

EFFECTS OF PUBLIC EXPENDITURE COMPOSITION ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

This study examined the effect of public expenditure on economic growth in Nigeria, with emphasis on expenditure distribution, composition, and efficiency. Using an ex-post facto research design, time series data from 1999 to 2022 were analyzed with descriptive statistics and a Vector Error Correction Model (VECM). Results show that recurrent expenditures accounted for approximately 71.97% of total government spending, while only 21.51% was allocated to capital expenditures. Further disaggregation revealed that administrative services absorbed 26.19% of capital outlays, economic services 46%, social and community services 12.72%, and transfers 14.99%. The relatively low investment in social and community services including education, health, and environmental development suggests underfunding of sectors critical to sustainable growth. Despite the dominance of recurrent spending, both capital and recurrent expenditures were found to have a positive effect on economic growth. The study recommends a rebalancing of expenditure priorities by optimizing recurrent spending, reducing debt servicing burdens, and increasing allocations to growth-enhancing capital investments.

Key words: *Capital expenditure, recurrent expenditure, Economic growth, administrative service, social services and transfers.*

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INTRODUCTION

Nigeria presents a compelling paradox: despite its vast endowment of natural resources and decades of substantial oil revenues, the country continues to face economic volatility, entrenched inequality, and underwhelming development outcomes. This persistent disconnect between resource wealth and socioeconomic progress raises critical concerns about the efficacy of public expenditure as a driver of economic growth and development. In light of Nigeria's renewed efforts to diversify its economy, reduce poverty, and meet the Sustainable Development Goals (SDGs), a systematic evaluation of public spending becomes not only timely but essential. Understanding the extent to which public expenditure has contributed to or hindered economic growth is vital for informing future fiscal policy decisions. This study undertakes a critical analysis of the relationship between public expenditure and economic growth in Nigeria, focusing on expenditure allocation, efficiency, and developmental impact. It explores whether targeted investments in infrastructure, education, healthcare, and other public goods have fostered sustainable growth or whether inefficiencies, corruption, and poor

fiscal discipline have undermined these efforts. By drawing on empirical evidence and historical expenditure trends, this review provides a nuanced assessment of public expenditure performance in Nigeria. The goal is to generate insights that can guide policymakers, economists, and development practitioners in crafting more effective public financial strategies that promote inclusive and sustained economic transformation.

Problem Statement

Nigeria's economic growth trajectory has been sluggish, despite increasing public expenditures. The allocation of resources between capital and recurrent expenditures has been skewed, with recurrent expenditures dominating total expenditures. This raises concerns about the effectiveness of public expenditures in driving economic growth. Specifically, capital expenditures have consistently been low over time while recurrent expenditures have been on the increase. Thus, the relationship between public expenditures and economic growth remains unclear, necessitating an investigation into the effectiveness of public expenditures.

Objectives

1. To examine the trends and patterns of public expenditures in Nigeria.
2. To investigate the relationship between capital expenditures, recurrent expenditures, total expenditures, and nominal GDP.
3. To assess the effectiveness of public expenditures in driving economic growth.
4. To identify areas for improvement in public expenditure allocation.

LITERATURE REVIEW

The composition of public expenditure has long been recognized as a critical determinant of economic growth, particularly in developing economies like Nigeria. Public expenditure refers to government spending on various sectors of the economy, and its composition i.e., the allocation between capital and recurrent components shapes the country's developmental trajectory. In the Nigerian context, recurrent expenditure has historically dominated the fiscal structure, often at the expense of capital investment. This imbalance raises important concerns regarding the effectiveness of public spending in fostering long-term economic growth. Economic growth, defined as the sustained increase in national income and output, is often used as a key indicator of a country's development performance. Several empirical studies suggest that the impact of public expenditure on economic growth is highly dependent on the

type and efficiency of that expenditure. In Nigeria, where infrastructure gaps, low human capital investment, and institutional inefficiencies persist, the dominance of recurrent expenditure—largely consumed by salaries, overheads, and administrative costs—tends to yield limited growth dividends. In contrast, capital expenditure, when directed towards infrastructure, health, and education, has the potential to stimulate productive capacity and drive inclusive growth.

A key channel through which public expenditure composition affects growth is its influence on macroeconomic stability. Sustained growth is difficult to achieve in an environment characterized by fiscal imbalance, inflation, or exchange rate instability. In Nigeria, overreliance on recurrent expenditure and debt servicing not only crowds out capital investment but also imposes strain on fiscal sustainability. Sound public financial management that prioritizes productive capital spending can help stabilize macroeconomic conditions, reduce fiscal deficits, and build investor confidence. Investment, both public and private, serves as a major conduit linking public expenditure to economic performance. Public investment in infrastructure such as roads, power, and transport can reduce transaction costs, improve market access, and stimulate private sector activity. However, the limited share of capital expenditure in Nigeria's budgetary profile has constrained the multiplier effects of public investment. When capital spending is insufficient or poorly targeted, its ability to crowd in private investment and support job creation is significantly weakened.

Furthermore, the composition of public spending plays a crucial role in influencing national productivity. Productivity growth which is defined as output per unit of input is essential for long-term economic expansion. Expenditures on education and health, for instance, enhance human capital development and labor efficiency, while investments in infrastructure improve the overall efficiency of production and distribution. In Nigeria, low productivity levels are often linked to underinvestment in these critical sectors. Therefore, realigning public expenditure composition in favor of capital and social sector spending is vital to boosting productivity and sustaining economic growth.

Human Capital Development

Human capital development refers to the process of enhancing the skills, knowledge, abilities, and health of individuals, especially in the context of employment and economic development. It involves investing in people to improve their productivity, efficiency, and innovation, thereby contributing to economic growth and prosperity. Human capital development includes Education and training programs, vocational and technical skills development and leadership and management development. Others are Health and wellness initiatives, mentorship and coaching, on-the-job training and apprenticeships and continuous learning and professional development opportunities. The goals of human capital development are to enhance individual and organizational performance and to increase productivity and competitiveness. Investing in human capital development is essential for individuals, organizations, and societies to thrive in today's fast-paced, knowledge-driven economy

Theoretical Framework

The study is anchored on three interrelated theories: the Endogenous Growth Theory, Wagner's Law of Increasing State Activities, and the Keynesian Theory of Public Expenditure. The Endogenous Growth Theory, developed in the late 1980s by Paul Romer (1986, 1990) and Robert Lucas Jr. (1988), emphasizes that long-run economic growth is driven by internal factors such as investment in human capital, innovation, and infrastructure. It suggests that government expenditure, particularly on capital projects, can raise productivity and sustain growth making it highly relevant to Nigeria's current expenditure composition. Wagner's Law, formulated by Adolph Wagner in the late 19th century (circa 1883), asserts that as an economy develops, public expenditure tends to rise due to increased demand for social and administrative services. While it explains the growth in Nigeria's public spending, it does not address whether the composition of that spending supports development, which is the core concern of this study. Furthermore, the Keynesian Theory, introduced by John Maynard Keynes (1936), argues that government spending can stimulate aggregate demand, income, and employment, especially during periods of economic downturn. However, its effectiveness depends on how spending is structured whether toward consumption or productive investment. Thus, these theories jointly provide a basis for examining the effects of Nigeria's public expenditure composition on economic growth trajectory

Empirical Review

Akpan (2013) assessed the impact of government expenditure on economic growth in Nigeria by adopting a disaggregated approach to the study. The essence of the study is to determine the components of government expenditure that enhances growth, identify those that do not, and recommend that they should be cut or reduced to the barest minimum. The study found no significant relationship between most of the components of government expenditure and economic growth. The estimation results were mixed, in particular some of the variables were weakly significant. However, it provided important clues to the future direction of research.

Agbonkhese, Oni, and Asekome (2014) attempted to assess the impact of public expenditure on the growth of the Nigerian economy, and to ascertain whether there is a relationship between gross domestic product (GDP) and government expenditure in Nigeria. Outcome of the study indicates that although there is a positive relationship between economic growth and government expenditure in Nigeria. The study recommended an urgent need to instill fiscal discipline in government expenditure pattern.

Egbetunde et al (2014) analysed the impact of public expenditure on economic growth in Nigeria during the period 1970 to 2010 making use of annual time series data. The study employs the bounds testing (ARDL) approach to examine the long run and short run relationships between public expenditure and economic growth in Nigeria. The findings indicate the impact of total public spending on growth to be negative which is consistent with other past studies. Recurrent expenditure however was found to have little significant positive impact on growth. Therefore, government should increase its spending on infrastructure, social and economic activities.

Magaji Abubakar (2015), examined the influence of government expenditure (Capital and Recurrent) in promoting economic growth in Nigeria over a period of three decades, using annual time series data from 1981 to 2018. The objective of this study is to examine the long-run relationship between capital expenditure and recurrent expenditure on economic growth in Nigeria. The findings show that there is a negative and statistically significant long-run relationship between capital expenditure and economic growth in Nigeria. The Result also reveals that there is a statistically significant and positive long-run relationship between recurrent expenditure and economic growth in Nigeria.

Odubuasi and Ezeabasili(2018), evaluated the effect of government expenditure on economic growth in Nigeria using time series data of 15 years (2004-2018). Ex-post-facto research design was employed and the time series data was generated and analysed using a series of econometric tests. The study finds that government expenditure on highway, and expenditure on safety has positive significant effect on economic growth in Nigeria at 5% and 1% levels respectively, government recurrent expenditure has positive and no statistical significant on economic growth, while government expenditure on education has negative and no significant effect on the economic growth in Nigeria. The study recommends among others that Government should increase its expenditure on capital project as this will provide the needed infrastructure that can enhance the private sector productivity thereby improve economic growth.

Ayoka, Nzotta and Kanu (2021), examined the effect of federal government revenue and expenditure on the economic growth of Nigeria for the period 1983 to 2018. The investigation embraced an ex-post facto research design to produce test results via Bounds test, ARDL short/long run estimates and to make forecasts. Findings of the research showed that federal government retained revenue; non-oil revenue and recurrent expenditure were statistically significant in explaining the relationship with economic growth in the short run; while capital expenditure was not at 5% Alpha level. Federal government retained revenue was also found to be statistically significant in the long run. The last is yet to be heard on the relationship between government expenditure and economic growth in Nigeria.

METHODOLOGY

This study made use of a VEC model as well descriptive statistics for the period 1999 to 2022 - a period of 23 years. Choice of scope of study was aimed at reviewing the act of governance during the second phase of the democratic dispensation in Nigeria till date.

Data for the study were extracted from the CBN statistical bulletin. Data were analysed using the descriptive, inferential statistics and Vector Error Correction (VEC) model.

In this study, we adopted the models

$$GDP = F(\text{Capex}, \text{Recure}), \text{ and}$$

$$GDP = F(\text{Admin}, \text{Economic}, \text{Social}, \text{Transfers}).$$

Where

GDP stands for Gross Domestic Product,

CAPEX for Capital expenditure

RECURE for Recurrent Expenditure

ADMIN stands for administrative expenses,

ECONOMIC has to do with expense on economic matters.

SOCIAL is for socially related expenses

TRANSFER is for loan repayment and servicing of loans.

DATA ANALYSIS

Preliminary Tests

Unit Root Test

The above test was carried out to ascertain if the data set is stationary or not. Except for the expenditure on social activities that turned stationary at 1st level, the other 5 variables became stationery at the second difference.

Table 1: Unit Root Test

Variable	T-stat	Critical Value			Order of integration	Significance	
		1%	5%	10%			
GDP	-4.12	-3.89	-3.05	-2.67	2 nd Diff	0.00	Sig
RECURE	-5.71	-3.89	-3.05	-2.67	2 nd Diff	0.00	Sig
CAPEX	-14.02	-3.86	-3.04	-2.66	2 nd Diff	0.00	Sig
TRNSF	-4.66	-3.96	-3.08	-2.68	2 nd Diff	0.00	Sig
ADMIN	-6.47.	-3.89	-3.05	-2.67	2 nd Diff	0.00	Sig
SOCIAL	-4.51	-3.82	-3.02	-2.65	1 st Diff	0.002	Sig
ECONOMIC	-3.93	-3.87	-3.05	-2.67	2 nd Diff	0.00	Sig

Source: E-views statistical package version 10

This calls for the use of a VEC model to ascertain the underlying relationships. Before then, there is the need to run a Johansen cointegration test to ascertain the status of long run relationships.

Table 2: Unrestricted Cointegration Rank Test

Series: CAPEX GDP RECURE TOTEXP

Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.740459	52.55363	47.85613	0.0170
At most 1	0.533117	25.57679	29.79707	0.1418
At most 2	0.283235	10.34327	15.49471	0.2552
At most 3	0.168194	3.683132	3.841466	0.0550

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.740459	26.97684	27.58434	0.0597
At most 1	0.533117	15.23352	21.13162	0.2729
At most 2	0.283235	6.660141	14.26460	0.5301
At most 3	0.168194	3.683132	3.841466	0.0550

While the Trace test indicates 1 cointegrating eqn(s) at the 0.05 level; Max-eigenvalue test indicates a no cointegrating eqn(s) also at the 0.05 level. In other words there exists a long run relationship between the variables. Thus, we reject the null hypothesis of no cointegration amongst the variables

Test of Hypotheses

Hypothesis 1

The allocation of public expenditures has no significant effect on economic growth in Nigeria.

Capital and Recurrent Expenditures as a function of Total Expenditures

Table 3 Descriptive Statistics

	TOTEXP	CAPEX	RECURE	TRNSF	GDP
Mean	3994.709	859.2395	2874.986	256.1545	61203.63
Median	3823.800	800.7500	2618.700	186.7500	49465.50
Maximum	10164.60	2289.000	8121.600	1044.800	160630.1
Minimum	701.1000	239.5000	449.7000	0.000000	5482.400
Std. Dev.	2773.765	511.2950	2135.500	252.3687	47847.95
Skewness	0.750474	1.111469	0.871847	1.287687	0.572196
Kurtosis	2.765822	4.022290	3.071878	5.173985	2.168346
Jarque-Bera	2.115378	5.487652	2.791830	10.41220	1.834508
Probability	0.347257	0.064324	0.247606	0.005483	0.399615
Sum	87883.60	18903.27	63249.70	5635.400	1346480.

Sum Sq. Dev.	1.62E+08	5489873.	95767598	1337489.	4.81E+10
Observations	22	22	22	22	22

Findings

CAPEX as a function of TOT EXP = $18903.27/87883.60 = 21.51\%$.

RECUREX as a function of TOTEXP = $63249.70/ 87883.60 = 71.97\%$

From the above descriptive statistics, CAPEX as a function of Total Expenditure amounted to 21.51; while RECUREX as a function of Total Expenditure amounted to 71.97%

Hypothesis 2

Ho: There is no significant relationship between capital expenditures, recurrent expenditures, and economic growth in Nigeria.

Table 4 Analysis Output

Vector Error Correction (VEC) Model - (Economic Life Span Classification)

Vector Error Correction Estimates

Date: 06/06/24 Time: 18:51

Sample (adjusted): 2002 2020

Included observations: 19 after adjustments

Standard errors in () & t-statistics in []

Cointegrating Eq:	CointEq1		
CAPEX(-1)	1.000000		
RECURE(-1)	-0.301095 (0.25079) [-1.20061]		
TRNSF(-1)	-3.977919 (0.68137) [-5.83816]		
C	1078.276		
Error Correction:	D(CAPEX)	D(RECURE)	D(TRNSF)
CointEq1	-0.788429 (0.17886) [-4.40809]	0.035576 (0.26380) [0.13486]	0.350231 (0.08911) [3.93024]
D(CAPEX(-1))	0.445631 (0.33927) [1.31349]	0.403871 (0.50039) [0.80711]	-0.526404 (0.16903) [-3.11421]
D(CAPEX(-2))	0.708647 (0.33359) [2.12430]	0.686180 (0.49201) [1.39464]	-0.665192 (0.16620) [-4.00229]
D(RECURE(-1))	0.151062 (0.21724) [0.69537]	-0.170606 (0.32041) [-0.53247]	0.068031 (0.10823) [0.62855]
D(RECURE(-2))	0.116791 (0.25405)	0.132092 (0.37470)	-0.257659 (0.12657)

	[0.45971]	[0.35253]	[-2.03563]
D(TRNSF(-1))	-2.133007	0.025600	0.201485
	(0.66115)	(0.97513)	(0.32940)
	[-3.22620]	[0.02625]	[0.61167]
D(TRNSF(-2))	-0.959382	0.141800	-0.053791
	(0.42422)	(0.62568)	(0.21136)
	[-2.26150]	[0.22663]	[-0.25450]
C	1307.762	-17.48973	-482.2607
	(303.456)	(447.565)	(151.188)
	[4.30956]	[-0.03908]	[-3.18980]
GDP	-0.019364	0.004966	0.009276
	(0.00501)	(0.00739)	(0.00249)
	[-3.86696]	[0.67241]	[3.71820]
R-squared	0.686055	0.624696	0.858322
Adj. R-squared	0.434899	0.324453	0.744979
Sum sq. resids	545317.9	1186234.	135361.7
S.E. equation	233.5204	344.4175	116.3450
F-statistic	2.731589	2.080632	7.572814
Log likelihood	-124.4743	-131.8575	-111.2369
Akaike AIC	14.04993	14.82710	12.65651
Schwarz SC	14.49730	15.27447	13.10388
Mean dependent	61.85789	396.9632	22.52632
S.D. dependent	310.6432	419.0417	230.3882
Determinant resid covariance (dof adj.)	5.30E+13		
Determinant resid covariance	7.72E+12		
Log likelihood	-362.7912		
Akaike information criterion	41.34644		
Schwarz criterion	42.83766		

The above VECM model examines the relationships between GDP and the expenditure variables (CAPEX, RECURE, and TRNSF) and their dynamics. The main takeaways from the above output are given below::

- Cointegrating Equation (CointEq1): This equation shows the long-run relationships between the variables. CAPEX, RECURE, and TRNSF are cointegrated, meaning they share a common long-run trend.
- Error Correction Terms: The error correction terms (ECTs) represent the short-run dynamics. The coefficients on the ECTs indicate how quickly the variables adjust to deviations from their long-run relationships.
- Adjusted R-squared: The adjusted R-squared values indicate the model's goodness of fit, with values ranging from 0.4349 (CAPEX) to 0.7449 (TRNSF).

Hypothesis 3

Ho: Sectoral allocation of Capital expenditures does not have a significant impact on the level of economic growth in Nigeria.

VECMI Estimates Sectoral Economic Classification)

Date: 06/07/24 Time: 11:26

Sample (adjusted): 4 22

Included observations: 19 after adjustments

Standard errors in () & t-statistics in []

Cointegrating Eq:	CointEq1			
ADMIN(-1)	1.000000			
ECONOMIC(-1)	-3.641189			
	(0.25883)			
	[-14.0679]			
SOCIAL(-1)	-0.470230			
	(0.61725)			
	[-0.76182]			
TRANSFERS(-1)	0.515408			
	(0.19638)			
	[2.62451]			
C	1206.614			
Error Correction:	D(ADMIN)	D(ECONOMIC)	D(SOCIAL)	D(TRANSFERS)
CointEq1	0.288252	0.478679	0.178769	0.064277
	(0.05670)	(0.09385)	(0.00757)	(0.11432)
	[5.08409]	[5.10029]	[23.6072]	[0.56228]
D(ADMIN(-1))	-0.958485	-1.177369	-0.516224	0.111465
	(0.51097)	(0.84584)	(0.06825)	(1.03025)
	[-1.87580]	[-1.39195]	[-7.56400]	[0.10819]
D(ADMIN(-2))	-0.498277	-0.711165	-0.520063	-0.200377
	(0.45505)	(0.75327)	(0.06078)	(0.91750)
	[-1.09498]	[-0.94410]	[-8.55669]	[-0.21839]
D(ECONOMIC(-1))	0.297298	0.109157	0.340522	-0.223804
	(0.32600)	(0.53965)	(0.04354)	(0.65730)
	[0.91195]	[0.20227]	[7.82054]	[-0.34049]
D(ECONOMIC(-2))	0.199830	0.044835	0.284811	-0.083329
	(0.22588)	(0.37391)	(0.03017)	(0.45543)
	[0.88468]	[0.11991]	[9.44054]	[-0.18297]
D(SOCIAL(-1))	1.763966	3.309068	0.362370	0.126567
	(0.73324)	(1.21377)	(0.09793)	(1.47840)
	[2.40570]	[2.72626]	[3.70013]	[0.08561]
D(SOCIAL(-2))	2.407903	4.480200	1.233621	1.912535
	(0.85976)	(1.42321)	(0.11483)	(1.73350)
	[2.80066]	[3.14796]	[10.7427]	[1.10328]
D(TRANSFERS(-1))	0.464300	0.976306	0.433455	-0.287287
	(0.22562)	(0.37348)	(0.03013)	(0.45491)
	[2.05788]	[2.61407]	[14.3839]	[-0.63153]
D(TRANSFERS(-2))	0.420406	0.827743	0.312245	-0.016460
	(0.20279)	(0.33569)	(0.02709)	(0.40888)
	[2.07309]	[2.46578]	[11.5281]	[-0.04026]
C	-158.9584	-303.6890	-93.88075	-62.67244
	(42.2724)	(69.9756)	(5.64604)	(85.2317)

	[-3.76033]	[-4.33993]	[-16.6277]	[-0.73532]
GDP	0.001983	0.003684	0.001096	0.001060
	(0.00050)	(0.00082)	(6.7E-05)	(0.00100)
	[3.98053]	[4.46719]	[16.4649]	[1.05552]
R-squared	0.807839	0.821668	0.988333	0.437255
Adj. R-squared	0.567637	0.598754	0.973749	-0.266177
Sum sq. resids	24250.41	66450.51	432.6067	98584.11
S.E. equation	55.05726	91.13898	7.353627	111.0091
F-statistic	3.363170	3.686026	67.76823	0.621602
Log likelihood	-94.90146	-104.4777	-56.65104	-108.2250
Akaike AIC	11.14752	12.15555	7.121162	12.55000
Schwarz SC	11.69430	12.70233	7.667942	13.09678
Mean dependent	18.82842	23.47579	7.424737	12.17579
S.D. dependent	83.73179	143.8795	45.38651	98.65322
Determinant resid covariance (dof adj.)	6.32E+11			
Determinant resid covariance	1.99E+10			
Log likelihood	-333.1109			
Akaike information criterion	40.11693			
Schwarz criterion	42.50288			

Source: E-views statistical package 9

Interpretation

- Administration:** The coefficient (0.001983) indicates a positive relationship between administrative expenditures and GDP growth, meaning that a 1% increase in administrative spending leads to a 0.1983% increase in GDP growth.
- Economic:** The coefficient (0.003684) suggests a positive relationship between economic expenditures and GDP growth, implying that a 1% increase in economic spending leads to a 0.3684% increase in GDP growth.
- Social:** The coefficient (0.001096) indicates a positive relationship between social expenditures and GDP growth, meaning that a 1% increase in social spending leads to a 0.1096% increase in GDP growth.
- Transfers:** The coefficient (0.001060) suggests a positive relationship between transfer expenditures and GDP growth, implying that a 1% increase in transfer spending leads to a 0.1060% increase in GDP growth.

Discussion of Findings

Based on the outcome of the descriptive statistics:

- Administrative services** accounted for 26.19% of the total expenditure profile for the period under review. One can say with some measure of certainty that, this is a relatively high percentage suggesting a significant portion of capital expenditure is spent on

administrative matters. Potentially, this indicates inefficiencies or bloated administrative costs. It ought not to be so. The expenses are better off, if directed to economic development or social services.

- b. **Economic services** accounted for (46.1%) of the total expense. This is encouraging, a positive sign, as it indicates or suggests a focus on investments in economic development, such as infrastructure, industry, and trade.-
- c. **Social and community services** accounted for (12.72%) of the total expense. This percentage is relatively low, potentially indicating underinvestment in essential social services. This is clearly unacceptable; considering the importance of social services like healthcare, education, and welfare in driving economic growth and human development.
- d. **Transfers** accounted for 14.99% of total capital expenditure. The transfers' window is basically set aside for debt servicing (repayment of external loans and interest). This percentage is worrisome as high debt servicing costs can limit fiscal space for developmental spending and hinder economic growth.

While the emphasis on economic services is encouraging, other aspects of Nigeria's capital expenditure profile raise concerns about:

- i. inefficient administrative spending
- ii. Potential underinvestment in social services and
- iii. High debt servicing costs, which may limit fiscal space for developmental spending.

The VECM model suggests that:

- i. There are long-run relationships between GDP and the expenditure variables.
- ii. Short-run dynamics exist, with the variables adjusting to deviations from their long-run relationships.
- iii. The models have a good fit, with the TRNSF model being the most significant.

The results from test of hypothesis three suggest that all components of capital expenditures have a positive impact on economic growth (GDP). However, the magnitude of the impact varies, with economic expenditures having the largest effect, followed by administrative, social, and transfer expenditures. Based on the VECM output, the co-integrating equation (CointEq1) shows the long-term relationships between the variables. The coefficients in this equation represent the long-term relationships between the variables and GDP.

CONCLUSION AND RECOMMENDATIONS.

1. CAPEX as a function of Total Expenditure amounted to 21.51; while RECUREX as a function of Total Expenditure amounted to 71.97%.
2. A disaggregation of capital expenditure indicates that sectorial allocation to administrative services got 26.19%. Economic services got 46. 1%. Social and community services received 12.72%, while transfers received 14.99%.
3. All the variables that make up a sectoral classification of public expenditure – namely (Administrative, Economic, Social services and Transfers) had a positive relationship with economic growth in Nigeria.

Though all the expense heads have a positive relationship with economic growth in Nigeria, this researcher is particularly irked by the imbalance in expenditure composition and recommends that, there is need to optimize our recurrent expenditure profile. No nation has ever blossomed with this level of recurrent expenditure profile

Based on the findings of this study, several policy recommendations are proposed to enhance the growth-inducing potential of public expenditure in Nigeria

1. The government should increase the share of capital expenditure relative to recurrent spending, particularly in growth-enhancing sectors such as infrastructure, health, and education. A shift in favor of capital outlays is essential for stimulating long-term productivity and economic development.
2. Beyond increasing capital spending, efforts should focus on ensuring that public funds are allocated and utilized efficiently. Strengthening public financial management systems and reducing leakages will enhance the impact of spending on economic outcomes.
3. Regular assessment of expenditure performance should be institutionalized to ensure alignment with national development priorities. This includes performance-based budgeting and expenditure tracking mechanisms.

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