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EFFECT OF FEDERAL GOVERNMENT'S CAPITAL EXPENDITURES PROFILING ON ECONOMIC HEALTH OF NIGERIA

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ABSTRACT

This study investigated the effect of Federal Government's capital expenditures profiling on the economic health of Nigeria between 1981 and 2023. The multiple regression method of analysis was applied to estimate the parameters. The study also disaggregated the expenditure of the government into administration, social and community services, economic services and transfers, while the health of the economy was measured by the nominal value of gross domestic product (GDP) The data for the study were obtained from the Central Bank of Nigeria Statistical Bulletin, 2022 and 2023. From the findings of this study, government expenditure on administration, social and community services and transfers were found to be positive and statistically significant with economic growth of Nigeria, whereas, government expenditure on economic services has negative and insignificant effect on economic growth. Based on the findings, the study recommends that government should increase budget allocations to these sectors and ensure that the funds are properly monitored so as to feel the effect of these funds on the growth of the economy.

Key words: *Economic health, Government expenditure, multiple regression, Nigeria.*

1. INTRODUCTION

The effect of government expenditures on economic growth has received serious attention in both developed and developing countries of the world. This is due to its importance in enhancing growth and development of any nation. Government expenditure serves as a catalyst for developing the economy as it supports the delivery of key public services. Globally, government expenditure is an important instrument of development. The expenditures of the government have helped countries to grow and develop by attracting investors to invest in various sectors of the economy (International Monetary Fund, 2020). In a similar vein, the expenditure of the Federal Government Nigeria plays a vital role in the development and growthof a nation. These expenditures can be categorized into two: capital expenditure and recurrent expenditure. The capital aspect of it represents all expenditure, relating to capital projects aimed at improving the long-term efficiency and productivity of the economy. It is applied usually to improve the investment and productivity of a country. On the other hand, the recurrent expenditure is expenditure of recurring nature incurred on

the running cost of government business. Recurrent expenditures include money spent on wages and salaries of staff, fuel and other maintenance costs of government vehicles and costs of items consumed in the normal course of the day-to-day administration. Expenditure on purchase of goods and services, wages and salaries, operations as well as current grants and subsidies (usually classified as transfer payments). Recurrent expenditure, excluding transfer payments, is also referred to as government final consumption expenditure (Barilee & Benvolio, 2021).Therefore, the Federal Government expenditures can be broadly categorized into administration, economic service, social service, transfers and others which have both capital and recurrent components.

Furthermore, the economic health of a nation depends largely on the government expenditure as it has the capacity to encourage investments in every sector of the economy. The economic health of a nation represents development and growth which is measure by gross domestic product (GDP). Economic development is a policy intervention aiming to improve the well-being of people; the health of the nation strictly depends on how well government expenditure on economic services, administrative, social community service and transfer are managed. On the part of economic growth, the health of a nation is a function of healthy GDP (Central Bank Nigeria, 2020). World Bank (2020) defined economic growth as the value of all the final output of goods and services produced by all sectors of the economy within a country's boundaries, in a single year. It is measured by using gross domestic product and serves as an indicator of the scale of a country's economy. Therefore**,** economic and social development is the process by which the economic well-being and quality of life of a nation, region, local community, or an individual are improved according to targeted goals and objectives. According to the Central Bank of Nigeria statistics (2022), government expenditure to the sector under review has been unstable and small compared to what other countries allocate to public sector. In 1981, expenditure to administration was NGN0.72 billion while it was NGN789.81 billion in 2022. For social and community services, the expenditure was NGN1.3 billion in 1981 and NGN377.26 billion in 2022, while economic services has expenditure of NGN3.63 billion in 1981 and NGN1369.66 in 2022. Similarly, government transfers in 1981 wasNGN0.92 billion while in 2022, it was NGN597.06 billion. Although, there are budgetary allocations to these sectors, their contributions to GDP have remained small.

The main objective of this study is to examine the effect of government capital expenditure on the economic health of Nigeria. However, the specific objectives are;

1. to investigate how government capital expenditure on administrationaffectseconomic health of Nigeria..
2. to examine the effect of economic services capital expenditure on economic health of Nigeria.
3. to assess the effect of social and community services government capital expenditure on economic health of Nigeria.
4. to ascertain if capital expenditure on transfers has effects on economic health of Nigeria.

The following hypotheses were formulated as a result, in their null form:

H_{01}: Government Expenditure on Administration (GEAD) does notsignificantly affect the Gross Domestic Product (GDP) of Nigeria.

H_{02}: Government Expenditure on Economic service (GEES) has no significant effect on the Gross Domestic Product (GDP) of Nigeria.

H_{03}: Government Expenditure on Social Community (GESC) does not significantly affect the Gross Domestic Product (GDP) of Nigeria.

H_{04}: Government Expenditure on Transfers (GETR) has no significant effect on the Gross Domestic Product (GDP) of Nigeria.

2.1 LITERATURE REVIEW

2.1.1 Government Capital Expenditure

CBN (2020) defines government capital expenditure as the payment for non-financial assets. World Bank (2020) viewed it as expenditures made by the government to provide roads, rail and water ways, bridges, dams, mining equipment, farm implements, and so on. Also, BudgiT (2020) referred it to as funding for numerous railway, waterways, road and air projects, provision of information and communication working tools and capacity building, broadcasting services, development of cellular market and so on. On the other hand, CBN (2017) described economic growth as the monetary value of goods and services produced in an economy during a period of time irrespective of the nationality of the people who produced the goods and services. It is calculated without making deductions for depreciation. IMF (2012) refers to economic growth as the increase in the market value of goods and services produced in an economy over a period of time. Conventionally, it is measured as a percent rate of increase in real GDP.

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2.2. Theoretical Framework

2.2.1 Keynesians' Theory of Public Expenditure

This theory was propounded by Keynes (1936) after the great depression. The central tenet of this school of thought is that government intervention can help to stabilize the economy. The theory asserted that aggregate demand which is measured as the sum of spending by households, businesses, and the government is the most important driving force in an economy (Keynes, 1936). Keynes further asserted that free markets have no self-balancing mechanisms that lead to full employment. Keynesian economists thus justify that government intervention through public spending and policies can help achieve full employment and price stability. He sees government expenditure as a driving force that can contribute positively to sectoral growth in the economy which will in turn foster economic growth. According to the theory, an increase in government spending will lead to an increase in employment, production and output. Keynes regards public spending as an exogenous factor that can be used as a policy instrument to promote growth. He believed that government intervention would help correct market failures.

This theory has however been criticized that government should not be involved in economic activities, that markets have a mechanism for self-adjustment which will quickly bring back the economic activities to its normal or previous level. Despite this criticism, the theory is relevant to this study owing to its emphasis on the need for government to increase its spending so as to promote growth. If government increases public expenditure, its multiplier effects will trickle down to investors and the society at large, thereby, increasing the rate of employment opportunities, per capita income, production, as well as output.

2.3. Empirical Review

There has been a plethora of academic literature discussing relationship between government expenditure and the health of economic.

Okonkwo et al. (2023) examined the impact of government capital expenditure on economic growth in Nigeria between 1981 and 2021, using ARDL-error correction mechanism. The study shows that in the long run, capital expenditure on administration, economic services, social, transfers and government deficit have positive impact on economic growth in Nigeria. However, social and transfers expenditure have no significant impact on economic growth. In the short run, the findings reveal positive impact among all the variables. It further reveals that administration and economic services capital expenditures are not statistically significant.

Duruibe et al. (2020) evaluated the effect of public expenditure on economic growth in Nigeria from 1986 to 2016 and vector error correction model was utilized. The findings revealed that all the variables (economic services, social community services, transfers) are positively significant to economic growth, except expenditure on transfers which is positive but insignificant to economic growth in Nigeria.

Okere et al. (2019) worked on government expenditure and economic growth in Nigeria between 1981 and 2016. The techniques of error correction and granger causality test were used and the results suggest that government expenditure on economic services has significant impact on economic growth. The causality test carried out show bidirectional relationship between government expenditure on economic services, administration and economic growth and unidirectional relationship between economic growth and social community services.

Osuji (2018) investigated the impact of government expenditure on economic growth in Nigeria between 1981 and 2017 by using OLS and co-integration test. It was found out that while expenditure on administration exerts negative impact, expenditure on economic services, transfers, social community services reveals positive and significant impact on economic growth in Nigeria.

Darma (2014) studied federal capital expenditure and its impact on economic health in Nigeria from 1980-2010. The study employed ordinary least square to ascertain the relationship between the two variables. The result of the study revealed that total capital expenditure, capital expenditure on administration, capital expenditure on social investment and capital expenditure on transfer impacted positively on economic growth in Nigeria.Nurudeen and Usman (2010) investigated the impacts of public spending on economic growth in Nigeria from 1970 to 2008, using the Engel-Granger ECM technique and found that total capital expenditure and inflation had negative relationship with economic growth.

In the same vein, using OLS, Modebe, Okafor, Onwumere, and Ibe (2012) found a negative relationship between capital expenditure and economic growth while exchange rates and recurrent expenditure were found to have positive coefficients. Laudau (1983) studied the effect of government (consumption) expenditure on economic growth for a sample of 96 countries. From his findings, it was revealed that government recurrent expenditure

contributed negatively on economic growth while capital expenditure contributed positively on real output.

Ibrahim andAshiru (2019) conducted a research on the impact of government expenditure on economic growth using annual data from 1970-2012. The study employed the ordinary least square technique and the results showed that capital expenditure on agriculture had no significant influence on economic growth in both long-run and short run while capital expenditure on education had a significant impact on economic growth. It was further revealed by the study that capital expenditure on health had a negative impact on economic growth and the relationship was in fact, insignificant. Lastly, capital expenditure on human capital through social services was observed to have promoted economic growth unlike that of agriculture.

Oyeleke, Raheem and Falade (2016) examined the influence of disaggregated functional capital expenditure on economic growth in Nigeria between the periods of 1970-2013. The error correction model was employed to estimate data both on economic growth and capital expenditure. Findings of the study revealed that there was a long run relationship between the components of public expenditure and economic growth. The study further depicted that disaggregated functional capital expenditure of government did not generate the needed growth to real economic activities. However, the study showed that capital expenditure on economic services was negative and insignificantly related to economic growth and also that inflation rate had a positive coefficient. Aregbeyen (2007), in his study, found out a significant positive correlation between government capital expenditure, public investment and economic growth. The study further revealed that both consumption and recurrent expenditure had negative impact on economic growth.

3. METHODOLOGY

This study employed ex post facto research design.The data for the years 1981 and 2023 were all sourced from Central Bank of Nigeria Statistical Bulletin, 2022 and National Bureau of Statistics bulletin of various years. The multiple regression statistical tool was adopted. This tool is chosen because it permits the prediction of the variations of the dependent variable by the independent variables. The variables of the model incorporate government capital expenditures on administration, economic services, social and community services, transfers which are the explanatory or independent variables while the nominal gross domestic product,

served as the proxy for economic health (the dependent variable).The study however adapted the model of Okonkwo et al. (2023) which was specified as;

RGDP = f(CEA, CES, CST, DEF)…….eqn 1

Where, RGDP is real gross domestic product;

CEX = capital expenditure on administration;

CES = capital expenditure on economic services;

CST = capital expenditure on social transfers;

DEF = government deficit.

The above model was further modified to suit the purpose of this study asbelow;

GDP = f(EAD, EES, ESS, ETR)…….eqn 2.

Where, GDP = Nominal gross domestic product, proxy for economic health which is the dependent variable; EAD = Government expenditure on administration; EES = Government expenditure on economic services; ESS = Government expenditure on social and community services; ETR = Government expenditure on transfers.

$GDP_t = \beta_0 + \beta_1 EAD_t + \beta_2 EES_t + \beta_3 ESS_t + \beta_4 ETR_t + \varepsilon_t$…….eqn 3.

The cointegration test is run after the unit root test, which uses the Augmented Dickey-Fuller test to verify stationarity. The Johansen cointegration test is used to perform the cointegration test, which is the long-run test. The multiple regression approach is used once the long-term link has been established. After that, a few diagnostic tests such as normality and heteroscedasticity tests are conducted to demonstrate the validity and dependability of the study's model.

4. RESULT AND DISCUSSIONS

This section presents the results of the tests carried out to establish the objectives of this study, and also interprets the results for clarity and to empirically ascertain the relationship between the explanatory variables and the dependent variable.

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4.1.1 Stationarity Test

Table 1: Summary of the ADF Unit Root Test

Variables	ADF Stats	Critical Value @5%	Order Integration	Remarks
GDP	-3.5166	-2.9350	I(1)	Stationary
EAD	-10.8921	-2.9350	I(1)	Stationary
EES	-6.9195	-2.9350	1(1)	Stationary
ESS	-10.0609	-2.9350	1 (1)	Stationary
ETR	-8.5405	-2.9350	I(1)	Stationary

Source: E-views 10 Output.

The results of unit root test carried out are summarized and presented in Table 1. From the table, all the variables show stationarity at first difference, that is, integrated of order one, and it is concluded that the null hypothesis that the model has unit root can be rejected. As such, all the variables are now stationary.

4.1.2 Cointegration Test

Table 2: Summary of Johansen Cointegration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.518018	70.17671	69.81889	0.0468
At most 1	0.338529	40.25288	47.85613	0.2136
At most 2	0.250259	23.30803	29.79707	0.2312
At most 3	0.186349	11.49890	15.49471	0.1826
At most 4	0.071549	3.043751	3.841466	0.0810

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None*	0.518018	39.92383	33.87687	0.0380
At most 1	0.338529	16.94485	27.58434	0.5847

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At most 2	0.250259	11.80912	21.13162	0.5666
At most 3	0.186349	8.455153	14.26460	0.3343
At most 4	0.071549	3.043751	3.841466	0.0810

Source: E-views 10 Output.

From the result in Table 2 which reveals the long run relationship among the variables, it is observed that both trace and max-eigen tests have one cointegrating equation. According to the decision rule, if there is at least one cointegrating equation in the result, the null hypothesis should be rejected. Based on this result, there exists long run relationship among the variables. The can be confirmed from the trace and max-eigen values at none which is greater than the critical values at 5 percent.

4.2 Test of Hypotheses

H_{01}: Government Expenditure on Administration (GEAD) does not significantly affect the Gross Domestic Product (GDP) of Nigeria.

H_{02}: Government Expenditure on Economic service (GEES) has no significant effect on the Gross Domestic Product (GDP) of Nigeria.

H_{03}: Government Expenditure on Social Community (GESC) does not significantly affect the Gross Domestic Product (GDP) of Nigeria.

H_{04}: Government Expenditure on Transfers (GETR) has no significant effect on the Gross Domestic Product (GDP) of Nigeria.

4.2.1 Parameters Estimation Test

Table 3: Summary of Multiple Regression Model

Dependent Variable: GDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EAD	0.558701	0.149235	3.743772	0.0006
EES	-0.157121	0.124899	-1.257983	0.2163
ESS	0.589809	0.155679	3.788614	0.0005
ETR	0.123902	0.040684	3.045470	0.0043
C	2.367602	0.069575	34.02966	0.0000
R-squared	0.974534	Mean dependent var		3.885631

Adjusted R-squared	0.971781	S.D. dependent var	1.093305
S.E. of regression	0.183660	Akaike info criterion	-0.440119
Sum squared resid	1.248045	Schwarz criterion	-0.233253
Log likelihood	14.24249	Hannan-Quinn criter.	-0.364294
F-statistic	353.9770	Durbin-Watson stat	1.688821
Prob(F-statistic)	0.000000		

Source: E-views 10 Output.

The multiple regression result presented in Table 3 reveals that government expenditures on administration, social and community services and transfers have positive effect on the GDP. This suggests that when on average, these expenditures are increased by 1 percent, the GDP in nominal value will increase by 0.55%, 0.59% and 0.12% respectively. The implication of these findings is that over the period covered by this study, *government expenditures to administration, social and community services and transfers have helped the growth in the nominal value of GDP*. This is not unconnected from the fact that these funds are properly monitored and utilized for developmental projects that attract investments that eventually contribute to the growth of the economy. The findings of this study conform to the a priori expectation and also in consistent with the findings of Okonkwo et al. (2023).

On the other hand, government expenditure on economic services has negative effect and it indicates that on average 1 percent increase in EES will decrease GDP by 16%. What this suggests is that over the period covered by this study, *government expenditure to economic services sector which comprises agriculture, manufacturing, mining and quarrying, road and construction, transport and communication have not contributed to the growth of nominal GDP*.

The fact remains that the expenditures allocated to this sector are so meagre compared to other sectors of the economy, which is one of the reasons this sector has negative effect on GDP. The finding on economic services failed to conform to the a priori expectation because the sub-sectors under this sector have the potential to put the economy on the path of growth. It is also not in tandem with the findings of Okonkwo et al. (2023), which found positive relationship between government expenditure on economic services sector and economic growth in Nigeria. However, judging from the p values which shows the significance of each variable, it is observed that government expenditure on administration, social and community services and transfers are statistically significant at 5 percent level of significance owing to

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the fact that their p values are lower than 5 percent, while government expenditure on economic services is statistically insignificant at 5%.

The R^2 which shows the goodness of fit implies that 97% variations in the nominal GDP are explained by government expenditure on administration, social and community services, economic services and transfers, while only 3% is explained by other variables not explicitly captured in the model. This revealed that the variables used in this model have high explanatory power, that is, they can help the economy to be healthier than it used to be if the expenditures to these sectors are raised and monitored. The F-statistic of 353.977 also suggests that the variables are jointly highly statistically significant, while the Durbin-Watson test shows that our estimations are reliable as the value is approximately 2.

4.2.2 Post Estimation Tests

4.2.2.1 Normality Test

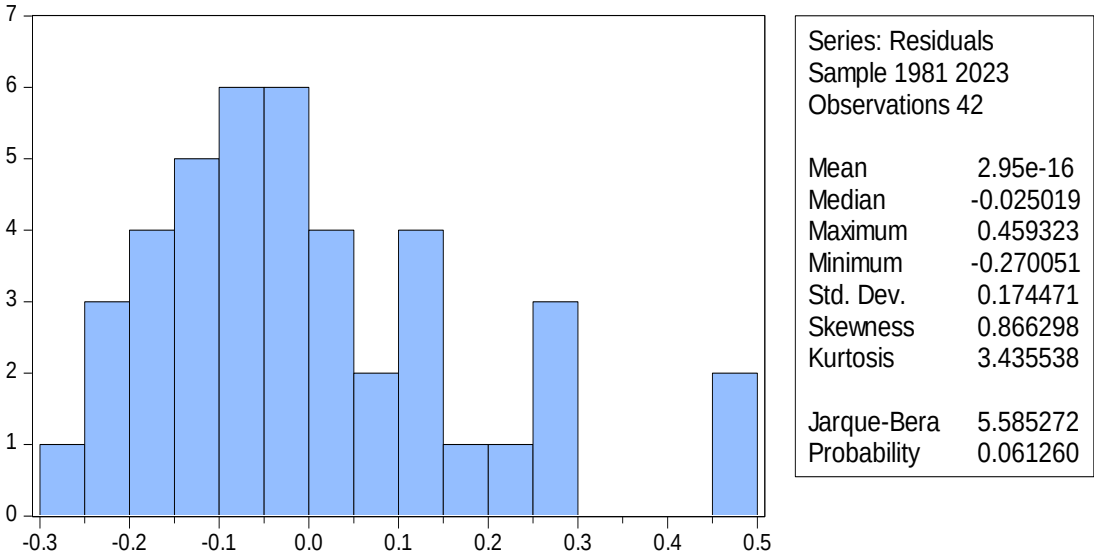

Figure 1: Histogram Normality Test

Source: Eviews 10 Output.

The normality test in Figure 1 affirms a normal distribution as the probability value of Jarque-Bera which is 0.0613 is greater than 0.05. The study therefore concludes that the model is normally distributed. As such, our estimation is reliable, consistent, valid and can be used for economic predictions.

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4.2.3 Heteroscedasticity Test

Table 4:Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.043953	Prob. F(4,38)	0.3974
Obs*R-squared	4.257415	Prob. Chi-Square(4)	0.3723
Scaled explained SS	7.691919	Prob. Chi-Square(4)	0.1035

Source: Eviews 10 Output.

From the result in Table 4, the probability value of F-statistic is 0.3974, which is greater than 0.05. Based on the decision rule, which states that a model is homoscedastic if the probability value of F-statistic is greater than 5 percent, the study therefore concludes that the model is homoscedastic and that there is no heteroscedasticity in the model.

CONCLUSION AND RECOMMENDATIONS

This study examined the effect of government expenditures' profiling on the economic health of Nigeria. The study covered the period of 1981 to 2023 and the model's parameters were estimated using the multiple regression approach. The nominal GDP was uses as a measure of economic health of Nigeria, while the explanatory variables of the model include; government expenditure on administration, social and community services, economic services and transfers. From the study's findings, EAD, ESS, and ETR contribute positively and significantly to the growth of Nigeria economy during the period covered, while government expenditure on economic services has negative and insignificant impact on GDP in nominal value. Based on these findings, the study concludes that, government expenditures onadministration, social and community services and transfers are growth stimulators and can cause the economy of Nigeria to be healthy. However, government expenditure on economic services was found to inhibit the growth of the economy during the period. This shows that the importance of this sector in enhancing the growth of the economy has not been realized by Nigerian government. In the light of these findings, this study recommends that;

i. Government should increase budgetary allocation to these sectors, monitor the funds and ensure that the funds are used to provide infrastructural facilities that will also encourage investors to invest.
ii. Government should see the economic services sector as an important sector that can bring about growth to the economy, and as such allocate more funds to the sector. This will help the growth of the sector and that of the entire economy.

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APPENDIX A

Raw Data

YEARS	GDP	EAD	ESS	EES	ETR
	#"Billion	#"Billion	#"Billion	#"Billion	#"Billion
1981	139.3	0.72	1.3	3.63	0.92
1982	149.1	0.39	0.97	2.54	2.52
1983	158.8	1.1	1.03	2.29	0.47
1984	165.9	0.26	0.24	0.66	2.94
1985	187.8	0.46	1.15	0.89	2.96
1986	198.1	0.26	0.66	1.1	6.51
1987	244.7	1.82	0.62	2.16	1.78
1988	315.6	1.9	1.73	2.13	2.59
1989	414.9	2.62	1.84	3.93	6.65
1990	494.6	2.92	2.1	3.49	15.55
1991	590.1	3.35	1.49	3.15	20.36
1992	906	5.12	2.13	2.34	30.18
1993	1257.2	8.08	3.58	18.34	24.5
1994	1768.8	8.79	4.99	27.1	30.04
1995	3100.2	13.34	9.22	43.15	55.44
1996	4086.1	14.86	8.66	117.83	71.58
1997	4418.7	49.55	6.9	169.61	43.59
1998	4805.2	35.27	23.37	200.86	49.52
1999	5482.4	42.74	17.25	323.58	114.46
2000	7062.8	53.28	27.97	111.51	46.7
2001	8234.5	49.25	53.34	259.76	76.35
2002	11501.5	73.58	32.47	215.38	0
2003	13557	87.96	55.74	97.98	0.01
2004	18124.1	137.77	30.03	167.72	15.73
2005	23121.9	171.57	71.36	265.03	11.5
2006	30375.2	185.22	78.68	262.21	26.27
2007	34675.9	226.97	150.9	358.38	23.04
2008	39954.2	287.1	152.17	504.29	17.33
2009	43461.5	291.66	144.93	506.01	210.2
2010	55469.4	260.2	151.77	412.2	59.7

2011	63713.4	231.8	92.85	386.4	207.5
2012	72599.6	190.5	97.4	320.9	265.9
2013	81010	283.65	154.71	505.77	164.27
2014	90137	229.63	111.29	393.45	48.75
2015	95177.7	226.81	82.98	348.75	159.82
2016	102575.4	147.72	68.8	278.95	158.14
2017	114899.2	328.94	167.66	542.19	203.51
2018	127736.8	446.25	203.42	753.49	278.94
2019	144210.5	591.26	264.69	994.19	438.86
2020	152324.1	417.14	186.74	701.4	309.61
2021	173527.7	635.73	303.66	1102.46	480.61
2022	199336	789.81	377.26	1369.66	597.09
2023	225512.5	614.23	289.22	1057.84	662.44