GOVERNMENT EXPENDITURE AND CONSUMPTION IN NIGERIA (1990-2022): AN ARDL APPROACH

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KEYWORDS
Government expenditure, Consumption and ARDL

ABSTRACT
This study intends to examines the dynamic relationship between government expenditure and consumption in Nigeria over the period from 1990 to 2022. This is due to the fact that Nigeria, as one of the largest economies in Africa, has experienced significant fluctuations in government expenditure and consumption patterns over the years. The aim of this research however is to provide a comprehensive analysis of the role played by government expenditure in influencing household and private sector consumption behavior. On this note the study employs a combination of quantitative methods, including time series data analysis and econometric modeling via an Autoregressive Distributed Lag Model(ARDL) approach to investigate the impact of government expenditure on consumption in Nigeria. The ARDL analysis test approach revealed that the null hypothesis of no significant impact of government expenditures on consumption in Nigeria is rejected at 5% level of significance. Rather, the result of the test hypothesis however showed that government expenditures have positive significant impact on consumption expenditures in Nigeria during the period under review (t-test > 2). Also, the result from the ARDL approach revealed that government expenditure has significant negative impact on consumption spending. GNI and CPI were positives and significant, while INFR and INTR were positive yet insignificant. The results of this study suggest that government consumption spending is a substitute for private consumption and concluded that Government expenditure is inarguably a prominent fiscal tool for a sustainable economic growth.

Introduction

Government expenditure plays a crucial role in shaping the economic landscape of any nation. In Nigeria, government spending significantly impacts the country's economic performance, influencing various sectors including infrastructure, education, health, and defense. This introduction delves into the intricacies of government expenditure and consumption in Nigeria, highlighting its patterns, effects, and implications on the overall economy.

The relationship between government expenditure and economic outcomes has been a subject of extensive research and debate in economics for decades. This dynamic interplay takes on particular significance in the context of emerging economies such as Nigeria, where governments often play a central role in shaping economic development and stability. However, Nigeria as one of Africa's most populous nations and a significant player in the global economy, offers a compelling case study for examining the impact of government expenditure on consumption.

Over the past three decades, Nigeria has experienced a range of economic, social, and political transformations. The country over the years embarked on a journey marked by periods of robust growth, fiscal challenges, and shifts in government priorities. The allocation of resources, particularly through government expenditure, has been a key instrument in shaping the nation's economic trajectory. As such, understanding how government spending influences consumption patterns becomes crucial in comprehending the broader dynamics of Nigeria's economic landscape.

Based on this therefore, this study aims to explore the intricate relationship between government expenditure and consumption in Nigeria from 1990 to 2022. By delving into this relationship, we seek to uncover the underlying mechanisms through which government spending impacts household and private sector consumption behavior. Moreover, we aim to assess the implications of these dynamics on economic growth, welfare, and policy formulation within the Nigerian context.

Literature Review

It is a known fact that several empirical studies were targeted at examining the link between government expenditure and consumption in both developed and developing economies over the years. However, these studies have produced mixed findings, indicating that the relationship is contingent on various factors, among which are the composition of government spending, the fiscal stance, and the broader economic environment. To be precise, the relationship between government expenditure and consumption behavior within an economy is a complex and multifaceted subject that cannot be describe by a single word and so has garnered considerable attention in economic literature. Hence, understanding how government spending influences household and private sector consumption is not only crucial for policymakers but also for economists and researchers seeking to unravel the rationale behind economic dynamics in several emerging markets like Nigeria.

As mentioned earlier, several studies have explored the direct impact of government expenditure on household consumption. For instance, research by Adebiyi (2009) found a positive relationship between government capital expenditure and household consumption in Nigeria. Similarly, Olaniyan Abiodun and Oyeranti (2010) concluded that increased government expenditure on education and healthcare positively influenced household consumption patterns.

In the same vein, Barro (1990), found that increased government spending can stimulate economic activity and consumption, while others contend that excessive government expenditure can lead to crowding out of private investment, potentially dampening consumption (Blanchard & Perotti, 2002). In the Nigerian context, scholars like Oluwatobi and Egwaikhide (2012) have examined how government spending affects economic growth, providing valuable insights into the dynamics at play.

In relation to Fiscal Policy and Household Consumption: The impact of government expenditure on household consumption has been a topic of interest worldwide. Studies by Gali and Lopez-Salido (2001) have explored the effects of fiscal policy on consumption in developed economies, highlighting the role of government spending as a stabilizing factor during economic downturns. In Nigeria, Osinubi

and Ogun (2006) analyzed the impact of fiscal policy on household consumption, shedding light on the importance of government spending in influencing consumer behavior.

More so, in terms of Government Expenditure Composition: Research has shown that the composition of government expenditure matters alot. Public investments in infrastructure, education, and healthcare, for instance, can have different effects on consumption compared to expenditures on subsidies or defense. Studies by Celasun, Gelos, and Prati (2004) emphasize the importance of public investment in promoting long-term economic growth. In Nigeria, researchers like Adewuyi (2016) have examined the composition of government spending and its impact on household consumption patterns.

Similarly, with respect to Income Distribution and Welfare Effects: The distributional impact of government expenditure is a crucial aspect worthy of any level of consideration. This is because Government spending can affect income distribution and thereby influence consumption patterns across different income groups. Studies by Lustig and Pessino (2014) have explored how fiscal policies, including government spending, can be designed to reduce income inequality and enhance overall welfare. In Nigeria, scholars like Aigbokhan and Iwayemi (2000) have investigated the welfare implications of government spending, particularly in relation to poverty reduction

In addition, economic shocks, such as fluctuations in oil prices, have had a significant impact on Nigeria's economy given it over reliance on oil sector. These shocks can influence government expenditure patterns and, subsequently, consumption behavior. Studies by Oyinlola and Adeniyi (2013) have examined how this dependence on a single commodity affects the sustainability and predictability of government spending and, consequently, its impact on consumption patterns.

However, beyond household consumption, the impact of government expenditure on the private sector is also a critical area of inquiry. Research by Ayoola and Adenikinju (2005) suggested that government spending on infrastructure projects had a positive spillover effect on the private sector, leading to increased business investment and consumer spending.

Worthy of note is the fact that the impact of government expenditure on consumption extends to macroeconomic outcomes. Research by Nwaka and Ezeabasili (2018) argued that an increase in government spending in Nigeria can lead to inflationary pressures, which, in turn, affect consumption patterns. Thus, the relationship between government expenditure and inflation requires careful consideration.

Conclusively, the above literatures on the impact of government expenditure on consumption in Nigeria reveals a complex interplay of factors. While there is evidence supporting the notion that government spending can stimulate consumption, researchers also emphasize the importance of fiscal discipline, efficient resource allocation, and addressing macroeconomic challenges. This literature review serves as a foundation for the empirical analysis in this study, aiming to contribute to a deeper understanding of the government expenditure-consumption dynamics in the Nigerian context and its broader implications for economic growth and welfare.

Theoretical Framework

The theoretical framework for government expenditure-consumption nexus could be said to be rooted in Keynesian economics. According to this framework, government spending, particularly on infrastructure, social welfare, and public services, can stimulate aggregate demand, leading to increased consumption by households and businesses. Additionally, the Permanent Income Hypothesis (PIH) suggests that changes in government expenditure can influence consumption patterns based on individuals' perceptions of their permanent income. Based on the above, these theories shall serve as basis for analyzing the government expenditure-consumption relationship in this study.

Model

This research utilized and adapted the model developed by Ogunjimi and Adebayo (2018) in their analysis of how government expenditure affects economic growth. The model was selected due to its alignment with the data analysis techniques used in this study. The functional form of the model is presented as follows:

Adopted Model:

RGDP = f (GCE, GRE, GEE, GAE, GHE, GE)

Modify Model:

C = f (GEX, GNI, CPI, INFLR, INTR).....
1

Where;

C is Households and Non-profit institutions serving households (NPIHs) Final Consumption Expenditure,

GEX is Government Expenditure,

GNI is Gross National Income,

CPI is Consumer Price Index

INFR is Inflation Rate, and

INTR is the Interest rate

In a linear function, this is represented as follows:

C = β0 + β1GEX + β2GNI + β3CPI + β4INFR + β5INTR + µt..... 2

Where:

β0 = Constant term,

β1 to β5 = Regression coefficient and

µt = Error Term or Stochastic random variable

To reduce the outliers among the variables, all variables with the exception of CPI, INFLR and INTR will be expressed in logarithmic form. That is:

LogC = β0 + β1LogGEX + β2LogGNI + β3CPI + β4INFLR + β5INTR + µt 3

Considering the apriority expectations, we expect

$0<b_1>0$, which implies that Government expenditure stimulates consumption.

Analytical Techniques

The study employed the Autoregressive Distributed Lag (ARDL) Model for its analysis, following the approach suggested by Pesaran, Shin, and Smith (2001). This method was chosen because the data are stationary at both the level I(0) and first-difference I(1) stages. The ARDL Model is appropriate for data that exhibit a mix of integration levels (I(0) and I(1)) and effectively reveals both short-run and long-run dynamics.

Thus, ARDL model specified as:

$$\Delta \text{RGDP} = \beta_0 + \sum_{i=0}^{a} \beta_1 \Delta \text{R}GDP_{t-1} + \sum_{i=0}^{b} \beta_2 \Delta GEX_{t-1} + \sum_{i=0}^{c} \beta_3 \Delta \text{GNI} \sum_{i=0}^{d} \beta_4 \Delta CPI_{t-1} + \sum_{i=0}^{e} \beta_5 \Delta INFR_{t-1} + \sum_{i=0}^{f} \beta_6 \Delta INTR_{t-1} + \varepsilon t \text{----------} \quad (4)$$

Whereas RGDP, GEX, GNI, CPI, INFR and INTRare the variables under consideration, β_1 - β_6 are parameters of the model, $\varepsilon t$is the white noise error term, Δat time t denotes lag differences of the variable under consideration.

Before the above function is estimated, the variables are subjected to stationarity test.

Unit Root Stationarity Test

The stationarity of the variables was assessed using the Augmented Dickey-Fuller (ADF) test. To identify any time trends in the variables, we performed trend and intercept regression. This process allowed us to determine the stationarity of each variable.

$$\Delta Y_t = \alpha + \beta_t + \gamma Y_{t-1} + \delta \Delta Y_{t-1} + \ldots + \delta_{\rho-1} \Delta Y_{t-\rho+1} + \varepsilon_t \ldots\ldots 5$$

Where α is a constant, β is the coefficient on a time trend, and ρ is the lag order of the autoregressive process. The unit root test is conducted with the null hypothesis Y= 0 indicating the presence of a unit root, against the alternative hypothesis Y< 0 suggesting stationarity. The test's significance is assessed at the 5% level.

Granger Causality Test

To determine the causal relationship between government expenditure and consumption spending in Nigeria, the Granger Causality test will be employed. Initially proposed by Granger in 1969, this test is widely utilized for identifying causal links between two variables.

$$X_t = \sum_{i=1}^{n} \alpha i Y_{t-1} + \sum_{j=1}^{n} \beta j X_{t-1} + U_{1t} \quad \ldots\ldots\ldots\

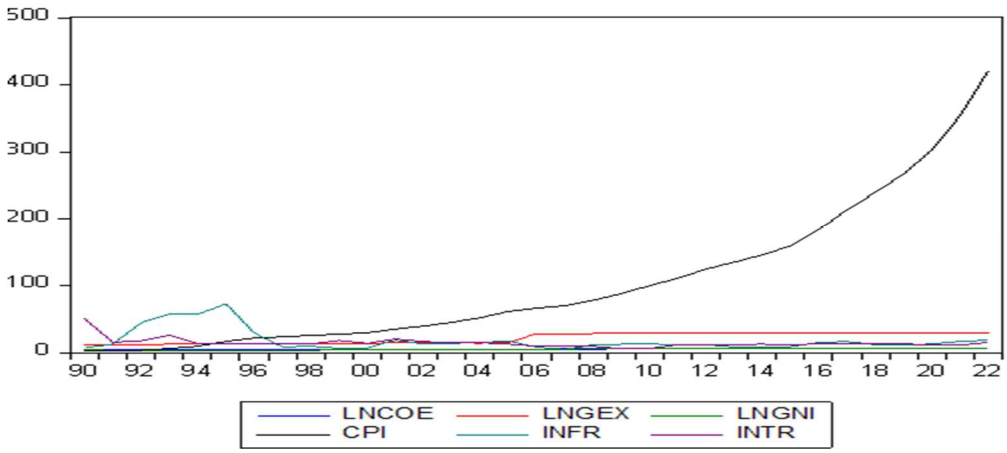


Figure 4.1: **Trend movements of selected variables**Source: Researcher's Computation on E-

Dependent Variable: LOG(CON01)
Method: ARDL
Date: 11/04/23 Time: 07:14
Sample (adjusted): 1994 2022
Included observations: 29 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (4 lags, automatic): LOG(GEX) LOG(GNI) LOG(CPI) INFR INTR
Fixed regressors: C
Number of models evaluated: 12500
Selected Model: ARDL(4, 4, 4, 4, 3, 4)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(CON01(-1))	3.724129	NA	NA	NA
LOG(CON01(-2))	4.302244	NA	NA	NA
LOG(CON01(-3))	0.756120	NA	NA	NA
LOG(CON01(-4))	2.373076	NA	NA	NA
LOG(GEX)	-0.019501	NA	NA	NA
LOG(GEX(-1))	0.179276	NA	NA	NA
LOG(GEX(-2))	-0.066815	NA	NA	NA
LOG(GEX(-3))	0.073022	NA	NA	NA
LOG(GEX(-4))	0.134015	NA	NA	NA
LOG(GNI)	3.930469	NA	NA	NA
LOG(GNI(-1))	-9.827500	NA	NA	NA
LOG(GNI(-2))	1.635839	NA	NA	NA
LOG(GNI(-3))	-0.851895	NA	NA	NA
LOG(GNI(-4))	-0.927970	NA	NA	NA
LOG(CPI)	-27.74927	NA	NA	NA
LOG(CPI(-1))	-27.36688	NA	NA	NA
LOG(CPI(-2))	-27.14389	NA	NA	NA
LOG(CPI(-3))	25.44143	NA	NA	NA
LOG(CPI(-4))	56.04179	NA	NA	NA
INFR	0.213678	NA	NA	NA
INFR(-1)	0.417122	NA	NA	NA
INFR(-2)	0.576913	NA	NA	NA
INFR(-3)	0.437412	NA	NA	NA
INTR	0.043640	NA	NA	NA
INTR(-1)	0.041695	NA	NA	NA
INTR(-2)	0.086232	NA	NA	NA
INTR(-3)	-0.071259	NA	NA	NA
INTR(-4)	0.012353	NA	NA	NA
C	-24.14231	NA	NA	NA

R-squared	1.000000	Mean dependent var	5.513990
S.D. dependent var	0.487647	Akaike info criterion	-36.28694
Sum squared resid	4.00E-17	Schwarz criterion	-34.91964
Log likelihood	555.1606	Hannan-Quinn criter.	-35.85872
Durbin-Watson stat	3.321306		

*Note: p-values and any subsequent tests do not account for model selection.

Views 10

		ADF Test Statistics				Order of Integration	Remark on Stationarity
S/N	**Variables**	**Level**	**Prob.**	**1st Difference**	**Prob.**		
1	**LNCOE**	2.957110	0.7905	-2.960411	0.0000	I(1)	Stationary
2	**LNGEX**	-2.957110	0.7760	-2.960411	0.0001	I(1)	Stationary
3	**LNGNI**	-2.960411	0.7591	-2.960411	0.0438	I(1)	Stationary

4	**CPI**	-2.963972	0.0000	-2.963972	1.0000	I(0)	Stationary
5	**INFR**	-2.960411	0.0906	-2.960411	0.0009	I(1)	Stationary
6	**INTR**	-2.963972	0.0333	-2.967767	0.0860	I(0)	Stationary

Table 2: Unit Root Stationarity Test

Source: Researcher's computation on E-views 10

The stationarity of the variables was assessed using the Augmented Dickey-Fuller (ADF) test, which revealed a mixed order of stationarity. Specifically, COE, GEX, GNI, and INTR were found to be stationary at first difference, indicating they are integrated of order one (I(1)). In contrast, CPI and INTR were stationary at level (I(0)). Therefore, the Autoregressive Distributed Lag (ARDL) technique is the most suitable method for analyzing the relationship between these variables.

TRACE TEST				
Hypothesized No. of CE(s)	**Eigen value**	**Trace Statistic**	**0.05 Critical Value**	**Prob.****
None *	0.808457	118.7544	95.75366	0.0005
At most 1	0.575242	67.52241	69.81889	0.0752
At most 2	0.463429	40.97913	47.85613	0.1893
At most 3	0.314587	21.67987	29.79707	0.3167
At most 4	0.223400	9.970125	15.49471	0.2830
MAXIMUM EIGEN VALUE				
Hypothesized No. of CE(s)	**Eigen value**	**Max-Eigen Statistic**	**0.05 Critical Value**	**Prob.****
None *	0.808457	51.23196	40.07757	0.0019
At most 1	0.575242	26.54327	33.87687	0.2886
At most 2	0.463429	19.29927	27.58434	0.3918
At most 3	0.314587	11.70974	21.13162	0.5765
At most 4	0.223400	7.837706	14.26460	0.3954

Table 3: Results of the Johansen Co-Integration Test

Source: Researcher's Computation on *E-views 10*

Table 3 presents the Trace and Max-Eigen value statistics for the model, with asterisks (*) indicating the likelihood of rejection. The Trace statistic reveals one co-integrating equation, as does the Max-Eigen value statistic. The presence of co-integration indicates a long-run relationship among the variables.

Dependent Variable	**D (LNCOE)**
ARDL Long-run model	

Variables	Coefficient	Std. Error	t-statistic	Prob.
LNGEX	-0.041638	0.016524	-2.519850	0.0199
LNGNI	0.741307	0.120645	6.144534	0.0000
CPI	0.000996	0.000393	2.532797	0.0194
INFR	0.003334	0.002222	1.500197	0.1484
INTR	0.004354	0.010076	0.432134	0.6700
ARDL Short-run (Error correction) model				
Variables	**Coefficient**	**Std. Error**	**t-statistic**	**Prob.**
C	1.770410	0.335360	5.279134	0.0000
D(LNGEX)	-0.028559	0.007605	-3.755334	0.0012
D(LNGNI)	0.886967	0.170673	5.196882	0.0000
CointEq(-1)*	-0.754621	0.145000	-5.204300	0.0000

Table 4: ARDL Long-Run and Short-run Test Result
Source: Researcher's Computation on *E-views 12*

Table 4 displays the coefficients for both the short-run and long-run relationships. A positive sign indicates a direct relationship, while a negative sign signifies an inverse relationship. Government expenditure (GEX) has a negative coefficient and is statistically significant (t-test >2 and P-value = 0.0199 ≤ 0.05), indicating a significant inverse relationship with consumption expenditure (COE). Specifically, a one percent increase in GEX results in a 4.16% decrease in COE in the long run.

In contrast, gross national income (GNI) and the consumer price index (CPI) have positive but statistically insignificant coefficients (t-test < 2), implying a direct impact on consumption expenditures in Nigeria over the long term. A one percent increase in GNI and CPI corresponds to a 74.13% and 0.10% increase in COE, respectively, in the long run.

Additionally, the coefficients for inflation and interest rates are positive but statistically insignificant. This indicates that these variables exert an insignificant positive impact on COE, with a one percent rise in inflation and interest rates leading to a 0.33% and 0.44% increase in COE, respectively.

Table 4 also displays the short-term coefficients derived from the model estimation. Specifically, GEX shows a negative and significant effect, whereas GNI exhibits a positive coefficient and is statistically significant in the short term. A one percent increase in GEX corresponds to a 2.86% decrease in COE, while a one percent increase in GNI leads to an 88.80% increase in COE in the short term. The long-term equation was formulated mathematically as follows:

EC = LNCOE - (-0.0416*LNGEX + 0.7413*LNGNI + 0.0010*CPI + 0.0033*INFR+ 0.0044*INTR)

Hypothesis Testing

Hypothesis One:

Ho1: There is nosignificant impact of government expenditure on consumption in Nigeria.

Based on the coefficient of significance of the result presented in Table 4, with a significance level set at: P ≤ 0.05. The findings indicate the following:

Table 5: Coefficient significance of government expenditure on Consumption in Nigeria

	Short-term			Long-run		
Variable	**t-test**	**Prob.**	**Remark**	**t-test**	**Prob.**	**Remark**
LNGEX	-3.7553342	0.0012	Significant	-2.5198509	0.0199	Significant

Source: Researcher's Computation on E-Views 12

Based on the t-test values and P-values for government expenditure as shown in Table 5, it is clear that government expenditure has been found to be statistically significant. Therefore, we reject the null hypothesis, which suggests that government expenditures do not significantly affect consumption expenditures in Nigeria. Thus, we can conclude that government expenditures indeed have a significant impact on consumption expenditures in Nigeria.

Hypothesis Two:

Ho2: There is no causal relationship between government expenditure and consumption expenditure in Nigeria.

Table 6: Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
LNGEX does not Granger Cause LNCOE	32	2.09472	0.1585
LNCOE does not Granger Cause LNGEX		7.19582	0.0119
LNGNI does not Granger Cause LNCOE	32	2.48686	0.1256
LNCOE does not Granger Cause LNGNI		6.01884	0.0204
CPI does not Granger Cause LNCOE	32	0.83132	0.3694
LNCOE does not Granger Cause CPI		10.0264	0.0036
INFR does not Granger Cause LNCOE	32	0.88764	0.3539
LNCOE does not Granger Cause INFR		1.71084	0.2011
INTR does not Granger Cause LNCOE	32	0.37976	0.5425
LNCOE does not Granger Cause INTR		4.84206	0.0359

Source: Researcher's Computation on *E-views 10*

The results of the Pairwise Granger Causality test for hypothesis two are presented in Table 6. The null hypothesis that there is no Granger causality cannot be rejected for variables with probability values greater than 0.05, indicating statistical insignificance at the 5% significance level. Therefore, the Granger causality test results between GEX and COE do not reject the hypothesis for GEX, suggesting a unidirectional causal relationship where GEX does not Granger-cause COE, but COE Granger-causes GEX. Similarly, GNI, CPI, and INTR do not Granger-cause COE, but COE Granger-causes GNI, CPI, and INTR. There is no Granger causality observed between INFR and COE.

Tests	Value	Prob.	Decision
Normality	1.831277	0.400261	Residuals are normal
Serial correlation	0.326975	0.7251	No serial correlation
Heteroscedasticity	1.270444	0.3087	No heteroscedasticity
Ramsey RESET	4.316502	0.0685	Model is well specified

Table 7: Residuals of Diagnostics Tests
Source: Researcher's Computation on E-Views 10

Table 7 displays the diagnostic tests conducted to assess the precision, dependability, and consistency of the model. The probability that the residuals conform to a normal distribution is 0.400261, exceeding the 0.05 threshold, suggesting that the null hypothesis can be accepted at a 5 percent significance level. Therefore, the residuals exhibit normal distribution characteristics. Additionally, the Residual Serial Correlation LM Tests indicate the absence of serial correlation and heteroscedasticity, affirming the model's reliability. Furthermore, the Ramsey regression specification error test (RESET) confirms that the model is appropriately specified.

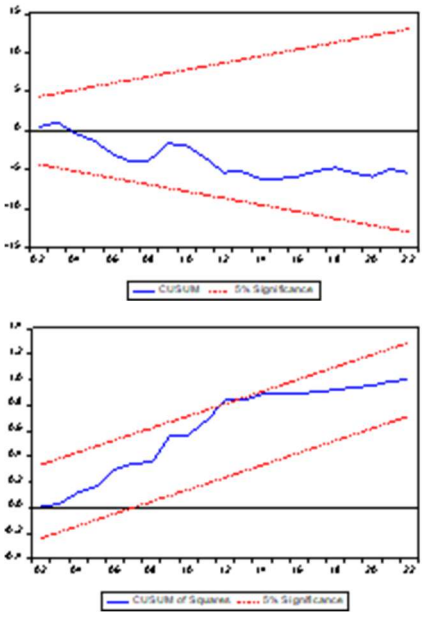


Figure 2: Result of CUSUM and CUSUM Squared Test
Source: Researcher's Computation on E-View 10

The cumulative sum of recursive residuals (CUSUM) and cumulative sum of squares of recursive residuals (CUSUMSQ) plots were utilized to assess the stability of the model parameters. The line must remain within upper and lower boundaries for stability. The plots satisfy this criterion, indicating significant stability at the 5% level.

Discussion of Findings

The research aimed to investigate the influence of government expenditures on consumption expenditures in Nigeria, employing various statistical analysis methods. The stationarity results in Table 2 indicated a mixed order of integration, with variables exhibiting stationarity at orders of I(0) and I(1). The Johansen cointegration test results in Table 3 showed the presence of long-run cointegration among the variables. Furthermore, the ARDL analysis approach demonstrated that the null hypothesis, which posits no significant impact of government expenditures on consumption in Nigeria, was rejected at the 5% level of significance.

The results from the hypothesis test in Table 5 indicate that government expenditures have a statistically significant positive impact on consumption expenditures in Nigeria during the study period (t-test > 2). However, according to the estimated ARDL long-run approach presented in Table 4, the negative coefficient associated with government expenditure (GEX) suggests that these variables have not exerted a positive influence on consumption expenditures in Nigeria in the long run.

There are several possible explanations for this finding. Firstly, it could be that government expenditures have not been adequate or that they have been allocated to projects that do not directly increase consumers' incomes over the

long term. Another possibility is that consumers may not respond proportionately to government spending; instead, they might choose to save their increased earnings due to concerns about future expectations such as potential tax increases. Additionally, time lags in the impact of government spending, as discussed by Nwaka and Ezeabasili (2018) and Egwaikhide (2012), could also contribute to these results.

On the other hand, Gross National Income (GNI) and Consumer Price Index (CPI) show positive coefficients that are statistically significant (t-test ≥ 2 and P-value ≤ 0.05), indicating a positive relationship with consumption expenditure in Nigeria. Inflation and interest rates, however, exhibit positive coefficients that are statistically insignificant.

The negative impact of government expenditure aligns with Barro's (1990; 1991) endogenous growth model, which considers government recurrent expenditure as part of consumption expenditure. This finding also resonates with studies such as that of Nurrudeen and Usman (2010), but differs from the findings of Oyinlola and Akinnibosun (2013) and Segun and Adelowokan (2015).

Conclusion and Recommendation

Government expenditure is widely recognized as a crucial fiscal tool for fostering sustainable economic growth. This study aims to empirically investigate the impact of government expenditure on consumption in Nigeria from 1990 to 2022. The Johansen cointegration test confirmed the existence of a long-run equilibrium relationship between government expenditure and consumption expenditures.

Using the ARDL approach, the study found that government expenditure exerts a significant negative impact on consumption spending. Gross National Income (GNI) and Consumer Price Index (CPI) were found to have positive and significant effects, while Infrastructure (INFR) and Interest Rates (INTR) showed positive effects that were statistically insignificant.

These findings suggest that government consumption spending may act as a substitute for private consumption. This raises questions about how different components of government spending are valued by individuals and households, influencing their consumption decisions. For instance, increased government investment in education and healthcare might lead households to spend less on these services and allocate more towards savings or other investments. Conversely, improvements in public transportation infrastructure might encourage greater use of public transport, thereby increasing household spending on transportation.

Based on these results, the study recommends several policy considerations for policymakers. Firstly, to enhance consumption spending and foster economic growth, governments should prioritize productive capital investments in areas and projects that yield maximum benefits to citizens and have strong linkages across various sectors of the economy. Additionally, policymakers should consider increasing the share of capital expenditure relative to recurrent expenditure to bolster consumer confidence. Historically, capital expenditure has been relatively lower compared to recurrent expenditure, and boosting it could support sustained economic expansion and development, leading to increased consumer spending and economic growth.

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