FISCAL POLICY AND ECONOMIC STABILITY: A COMPREHENSIVE EVALUATION OF FISCAL STABILIZATION MEASURES IN NIGERIA.

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ABSTRACT: The central aims of fiscal policy are to foster economic growth, stabilize prices, and achieve full employment. Fiscal policies encompass a variety of macroeconomic instruments, including government spending, budgetary allocations, taxation, and transfer payments, all utilized by the government to maintain economic stability. The main objective of the study is to investigate the relationship between fiscal policy and economic stability in Nigeria. The study employed various econometric techniques such as unit root test, cointegration test using bounds tests and ARDL model on secondary data set ranging from 1981 to 2023. The findings indicate that government expenditure on administration significantly reduces inflation in both the short and long run, likely due to improvements in governance efficiency and fiscal discipline. In contrast, transfer payments contribute to rising inflation over time, suggesting that increased liquidity from such expenditures fuels aggregate demand and price pressures. Other fiscal variables, including expenditures on economic services, community and social services, and tax revenue, do not exhibit statistically significant

effects on inflation in either the short or long run. The researcher recommends that the government should prioritize increased and efficient administrative spending, as it has been shown to significantly reduce inflation in both the short and long run. Enhancing governance efficiency and fiscal discipline through well-managed administrative expenditures can help stabilize inflationary pressures and promote economic stability.

Keywords: *fiscal policy, economic stability, fiscal stabilization*

1. Introduction

Fiscal policy represents a vital instrument through which governments influence economic performance, using tools such as taxation, government spending, and transfer payments to manage overall economic conditions. Its key objectives include fostering economic growth, controlling inflation, achieving full employment, and ensuring long-term economic stability. By adjusting tax policies and expenditure levels, the government can either stimulate or moderate economic activities, mitigating the effects of economic cycles and contributing to national development. Taxation not only serves as a revenue generation mechanism but also functions as a tool to promote equity and influence behaviors, while government spending supports strategic sectors like education, infrastructure, and health to boost productivity and job creation.

The policy can be expansionary or contractionary, depending on the prevailing economic condition. In times of recession, expansionary fiscal policy through increased government spending or tax reductions aims to revive economic activities. Conversely, during periods of high inflation, contractionary fiscal policy helps in cooling down the economy by reducing spending or increasing taxes. In developing economies such as Nigeria, fiscal policy assumes greater significance in stabilizing macroeconomic conditions, promoting investment, and facilitating a diversified economic base. As highlighted by scholars like Babalola (2015), the use of fiscal tools has been instrumental in navigating various economic shocks and fostering resilience.

Economic stability, a core objective of fiscal policy, involves maintaining steady growth, low inflation, stable currency, and low unemployment rates. In the Nigerian context, achieving economic stability is essential for boosting investor confidence, enhancing living standards, and minimizing economic vulnerability. Anochie and Durru (2021) emphasized the interconnected roles of fiscal and monetary policies in attaining such stability. Successful policy coordination ensures balance between government revenue, expenditures, and money supply. Additionally, effective oversight of financial institutions plays a crucial role in mitigating systemic risks, enhancing competition, and supporting long-term economic performance.

Over the years, Nigeria has undertaken several fiscal reforms aimed at macroeconomic stability, especially in light of its heavy reliance on oil revenue. The adoption of the oil-price-based fiscal rule and the creation of the excess crude account were strategies to buffer the economy from external shocks by decoupling public expenditure from volatile oil prices. These reforms echo Keynesian economics, which advocates for active government intervention in economic management especially after market failures became apparent in the 1930s. Yet, despite these efforts, global financial institutions like the BIS (2020) and Borio et al. (2023) argue that policymakers have yet to establish a fully integrated macro-financial stability framework. The COVID-19 pandemic has further underscored the urgent need for a comprehensive and coordinated approach involving fiscal, monetary, and prudential policies.

Nigeria's fiscal policy plays a crucial role in promoting economic stability and sustainable development. However, its effectiveness has been undermined by structural deficiencies, poor fiscal coordination among different levels of government, and mismanagement of resources. The country's federal structure permits each tier of government to formulate and implement its own fiscal agenda, often without alignment to national macroeconomic goals. As a result, public funds are frequently misallocated, with increasing government revenue not translating into tangible developmental outcomes. This persistent pattern of fiscal irresponsibility has continued to hinder Nigeria's economic progress and raises concerns about the long-term implications of unchecked misalignment in fiscal priorities (Ezeabasili, 2013).

In response to these challenges, scholars have extensively studied the link between fiscal policy and economic outcomes in Nigeria, analyzing variables such as government borrowing, fiscal deficit, taxation, and public spending in relation to economic growth, inflation, and unemployment. Notable works by Olisaji and Onuora (2022), Ene and Bushi (2022), and others have provided valuable insights. However, this body of research often overlooks the disaggregated impact of specific components of government expenditure such as spending on administration, economic services, health, education, and transfers on economic stability. This study therefore seeks to fill that gap by evaluating the distinct effects of these expenditure components, along with tax revenue, on Nigeria's inflation rate between 1981 and 2023, offering a more nuanced understanding of fiscal policy's role in economic management.

Following the introduction, section two provides a review of relevant literature. Section three describes the research methodology and addresses data-related concerns. Section four presents the analysis of data and interpretation of results, and Section five concludes the study with appropriate policy recommendations.

2.1 Literature Review

2.1.1 Fiscal Policy Trends in Nigeria

After the return to civilian rule in 1999, Nigeria adopted expansionary fiscal policies to stimulate economic growth and address infrastructural deficiencies. Between 1999 and 2004, the government significantly increased spending on public projects and social welfare programs. However, from 2005 to 2007, the focus shifted toward fiscal reforms to enhance transparency, accountability, and fiscal discipline. This period marked the operational strengthening of institutions like the Economic and Financial Crimes Commission (EFCC), which played a key role in combating corruption and financial crimes that hampered economic stability.

Between 2008 and 2014, Nigeria experienced a boom in oil revenue due to high global oil prices. However, poor management of the windfall, compounded by corruption, led to excessive government spending and a sharp rise in fiscal deficits. From 2015 to 2017, the country was hit by a fall in oil prices and production, which

triggered economic imbalances and a recession in 2016. In response, the government implemented fiscal consolidation strategies, such as cutting subsidies and reducing unnecessary expenditures, while later introducing expansionary measures to stimulate recovery and economic growth.

From 2018 to 2022, fiscal policy in Nigeria focused on diversifying the economy and improving fiscal sustainability in the face of oil price volatility. The government intensified efforts to boost non-oil revenue, while increasing borrowing to fund infrastructure and cover budget deficits. During this period, tax revenue rose, partly due to improved global oil prices and enhanced revenue collection. However, fiscal deficits and government transfers often moved in opposite directions to revenue, reflecting fluctuating economic conditions and shifting policy priorities. The trends reveal persistent challenges in aligning revenue with expenditure, driven by external shocks and internal inefficiencies. The above trends is depicted on the figure 1 below.

Fig.1: Trends in fiscal policy in Nigeria from 1999-2022

Author's computation
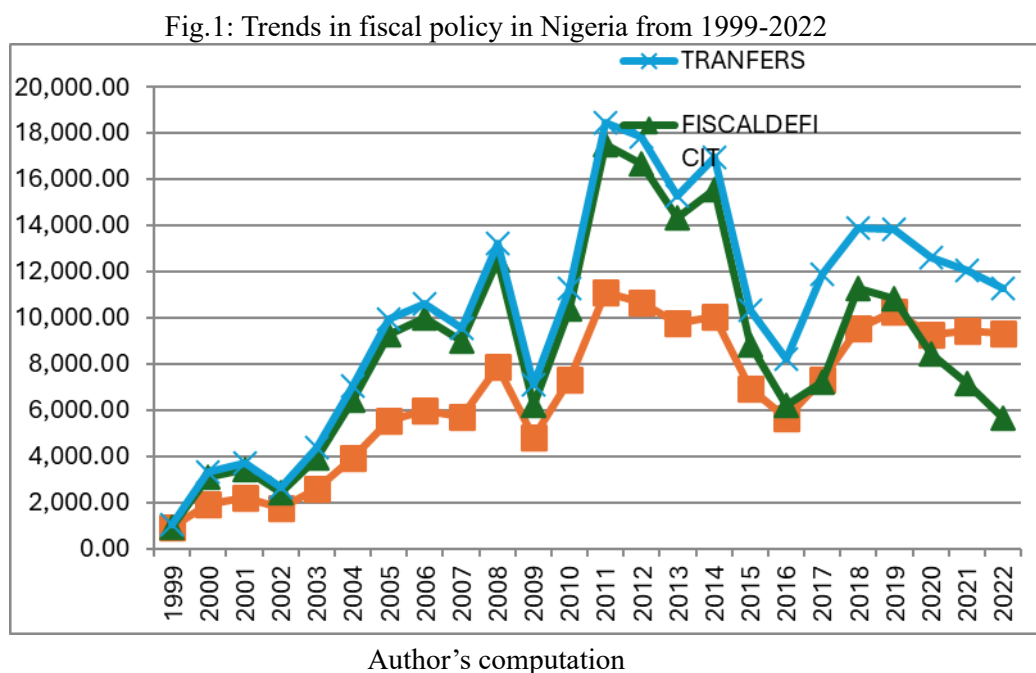
2.1.2 Theoretical Review

Tule et al. (2019) draw attention to that the Fiscal Theory of the Price Level (FTPL) which was introduced by Sims (1994) and Leeper (1991) as an alternative to the traditional Quantity Theory of Money (QTM). While QTM posits that changes in money supply directly affect the price level, FTPL emphasizes the role of fiscal

policy especially government debt and future expectations in determining inflation and price levels. This theory shifts the focus from central banks to government budgetary decisions as a key factor in price level determination.

At the core of FTPL is the government's intertemporal budget constraint, which requires the present value of future primary surpluses to equal current government debt. This relationship implies that if government debt rises, it must eventually be balanced by future fiscal surpluses, influencing people's expectations about future taxes and spending. Rational economic agents adjust their behavior based on these expectations, and real interest rates adjusted for inflation play a pivotal role in linking fiscal policy to the price level under this theory.

If increases in government debt are viewed as permanent, households and firms may reduce spending in anticipation of future tax hikes, potentially lowering aggregate demand. To counteract these effects and support economic activity, central banks may adopt accommodative policies, such as printing more money or keeping interest rates low, which can influence inflation. Although FTPL is controversial and not universally accepted due to its reliance on assumptions about expectations and policy behavior, it remains influential in academic discussions about the interplay between fiscal and monetary policy in managing economic stability.

2.2 Empirical Review

There is plethora of literature on fiscal policy and economic stability, which has generated volume of studies. We organize the empirical studies and views of scholars' chronologically as shown below: Olisaji and Onuora (2022) used data from 2015 to 2019 sourced from central bank of Nigeria statistical bulletin to evaluate the effects of fiscal policy on economic growth in Nigeria. The study adopted the expo-factor research design. The result observed that there is a significant and positive correlation between Companies Income Tax and Economic Growth. Ene and Bushi (2022) established the effects of fiscal policy on price stability in Nigeria. The study relied on autoregressive distributed lag for analysis. The secondary data collected spanned from the year 2000 to 2019. The rate of inflation was used as proxy for price stability while budget deficit, taxation and government expenditure was used as

proxy for fiscal policy. The study showed that taxation exerted a positive and significant influence on price stability while budget deficit and government expenditure showed no evidence of relationship with the rate of inflation.

Iwuoha, Okolo and Attamah (2020) investigated the reason behind increase in unemployment, poor economic performance and continuous fall in the living standard of the people in Nigeria. Employing autoregressive distributed lag model, on the data collected, the result indicated that that government revenue significantly reduces economic growth and further, the result showed that government debt stock significantly boosts economic growth and reduces unemployment while government expenditure boosts the growth of the economy. The study recommended that government should reduce tax while maintaining fiscal deficit.

Dumičić (2019) examined the relationship between fiscal policy and financial instability, highlighting several aspects of government borrowing that influence financial stability. These include the cost of public financing, its spillover effects on private sector borrowing costs, the extent of financial institutions' exposure to government debt, and the sustainability of public debt management. The study also noted that fiscal policies shaped by electoral cycles often reflect differing priorities and timeframes among policymakers, which can undermine the effectiveness of countercyclical measures. Additionally, the research suggested that future studies could explore the macroprudential potential of fiscal policy in greater depth. Ogbonna, Uba and Odionye (2018) adopted the ARDL-ECM to investigate the effect of fiscal policy which was captured by government borrowing, government expenditure, and tax revenue while the dependent variable (economic stability) was proxied by economic growth and level of unemployment. The study covered 1981 to 2015. The result showed that government expenditure, and government borrowing triggers decrease in unemployment. It also revealed that gross domestic product is positively and significantly influenced by government expenditure, taxes and government borrowing. They advised the government to design policies that will improve expenditure on goods that have direct impact on the poor masses.

Ozo, Uma, and Odionye (2016) disaggregated tax revenue into categories such as income tax, customs and excise duties, and petroleum profit tax to examine the

specific influence of each on inflation and unemployment, which were used as indicators of economic stability. Their findings indicated that government spending significantly affects unemployment only over the long term, whereas customs and excise duties exert a notable influence on inflation in both the short and long run in Nigeria. In a related timeframe, Alińska (2016) emphasized the role of fiscal policy as a crucial component in the macro-financial stability framework following economic crises. The research highlighted that the 2008–2010 banking sector crisis diverted attention from public financial management and heightened fiscal vulnerabilities, contributing to a deterioration in monetary system performance. The study further revealed that adopting a robust countercyclical approach could mitigate excessive increases in asset values and credit expansion.

2.3 Research Gap

As noted earlier, this topic has attracted the attention of scholars and researchers and there exist plethora of study on the topic in different dimensions. Different models and techniques have been applied on different sets of data and variables such as government borrowing, fiscal deficit, government expenditure, taxation, inflation rate, economic growth, unemployment rate, and so on. This present study observed that none of the studies decomposed government expenditure into expenditure on administration, expenditure on economic services, expenditure on community and social services (health and education), and transfers. These are components of government expenditure consisting the capital and the recurrent expenditures. Hence, there is need to establish the individual impacts of these variables on economic stability which shall be proxied by the rate of inflation in Nigeria from 1981 to 2023.

3.1 Methodological Issues

For the purpose of this research, secondary time series data was utilized, sourced from the Central Bank of Nigeria's Statistical Bulletin (2024). The dataset covers the period from 1981 to 2023.

3.2 Analytical Framework of the Model

The Autoregressive Distributed Lag (ARDL) model is an econometric tool used to examine both the long-term relationships and short-term adjustments among two or more time series variables. It is especially effective for analyzing data that are non-stationary where the variables may exhibit trends or lack a constant mean and variance over time.

The general form of an ARDL model is as follows:

$$\Delta Y_t = \beta_0 + \beta_1 Y_{t-1} + \beta_2 \Delta Y_{t-1} + \ldots + \beta_p \Delta Y_{t-p} + \gamma_1 X_{t-1} + \gamma_2 \Delta X_{t-1} + \ldots + \gamma_q \Delta X_{t-q} + \varepsilon_t \Delta Y_t$$
$$= \beta_0 + \beta_1 Y_{t-1} + \beta_2 \Delta Y_{t-1} + \ldots + \beta_p \Delta Y_{t-p} + \gamma_1 X_{t-1} + \gamma_2 \Delta X_{t-1} + \ldots + \gamma_q \Delta X_{t-q} + \varepsilon_t \quad\quad (3.1)$$

Where:

ΔY_t represents the differenced or first-differenced dependent variable at time t.

Y_{t-1} is the lagged dependent variable at time $t-1$, β_0 is the intercept term. $\beta_1, \beta_2, \ldots, \beta_p$ are the coefficients associated with the lagged values of Y, X_{t-1} is the lagged independent variable at time $t-1$. ΔX_{t-1} denotes the differenced independent variable at time $t-1$. $\gamma_1, \gamma_2, \ldots, \gamma_q \gamma_1, \gamma_2, \ldots, \gamma_q$ are the coefficients associated with the lagged values of X. ε_t represents the error term or the residual at time t.

ARDL allows for both I(0) (stationary) and I(1) (non-stationary) variables to be included in the model, making it suitable for analyzing cointegration, which refers to the long-run equilibrium relationship between non-stationary variables.

ARDL modeling is commonly applied in time series studies within macroeconomics and finance to explore how various economic variables relate and interact over time. This method is both adaptable and reliable, offering meaningful insights into the short-term fluctuations and long-term behavior of economic systems.

This study employs a linear model specification, progressing from a broad general framework to a more precise formulation aligned with theoretical expectations. To address the research objectives, the Auto-Regressive Distributed Lag (ARDL) model based on the bounds testing approach was utilized, incorporating a dynamic Error Correction Model (ECM) as proposed by Pesaran and Shin (1998). This study

focused on the long run and short run impact of fiscal policy represented by expenditure on administration, expenditure on economic services, expenditure on community and social services (health and education), transfers and tax revenue, on economic stability proxied by inflation rate and gross domestic product, in Nigeria from 1999-2022.

3.3 Model Specification

The model is expressed in the following functional form;

INFR = f(InEXAD, InESRV, InECSS, InTRNF, InTAXR)   (3.2)

Where: INFR = rate of inflation, InEXAD = log of expenditure on administration, InESRV = log of expenditure on economic serves, InECSS = log of expenditure on community and social services, InTRNF = log of transfer payments, InTAXR= log of tax revenue.

We specify it in mathematical forms and econometric form by introducing idiosyncratic terms as the equation below:

$$INFR_t = \beta_0 + \beta_1 InEXAD_t + \beta_2 InESRV_t + \beta_3 InECSS_t +$$
$$\beta_4 InTRNF_t + \beta_5 InTAXV_t + \mu_{1t} \qquad (3.3)$$

In equation 3.3 above, β_o is the intercept depicting inflation rate and economic growth when the explanatory variables are all equal to Zero. B_1 to β_5 are all attached to the regressors which will describe their effect on the outcome variable. μ_1 = iid a random error component incorporated into the model to account for the impact of variables not explicitly included. Hence, the generalized representation of the $ARDL_{(p,q)}$ model for the objectives are specified as Equations below: The ARDL model is stated in the equation (3.4) below

$$INFR_t = \sum_{i=1}^{p} \alpha_i INFR_{t-1} + \sum_{j=0}^{q} \beta_j InEXAD_{t-j} + \sum_{j=0}^{q} \varphi_j InESRV_{t-j} + \sum_{j=0}^{q} \gamma_j InECSS_{t-j}$$
$$\sum_{j=0}^{q} \chi_j InTRNF_{t-j} + \sum_{j=0}^{q} t_j InTAXV_{t-j} + \varepsilon_{1t} \ldots\ldots\ldots\ldots(3.4)$$

3.4 Procedure for Estimation

Given the significance of the integration order in time series analysis, the Augmented Dickey-Fuller (ADF) unit root test will be employed to assess the stationarity characteristics of the model's variables. The bounds testing approach entails performing an F-test to evaluate whether a cointegrating relationship exists between the dependent variable and the lagged values of the independent variables. The null hypothesis, denoted as H_0: $\alpha_j = \beta_j = 0$, tests the absence of a long-run equilibrium relationship among the variables, meaning all coefficients of the k+1 explanatory variables are effectively zero. Rejecting this hypothesis indicates the existence of a long-run association. In the bounds testing approach, two critical thresholds are considered: the lower and upper bounds. If the computed F-statistic exceeds the upper bound, the null hypothesis of no cointegration is rejected, confirming a long-run relationship. Conversely, if the F-statistic falls below the lower bound, the null cannot be rejected, suggesting no long-run linkage. However, if the F-statistic lies between these bounds, the result is deemed inconclusive. Upon establishing cointegration, the next step involves estimating a short-run error correction model (ECM) to capture short-term dynamics and evaluate the speed of adjustment back to long-run equilibrium. Accordingly, the dynamic short-run ECM can then be specified.

3.4.1 Co Integrated Equation

The bounds test for cointegration, we specify the conditional ARDL (p, q) model for objectives as follows:

$$\Delta INFR_t = \sum_{i=1}^{p} \alpha_i INFR_{t-1} + \sum_{j=0}^{q} \beta_j InEXAD_{t-j} + \sum_{j=0}^{q} \varphi_j InESRV_{t-j} + \sum_{j=0}^{q} \gamma_j InECSS_{t-j}$$

$$\sum_{j=0}^{q} \chi_j InTRNF_{t-j} + \sum_{j=0}^{q} l_j InTAXV_{t-j} + \sum_{i=1}^{p} \alpha_i \Delta INFR_{t-1} + \sum_{i=1}^{p} \alpha_i \Delta InEXAD_{t-1} + \sum_{i=1}^{p} \alpha_i \Delta InESRV_{t-1}$$

$$+ \sum_{j=0}^{q} \gamma_j \Delta InECSS_{t-j} + \sum_{j=0}^{q} \chi_j \Delta InTRNF_{t-j} + \sum_{j=0}^{q} l_j \Delta InTAXV_{t-j} + \varepsilon_{1t} \ldots\ldots\ldots(3.5)$$

The hypothesis underlying the bounds test asserts that, in the long run, the coefficients of the explanatory variables are equal to zero, while the alternative

hypothesis posits that at least one of them is significantly different from zero, as shown below:

$$H : \beta_j = \alpha_j = Y_k = 0$$
$$H_1 : \beta_j \neq \alpha_j \neq Y_k \neq 0$$

The short-run model is specified only when the null hypothesis that there is no cointegration is accepted, as outlined in the equations for models 1 and 2 above. However, if the null hypothesis is rejected in favor of the alternative, indicating the existence of a long-run cointegrating relationship, then the appropriate step is to estimate the Error Correction Model (ECM), as presented in the subsequent equations for models 1 and 2, respectively:

$$\Delta INFR_t = \sum_{i=1}^{p} \alpha_i INFR_{t-1} + \sum_{j=0}^{q} \beta_j InEXAD_{t-j} + \sum_{j=0}^{q} \varphi_j InESRV_{t-j} + \sum_{j=0}^{q} \gamma_j InECSS_{t-j} +$$

$$\sum_{j=0}^{q} \chi_j InTRNF_{t-j} + \sum_{j=0}^{q} \iota_j InTAXV_{t-j} + \sum_{i=1}^{p} \alpha_i \Delta INFR_{t-1} + \sum_{i=1}^{p} \alpha_i \Delta InEXAD_{t-1} + \sum_{i=1}^{p} \alpha_i \Delta InESRV_{t-1}$$

$$+ \sum_{j=0}^{q} \gamma_j \Delta InECSS_{t-j} + \sum_{j=0}^{q} \chi_j \Delta InTRNF_{t-j} + \sum_{j=0}^{q} \iota_j \Delta InTAXV_{t-j} + \Psi ECT_{j-1} + \varepsilon_{1t} \ldots\ldots\ldots\ldots(3.6)$$

The variables in equations 3.6 are as defined in equations 3.2. The *ECT* in Equation 3.6 represents the respective error correction terms for the models, where the coefficient of the ECT (Ψ) indicates the speed at which the system returns to equilibrium, and Δ denotes the first difference operator.

3.5 Definition of Variables

Table 3.1: definition of variables

Variables	Proxy	Definition	Source
Government Expenditure on Administration	EXAD	**Government Expenditure on Administration** refers to the total spending by a government on the operations and maintenance of executive, legislative, and administrative organs. This includes costs related to salaries of public officials, office infrastructure, coordination of government departments, policy formulation, and general public administration functions.	CBN statistical bulletin (2024)

Government expenditure on economic serves	ESRV	**Government Expenditure on Economic Services** refers to the spending by the government on sectors that directly support economic growth and development. This includes investments in agriculture, industry, energy, transportation, communication, and other infrastructure that boost production, trade, and employment.	CBN statistical bulletin (2024)
Government expenditure on community and social services	ECSS	**Government Expenditure on Community and Social Services** refers to the spending by the government on services that improve the welfare and quality of life of the population. This includes funding for education, healthcare, housing, water supply, sanitation, social welfare, and recreational facilities.	CBN statistical bulletin (2024)
Transfer payments	TRNF	**Transfer Payments** are government payments made to individuals or organizations without receiving any goods or services in return. They include pensions, unemployment benefits, student grants, and subsidies, mainly aimed at income redistribution and social welfare.	CBN statistical bulletin (2024)
Tax revenue	TAXR	**Tax Revenue** is the income a government earns from taxes imposed on individuals, businesses, and goods or services. It includes sources such as income tax, corporate tax, value-added tax (VAT), and customs duties, and is used to fund public services and government operations.	CBN statistical bulletin (2024)
Rate of inflation	INFR	**Rate of Inflation** is the percentage increase in the general price level of goods and services in an economy over a period of time. It reflects how quickly the cost of living is rising and reduces the purchasing power of money.	CBN statistical bulletin (2024)

4. Empirical Result

4.1 Unit Root Test

The stability of the economy proxied by inflation rate and explanatory variables in table 4.1 are tasted for stationarity so as to avert inconsistencies which could have arisen owing to spurious results emanating from non-stationary data used for regression. The summary of these results is shown in table 4.1 as follows:

Table 4.1: Augmented Dickey Fuller Unit Root Test

ADF statistics				
Variables	**Level**	**1ˢᵗ Difference**	**Critical Values**	**I (d)**
INFR	-3.128130*	NA	1% -3.596616 5% -2.933158* 10% -2.604867	$I(0)$
InEXAD	-2.497832	-4.266788*	1% -3.621023 5% -2.943427* 10% -2.610263	$I(1)$
InESRV	-1.456003	-7.832179*	1% -3.600987 5% -2.935001* 10% -2.605836	$I(1)$
InECSS	-2.546245	-8.472156*	1% -3.600987 5% -2.935001* 10% -2.605836	$I(1)$
InTRNF	-1.568659	-8.479675*	1% -3.600987 5% -2.935001* 10% -2.605836	$I(1)$
InTAXR	-2.385212	-6.444608*	1% -3.600987 5% -2.935001* 10% -2.605836	$I(1)$

Author's Computation (* indicates stationarity at the 5% significance level)

As presented in Table 4.1, the Augmented Dickey-Fuller (ADF) test results indicate that all variables attain stationarity only after first differencing, implying they are integrated of order one, I(1), except for the inflation rate (INF), which is stationary at level. Given this combination of integration orders I(0) and I(1) the Autoregressive Distributed Lag (ARDL) model was considered suitable for estimating the relationships among the variables. The Akaike Information Criterion (AIC) was used to select the optimal lag structure. The bounds test outcome is displayed in Table 4.2 below.

4.2 Cointegration Test

Table 4.2: Bound test result for the model

Null hypothesis: No long run relationship exists			
f- statistic	3.692011		K = 5
Critical Value Bounds			
Significance	**|0 Bound**	**|1 Bound**	**Decision**

10%	2.26	3.35	cointegrated
5%	2.62	3.79	inconclusive
2.5%	2.96	4.18	inconclusive
1%	3.41	4.68	inconclusive

<div align="center">Author's computation</div>

The decision rule for cointegration analysis states that if the computed F-statistic (3.692011) exceeds the upper critical value, the null hypothesis of no cointegration is rejected. If the F-statistic falls between the lower and upper critical bounds, the result is considered inconclusive. Conversely, if the F-statistic is below the lower bound, the null hypothesis is not rejected and is therefore accepted. In this case, the bounds test result shows that the F-statistic is above the upper bound at the 10% significance level, suggesting cointegration at that level. However, the outcome is inconclusive at the 1%, 2.5%, and 5% levels. As a result, the researcher proceeds to apply the Johansen cointegration test to further verify the existence of a long-run relationship among the variables, as presented in the table below.

<div align="center">Table 4.3: Johansen cointegration test</div>

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.944980	193.0219	95.75366	0.0000
At most 1 *	0.933436	129.2207	69.81889	0.0000
At most 2 *	0.806809	69.60956	47.85613	0.0001
At most 3 *	0.647108	33.43991	29.79707	0.0182
At most 4	0.334196	10.52485	15.49471	0.2425
At most 5	0.069137	1.576146	3.841466	0.2093
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	

No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.944980	63.80122	40.07757	0.0000
At most 1 *	0.933436	59.61115	33.87687	0.0000
At most 2 *	0.806809	36.16965	27.58434	0.0031
At most 3 *	0.647108	22.91506	21.13162	0.0278
At most 4	0.334196	8.948706	14.26460	0.2904
At most 5	0.069137	1.576146	3.841466	0.2093

From table 4.3, Johansen cointegration test result further confirm the presence of long run relationship among variables in the series. This is shown both trace statistics and the Max- Eigen value which shows up 3 cointgration variables. Thus the researchers conclude that there is long run relationship among variables included in the series.

4.4 The Model Estimation

The estimation of the ARDL is given in table 4.3 as follows

Table 4.3 ARDL Short And Long Run Form for model (1, 0, 0, 1, 0, 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNEXPADM)	-6.780745	12.126382	-2.208470	0.0343
D(LNECNSER)	7.007992	6.070049	1.154520	0.2566
D(LNECSS)	9.121974	6.299963	1.447941	0.1571
D(LNTAXR)	7.010884	6.181037	1.134257	0.2649
D(LNTRNF)	6.708652	7.028015	0.954558	0.3467
ECT(-1)	-0.525412	0.136987	-3.835489	0.0005
Long Run Coefficients				
Variable	Coefficiet	Std. Error	t-Statistic	Prob.

LNEXPADM	-0.970980	24.501297	-2.080338	0.0453
LNECNSER	13.338098	12.707423	1.049630	0.3015
LNECSS	-4.793137	11.763039	-0.407474	0.6863
LNTAXR	13.343602	11.244957	1.186630	0.2438
LNTRNF	32.962218	13.284277	2.481296	0.0184
C	-0.655608	43.787053	-0.700107	0.4888
R-squared	0.649639	Mean dependent var	-0.127083
Adjusted R-squared	0.430663	S.D. dependent var	14.13069
S.E. of regression	10.66223	Akaike info criterion	7.860467
Sum squared resid	2728.397	Schwarz criterion	8.536019
Log likelihood	-141.2093	Hannan-Quinn criter.	8.104725
F-statistic	2.966715	Durbin-Watson stat	1.787275
Prob(F-statistic)	0.008573		

Author's computation

The ARDL short and long-run estimation results for the model with the specification (1, 0, 0, 1, 0, 1) reveal several important findings regarding the relationship between inflation (INFR) and various components of government expenditure and revenue. In the short run, the coefficient of the first-differenced log of expenditure on administration (D(InEXAD)) is negative and statistically significant at the 5% level, with a coefficient of -26.78 and a p-value of 0.0343. This indicates that a short-run increase in administrative expenditure leads to a significant reduction in the rate of inflation. On the other hand, the other variables expenditure on economic services (D(InESRV)), community and social services (D(InECSS)), tax revenue (D(InTAXR)), and transfer payments (D(InTRNF)) have positive coefficients but are not statistically significant, suggesting that their immediate effects on inflation are not strong in the short run. The error correction term (ECT), which captures the speed of adjustment to long-run equilibrium, is negative and statistically significant at the 1% level with a coefficient of -0.5254. This implies that approximately 52.5% of any deviation from the long-run equilibrium in the previous period is corrected in

the current period, confirming the existence of a stable long-run relationship among the variables.

In the long run, the log of expenditure on administration (InEXAD) also has a negative and statistically significant effect on inflation, with a coefficient of -50.97 and a p-value of 0.0453. This reinforces the earlier short-run result that higher administrative spending is associated with lower inflation over time. Transfer payments (InTRNF) exhibit a strong positive and significant impact on inflation in the long run, with a coefficient of 32.96 and a p-value of 0.0184, suggesting that an increase in government transfer payments contributes to rising inflationary pressures. Other variables, including expenditure on economic services (InESRV), community and social services (InECSS), and tax revenue (InTAXR), though positively or negatively signed, do not significantly affect inflation in the long run. The model has an R-squared value of 0.65, indicating that about 65% of the variation in inflation is explained by the explanatory variables. The F-statistic is significant at the 1% level (p = 0.0086), suggesting that the model is jointly significant. The Durbin-Watson statistic of 1.79 suggests no serious autocorrelation in the residuals. Hence, this ARDL model provides reliable evidence that expenditure on administration and transfer payments are significant long-run determinants of inflation in the studied context.

4.4 Post Estimation Tests

Table 4.5 Summary of Results of Diagnostic Test for the Model

Diagnostic Tests Results			
Test Statistics	Type	Statistic Test Value	P Value
Breusch-Godfrey Serial Correlation LM Test: **Ho**: No serial correlation	Chi sq	2.804370	0.0760
HeteroskedasticityTestBreusch-Pagan-Godfrey **Ho**: No hetroscedasticity	Chi Sq	3.718760	0.0611
Normality of Residuals **Ho**: Residuals are normally Distributed	Jarque Bera	2.631162	0.268318

The diagnostic checks comprising the correlation LM test, heteroskedasticity test, and Jarque-Bera normality test summarized in Table 4.4, show that all associated probability values are greater than the 5% significance threshold. This implies that the null hypotheses for each test cannot be rejected. As a result, there is no indication of serial correlation, no presence of heteroskedasticity, and the residuals appear to follow a normal distribution, as the Jarque-Bera test yields statistically insignificant p-values. The corresponding figure below illustrates the results of the normality test.
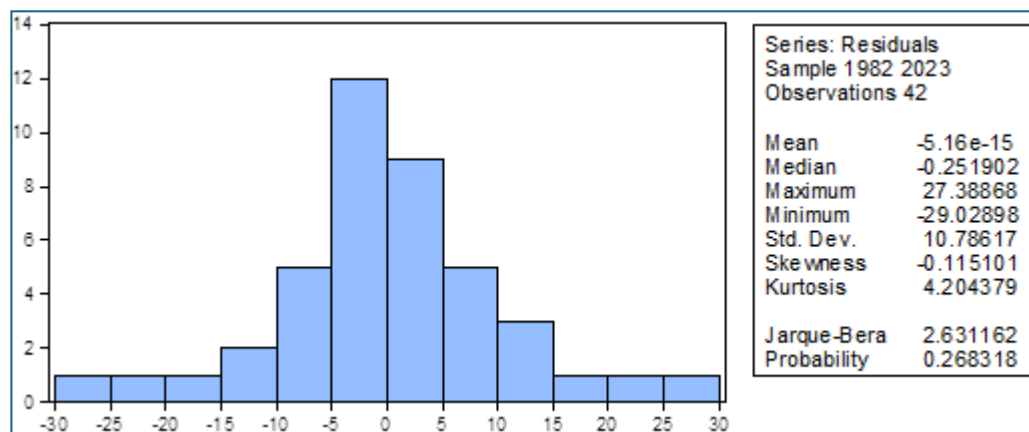

Fig. 2; normality test

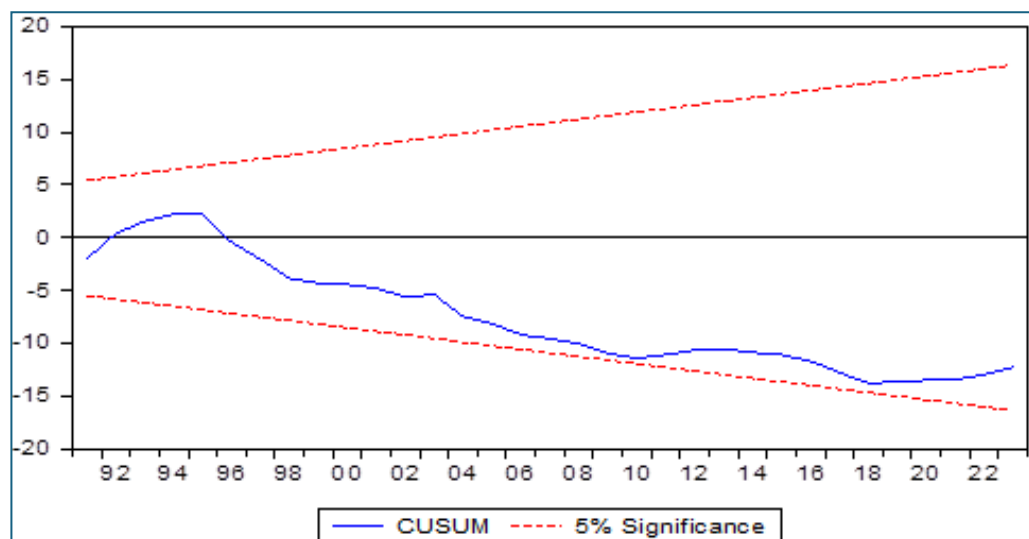The Cusum test results prove that the model is stable over time.

Fig. 3: stablilty test

4.5 Discussion of Results

Findings of this study shed more light on the relationship between government expenditure and inflation in Nigeria, contributing to ongoing debates in fiscal and

monetary policy discourse. Specifically, the study establishes that **government expenditure on administration has a statistically significant negative effect on inflation**, which implies that increased spending on administrative functions helps reduce inflationary pressures. This relationship is attributed to enhanced institutional performance, transparency, and better public sector governance. Such improvements in public financial management reduce leakages and inefficiencies in government operations, enabling a more disciplined fiscal environment that supports macroeconomic stability. This finding aligns with those of **Olayemi (2017)** and **Aregbeshola (2020)**, both of whom emphasized the inflation-moderating role of efficient government structures. Olayemi found that robust public sector administration reduces corruption and fiscal mismanagement, which in turn controls inflation by limiting excessive and unproductive government expenditure. Similarly, Aregbeshola highlighted that effective coordination between administrative spending and policy implementation reduces fiscal uncertainty and strengthens the credibility of anti-inflationary policies. These views are further supported by **Obi and Yusuf (2018)**, who posited that stable bureaucratic institutions contribute to economic predictability, which is essential for price stability. The study further aligns well with **Bello and Ibrahim (2020),** who asserted that sound administrative spending, when channeled towards institutional strengthening and efficient public service delivery enhances economic management and curbs inflationary tendencies. They emphasized that administrative expenditures should not merely cover recurrent costs but should focus on building robust administrative systems that support fiscal and monetary policy coordination. Their study concluded that weak administrative capacity often leads to policy implementation delays, leakages, and waste, all of which contribute to macroeconomic instability, including inflation.

Similarly, **Adebayo et al. (2018)** supported this view by highlighting that increased administrative efficiency characterized by transparent procurement processes, efficient public sector audits, and coordinated budget execution tends to promote fiscal credibility. Their empirical findings showed that countries with stronger administrative institutions experience more effective inflation control, largely due to reduced corruption and improved fiscal discipline. This corroborates the idea that strategic investment in public administration can create an enabling environment for

stable prices, which is evident in the current study's significant negative coefficient for administrative spending in both the short and long run.

In contrast, the study reports that **expenditures on economic services, community and social services, tax revenue, and transfer payments do not exert statistically significant effects on inflation in the short run.** This supports the conclusions of **Eze and Nwankwo (2019),** who noted that public spending in sectors like health, education, and infrastructure typically affects inflation indirectly and with a time lag, as these expenditures contribute to long-term productivity rather than immediate demand-side pressures. This is also in line with **Chuku et al. (2016),** who found that capital-intensive expenditures often have a delayed effect on inflation due to the slow gestation of developmental projects.

However, in the long run, **transfer payments exhibit a statistically significant and positive effect on inflation**, indicating that such payments raise the general price level by increasing household liquidity and consumption. This outcome aligns with the findings of **Akpan and Udo (2020),** who showed that social transfers, though important for poverty alleviation, can be inflationary if not matched with corresponding increases in output. Likewise, **Adeoye and Oladipo (2021)** observed that expansive welfare programs and subsidies often lead to demand-pull inflation, particularly in economies with supply-side constraints, such as Nigeria.

On the other hand, the long-run coefficients for economic services, community and social services, and tax revenue remain statistically insignificant. This suggests a limited direct influence of these components on inflation dynamics over time, echoing the work of **Okonkwo and Ezeabasili (2015)**, who argued that the inflationary consequences of public investment depend largely on the absorptive capacity of the economy and the efficiency of resource allocation.

Taken together, these findings emphasize that **administrative spending**, when well-targeted and efficiently managed, can be a strategic tool for controlling inflation. Conversely, **transfer payments**, though socially necessary, must be cautiously administered to avoid fueling inflation. The insignificance of other fiscal components

in both the short and long run points to the need for improved fiscal targeting, prioritization, and outcome-based budgeting.

5.1 Conclusion and Policy Recommendation

Nigeria's fiscal policy is pivotal in fostering economic stability and sustainable growth. Achieving lasting economic stability requires Nigeria to address structural challenges, diversify its economy, improve fiscal management, and implement policies that promote inclusive growth and job creation. The findings indicate that government expenditure on administration significantly reduces inflation in both the short and long run, likely due to improvements in governance efficiency and fiscal discipline. In contrast, transfer payments contribute to rising inflation over time, suggesting that increased liquidity from such expenditures fuels aggregate demand and price pressures. Other fiscal variables, including expenditures on economic services, community and social services, and tax revenue, do not exhibit statistically significant effects on inflation in either the short or long run. The presence of a long-run equilibrium relationship suggests that inflation adjusts moderately towards its stable path following short-term fluctuations. These results imply that prioritizing efficient administrative spending while carefully managing transfer payments can help mitigate inflationary risks and promote macroeconomic stability.

In the light of the findings and analysis of this research, the researcher recommends that: The government should prioritize increased and efficient administrative spending, as it has been shown to significantly reduce inflation in both the short and long run. Enhancing governance efficiency and fiscal discipline through well-managed administrative expenditures can help stabilize inflationary pressures and promote economic stability. Policymakers should exercise caution in implementing transfer payments, as they have been found to contribute to rising inflation. Proper targeting of transfer programs, such as directing them towards productivity-enhancing initiatives rather than broad cash disbursements, can help mitigate their inflationary impact while still supporting vulnerable populations.

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