



Impact of Domestic Debt and Fiscal Policy on Economic Growth in Nigeria.

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Abstract

This study examined the impact of domestic debt and fiscal policy on economic growth in Nigeria. Specifically, this study investigated the effect of domestic debt, government expenditure and tax revenue on real GDP growth rate in Nigeria. Data were obtained from secondary sources from 1981 to 2023 on real GDP growth rate, domestic debt, total government expenditure and tax revenue, as well as control variables (money supply, exchange rate, labour participation rate, gross fixed capital formation and interest rate). These data were analyzed in this study with correlation analysis method and Autoregressive Distributed Lag (ARDL) co-integration approach which revealed that domestic debt has insignificant negative and insignificant positive effect on real GDP growth rate in the short run and long run respectively. This study also demonstrated that total government expenditure exerted insignificant positive effect on real GDP growth rate in Nigeria in the short run and long run. In addition, this study revealed that tax revenue has significant positive effect on real GDP growth rate in Nigeria in the short run and long run. Hence, this study concluded that domestic debt has not impacted significantly economic growth in Nigeria, and that fiscal policy has significant impact on economic growth in Nigeria, most especially in terms of tax revenue. Therefore, this study recommended among others that government needs to objectively redesign its tax system and tax structure for economic impacts rather than only income tools.

Keywords: Domestic Debt, Fiscal Policy, Economic Growth, Nigeria

Received 24 July., 2026; Revised 04 Aug., 2026; Accepted 06 Aug., 2026 © The author(s) 2026.

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I. Introduction

It is impossible to overestimate the essential functions of fiscal policy in any economy, particularly when it comes to managing the economy because it has been said that no economy is perfect. The term "fiscal policy" describes how the government affects the overall status of the economy through taxing, spending, and borrowing. Fiscal policies can include measures such as tax cuts, increased government spending on public goods and services, and the implementation of fiscal rules and targets (Onifade, et al, 2020). From several federal budgets, rolling plans, and national plans, Nigeria's fiscal policy goals have always centered on the following sub-themes such as the creation of sizable new revenue and diversification of revenue streams apart from revenue derived from crude oil, lowering taxes and preserving economic equilibrium; safeguarding homegrown businesses; encouraging independent growth and eliminating shortfalls in the budget; combating the twin issues of low manufacturing capacity utilization and low agricultural productivity; reducing the already-existing inequalities in wealth, income, and consumption standards that could jeopardize production efficiency; and slowing the growth of both external and internal debts (Olubunmi, et al, 2019).

In recent years, the accumulation of Domestic debt and the formulation of appropriate fiscal policies have become key concerns for policymakers worldwide. In many countries, the accumulation of domestic debt and the formulation of appropriate fiscal policies play pivotal roles in shaping macroeconomic stability and fostering long-term development (Mhlaba& Mordecai, 2019). The effective management of domestic debt and the implementation of sound fiscal policies are crucial factors in achieving sustainable economic growth. Every

independent country aspires to raise the living standards of its people and advance their economic prosperity. Since resources are few, countries borrow from within to promote economic expansion and achieve sustainable development (Sriyalatha& Torii, 2019).

Nevertheless, the accumulation of high domestic debt that is currently occurring has become a major policy worry, especially in Nigeria, the largest economy and population in Africa. Another study by Ogunlesi, et al. (2019) Their research, which was primarily focused on how domestic debt affected economic growth in Africa, particularly in Nigeria, showed a negative and nonlinear link between the two which implies that while some level of domestic debt may stimulate growth, an excessive debt burden can hinder progress. However, the major issue on domestic debt is the possible influence of government borrowing on private investment tagged as crowding out effect and crowding effect, given that the two has reducing and enhancing effect on growth respectively (Risilia, Pagria&Hurdha, 2022).

Macroeconomic stability and sustained economic growth in Nigeria have been impeded by the federal government's reliance on borrowing from the banking sector, particularly the Central Bank of Nigeria (CBN), to fund its huge and unsustainable budget deficits. The review of the Nigerian shows that the profile of domestic debt suggests that it has always been on the increase in recent times which is attributed to various factors (Ugwanyi&Ugwunta, 2017). In addition, funding the gaps in the government's revenue-expenditure profile and other financing requirements had a role, as it is a necessity to finance the fiscal deficit. Nigeria's economy continues to be characterized by low GDP growth rates, high unemployment rates, underdeveloped economies, insufficient basic utilities, and poor infrastructural investments.

Additionally, how well fiscal policy works is starting to pose a significant problem in terms of income generation, the resulting constrained fiscal space, and the growth of state debt. Nigeria's revenue profile has increased significantly over time, especially the sums from non-oil revenue, which generally comprises of tax revenue and oil export revenue. Ironically, it doesn't seem like the rise in revenue is keeping up with the government's spending pattern (Okoye,et al, 2019). But, now that the government's spending pattern has surpassed its revenue profile, the country is financing deficits. However, inefficiencies in resource allocation also caused by increased government borrowing may crowd out private sector entities from accessing resources in financial markets, resulting in an ineffective distribution of resources and possibly hindering market-driven efficiency. Even at that there is argument that contractionary fiscal policies have less of an impact on the economy than those that are expansionary.

Succinctly, fiscal policy and domestic debt's effects on economic growth have been topics of ongoing debates among economists, some argue that the well-managed domestic debt in Nigeria can support investment, stimulate economic activity, and contribute to long-term growth. Additionally, careless budgetary practices, such as excessive government spending or unsustainable deficit levels as seen in the Nigerian economy, can undermine investor confidence, trigger inflation, and lead to a financial crisis in the economy which also hinders economic growth and stability. The Nigerian government needs to understand the influence of debt and fiscal policy on growth in the economy, for policymakers to make well-informed decisions.

In relation to this, several studies had been conducted in literature on the issue of domestic debt, fiscal policy and economic growth in Nigeria, but there are still some aspects yet to be covered. These studies include those on the effect of domestic debt on economic growth (Ogboghro, 2023; Mhlaba& Phiri, 2019; Risilia, Pagria, &Hurdha, 2022; Shiyalini, 2020), as well as those on the effect of fiscal policy on economic growth (Sriyalatha& Torii, 2019;Olubunmi, Chinedu &Ololade, 2019; Onifade, Erdogan&Hurdha, 2022). However, it is observed in this study that majority of the previous studies had engaged GDP/real GDP as measure of economic growth, instead of real GDP growth rate which can directly indicate annual rise and fall in growth. In addition, this study recognized that measures of domestic debt and fiscal policy are often muddled up in single model in most of the studies existing in literature.

Therefore, the specific objectives of this study.

- i. examine the effect of domestic debt on real gross domestic product growth rate in Nigeria
- ii. assess the effect of total government expenditure on real gross domestic product growth rate in Nigeria
- iii. investigate the effect of tax revenue on real gross domestic product growth rate in Nigeria.

II. Literature Review

Domestic Debt

This can be defined as borrowing by the government from domestic sources primarily by issuing bonds, Treasury bills, and other debt instruments They are valued in Nigerian Naira and are distributed by the federal government (Risilia, *et al*, 2022). Domestic debt is also defined as the government's total responsibility, which includes liabilities transferred to residents and corporate entities within the nation by the federal, state, and local governments. Among the principal causes of the accumulation of debt was because of the buildup of a nation's deficit brought on by more government expenditure than income.

Fiscal Policy

The deliberate use of taxes and expenditures by the government to steer macroeconomic variables in a desired direction is known as fiscal policy (Olubunmiet *et al.*, 2019). In an effort to stabilize the economy, fiscal policy seeks to raise government spending or lower taxation whereas lowering expenditure or raising taxes tends to lift the economy out of a recession. This curbs a boom. The main way that the government intervenes in the economy is by imposing restrictions on particular industries or regions. These rules come in many forms and are contingent on the specific objective or requirement that the government seeks to fulfil. Because public expenditure affects aggregate demand, which inevitably fosters economic growth, it is thought to be the main force behind a country's economic activity. This therefore highlights the significance of government expenditure among government and general public.

III. Theoretical Framework

An econometric model of long-term economic growth is the solow-swan model, often known as the exogenous growth model. To explain long-run economic growth, it examines capital accumulation, labor or population increase, and productivity gains that are primarily the result of technological advancements. Trevor Swan and Robert Solow created the model in 1956. Another name for it is the "neoclassical growth model.", which emphasizes the role of capital accumulation, advancement in technologies, and productivity growth in driving long-term economic expansion. In the case of Nigeria, the accumulation of domestic debt through fiscal policy can influence capital formation and investment in physical infrastructure which are essential for sustaining economic growth. Furthermore, effective fiscal policies that promote technology adoption and innovation can contribute to sustained productivity gains, fostering long-term growth in the Nigerian economy

IV. Empirical Review

Okoye, *et al.* (2019) checked the relationship between government expenditure and economic growth in Nigeria, using data of the period 1981 to 2017. The study involved variables such as gross domestic product as dependent variable, as well as capital expenditure, recurrent expenditure, total expenditure and inflation rate used as explanatory variables, which were analyzed with ARDL co-integration approach. Result in line with estimation procedure then demonstrated that recurrent expenditure, capital expenditure and total expenditure has insignificant positive influence on gross domestic product in Nigeria. Result of the study also depicted that the three expenditure proxies had positive effect on gross domestic product, but statistically insignificant. Hence, the study suggested that more funds be allocated to capital expenditure to enhance capacity for sustainable growth.

Aluthge, Jibir and Abdu (2024) conducted research on the impact of government expenditure on economic growth in Nigeria. The study used time series secondary data for the analysis of the impact of government expenditure on economic growth spanning from the period of 1970 to 2019. The study adopted Autoregressive Distributed Lag (ARDL) model. The study involves variables such as non-oil revenue, government expenditure (capital and recurrent), Gross Domestic Product and trade openness are sourced from Statistical Bulletin of the Central Bank of Nigeria while data for labor force and inflation are obtained from the World Development Indicators of the World Bank. Findings from the study indicated that, capital expenditure has positive and significant impact on economic growth both in the short run and long run while recurrent expenditure does not have significant impact on economic growth both in the short run and long run. Thus, study recommended that government should increase the share of the capital expenditure especially on meaningful projects that have direct bearing on the citizen's welfare.

Sriyalatha and Torii (2019) examined the impact of fiscal policy on economic growth, a comparison between Singapore and Sri Lanka. The study examined the long-term impacts of fiscal variables on economic growth in Singapore and Sri Lanka from 1972 to 2017. The study adopted Autoregressive Distributed Lag (ARDL)-ECM approach and some diagnostic and specification tests. The study concluded that government expenditure, government revenue and investment expenditure have a positive and significant effect in Singapore as well as Sri Lanka's economic growth in the long run. This implies that investment expenditure boosts growth of the country whereas a high inflation rate acts as a bottleneck on economic growth in Singapore.

Onifade, *et al.* (2020) assessed an empirical retrospect of the impacts of government expenditures on economic growth, new evidence from the Nigerian economy. The study examined the impacts of public spending on economic growth in the Nigerian economy from 1981 to 2017. The study has adopted the Pesaran's auto-regressive distributed lag models. Findings indicated that recurrent expenditures of the government and public debt have significant negative impacts on economic growth while capital expenditure of the government has a positive, but insignificant impact on the economic growth. Thus, the study recommended that government should ensure that the share of recurrent expenditure in total expenditures is kept within a reasonable proportion by blocking all leakages and wastages in public financing in the country.

Babalola and Aminu (2021) examined fiscal policy and economic growth relationship in Nigeria. The study investigated the impact of fiscal policy on economic growth in Nigeria. The study adopted Annual data covering 1977 – 2009. Augmented Dickey-Fuller technique, Engle-Granger Approach, Error-correction models was used. Findings indicated that productive expenditure positively impacted on economic growth during the period of coverage and a long-run relationship exists between them as confirmed by the cointegration test. Thus, the recommended improvement in government expenditure on health, education and economic services, as components of productive expenditure, to boost economic growth.

Ugwanyi and Ugwunta (2017) examined the fiscal policy and economic growth, an examination of selected countries in Sub-Saharan Africa. The study determined the effect of fiscal policy variables on the economic growth of sub-Saharan African countries. The ex-post facto research design was adopted which enabled the study to make use of secondary data from sub-Saharan African Countries in a panel least squares. The findings revealed that government productive and unproductive expenditures, distortionary tax (a proportional tax on output at rate) and non-distortionary taxes have significant effects on the economic growth of sub-Saharan African countries. Thus, the study recommended that governments of sub-Saharan Africa should enhance investment in productive expenditure as well as ensure that funds meant for development on these sectors are properly utilized.

Aluthge, Jibir and Abdu (2021) examined the impact of government expenditure on economic growth in Nigeria 1970-2019. The study investigated the impact of Nigerian government expenditure (disaggregated into capital and recurrent) on economic growth using time series data for the period 1970-2019. The study employed Autoregressive Distributed Lag (ARDL) model. The findings of the study are that capital expenditure has positive and significant impact on economic growth both in the short run and long run while recurrent expenditure does not have significant impact on economic growth both in the short run and long run. The study recommended that government should increase the share of the capital expenditure especially on meaningful projects that have direct bearing on the citizen's welfare.

Neog and Gaur (2020) evaluated tax structure and economic growth, a study of selected Indian states. The study examined the long-run and short-run relationship between tax structure and state-level growth performance in India for the period 1991–2016. The study made use of panel regression method for 14 Indian states data. With these data, pooled mean group estimation indicated that income tax and commodity–service tax have negative effects while property and capital transaction tax have a significant positive effect on state economic growth. There is a 'U' shape relationship between tax structure and growth performance. Therefore, the study recommended that for faster growth of Indian states, policymakers should give more focus on property taxes along with the reduction in income taxes.

Yusuf and Mohd (2020) examined the impact of government debt on economic growth in Nigeria. The study investigated the effect of government debt on Nigeria's economic growth using annual data from 1980 to 2018 and the Autoregressive Distributed Lag technique. The study adopted secondary data, quantitative method and descriptive research design. Data gathered were analyzed using time series data collected from the desk survey approach, Central Bank of Nigeria (CBN), the Debt Management Office (DMO), World Bank and IMF statistical database. The study made use of control variables such as debt service payment, foreign reserve position, effective interest rate, gross fixed capital formation and FDI inflow. The results showed that external debt constituted an impediment to long-term growth while its short-term effect was growth enhancing. However, the study suggested that domestic debt had a significant positive impact on long-term growth while its short-term effect was negative. The study therefore recommended domestic debt rather than external debt will stimulate higher rate of economic growth in Nigeria.

Borclarin, Yatirimlari and Etkileri (2020) evaluated the impact of domestic debt on private investment in the Gambia: An ARDL approach. The study aimed to analyze the impact of domestic debt on private investment in the Gambia by developing an investment model based on the neoclassical investment function and considered an annual time series data set from 1980 to 2013. To examine the nexus between dependent variable, private investment and the explanatory variables, while an Autoregressive Distributed Lag (ARDL) model was used in the study. Furthermore, findings indicated that domestic debt affects private domestic investment negatively in the short run but not in the long run. The study therefore recommended that, the government of the Gambia should revive its lost revenue base and also try to create new avenues for raising funds to finance deficits instead of relying heavily on domestic borrowing.

Risilia, Pagria and Hurdha (2022) investigated the use of econometric analysis in the context of determining the effect of public debt on economic growth. The study aimed to investigate the impact of the public debt on the economic growth of Albania. Primary data was used. While the study adopted quantitative research design and was conducted via survey method. The data were collected via a survey developed by the researchers during the period of 2008-2020. The results revealed that domestic debt affects economic growth, external debt affects economic growth, and the simultaneous interaction of domestic and foreign debt affects the growth of gross domestic product. In addition, the study suggested that there is a strong link between domestic debt, external debt and gross domestic product grow. Thus, the study recommended that policymakers should

not choose to reduce government spending as their best alternative, to reduce the budget deficit, but they should choose to increase tax revenues.

Shiyalini (2020) investigated the impact of public debt on domestic investment and foreign direct investment in Sri Lanka from the period of 1980 to 2020. The study used times series data extracted from the annual reports of the Central Bank of Sri Lanka and World Development Indicators of World Bank Database. Data gathered were analyzed using ordinary least square (OLS). The findings from the study indicated that domestic debt crowds out FDI inflows in long-run, but it crowds-in the flow of FDI in the short-run. Furthermore, external debt has a significant inverse relationship with FDI inflows in the short-run, as expected, but it does not influence FDI in long-run. The results further concluded that the impact of domestic debt on various forms of investment in Sri Lanka is greater than external debts.

Umar, Tahir and Magaji (2022) carried out research on domestic debt and economic growth nexus in Nigeria: An ARDL approach. The study examined the impact of domestic debt on economic growth in Nigeria for the period of 1980-2020. The study used secondary data. The study adopted the Augmented Dickey Fuller (ADF) and Phillips Perron (PP) unit root test to identify the order of integration of the variables under study to select appropriate methodology in order to avoid spurious regression. Findings indicated that, domestic debt has positive and significant impact on economic growth in the long run while interest rate and government capital expenditure on transfer were found to have a positive but insignificant impact on economic growth. The study therefore recommended that, borrowed fund should be channeled to productive sectors of the economy and more specifically in the real sector to create employment, reduce poverty and attract foreign direct investments.

Ogboghro (2023) examined comparative analysis of the impact of domestic debt on economic growth in Nigeria and Ghana. The study examined treasury bills (TBL), treasury certificates (TCF), treasury bonds (TBD), development stock (DST), and promissory note (PNT) with one control variable, interest rate (INTR), in relation to EG proxied with real gross domestic product (RGDP) in Nigeria and Ghana from 2000 to 2021. The study used secondary data. While descriptive statistics, ex-post facto research design, correlation analysis, and multiple regression analysis were gathered using E-VIEW version 9.0. World development indicators, CBN statistical bulletin, Ghana ministry of finance, annual debt statistics, and CBN annual report and time series data was used in the study. The study concluded that, domestic factors affect Nigeria and Ghana's EG. Thus, the study recommended that government should borrow mostly from FGN bonds. The outcome shows that FGN bonds greatly benefit EG in Nigeria and Ghana.

Oji and John (2022) investigated domestic debt effect on Nigeria's economic growth. The study empirically assessed the effect of domestic debt and the growth of Nigeria's economy for the period of 1980 to 2020. The study was based on the crowding-out hypothesis, and used gross domestic product (GDP) as a proxy for Nigeria's economy. Data was then analyzed in the study using Johansen co-integration technique and ordinary least square estimation which indicated treasury bill had significant positive effect on gross domestic product. Result of the study also revealed that treasury certificate and treasury bond had negative effect on gross domestic product in Nigeria. Therefore, the study concluded that Nigeria's economy benefits largely from its government's acquisition of domestic debt. Hence, it is recommended in the study among others that government should subject every request for domestic loan to critical and objective public scrutiny to prevent contracting avoidable debts.

Abusomwan and Ohihon (2022) conducted a study on mediating effect of domestic debt on the relationship between debt and economic development in Nigeria. The study engaged variables which were GDP per capita of purchasing power parity., domestic debt, external debt, trade openness, inflation, secondary enrolment gross capital formation and population size. Data of the period 1980-2021 were obtained from secondary sources and were analyzed with ordinary least square. Result then revealed that domestic debt and external debt had positive and negative influence on GDP per capital PPP, respectively. On the other hand, the result showed that domestic debt increases GDP per capita PPP via increase in domestic debt, while foreign debt reduced GDP per capita PPP via decrease in domestic investment. Therefore, the study suggested that government should ensure efficiency in debt management as well as proper allocation of debt to capital projects.

Ajayi and Edewusi (2020) conducted research on the effect of public debt on economic growth of Nigeria: An empirical investigation. Specifically, the study determined assessed the effect of external debt on the economic growth of Nigeria. Secondary and time series data spanning thirty-seven years (1982-2018) was gathered in the study. Data gathered in the study was estimated using descriptive statistics, unit root test, Johansen co-integration test and vector error correction model. Findings indicated that external debt exerts a negative long run and short run effect on economic growth of Nigeria and domestic debt was ascertained to exert positive long run and short run effect on economic growth of Nigeria. Based on the findings, the study suggested that policy makers should integrate appropriate measures towards ensuring suitable management of domestic debts.

Ikeobi (2023) examined the impact of domestic debt on the Nigeria economy. The study assessed the impact of domestic debt on the Nigeria economy from 2008 to 2020. The study used secondary data which were obtained from Central Bank of Nigeria (CBN) Statistical Bulletin. Multiple regression model and ordinary least

squares technique was adopted in the study. The data included gross domestic product (GDP) which was proxy for economic growth, with domestic debt instruments, namely, treasury bills (TBILL) and Government bonds (GOVBOND) as independent (explanatory) variables. Thus, the study suggested that government should focus more on obtaining and utilizing long-term debts in form of bonds and reduce the use of short-term debt. Furthermore, government should pay more attention to the efficient deployment and effective utilization of short-term debt obtained in form of treasury bills when necessary, so that the economy can better benefit from these debts.

Nwoye, Udunwoke and Nworie (2023) assessed the effects of debt level and economic performance of Nigeria. Specifically, the study ascertains the effect of domestic debt level, external debt level and debt servicing level on the gross domestic product of Nigeria for the period under review. The ex-post-facto research design was adopted and the time series data were used to analyze public debt trends in Nigeria when compared to the GDP growth rate over a period of twenty-three (23) years (1999 to 2021). The ordinary least square regression, unit root test, and Johansen cointegration tests were conducted. The study involves variables such as external debt, domestic debt, debt servicing and gross domestic product (GDP). Findings revealed that domestic debt level significantly and positively affects the gross domestic product performance in Nigeria. Thus, the study therefore recommended that; the government should resort to domestic debts up to sustainable debt levels that do not crowd out development and social programs.

V. Research Methods

This study adapted the model of Babalola and Aminu (2021) in which real gross domestic product (RGDP) was expressed as a function of productive government consumption expenditure (PGCE), recurrent government consumption expenditure (RGCE), government capital expenditure (GCE) and direct income tax (DIT). The model is therefore presented as

$$RGDP = f(PGCE, RGCE, GCE, DIT) \text{-----} 1$$

$$RGDP = \alpha_0 + \alpha_1 PGCE + \alpha_2 RGCE + \alpha_3 GCE + \alpha_4 DIT + u_{1t} \text{-----} 2$$

However, this study modified the model above by using real GDP growth rate (RGDPgr) as dependent variable, while domestic debt (DD), total government expenditure (TGE) and tax revenue (TRV) are captured as core independent variable in separate models. Additionally, this study incorporated money supply (MS), exchange rate (EXR), labour participation rate (LP), gross fixed capital formation (GFCF) as control variables:

Model one to answer objective one: Effect of domestic debt on economic growth

$$RGDPgr = f(DD, MS, EXR, LP, GFCF, INT) \text{-----} 3$$

$$RGDPgr = \alpha_0 + \alpha_1 DD + \alpha_2 MS + \alpha_3 EXR + \alpha_4 LP + \alpha_5 GFCF + \alpha_6 INT + u \text{-----} 4$$

Model two to answer objective two: Effect of Government expenditure on economic growth

$$RGDPgr = f(TGE, MS, EXR, LP, GFCF, INT) \text{-----} 5$$

$$RGDPgr = b_0 + b_1 TGE + b_2 MS + b_3 EXR + b_4 LP + b_5 GFCF + b_6 INT + u \text{-----} 6$$

Model three to answer objective three: Effect of tax revenue on economic growth

$$RGDPgr = f(TRV, MS, EXR, LP, GFCF, INT) \text{-----} 7$$

$$= \alpha_0 + \alpha_1 TRV + \alpha_2 MS + \alpha_3 EXR + \alpha_5 GFCF + \alpha_6 LP + u \text{-----} 8$$

Source of Data and method of estimation

Data employed in this study were extracted from World Development Indicator Database edition of 2023, World Bank Open data and Central Bank of Nigeria Statistical Bulletin. Related data from these sources were extracted for forty-four years period spanning from 1981 to 2023. This study is basically on inferential analysis. Specifically, the analysis methods used correlation analysis, unit root test and co-integration analysis in line with the objectives and hypotheses of this study. The co-integration method used is the Autoregressive Distributed Lag (ARDL) approach based on the result of Augmented Dickey Fuller unit root test.

VI. Presentation of Results and Discussion

This section involves result and discussion of findings on the empirical analysis of the effect of domestic debt and fiscal policy on economic growth in Nigeria, which includes correlation analysis, Augmented Dickey Fuller (ADF) unit root test, Autoregressive Distributed Lag (ARDL) co-integration procedure as well as Granger causality test in line with objectives of the study, then the discussion of findings.

Table 1: Correlation Matrix

	RGDPgr	DD	TGE	TRV	MS	EXR	LP	GFCF	INT
RGDPgr	1								
DD	-0.025	1							
TGE	0.068		1						
TRV	0.029	0.331	0.303	1					
MS	-0.037	0.827	0.816	0.249	1				

EXR	0.062	0.927	0.972	0.223	0.731	1			
LP	0.226	-0.696	-0.604	-0.520	-0.655	-0.497	1		
GFCF	0.082	0.955	0.994	0.336	0.816	0.951	-0.642	1	
INT	0.095	0.242	0.238	-0.225	0.004	0.425	0.246	0.162	1

Source: E-view 9 Output

Result in Table 1 showed matrix of correlation coefficient of the relationship between pairs of variables of this study. The result specifically indicates coefficients of -0.025 for RGDPgr and DD, 0.068 for RGDPgr and 0.029 for RGDPgr and TRV, -0.037 for RGDPgr and MS, 0.062 for RGDPgr and EXR, 0.226 for RGDPgr and LP, 0.082 for RGDPgr and GFCF, 0.095 for RGDPgr and INT, reflecting that real GDP growth rate has negative association with domestic debt, and money supply, but positive relationship with total government expenditure, tax revenue, exchange rate, labour participation, gross fixed capital formation and interest rate. On the other hand, result depicts that there is relatively weak relationship between the pairs of explanatory variables of this study, such that it can be inferred that there is possibility of the ansence of multicollinearity in the model employed.

Table 2: Summary of Unit Root Test Result

Variables	Level			First Difference			Level of Integration
	ADF statistics	1% critical value	5% critical value	ADF statistics	1% critical value	5% critical value	I(d)
lnRGDPgr	-2.318168	-3.610453	-2.938987	-4.752939	-3.615588	-2.941145	I(1)
lnDD	-3.267217	-4.219126	-3.533083	-7.510639	-4.234972	-3.540328	I(1)
lnTGE	-1.154656	-3.600987	-2.935001	-7.756216	-3.600987	-2.935001	I(1)
lnTRV	-1.324781	-2.634731	-1.951000	-2.880051	-2.625606	-1.949609	I(1)
lnMS	-3.391610	-4.198503	-3.523623	-4.667320	-4.198503	-3.523623	I(1)
lnEXR	-2.313452	-3.596616	-2.933158	-5.424779	-3.600987	-2.935001	I(1)
lnLP	-2.845598	-3.600987	-2.935001	-	-	-	I(0)
lnGFCF	-1.740086	-4.192337	-3.520787	-4.006206	-4.198503	-3.523623	I(1)
lnINT	-3.164899	-3.596616	-2.99158	-	-	-	I(0)

Source: E-view 9 Output

Unit root test result presented in table 2 reveals that real GDP growth rate, domestic debt, total government expenditure, tax revenue, money supply, exchange rate and gross fixed capital formation only become stationary after first differencing, i.e these series are integrated of order one I(1). On the other hand, labour participation rate and interest rate are stationary at level, meaning that they are integrated of order zero I(0), reflecting that this variable does not retain innovative shock passed on it more the same period. Hence summary of unit test conducted in the study showed that series included in the models for the study are integrated of mixed order i.e. I(0) and I(1),. Therefore, the ARDL co-integration is employed to achieve relevance objectives of the study.

Table 3: ARDL Bound Test Result

	Model One	Model Two	Model Three
F- Statistics	10.49973	4.290110	18.37030
Lower bound	2.27	2.27	2.27
Upper bound	3.28	3.28	3.28

Source: Author's Computation (2025)

Table 3 reported lower and upper bound critical values, as well as the F-statistics for the Wald test carried out to test the joint null hypothesis that the coefficients of the lagged level variables are zero i.e. no long run relationship exist between the variables. The result showed an f-statistics value of 10.49973, 4.29011 and 18.3703 for Model one, two and three, with bound critical values of 2.39 and 3.38 for lower and upper bounds for the three models. Comparing the f-statistic to the critical values it was observed that the f-statistics is greater than the upper bound critical value (a condition for the rejection of the null hypothesis of no long run relationship). Thus, the study rejects the null hypothesis in favour of the alternative hypothesis of presence of long run relationship between the variables in each of the three models.

Table 4: ARDL Short run and Long-run Estimation

Short run estimation					
Model One		Model Two		Model Three	
<i>D(LNDD)</i>	-0.048287	<i>D(LNRGDPGR(-1))</i>	-0.277575*	<i>D(LNTRV)</i>	8.070560*
<i>D(LNDD(-1))</i>	-0.604882*	<i>D(LNTGE)</i>	0.401031	<i>D(LNTRV(-1))</i>	-4.936542*
<i>D(LNMS)</i>	-0.521856	<i>D(LNMS)</i>	-0.977543	<i>D(LNMS)</i>	-2.169211*
<i>D(LNEXR)</i>	-0.398517	<i>D(LNEXR)</i>	-2.303856*	<i>D(LNEXR)</i>	-1.701434*
<i>D(LNEXR(-1))</i>	-2.425724*	<i>D(LNEXR(-1))</i>	-1.742038*	<i>D(LNEXR(-1))</i>	-2.295474*
<i>D(LNEXR(-2))</i>	-2.012071*	<i>D(LNLP)</i>	8.738428*	<i>D(LNEXR(-2))</i>	-1.148267*
<i>D(LNLP)</i>	8.963550*	<i>D(LNLP(-1))</i>	-19.987603	<i>D(LNLP)</i>	2.449968*
<i>D(LNLP(-1))</i>	-3.980912	<i>D(LNLP(-2))</i>	-7.171474	<i>D(LNLP(-1))</i>	-3.768624*
<i>D(LNLP(-2))</i>	-3.818131	<i>D(LNGFCF)</i>	-3.237003*	<i>D(LNLP(-2))</i>	-4.945380*
<i>D(LNGFCF)</i>	-1.681419	<i>D(LNINT)</i>	3.523198*	<i>D(LNGFCF)</i>	-3.792377*
<i>D(LNINT)</i>	2.050771	<i>D(LNINT(-1))</i>	5.014193*	<i>D(LNGFCF(-1))</i>	-1.400653*
<i>D(LNINT(-1))</i>	8.604704*	<i>CointEq(-1)</i>	-0.997217*	<i>D(LNINT)</i>	3.455871*
<i>D(LNINT(-2))</i>	3.600666*			<i>D(LNINT(-1))</i>	7.352868*
<i>CointEq(-1)</i>	-1.498823*			<i>D(LNINT(-2))</i>	3.824214*
				<i>CointEq(-1)</i>	-1.684269*
<i>LNDD</i>	0.167355	<i>LNTGE</i>	2.717214	<i>LNTRV</i>	11.266243*
<i>LNMS</i>	-0.626591	<i>LNMS</i>	-1.863361	<i>LNMS</i>	-1.341485*
<i>LNEXR</i>	1.221422*	<i>LNEXR</i>	0.622448	<i>LNEXR</i>	0.880562*
<i>LNLP</i>	2.201483	<i>LNLP</i>	17.417758	<i>LNLP</i>	7.499395*
<i>LNGFCF</i>	-0.795691	<i>LNGFCF</i>	-3.298848	<i>LNGFCF</i>	-0.424674
<i>LNINT</i>	-2.199417*	<i>LNINT</i>	-4.933014*	<i>LNINT</i>	-0.819867
<i>C</i>	-70.790553	<i>C</i>	-51.896081	<i>C</i>	-9.890093*
Post estimation		Post estimation		Post estimation	
Normality	0.04(p = 0.97)	Normality	0.08(p = 0.96)	Normality	0.704(p = 0.703)
Autocorrelation	1.48(p = 0.25)	Autocorrelation	2.08(p = 0.15)	Autocorrelation	1.52(p = 0.24)
			1.31(p = 0.27)	Heteroscedasticity test	1.24(p = 0.32)
Heteroscedasticity test	1.64(p = 0.41)	Heteroscedasticity test			

Note: * indicates significance at 5%

Source: Author's Computation (2025)

Result in Table 4 presents ARDL short run and long run estimation for three models. Specifically, in model one, short run estimation result reveals coefficient of -0.048287 ($p > 0.05$) for $D(\ln DD)$, reflecting that real GDP growth rate decrease by 0.04% whenever there is 1% increase in domestic debt on the short run, hence, domestic debt has insignificant negative effect on real GDP growth rate on the short run. $CointEq(-1)$ of -1.498823* ($p < 0.05$) shows that about 149% of the short run inconsistencies is corrected and incorporated into the long run dynamic annually in Nigeria for model one. Additionally, long run estimation result for this model depicts coefficient of 0.167355 ($p > 0.05$) for $\ln DD$, reflecting that real GDP growth rate increase by 0.14% whenever there is 1% increase in domestic debt on the long run, hence, domestic debt has insignificant positive effect on real GDP growth on the short run.

On the other hand, result on the short run demonstrates coefficients of 0.401031 ($p > 0.05$) for $D(\ln TGE)$ as well as 8.076056* ($p < 0.05$) for $D(\ln TRV)$ under model two and three respectively, which depicts that there is about 0.4% and 8.07% increase in real GDP growth rate with every 1% increase in total government expenditure and tax revenue, although only significant for tax revenue. Hence, the short run result reveals that total government expenditure and tax revenue exert insignificant positive and significant positive effect on real GDP growth rate on the short run. $CointEq(-1)$ of 0.997217* ($p < 0.05$) and -1.684269* ($p < 0.05$) under model two and three shows that about 149% of the short run inconsistencies is corrected and incorporated into the long run dynamic annually in Nigeria for model two and three. In addition, result shows that there is about 2.71% and 11.27% increase in real GDP growth rate with every 1% increase in total government expenditure and tax revenue, given the coefficients of 2.71214 ($p < 0.05$) for $LNTGE$ as well as 11.266243* ($p < 0.05$) for $LNTRV$ which reveals that total government expenditure and tax revenue has positive effect on real GDP growth rate in the long run, although only significant for tax revenue.

VII. Discussion

Result revealed that domestic debt has negative and positive effect on real GDP growth rate on the short run and long run respectively, revealing that economic growth in falls with increase in domestic debt in the short run, but rises on the long run. The short run result could be because heavy borrowing in the domestic market may leads to higher interest rate which in turn may result in decrease in productive investment, and the fact that printing money to finance its debt, it can lead to inflation which may erodes purchasing power and

creates economic uncertainty, which can deter investment and slow growth. This is similar to the submission of Burclarinet *al* (2020) as well as Risilia, *et al* (2022). But the positive result on the long run may be because government borrows to invest in infrastructure, education, healthcare, and technology, these investments can enhance the economy's productive capacity. The process tends to facilitate improved infrastructure, a more educated workforce, and better healthcare can lead to higher productivity, increased innovation, and stronger economic growth over time. However, there is insignificant effect which may be attributed to unstable interest rate, unbalanced fiscal policies, inefficiency in the use of resources, corruption among others. As such, result is in line with that of Umar *et al* (2022), Burclarinet *al* (2020), but refuted that of Shiyalini (2020) and Ogboghro (2023) among others

Result also revealed that total government expenditure exerts positive effect on real GDP growth on the short run and long run, depicting that economic growth can be stimulated when government spends more money on public consumption and investment. This may primarily be because government spending help to boost consumption and investment of households and businesses, and this increased demand can lead to higher production, which in turn can stimulate economic growth. On the other hand, government expenditure, for instance in health and education, tends to improve quality of workforce, with the possibility of healthier, better-educated population, which is more productive, innovative, and capable of adapting to new technologies for increased growth. However, the result is insignificant possibly due to weak institutions, corruption, poor governance, mismanagement of resources, inflationary pressure, as well as external factors such as global recessions, import prices among others. Result therefore is in line with the findings of Babalola and Aminu (2021), Okoye *et al* (2019), Aluthgeet *al* (2024), Onifadeet *al* (2020) among others.

Lastly, result showed that tax revenue exerts positive effect on real GDP growth rate on the short run and long run, meaning that real GDP growth rate rises with increase in tax revenue generated by government. This on one hand may be because higher tax revenues provide the government with more resources to invest in public goods and services, such as infrastructure, education, healthcare, and research and development. With these investments, government tends to n enhance the economy's productive capacity, leading to long-term economic growth. On the other hand, increased tax revenue can help reduce budget deficits and government debt. Lower deficits can lead to greater economic stability, reducing the risk of a fiscal crisis and improving investor confidence. This can lead to lower interest rates, which encourages private investment and promotes economic growth. Additionally, increased tax revenues maybe generated as a means to enforce regulations that ensure fair competition in the market through which government can protect young businesses as well as create a more dynamic and efficient economy, which can contribute to long-term growth. Hence, result correlates with the submission of Sriyalatha& Torii (2019) as well as Ugwunayi&Ugwunta (2017), but contrary to the submission of Neong& Gaur (2020).

5. Conclusion and Recommendations

Based on the findings of this study, it is found imperative to conclude that domestic debt reflects crowding out effect on real GDP growth rate on the short run, but crowding in effect on real GDP growth rate on the long run in Nigeria, although not statistically. This study also confirmed that government expenditure is not effective in enhancing real GDP growth rate in Nigeria, although there is positive relationship. Lastly, this study submitted that tax revenue is remarkable in facilitating real GDP growth rate in Nigeria. Hence, this study established that domestic debt has not significantly influenced economic growth in Nigeria, and that fiscal policy has significant influence on economic growth most especially in terms of tax revenue. Therefore, this study pushed forward the following recommendations that:

- i. Government needs to objectively redesign its tax system and tax structure for economic impacts rather than only income tools. Through this, they may be able to encourage tax compliance among payers as well as enhance more revenue for growth
- ii. Government should put in more effort to control and manage its financial resources. This will encourage efficiency in the use of domestic debt among ministries, departments and agencies as well as government contribution to economic growth
- iii. Government should enhance its corruption controlling and prevention activities by technologically empowering anti-graft agencies. With this, government may be able to enhance the efficiency and effectiveness of government expenditure in promoting economic growth in the country.

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