42951	Not Significant
FDAS	0.0585	0.02692	2.173	0.04031	Significant
FDAS(-1)	-0.05713	0.04681	-1.221	0.23463	Not Significant

Variable	Coefficient	Std. Error	t-Statistic	P-value	Decision
FDAS(-2)	0.09201	0.03255	2.826	0.00957	Significant
FGRR	-0.11073	0.04848	-2.284	0.03193	Significant
FGRR(-1)	0.15399	0.04992	3.085	0.00523	Significant
FGRR(-2)	-0.06313	0.03511	-1.798	0.08531	Significant at 10%
TOEX	0.05292	0.11482	0.461	0.64918	Not Significant
TOEX(-1)	-0.30171	0.1171	-2.577	0.01687	Significant

Source: Rstudio Computation

The estimation of the ARDL model in Table 2 shows that the coefficient of lagged RGDP ($\beta = 0.86896$) is positive and highly significant ($p < 0.01$), indicating strong persistence in economic growth. Among the fiscal variables, non-oil revenue (NORE) has a positive and statistically significant effect on economic growth, suggesting that revenue diversification is important for Nigeria's economic performance. The immediate effect of government expenditure (TEXP) on RGDP is not significant, but its lagged effect is positive and significant at the 10% level, indicating delayed growth effects. In the short run, oil revenue (OIRE) is insignificant but has a weak negative lagged effect, reflecting the potential downside risk of relying on volatile oil revenue. FDAS has positive and significant contemporaneous and second-period lagged effects on RGDP, whereas FGRR shows mixed effects, with a negative current-period effect and a positive first-lag effect. Finally, TOEX has a strong negative lagged effect on economic growth, indicating that external-sector pressures could constrain economic performance in the longer term. Overall, the findings highlight the importance of non-oil revenue generation and prudent fiscal policy in fostering sustainable economic growth.

Table 3. ARDL bounds test for co-integration

Test	Statistic	p-value	Decision
Bounds F-Test	6.7537	0.000075	Reject H_0
Conclusion			Evidence of Co-integration

Source: Rstudio Computation

The ARDL bounds test was conducted to determine the presence of a long-run equilibrium relationship between RGDP and the selected fiscal variables, as shown in Table 3. The F-statistic is 6.7537, with a corresponding p-value of 0.000075, which is statistically significant at the 1% level. Therefore, the null hypothesis of no co-integration is rejected. The result strongly suggests that a long-run relationship exists between economic growth and the explanatory variables in the model. This implies that, although the variables are non-stationary at level, they move together over time and have a stable long-run equilibrium relationship. Thus, the presence of co-integration justifies the estimation of long-run coefficients and an error correction model to capture both long-run trends and short-run adjustment towards equilibrium.

Table 4. Long-run ARDL coefficients

Variable	Coefficient	Std. Error	t-Statistic	P-value	Decision
Constant	10.4714	0.8093	12.9387	0.000	Significant
TEXP	1.007	0.5436	1.8524	0.0768	Significant at 10%
OIRE	0.7374	1.0185	0.724	0.4764	Not Significant
NORE	0.9141	0.4362	2.0954	0.0473	Significant
TFCR	-1.1262	1.3939	-0.808	0.4274	Not Significant
FDAS	0.7125	0.2293	3.1074	0.005	Significant
FGRR	-0.1516	0.297	-0.5105	0.6146	Not Significant
TOEX	-1.8985	0.9355	-2.0294	0.0541	Significant at 10%

Source: Rstudio Computation

As shown in Table 4, the long-run ARDL estimates indicate that Total Expenditure (TEXP), Non-Oil Revenue (NORE) and FDAS have positive and statistically significant effects on economic growth. Specifically, a 10% rise in TEXP, NORE and FDAS leads to increases in RGDP of about 1.01%, 0.91% and 0.71%, respectively. The results indicate that fiscal expansion, revenue diversification and effective fiscal operations have positive effects on economic performance in the long run. Conversely, TOEX has a negative and significant effect on RGDP, suggesting that a sustained rise in external obligations or pressures could hinder economic growth over

time. The long-run effects of OIRE, TFCR and FGRR are statistically insignificant, meaning that their contributions to economic growth are not strong enough to be distinguished from random variation. Overall, the findings underscore the need to strengthen non-oil revenue generation and productive government spending as sources of sustainable economic growth.

Table 5. Error correction model (ECM) results

Dependent Variable: Δ RGDP

Variable	Coefficient	Std. Error	t-Statistic	P-value	Decision
Constant	1.37221	0.41878	3.277	0.00331	Significant
ECM(-1) [L(RGDP,1)]	-0.13104	0.0428	-3.062	0.00552	Significant
L(TEXP,1)	0.13197	0.06758	1.953	0.06313	Significant at 10%
L(OIRE,1)	0.09663	0.1328	0.728	0.47421	Not Significant
NORE	0.11978	0.05121	2.339	0.02839	Significant
TFCR	-0.14758	0.18351	-0.804	0.42951	Not Significant
L(FDAS,1)	0.09337	0.02724	3.427	0.0023	Significant
L(FGRR,1)	-0.01987	0.04069	-0.488	0.62994	Not Significant
L(TOEX,1)	-0.24879	0.094	-2.647	0.01442	Significant
Δ TEXP	-0.0145	0.10037	-0.144	0.88638	Not Significant
Δ TEXP(-1)	0.04622	0.03789	1.22	0.2349	Not Significant
Δ OIRE	0.13835	0.13666	1.012	0.32188	Not Significant
Δ FDAS	0.0585	0.02692	2.173	0.04031	Significant
Δ FDAS(-1)	-0.09201	0.03255	-2.826	0.00957	Significant
Δ FGRR	-0.11073	0.04848	-2.284	0.03193	Significant
Δ FGRR(-1)	0.06313	0.03511	1.798	0.08531	Significant at 10%
Δ TOEX	0.05292	0.11482	0.461	0.64918	Not Significant

Source: Rstudio Computation

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.02896 on 23 degrees of freedom, (0 observations deleted due to missingness), Multiple R-squared: 0.744, Adjusted R-squared: 0.566, F-statistic: 4.179 on 16 and 23 DF, p-value: 0.0009724

Table 5 shows that the Error Correction Model (ECM) confirms the presence of a stable long-run relationship among the variables, as indicated by the negative and statistically significant error correction coefficient (ECT = -0.13104, $p < 0.01$). The coefficient shows that approximately 13.1% of short-run disequilibrium is reduced in each period, indicating that the economy moves towards long-run equilibrium over time. Among the explanatory variables, lagged total expenditure (TEXP), non-oil revenue (NORE) and lagged FDAS have positive and significant effects on economic growth, whereas lagged TOEX has a negative and significant effect on RGDP. Changes in FDAS have a positive short-run effect on growth, while lagged changes in FDAS and current changes in FGRR have negative effects. The model explains 74.4% of the variation in RGDP, and the overall F-statistic confirms that the regressors jointly and significantly explain economic growth. The results indicate that non-oil revenue mobilisation and sound fiscal management are important factors affecting economic growth, while additional external commitments may constrain economic performance.

3.1 Diagnostic Tests

Table 6. Breusch–godfrey serial correlation test results

Test	Test Statistic (LM)	Degrees of Freedom	P-value
Breusch–Godfrey Serial Correlation Test	10.707	1	0.0011

Source: Rstudio Computation

The Breusch-Godfrey Serial Correlation LM test (Table 6) was used to test for serial correlation in the residuals of the estimated ARDL-ECM model. The test produced an LM statistic of 10.707, with 1 degree of freedom and a p-value of 0.0011. Because the p-value is below the 5% significance level, the null hypothesis is rejected, indicating the presence of serial correlation in the model residuals. To address this issue and obtain reliable statistical inferences, Newey-West HAC standard errors, which are robust to heteroskedasticity and

autocorrelation, were used. Therefore, the reported robust estimates are valid and consistent when the model contains autocorrelated residuals.

Table 7. Breusch-Pagan Heteroskedasticity Test

Diagnostic Test	Test Statistic	Degrees of Freedom	P-value
Breusch-Pagan Heteroskedasticity Test	21.711	16	0.1528

Source: Rstudio Computation

The Breusch-Pagan heteroskedasticity test in Table 7 produced a test statistic of 21.711 with 16 degrees of freedom and a p-value of 0.1528. Because the p-value is greater than 5%, the null hypothesis of homoskedasticity is not rejected. This means that there is no substantial heteroskedasticity in the model residuals, the error variance is constant and the estimated coefficients and standard errors are appropriate for statistical inference.

Table 8. Jarque-Bera Normality Test

Diagnostic Test	Test Statistic (χ^2)	Degrees of Freedom	P-value
Jarque-Bera Normality Test	0.8036	2	0.6691

Source: Rstudio Computation

The Jarque-Bera normality test was used to assess the normality of the residuals of the estimated ECM model, as shown in Table 8. The test statistic was 0.8036, with 2 degrees of freedom and a p-value of 0.6691. Because the p-value is greater than the 5% significance level, the null hypothesis of normality cannot be rejected. Therefore, the normality assumption required for valid statistical inference is satisfied, as the residuals are normally distributed. This result supports the robustness and reliability of the estimated ARDL-ECM model for economic analysis and policy evaluation.

Table 9. Newey-West HAC robust standard errors results

Variable	Coefficient	Robust Std. Error	t-Statistic	P-value	Decision
Constant	1.372207	0.16091	8.5278	0.0000	Significant
RGDP(-1)	0.868957	0.017486	49.6958	0.0000	Significant
TEXP	-0.014501	0.059761	-0.2427	0.8104	Not Significant
TEXP(-1)	0.192687	0.053829	3.5797	0.0016	Significant
TEXP(-2)	-0.046219	0.025108	-1.8408	0.0786	Significant at 10%
OIRE	0.13835	0.109139	1.2677	0.2176	Not Significant
OIRE(-1)	-0.041724	0.013046	-3.1984	0.004	Significant
NORE	0.119781	0.033606	3.5642	0.0016	Significant
TFCR	-0.147577	0.14817	-0.996	0.3296	Not Significant
FDAS	0.058497	0.015983	3.6598	0.0013	Significant
FDAS(-1)	-0.057135	0.027283	-2.0941	0.0475	Significant
FDAS(-2)	0.092008	0.014677	6.2691	0.0000	Significant
FGRR	-0.110732	0.021695	-5.104	0.0000	Significant
FGRR(-1)	0.153986	0.023867	6.4518	0.0000	Significant
FGRR(-2)	-0.063126	0.027994	-2.255	0.034	Significant
TOEX	0.052924	0.074051	0.7147	0.482	Not Significant
TOEX(-1)	-0.301711	0.073039	-4.1308	0.0004	Significant

Source: Rstudio Computation

Table 9 shows the Newey-West HAC robust standard errors, which further validate the stability of the ARDL results in the presence of heteroskedasticity and autocorrelation. The lagged dependent variable, RGDP(-1), remains highly significant, suggesting strong persistence in economic growth. Non-oil revenue (NORE) is positively and statistically significant, confirming its important contribution to economic performance in the long run. Government expenditure (TEXP) has a small current-period effect but a significant lagged effect, suggesting delayed growth effects. The significant negative lagged effect of oil revenue (OIRE) reflects the possible inefficiency associated with reliance on oil revenue. FDAS has strong dynamic effects across the lags,

while FGRR has alternating effects. TOEX has a negative lagged effect on growth, emphasising the adverse influence of external-sector pressures in the long run. Overall, the HAC-corrected results support the robustness of the model and confirm that fiscal structure and fiscal composition significantly influence the dynamics of economic growth.

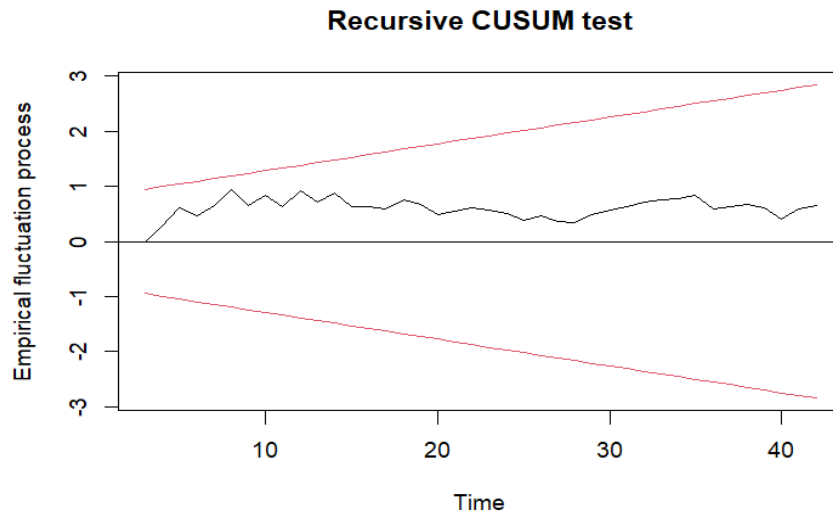


Fig. 1. Recursive CUSUM stability

Table 10. CUSUM stability test result

Test	Test Statistic (S)	P-value	Decision (5% Level)	Conclusion
Recursive CUSUM Test	0.74446	0.1936	Fail to Reject H_0	<i>Model is Stable</i>

Source: Rstudio Computation

The stability of the estimated ARDL-ECM model was assessed using the recursive CUSUM test, as shown in Fig. 1 and Table 10. The CUSUM plot remained within the 5% critical bounds throughout the sample period, indicating that the estimated parameters are not structurally unstable. In addition, the CUSUM statistic of 0.7445 and p-value of 0.1936 are not significant at the 5% level; therefore, the null hypothesis of parameter stability is not rejected. The estimated model is therefore considered stable and appropriate for policy inference, forecasting and long-run economic analysis. The findings imply that the interaction between fiscal policy dynamics and economic growth in Nigeria was relatively consistent during the study period, despite episodes of economic reform, oil price fluctuations and fiscal adjustment.

4. Summary of Findings

The empirical findings support the presence of a long-run equilibrium relationship between fiscal policy variables and economic growth in Nigeria, as indicated by the ARDL bounds test results. This study is consistent with the broader ARDL-based evidence of Adegboyo et al. (2021), Opayinka (2025) and Atasié et al. (2026), which shows that fiscal-policy variables are linked with economic growth in Nigeria, although Lawali and Yusuf (2025) reported weaker evidence for total government expenditure when fiscal inefficiency is present. The present study, however, extends the existing literature by including a larger and more comprehensive set of fiscal policy variables in a single analytical framework and by testing the estimated relationships using Newey-West robust standard errors and structural stability diagnostics. These additional robustness checks improve the validity of the estimated coefficients and increase confidence in the policy implications. The positive and significant long-run effect of Total Government Expenditure on economic growth supports the Keynesian view that productive public expenditure can stimulate aggregate demand, investment and economic activity. This result is consistent with the conclusions of Olayinka et al. (2023), Onifade et al. (2020) and Ifarajimi and Ola (2017), who found that government spending can support economic growth when

channelled to productive sectors. The present study not only examines government expenditure but also considers other important fiscal indicators, thereby providing a broader picture of fiscal dynamics. The positive and significant relationship between Non-Oil Revenue and economic growth in both the short run and the long run supports the findings of Idebi et al. (2024) and Adegboyo et al. (2023), who highlighted the relevance of tax revenue mobilisation and non-oil revenue expansion for sustainable economic development. In this study, the positive effect of non-oil revenue remained significant after controlling for government spending, oil revenue, statutory allocations, federally collected revenue, retained revenue and exports. This finding underscores the need to expand Nigeria's domestic revenue base and reduce the dominance of crude oil earnings. Oil revenue, however, was not statistically significant in explaining economic growth during the study period. This result differs from Jimoh et al. (2025), who reported a significant relationship between oil revenue and economic growth. The difference may be attributed to volatility in international oil prices, recent fiscal reforms and the gradual transition towards non-oil revenue mobilisation during the latter part of the sample period. This suggests that oil revenue protection alone is not sufficient for long-term economic growth. The weak effects of Total Federally Collected Revenue and Federal Government Retained Revenue suggest that increases in government revenue do not necessarily translate into better economic performance. This may be associated with poor public financial management, insufficient institutional capacity and the allocation of fiscal resources to less productive sectors. These results indicate that fiscal policy effectiveness depends not only on the quantity of public funds but also on their efficient use. The finding that fiscal transfers from the Federation Account had a positive and significant effect indicates that fiscal transfers play an important role in supporting economic activity. This extends previous studies by showing that statutory allocations remain important in the fiscal policy-growth relationship when examined jointly with other fiscal policy variables. The negative and significant short-run effect of Total Exports differs from the positive export-growth evidence reported by Ejinkonye et al. (2024). The difference may be due to Nigeria's continued reliance on crude oil exports, volatility in international commodity prices and temporary external shocks to export earnings during the study period. The present study includes data up to 2023, which were not considered in some previous studies, thereby providing more up-to-date evidence on the export-growth relationship. The error correction coefficient is negative and statistically significant, confirming that short-run disequilibrium is gradually corrected over time, with about 13.1% of disequilibrium corrected each year. The findings align with ARDL/ECM-based evidence such as Zuma and Olushola (2026), which also emphasised the importance of fiscal sustainability in the growth process. Finally, although the diagnostic tests indicated serial correlation, the use of Newey-West HAC robust standard errors and structural stability diagnostics verified the stability and reliability of the estimated coefficients. This methodological improvement distinguishes the present study from many previous Nigerian studies that relied mainly on the traditional ARDL method without further robustness checks. The findings, therefore, provide a stronger empirical basis for designing fiscal policies aimed at sustainable economic growth in Nigeria.

Table 11. Decision on research hypotheses

Hypothesis	Decision	Basis
H ₀₁ : There is no long-run relationship between fiscal policy variables and economic growth.	Rejected	ARDL Bounds Test ($F = 6.7537, p < 0.01$) confirms co-integration.
H ₀₂ : Total Government Expenditure has no significant effect on economic growth.	Rejected	Long-run coefficient is statistically significant.
H ₀₃ : Oil Revenue has no significant effect on economic growth.	Failed to Reject	Oil Revenue is statistically insignificant.
H ₀₄ : Non-Oil Revenue has no significant effect on economic growth.	Rejected	Significant positive effect in both the short run and long run.
H ₀₅ : Total Federally Collected Revenue has no significant effect on economic growth.	Failed to Reject	Variable is statistically insignificant.
H ₀₆ : Federation Account Statutory Allocation has no significant effect on economic growth.	Rejected	Significant positive effect on economic growth.
H ₀₇ : Federal Government Retained Revenue has no significant effect on economic growth.	Failed to Reject	Variable is statistically insignificant.
H ₀₈ : Total Exports have no significant effect on economic growth.	Rejected	Significant effect on economic growth (negative in the short run and significant in the long run according to your reported results).

Source: Rstudio Computation

The hypothesis testing results in Table 11 show that the null hypothesis of no long-run equilibrium relationship between fiscal policy variables and economic growth was rejected; therefore, the variables are co-integrated. In addition, the null hypotheses concerning Total Government Expenditure, Non-Oil Revenue, Federation Account Statutory Allocation and Total Exports were rejected, indicating that these fiscal policy variables have significant effects on economic growth in Nigeria. However, the null hypotheses for Oil Revenue, Total Federally Collected Revenue and Federal Government Retained Revenue were not rejected, meaning that their effects on economic growth were not statistically significant during the study period. The implication of these findings is that sustainable economic growth in Nigeria depends more on the efficient use of public funds, improved non-oil revenue collection and prudent allocation of funds to productive activities than on oil revenue.

5. Conclusion

This study examined the effect of fiscal policy dynamics on economic growth in Nigeria using annual time-series data from 1981 to 2023. The study employed the ARDL framework, Error Correction Model (ECM), Newey-West robust estimation and structural stability diagnostics to examine the short- and long-run relationships between selected fiscal policy indicators and Real Gross Domestic Product. The empirical evidence showed a long-run equilibrium relationship among the variables. In the long run, Total Government Expenditure, Non-Oil Revenue, Federation Account Statutory Allocation and Total Exports had significant effects on economic growth, while Non-Oil Revenue and Federation Account Statutory Allocation had positive short-run effects. The negative and significant error correction coefficient further confirmed convergence towards long-run equilibrium after short-run shocks. Although diagnostic tests indicated the presence of serial correlation, the application of Newey-West robust standard errors and structural stability diagnostics showed that the estimated model was stable and statistically reliable. The study contributes to the literature by analysing several fiscal policy indicators within one analytical framework and by applying robustness and stability techniques that have rarely been combined in previous Nigerian studies. These methodological refinements strengthen the validity of the results and the evidence for policymaking. Based on the findings, the study suggests the need to strengthen non-oil revenue mobilisation, improve public expenditure efficiency, promote fiscal discipline and diversify export earnings to reduce dependence on oil revenue and support sustainable economic growth. Future studies may extend the analysis by incorporating institutional quality, governance indicators, fiscal decentralisation measures or nonlinear econometric models to provide a deeper understanding of the fiscal policy-growth relationship in Nigeria.

6. Limitations

This study is limited by its reliance on annual secondary time-series data from 1981 to 2023. The analysis depends on the accuracy and consistency of published fiscal and macroeconomic data. Although the ARDL approach captures short- and long-run dynamics, the presence of serial correlation requires cautious interpretation. The study also focuses on selected fiscal policy variables and does not include all institutional, external or macroeconomic factors that may influence economic growth in Nigeria.

Declaration of AI Use

This manuscript was prepared through the combined contributions of all author(s), including contributions to the study design, data, content development, results, interpretation, and related scholarly work. The author(s) acknowledge the use of Grammarly and ChatGPT to assist with grammar checking, language refinement, reference formatting. These AI-assisted tools were not used as authors and did not replace the intellectual contributions or scholarly judgment of the author(s). All AI-assisted outputs, including content, references, and interpretations, were carefully reviewed, revised, verified, and approved by the author(s). The author(s) accept full responsibility for the accuracy, integrity, and final content of the manuscript.

Competing Interests

Authors have declared that no competing interests exist.

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