

EFFECT OF INFLATION ON GOVERNMENT CONSUMPTION EXPENDITURE IN NIGERIA, 1980 – 2022

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Abstract

The study specifically examined the relationship between inflation and government consumption expenditure in Nigeria in the short-run. The study also investigated whether there is long-run relationship between inflation and government consumption expenditure in Nigeria. The study employed the auto regression distributed lag (ARDL) model. Annual secondary data sourced from World Bank, Central Bank of Nigeria statistical bulletin and National Bureau of Statistics were used. Data collected include GCE (Government Consumption Expenditure), INF (Inflation proxied by CPI), INT (Interest Rate), INV (Investment proxied by GFCF), UNP (Unemployment), M₂ (Broad Money Supply), EXR (Exchange Rate), RGDP (Real Gross Domestic Product), and Debt (Public Debt). Data collected were analyzed using the ARDL bound model to test the relationship. The study revealed that inflation has an adverse relationship/effect on Government Consumption Expenditure in the long run. The study concluded that inflation had a significant and long-lasting impact on Government Consumption Expenditure in the study period. The study recommended that Government should formulate appropriate policy to ensure that there is reduction in consumer price index to reduce the general price level so that inflation will be reduced and the government will be able to buy more commodity with the given income or revenues

KEYWORDS: Effect, Inflation, Government Consumption Expenditure, ARDL, Nigeria.

Introduction

Nigeria being Africa's most populous nation, has been grappling with inflation for decades. Since the early 1980s, the country has experienced periods of high inflation, interspersed with relative stability. Thus, understanding the drivers of inflation in Nigeria is crucial for formulating effective economic policies. Inflation is an inevitable circumstance of any economy in the world. It influences every country, negatively as well as positively, whether it is developed or developing country as well. Anyanwu (2011) stated that inflation is an important factor that may lead to social, economic instability and market disorder. It is one of the most largely observed and tested economic variables both theoretically and empirically, its causes, impacts on other economic variables. Nigeria, being a developing country, could not overcome the continuous year to year climbing up of inflation, and also its causes and consequences (Luis & Marco, 2015).

The difficulty of maintaining price stability is one of the macroeconomic challenges facing the Nigerian government in the country's economic history. This culminates in what is known and referred to as inflation in economic history. Inflation is inevitable to all economies of the world with its attendant negative influence, both in developed and developing countries. Inflation is an important economic factor which if uncontrolled, might lead to social and economic instability and disorder (Anyanwu, 2016). Inflation imposes

negative externalities on the economy as it interferes with the economy's efficiency by reducing international competitiveness, making exports relatively smaller to imports and thus impacting on the balance of payments (Komain & Brahmašrene, 2007).

The Central Bank of Nigeria (CBN) provides historical data on inflation rates. According to the CBN, the average inflation rate in Nigeria from 1982 to 2022 was 15.6%. The highest inflation rate was recorded in 1995 at 73.7%, while the lowest rate was 2.9% in 2014 and the rate of inflation as at December 2022 is 21.34% (CBN, 2023). However, it is likely that inflation may remain high in Nigeria for a while. The factors that have contributed to the rise in inflation are likely to remain in place for some time. Not every rise in price level is termed inflation. Therefore, for a rise in the general price level to be considered inflation, such a rise must be constant, enduring and sustained. The rate of inflation in Nigeria has been increasing persistently over time. In December 2019, the rate of inflation in Nigeria was 11.84% which grew gradually to 15.75% in December, 2020. Nigeria inflation grew continually to 17.33% in December, 2021; and 21.34% in December 2022. In September 2023, the inflation rate in Nigeria was 26.72%. This means that the prices of goods and services in Nigeria were, on average, 26.72% higher than they were in September 2022 (CBN, 2023). The steady rise in inflation rate over the past few years have affected government expenditure due to change in prices and the type of inflation being encountered.

There are a number of factors that have contributed to Nigeria's high inflation rate, including: The COVID-19 pandemic, which disrupted supply chains and led to higher prices for imported goods. Also, the war in Ukraine, which has caused energy prices to soar. The weakening of the naira, which has made imports more expensive also contributed to increase in inflation rate in Nigeria. Another factor is government's decision to remove subsidies on fuel and electricity. Consumption expenditure in Nigeria has continued to grow in recent years. As a result of high inflation rate in the first half of 2022, Nigeria spent N57.08 trillion on consumption goods and services, a 14.39% increase from the corresponding period in 2021(N48.87 trillion) (CBN, 2022).

Moreover, Government consumption expenditures refer to the resources used by the government to provide goods and services to the public. Government expenditures include both recurrent expenses and capital expenses (Dimoji, et al, 2013). Government expenditures are financed through taxes, borrowing, or seigniorage (printing money). When government consumption exceeds revenue, it can lead to budget deficits, which may put upward pressure on inflation if financed through borrowing or money creation. According to Chinwoke, (2014) government expenditure is the expenses of the government for its own maintenance and on the society and the economy as a whole while Njoku (2009) opined that public expenditure refers to all expenditures, both recurrent and capital expenditures which the government incurs in the course of performing its functions. However, the impact of inflation on these

expenditures may be complex and multifaceted, presenting a significant challenge for policymakers in Nigeria.

Government Expenditure and Inflation Rate in Nigeria has been a serious issue in the Nigerian economy for over three decades. Statistics indicates that inflation in Nigeria has always been high, since inflation has significant effect on the life of individuals and other economic variables (Mohsen, et al, 2016). In this context, understanding the roots of inflation can assist authorities in designing proper policies. On the other hand, government needs to spend in order to ensure stability of the economy, stimulate or enhance productivity or investment through direct public spending and investment according to the Keynesian view. Government also spends in order to redistribute income between the rich and the poor. Several theories have been advanced to explain this problem in different countries. Using a variety of instruments such as government spending, although in both theoretical and practical experiences of countries, it has been proved that increases in government spending causes inflation, it's one of the significant issues in the possibility of achieving economic growth (Mohsen, et al, 2016).

The period from 1982 to 2022 in Nigeria was marked by significant economic and political events. The early 1980s saw the oil boom and bust, which led to large government budget surpluses followed by deficits as oil prices declined. Structural Adjustment Programme (SAP) implemented in July 1986 aimed at reducing government spending and liberalize the economy, but these

programmes have also contributed to inflation in the short term. The return to democracy in 1999 brought renewed focus on social spending, but government debt levels continued to rise. In recent years, Nigeria has faced challenges from lower oil prices, currency devaluation, and security threats, all of which have contributed to inflationary pressures.

Data on government consumption expenditures is available from the National Bureau of Statistics (NBS). According to the NBS, government consumption as a percentage of GDP has fluctuated significantly over the years, ranging from a low of 5.2% in 1998 to a high of 14.39% in 2022 (NBS, 2022).

Nigeria has a long and complex history with inflation, often experiencing periods of high inflation exceeding 10%. This volatility creates challenges for economic stability and government budgeting. It is important to recognize that inflation in Nigeria is not solely driven by government consumption expenditures. Other factors, such as: (i) Exchange rate fluctuations which means the devaluation of the Nigerian naira often leads to increased import costs and higher prices for consumer goods. (ii) Fuel price adjustments which means the international market's decision to adjust fuel prices can have a significant impact on inflation, as fuel costs are embedded in many other sectors. (iii) Supply chain disruptions which means disruptions in domestic and international supply chains can lead to shortages and price hikes for essential goods. (iv) Monetary policy which means expansionary monetary policies can lead to increased money supply and inflationary pressures.

(v) Structural weaknesses which means the Nigerian economy suffers from structural weaknesses, such as high unemployment, infrastructural deficiencies, and limited competition in some sectors, which can contribute to inflationary pressures (CBN, 2023).

Nigeria's struggle with inflation is a complex issue with deep historical roots. From 1982 to 2022, the country has grappled with periods of soaring prices, economic instability, and social unrest, all intertwined with various antecedent factors. Understanding these factors, including structural imbalances, currency devaluation, fiscal pressures, infrastructure bottlenecks, and governance issues, is crucial to analyzing the current situation and finding potential solutions. Addressing these factors requires a multifaceted approach that combines economic reforms, institutional strengthening, infrastructure development, and anti-corruption measures. Only through sustained efforts can Nigeria break the cycle of inflation and achieve sustainable economic growth and development.

Government consumption expenditures represent a significant portion of Nigeria's GDP and play a crucial role in stimulating economic activity and providing essential services. These expenditures can be broadly categorized into: Recurrent expenditures- Ongoing costs of government operations, including salaries, wages, and administrative expenses and Capital expenditures- Investments in infrastructure, education, healthcare, and other productive assets. Government capital expenditure refers to spending on

capital project like roads, airports, education, telecommunications, electricity and the acquisition of investment of goods like plant and machinery and other items having an expected working life of more than one year (Anyafu, 1996). Understanding the intricate relationship between inflation and government consumption expenditures in Nigeria is crucial for several reasons, which are; Effective Policy Formulation which means it can inform fiscal policy decisions aimed at stabilizing prices, managing public finances efficiently, and ensuring sustainable economic growth. Also, it helps in resource allocation optimization which means it can guide the allocation of scarce resources towards essential services and productive investments, even during periods of high inflation. It is also useful for social welfare enhancement which means it can contribute to mitigating the negative effects of inflation on vulnerable populations and promoting equitable distribution of economic benefits.

Over the years, there has been continuous increases in government spending without a corresponding increase in economic growth and development for developing countries. Nigeria, being a developing country, suffers from price instability given its double-digits inflation rate. Moreover, Nigerian governments at all levels often incur expenditure on unproductive and growth-enhancing projects, and this stirs inflationary pressure on the economy. The inability of the government to incur expenditure in a prudential manner has contributed to high rate of inflation in Nigeria. Fiscal recklessness has

impeded the economy of Nigeria from having a low rate of inflation that fosters economic growth.

In Nigeria for instance, despite the huge expenditures, there is still an insignificant level of development witnessed. Public expenditures on all sectors of Nigeria's economy are expected to lead to economic growth in the sense that the capital and recurrent expenditure will boost the productive base of the economy which in turn may lead to growth. Over the years, government consumption expenditure has been unstable. The government consumption expenditure climbed steadily over the specified time frame. As an illustration, capital spending rose from N6.42 billion in 1982 to N28.34 billion in 1991 while recurrent expenditure rose from N5.51 billion in 1982 to N38.24 billion in 1991. Additionally, the documentation demonstrated that capital expenditure grew from N309.02 billion in 1998 to N1152.8 billion in 2009 and then to N2522.50 in 2010, while recurrent expenditure increased from N178.1 billion in 1998 to N2127.97 billion in 2009 and to N7593.16 billion in 2021, also further increased to N6.91 trillion in 2022 (CBN, 2022).

Inflation and government consumption expenditure in Nigeria have both been trending upwards in recent years. Nigeria's inflation rate has been consistently high for many years, and it has been rising even further in recent months. In June 2023, Nigeria's inflation rate reached 26.72%, its highest level in 19 years (CBN, 2023).

However, the high inflation rate is beginning to erode the purchasing power of Nigerians, and it is likely to have a negative impact on consumption expenditure in the near future. Therefore, government consumption expenditure increases due to increase in the inflation rate which appeared in the form of rising prices which subsequently erodes the purchasing power of the citizens. In view of this, there is need for the Nigeria government to spend in order to stabilize the economy, enhance productivity or investment through direct public spending and investment according to Keynesian view (Olayunbo, 2013). This resulted in increased spending by government both in recurrent and capital expenditure due to increasing revenue from Oil and the increase demand for public goods like roads, education, health facilities, defense and increasing population.

There has been a debate on government expenditure growth and inflation over the years. The argument had centred on whether government expenditure growth has the potential to induce inflation. While some scholars are of the view that public expenditure growth can influence inflation, others are of the view that it is inflationary pressure that causes the growth of government expenditure in both developing and developed countries (Ezirim, et al., 2008). In spite of this, there is still an unsolved issue theoretically as well as empirically about the effect of inflation on government consumption expenditure. The failure of various policy measures to stabilize the economy, reduce inflation and the inconclusive debate in respect of inflation and

government consumption expenditure motivated this study. The question is that to what extent does inflation influence government consumption expenditure in Nigeria? What is the short-run and long-run relationship between inflation and government consumption expenditure in Nigeria? Thus, the objectives of this study are to examine the extent to which inflation influence government consumption expenditure and to examine the short-run as well as the long-run relationships between inflation and government consumption expenditure in Nigeria. This article is presented in five sections with introduction in section one, review of literature in section two, methodology in section three, results and discussion in section four while section five contained conclusion and recommendations.

Literature Review

Concept and Types of Inflation

Jhingan (2004) defined inflation as the continuous and persistent rise in general price level over a long period of time. Not every increase in price can be referred to as inflation. For a rise in general price level to be considered inflation, such a rise needs to be steady, long-lasting and maintained. Dimoji, et al., (2013) also defined inflation as any persistent increase in the general price level which is not seasonal in nature. It is worthy to note that there are different types of inflation which include Depending on how quickly prices are rising, inflation has been referred to by several names. (i) Inflation that occurs when prices climb very slowly, like a snail or creeper, is referred to as

creeping inflation. In terms of rate of increase, creeping inflation is defined as a sustained rise in prices of less than 3% annually. (ii) A single-digit annual inflation rate and a mild price increase are indicative of walking or trotting inflation. The rate of price increase is less than 10 percent, or in the middle, between 3 and 7 percent. (iii) running inflation is the type of inflation experienced when prices rise rapidly like the running of a horse at a rate of speed 10 to 20 percent per annum (iv) the sort of inflation known as hyperinflation is the type of inflation that is experienced when prices grow rapidly at double or triple digits rate, rising from more than 20 percent to 100 percent annually or more (Jhinghan, 2016).

Additionally, other types of inflation are: demand-pull inflation, which arises as a result of an increase in aggregate demand without a corresponding increase in supply, supply push or cost push inflation happens when a reduction in supply caused by an increase in the cost/price of the commodity produced (Anochiwa & Maduka, 2015). It can also be structural inflation, which arises as a result of changes in monetary policy. This type of inflation is generally referred to as built-in inflation. Within these categories, inflation can be hyper, extremely high, chronic, high, moderate, and low inflation (Umaru & Zubairu, 2012).

Concept and Components of Government Consumption Expenditure

Nwamuo, (2019) defined Government consumption expenditure (GCE) is the expenses or cost that government usually incurs for maintenance of itself as

an institution, the economy and the society (Likita, 1999). Government consumption expenditure (GCE) includes Compensation of employees which is the largest component of GCE and covers the wages and salaries of government workers, such as teachers, police officers, and firefighters. It also includes Intermediate consumption which is the cost of goods and services consumed by the government in the production of other goods and services, such as office supplies, fuel for government vehicles, and medical supplies for hospitals; and finally, Government consumption expenditure (GCE) includes Gross fixed capital formation.

In as much as Government consumption expenditure (GCE) includes some items like Transfer payments which are payments made by the government to individuals or businesses that are not in exchange for goods or services, such as social security benefits, unemployment benefits, and subsidies; Interest payments which are payments made by the government on its debt; and Government investment which refers to the government's spending on assets that will be used for future production, such as infrastructure projects. Government investment is counted as part of gross fixed capital formation (GFCF), another component of GDP.

Government consumption expenditure (GCE) plays a significant role in the economy by Providing essential public goods and services that are unlikely to be provided by the private sector because they are either non-rival (meaning one person's consumption does not diminish the amount available for others)

or non-excludable (meaning it is difficult or impossible to exclude those who do not pay from consuming the good or service). Examples include national defense, public education, and law enforcement. Also, it stabilizes the economy meaning that GCE can be used to counteract fluctuations in the economy. During periods of depression, there is the need for a continuous injection of additional purchasing power in the market when the economy is experiencing depression by stimulating investment and consumption activities and through direct public investment which is a part of public expenditure (Anyato, 2016).

Principles that Govern Government Consumption Expenditure

There are some principles that guides the government consumption expenditure decision (Chinwoke, 2014). The principles include: (i) canon of economy which implies that appropriate precaution should be made to prevent wasteful usage of public funds. The procedure of allocating public funds should not involve using of resources more than what are just necessary. (ii) canon of sanction which advocates that public fund can only be used by proper authorization and for the purpose for which it approved. In a democratic government, it is the legislative arm of government that sanctions the expenditure demanded by the executive arm of government. The reasoning behind this restriction is that it will prevent wasteful and unscrupulous spending and act as a check against misappropriation of public funds. (iii) canon of surplus which highlights the need for governments to refrain from

deficit budgeting persistently, or at least most of the time. Government must be prudent and make an effort to cover its current expenditure from current revenue. Government should not incur debt by spending beyond its available resources into. (iv) canon of benefit which stated that expenditure should be incurred only if it is beneficial to the society. Therefore, the advantage that will result from an expenditure is used to evaluate it.

Empirical Review

Kia (2006) examined internal and external factor that affect rate of inflation in developing countries in Iran from 1970 – 2002. The estimation results show that an increase in exchange rate eventually results in an increase in pricing in Iran. Therefore, a system of policy that strengthens the currency can aid in reducing inflation. On the other hand, an unexpected shock to the money supply causes a permanent increase in the price level, whereas an anticipated increase in the money supply does not cause the price level to rise. Additionally, it was discovered that Iran's fiscal strategy is particularly successful in containing inflation because both deficits and an increase in real government expenditure leads to inflation, but if the changes are unanticipated, they cause the opposite effect while a high debt per GDP is deflationary.

Ezirim, et al., (2008), examined “inflation versus public expenditure growth in the US: An Empirical Investigation” using co-integration analysis and Granger causality model. The authors revealed that inflation has a major

impact on public expenditure decision in the United States of America. Growth in public expenditure was observed to aggravate inflationary pressures in the country, whereas a decrease in public expenditure tends to reduce inflation.

Muhammad and Attiya (2013) explore the relationship among the rate of inflation, economic growth and government expenditure in Pakistan from 1980 to 2010 using Autoregressive Distributed Lag (ARDL) model and Granger-causality tests. The outcome of the estimations identified a long-term relationship amongst rate of inflation, economic growth and government expenditure; it means that government expenditures yield positive externalities and linkages.

In a study conducted for South Africa, Madito and Odhiambo (2018) used quarterly data from 1970Q1 to 2015Q4 to investigate the factors that influence inflation. The study used the Error Correction Model technique and empirical results revealed that inflation expectations, labor costs, government expenditure and import prices positively determine inflation, while GDP and exchange rates are negative determinants of inflation. Nguyen (2019) investigated the short and long run effect of government expenditure on inflation for three Asian countries. The Vector Error Correction Model was used by the study using data from 1970 to 2010. Results revealed that government expenditure negatively influences inflation in China, while a positive relationship was established for India and Indonesia. Sriyana (2019)

employed the Non-Linear Autoregressive Distributed Lag (NARDL) model to examine asymmetries in the relationship between government expenditure and inflation from 1970 to 2017. Long run asymmetry was discovered with a positive relationship recorded between government expenditure and inflation. Rangkuty, et al., (2020) also analyzed the causal and cointegration relationship between government expenditure and inflation in Indonesia. While employing the Granger Causality test, a one-way causality was discovered, showing that government expenditure affects inflation. Sirah, (2020) investigated the effects of tax revenue, government expenditure, external debt, and the government budget deficit on inflation rate in Ethiopia using the ARDL model. The short run results indicated that budget deficit and government expenditure had positive impact, but tax revenue and external debt had negative impact on inflation rate.

In Nigeria, Ozurumba (2012) investigated the causal relationship between inflation and fiscal deficits in Nigeria from 1970 to 2009, using autoregressive distributed lag (ARDL) model and the Granger causality tests. From his results of the ARDL test, it was observed that there exists a significant negative correlation between growth in fiscal deficit and innovations in the rate of inflation which is in conformity with expectation. The author concluded that government should support growth in the real sectors of the economy in order to maximize the effectiveness of policies targeted at inflationary control in Nigeria if they are targeted at reduction in fiscal deficits.

Ogbonna (2014), looked into how changes in government size and policies affected consumer price index in Nigeria for the period between 1981 to 2013. The data was analyzed by the study using co-integration and vector error correction model (VECM) methods. The findings suggest that there is a long run equilibrium relationship between consumer price index and government size in Nigeria. Furthermore, no long-run causal relationship was identified between consumer price index and government expenditure in Nigeria and there is no causality running from government expenditure to consumer price index in Nigeria.

Ogbole and Momodu (2015) examined the nature and extent of causal relationship between government expenditure and inflation rate for a period of 42 years spanning from 1970 to 2011. The analysis of the Johansen co-integration test and Granger causality test were used in the study. The variables are stationery, weakly and inversely correlated and have a long run relationship. However, they did not granger cause each other. Implying that there exists no causality between them. The author concluded that Fiscal monetary policy mix, redirecting government expenditure to productive channels in the economy and maintain a strategic balance between capital and recurrent expenditure.

Mehraraa, et al., (2016) examined the nonlinear relationship between inflation and government spending using quarterly data over the period of 1990 – 2013 by using smooth Transition Regression Model. The study showed that in

regime of tight money or low growth of liquidity, government expenditure is not inflationary. So fiscal policies could be used to control inflation and stimulate aggregate demand in low regime. Also, in easy money regime, monetary and fiscal discipline can be useful for inflation decrease.

Dikeogu (2018) examined the effect of public spending on inflation in Nigeria from 1980 to 2017. Data used in the study were sourced from Central Bank of Nigeria Statistical Bulletin. The study used public capital (GCE) and recurrent (GRE) spending as the main explanatory variables while money supply (MSS) and exchange rate (EXR) were added as check variables. The Auto Regressive Distributed Lag (ARDL) was used to analyze the relationship between public spending and inflation in Nigeria. The result of the study showed that government capital spending impacts negatively on inflation; government recurrent spending has a negative and an insignificant impact on inflation. Also, money supply has both a positive and negative impact on inflation while exchange rate has a positive and an insignificant impact on inflation. Based on these findings, the author concluded that government needed to ensure appropriate channeling of its expenditure to infrastructural development in order to stimulate investment and production thereby stabilizing price.

Akobi, et al., (2021) investigated the effect of government expenditure on inflation rate in Nigeria in a period of 39 years from 1981 to 2019. The study's specific goal was to determine the extent to which government expenditure on agriculture, government expenditure on education, government expenditure

on health and government expenditure on telecommunications affected inflation rate in Nigeria. Data were collected from (Central Bank of Nigeria Statistical Bulletin). Government expenditure was broken into Government Expenditure on Education (GOE), Government Expenditure on Agriculture (GOA), Government Expenditure on Telecommunication (GOT) and Government Expenditure on Health (GOH) as the independent variables while inflation rate (INF) was the dependent variable. The data were analyzed using multivariate regression based on Johansson Co-integration and Error Correction Model (ECM). The results of the study showed that government expenditure on education has a positive and negligible impact on the inflation rate. The study also showed that government expenditure on education and government expenditure on agriculture have positive but negligible effect on the inflation rate, while government expenditure on telecommunications and government expenditure on health have positive and significant effect on inflation rate. The authors concluded among others that government should increase the allocation to the health and education sectors to increase the skill and health of economic operators which will enhance productivity.

Maku et al., (2022) employed the Bayesian Vector Autoregressive to investigate the impact of government expenditure on macroeconomic variables in Nigeria from 1986 to 2020. Empirical results indicated a positive shock in government recurrent expenditure has no statistically significant effect on inflation rate and interest rate. This shows that government recurrent

expenditure does not give rise to inflation rate and interest rate. However, an increase in government capital expenditure has a negative impact on the inflation rate.

Gap in Literature

It was noted from the literature reviewed that some studies have been done on the relationship between inflation and government expenditure. Majority of the examined publications used three or four independent variables to examine the relationship between inflation and government expenditure while most of the papers regressed Government Consumption Expenditure on inflation. However, the current study deviate from these researchers by regressing inflation on government consumption expenditure using (GCE) as dependent variable while inflation is used as independent variable, that is, handling this topic in a reverse order. In addition to these variables, the study's time frame extends from 1980 to 2022. This is the gap in the literature that this study filled.

Methodology

Model Specification

The model specification for this study takes a lead from the study of Fasewa and Aderinto (2023) who investigated effect of government expenditure on inflation in Nigeria.

$$INF = f(GCXP, EXR, IR)$$

The model was modified with the inclusion of GCE (Government Consumption Expenditure) as the dependent variable and INF (Inflation Rate), UNP (Unemployment), MS₂ (Money Supply), INV (Investment), Debt (public Debt), GDP (Real Gross Domestic Product), and GCE_{t-1} (Lagged Government Consumption Expenditure) as the independent variables.

In order to investigate the effect of government expenditure on inflation rate in Nigeria, the functional model for the study is stated thus:

$$GCE_t = f(CPI, INT, INV, EXR, MS_2, UNP, GDP, Debt) \quad (1)$$

In linear stochastic term, equation (2) can be presented as follows:

$$GCE_t = a_0 + \alpha_1 GCE_{t-1} + a_2 CPI + a_3 INT + a_4 INV + a_5 EXR + a_6 MS_2 + a_7 UNP + a_8 RGDP + a_9 Debt + \mu_t \quad (2)$$

Where:

GCE_t = Government Consumption Expenditure

CPI = Consumer Price Index

INT = Interest Rate

INV = Investment (Proxied by Gross Capital Formation)

EXR = Exchange Rate

MS₂ = Money Supply

UNP = Unemployment

RGDP = Real Gross Domestic Product

Debt = Public Debt (in million)

a_0 = Constant term

$a_1 - a_8$ = Parameters to be Estimated

μ_t = Error term

3.3 *A priori* Expectation

This is based on the principle of economic theory. There, our results can be checked for their reliability with both the size and sign of economic *a priori* expectation. This shows the behaviours of all the independent variables to dependent variable keeping in view what economic theory says.

$a_0 > 0$; $a_1 > 0$; $a_2 < 0$; $a_3 > 0$; $a_4 > 0$; $a_5 > 0$; $a_6 > 0$; $a_7 < 0$; $a_8 > 0$

Estimation Technique

This study employed Auto Regressive Distributed Lag (ARDL) model/framework because the ARDL approach yields consistent estimates of the long-run coefficients that are asymptotically normal, irrespective of whether the underlying regressors are I(1) or I(0) (Fasewa & Aderinto, 2023) and also works well with small samples. Auto Regressive Distributed Lag (ARDL) is mostly appropriate for this study above all other techniques because it looks into the short-run and long-run effect of inflation on

government consumption expenditure in Nigeria. The study considered the issue of time lapse that is involved in time series data. This is why ARDL Model is better than other techniques.

Sources of Data

The data for this study are obtained from the Central Bank of Nigeria Statistical Bulletin for various years, Central Bank of Nigeria Annual Account for various years, Central Bank of Nigeria Economic and financial Review for various years, World development indicator and publications of National Bureau of Statistics for various years

Results and Discussion

4.1 Cointegration Test and Bound Test

The bound test was conducted after the confirmation of the appropriateness of the use of ARDL was confirmed through I (0) and I (1) order of integration as well as the choice of lag length. The bound test was conducted to test whether or not the model variables have a long-run relationship. The result of the bound test for cointegration alongside with the critical values are presented in table 4.1 below.

Table 4.1: ARDL Bound Test for Cointegration

Test Statistic	Computed F-Statistic	Lag	Significance Level	Bound Critical Values	
				Lower Bounds	Upper Bounds
F-statistic	7.675260	8			
			10%	1.95	3.06
			5%	2.22	3.39
			2.5%	2.48	3.7
			1%	2.79	4.1

Source: Author's computation using E-views 9.

The result of the bound test presented on table 4.1 showed that the calculated F-statistic is 7.675260. This value exceeds the lower and upper bounds critical values of 2.22 and 3.39 at 5% significant level respectively. Thus, the null hypothesis of no cointegration was rejected, asserting the presence of a long-run cointegration relationship between government consumption expenditure, inflation and other explanatory variables in the model.

4.2 Short Run Parsimonious Estimation of the ARDL Model.

In order to capture the short run deviations that might have occurred in estimating the long run cointegration equation, a dynamic parsimonious error correction estimate is reported in table 4.2

Table 4.2: Summary of Short Run Parsimonious Estimation of The ARDL Model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GCE)(-1))	0.231011	0.010425	3.172821	0.0421
D(CPI)	-0.010262	0.004835	-2.122645	0.0536
D(CPI(-1))	0.005408	0.004084	1.324255	0.2082
D(INT)	0.000020	0.016206	0.001209	0.9991
D(INT(-1))	-0.022385	0.016843	-1.329020	0.2067
D(INV)	-0.011586	0.025531	-0.453779	0.6575
D(INV(-1))	-0.036152	0.024232	-1.491907	0.1596
D(EXR)	-0.008611	0.003019	-2.852794	0.0136
D(EXR(-1))	-0.004237	0.003040	-1.393784	0.1868
D(MS ₂)	0.027796	0.022919	1.212778	0.2468
D(MS ₂ (-1))	0.030662	0.021979	1.395065	0.1864
D(UNP)	0.864935	0.411789	2.100435	0.0558
D(RGDP)	-0.005171	0.013144	-0.393416	0.7004
D(RGDP(-1))	0.025479	0.010006	2.546385	0.0244
DLOG(DEBT)	0.618637	0.205451	3.011120	0.0100
DLOG(DEBT(-1))	-0.394904	0.170049	-2.322289	0.0371
ECM(-1)	-0.547164	0.170970	-3.200352	0.0070
R-squared	0.808023			

Adjusted R-squared	0.453605
Durbin-Wastson stat	2.014719

Source: Author's Computation using E-views 9. (2024)

Table 4.2 shows that there is positive relationship between the lag value of government consumption expenditure (GCE) in Nigeria. This indicates that lag value of government consumption expenditure (GCE) has the potential to increase government consumption expenditure in Nigeria. This result is supported by the coefficient of the variable with the t-value 0.231011. This meant that a one percent (1%) increase in lag value of government consumption expenditure may lead to a marginal increase of 0.23% in government consumption expenditure (GCE) in Nigeria. This result may be due to the fact that any increase in government consumption expenditure in Nigeria, is a signal of more purchase which means injection of more money into circulation, this calls for corresponding increase in production which subsequently make more consumption goods available and bring about improved standard of living. The variable is statistically significant at 5% level of significance with the t-value of 3.172821 and prob value of 0.0421. The variable behaved in tandem with its *a priori* expectation.

In the case of inflation (CPI) which is the variable of first utmost interest, the result shows that there is an inverse relationship between inflation and government consumption expenditure in Nigeria at level but, presents a direct relationship with government consumption expenditure at lag (1) which is the

previous period. This indicate that inflation exhibits both negative and positive relationships which indicate that the variable may either retard government consumption expenditure at level or enhance government consumption expenditure at its previous period. This is corroborated by the coefficient of the variable at level and at the previous period with the values -0.010262 and 0.005408 respectively. This meant that a 1% increase in inflation (CPI) at level and at previous period may lead to marginal decrease of 0.010% and an increase of 0.005% in government consumption expenditure. The variable is statistically significant at ten percent level of significance at level with the t-value of -2.122645 and prob value 0.0536 but turned out to be insignificant at lag (1) which is the previous period. This result is not far from the fact that increase in inflation may cause reduction in quantities of the amount of goods which government expenditure may purchase thereby affecting the Nigerian community negatively. The variable does not behave in consonance with the *a priori* expectation.

Considering interest rate (INT), the result revealed that interest rate (INT) had a direct relationship with government consumption expenditure in Nigeria at level but, presents an inverse relationship with government consumption expenditure at lag(1) which is the previous period. This indicates that interest rate exhibits both positive and negative relationships which is an indication that the variable have the potential to either increase government consumption expenditure at level or reduce government consumption expenditure at its

previous period. This is attested to by the coefficient of the variable with the values 0.000020 and -0.022385 respectively at both level and previous period. This indicate that a 1% increase in interest rate (INT) may lead to about 0.00002% marginal increase and 0.022% reduction in government consumption expenditure at both level and previous period respectively in Nigeria. This result may not be unconnected with the fact that increase in the interest rate will push up the cost of borrowing and a rational government will cease borrowing in the case of high interest rate. Government will have to optimize the resources available to them subjective to the amount of constraint imposed by interest rate. When government is not able to get more revenues through borrowing, the government will have to draw a scale of preference and forgo some obligations that are not so pressing or important thereby decreasing government consumption expenditure (GCE). The variable is statistically insignificant which made the result unreliable. The variable does not agree with its *a priori* expectation which says high interest rate will reduce government consumption expenditure and that a low interest rate will aggravate government consumption expenditure.

In view of domestic investment (INV), the result revealed a negative relationship between investment and government consumption expenditure in Nigeria. This shows that domestic investment possessed the potential to reduce the trend of government consumption expenditure in Nigeria. This is supported with the value of its coefficient -0.011586 and -0.036152 at both

level and previous period. This meant that a 1% increase in domestic investment (INV) may lead to a marginal decrease of 0.012% and 0.036% in government consumption expenditure in Nigeria during the period under review at both level and previous period. The variable failed to be statistically insignificant which made the result unreliable. This result is due to the fact that increase in investment in Nigeria contributes positively to some economic development factors like increase in employment due to increase in investment in production activities which will result to increase in the volume of social commodities and reduction in the general prices of the commodities boosting the standard of living. So far this continue to be in place, the social responsibilities of government will reduce leading to reduction in government consumption expenditure in Nigeria. The variable does not comply to its a *priori* expectation.

In the case of exchange rate (EXR), the result revealed an inverse relationship with government consumption expenditure in Nigeria. This shows that exchange rate has the strength to reduce government consumption expenditure in Nigeria. This assertion was corroborated by the coefficient of the variable at level and at the previous period with the values -0.008611 and -0.004237 respectively. This indicate that a 1% increase in exchange rate (EXR) at level and at previous period may lead to marginal decrease of 0.009% and 0.004% in government consumption expenditure in Nigeria. The variable came up to be statistically significant at 5% percent level of significance at level with the

t-value of -2.852794 and prob value 0.0136 but turned out to be insignificant at lag (1) which is the previous period. The behaviour of this result may be due to the fact that the current high exchange rate and the devaluation of the Nigerian currency discouraged investors from importing raw materials at very expensive cost and decided to look inward for raw materials engaged as input in production such that such practices reduced cost of production which subsequently led to reduction in domestic prices in real term which eventually assisted in reducing government consumption expenditure in Nigeria due to decrease in inflation. The variable behaved contrary to its *a priori* expectation. In view of broad money supply (MS_2), the result revealed that there is a positive relationship between broad money supply (MS_2) and government consumption expenditure in Nigeria. This meant that money supply has the potential to aggravate government consumption expenditure in Nigeria. This is supported by the coefficient of the variables with the values 0.027796 and 0.030662 at level and previous period respectively. This indicate that a 1% increase in broad money supply (MS_2) may lead to increase of about 0.028% and 0.031% in government consumption expenditure in Nigeria at level and at the previous period respectively. This result is due to the fact that increases in broad money supply in Nigeria without a corresponding increase in the production of goods and services often causes price increases thereby causing demand-pull inflation because demand for goods and services will be more than supply of the goods and services. The increase in inflation may therefore

lead to eventual increase in government consumption expenditure in Nigeria. The variable broad money supply (MS_2) was not statistically significant which made the result unreliable. The variable behaved in accordance to its *a priori* expectation.

In the case of unemployment (UNP), the result shows that the variable has a positive relationship with government consumption expenditure in Nigeria. This meant that unemployment (UNP) has the antecedent of bringing about a reduction in government consumption expenditure in Nigeria. This is alluded to by the coefficient of the variable at level with the values of 0.864935. This indicates that 1% increase in unemployment (UNP) may lead to a marginal increase of 0.86% in government consumption expenditure in Nigeria. The reason for this behaviour is that increase in unemployment (UNP) will increase the number of dependents in the country and the government have to provide relieve incentives for the dependents as part of the government's social responsibilities. Also, to solve the problem of unemployment the government will have to provide employment opportunities by establishing industries or empowering the unemployed with capital to start private business thereby contributing to the increase in government consumption expenditure in Nigeria, Therefore, the increase in unemployment will contribute to increase in government consumption expenditure in Nigeria. The variable is statistically significant at ten percent level of significance at level with the t-

value of 2.1004345 and prob value 0.0558. The variable behaves in consonance with its *a priori* expectation.

In the case of Real Gross Domestic Product (RGDP), the result shows that there is an inverse relationship between real gross domestic product (RGDP) and government consumption expenditure in Nigeria at level but, presents a direct relationship with government consumption expenditure at lag(1) which is the previous period. This indicate that real gross domestic product (RGDP) exhibits both negative and positive relationships which indicate that the variable may either retard government consumption expenditure at level or enhance government consumption expenditure at its previous period. This is corroborated by the coefficient of the variable at level and at the previous period with the values -0.005171 and 0.025479 respectively. This meant that a 1% increase in real gross domestic product (RGDP) at level and at previous period may lead to marginal decrease of 0.005% and an increase of 0.025% in government consumption expenditure in Nigeria. The variable was not statistically significant at level but, turned out to be statistically significant at its previous period at 5% level of significance with the t-value of 2.546385 and prob value 0.0244. This result is not far from the fact that increase in real gross domestic product (RGDP) is an indication that the economy is a stable one with positive economic factors like decrease in inflation, full employment, stability, favourable balance of payments thereby leading to increase in standard of living and so far, this continue to be in place, there is decrease in

government consumption expenditure because of limited social responsibilities. The variable behaves in consonance with the *a priori* expectation.

Finally, public debt (DEBT) revealed a direct relationship with government consumption expenditure in Nigeria at level but, presents an inverse relationship with government consumption expenditure at lag(1) which is the previous period. This indicates that public debt (DEBT) exhibits both positive and negative relationships which is an indication that the variable have the potential to either increase government consumption expenditure at level or reduce government consumption expenditure at its previous period. This assertion was corroborated by the coefficient of the variable with the values 0.618637 and -0.394904 respectively at both level and previous period. This indicate that a 1% increase in public debt (DEBT) may lead to about 0.62% marginal increase and 0.39% reduction in government consumption expenditure at both level and previous period respectively in Nigeria. The variable came up to be statistically significant at level at 1% level of significance with the t-value of 3.011120 and prob value 0.0100. The variable is also statistically significant at its previous period at 5% level of significance with the t-value of -2.322289 and prob value 0.0371. This result may not be unconnected with the fact that the amount borrowed from within or outside the economy has increased government's revenue and the government was able to spend more to the economy. The more government spends the higher

the tendency of the presence of inflation in the economy and whenever there is increase in inflation there will be increase in government consumption expenditure because the government will have to perform their obligation despite inflation. The government will also have to service the debt which will cause more increase in government consumption expenditure. The variable behaved in consonance with its *a priori*.

In the case of the coefficient of error correction mechanism, the variable met its negative sign with the value -0.547164. The variable is statistically significant at 1% level of significance with the t-value of -3.200352 and prob value 0.0070. This result shows that the model has a high adjustment mechanism from the short-run to long-run set at over 55%. Additionally, the R^2 which is the coefficient of determination is 0.808023. This shows that the independent variables in the model accounted for over 81% variation in the dependent variable. This shows that the model is of good fit. Finally, the Durbin Watson of 2.014719 shows that there is no serial correlation in the model.

4.3 Long-Run Coefficient of the ARDL

Since the existence of the long-run cointegration relationship is established, the long run coefficients are estimated and presented in Table 4.3. All the regression equation are based on the ARDL Model.

Table 4.3: Estimated Long Run Coefficient of the ARDL

Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI	-0.017694	0.011696	-2.512816	0.0454
INT	-0.024761	0.035153	-0.704390	0.4936
INV	0.145924	0.044355	3.289902	0.0059
EXR	-0.001259	0.003520	-0.357825	0.7262
MS₂	-0.040968	0.031544	-4.298740	0.0216
UNP	0.243126	0.403365	0.602744	0.5570
RGDP	-0.049364	0.034189	-1.443865	0.1724
LOG(DEBT)	1.062412	0.147224	7.216270	0.0000
C	-1.620283	1.573693	-1.029605	0.3220

Source: Author's computation using E-views 9. (2024)

The result on table 4.6 shows that there is negative relationship between inflation and government consumption expenditure. This meant that inflation (CPI) has the potential to decrease government consumption expenditure in Nigeria. This is supported by the coefficient of the variable -0.017694. This indicates that a one percent increase in inflation may lead to a less than proportionate decrease of about 0.018 percent decrease in government consumption expenditure in Nigeria. This result may be due to the fact that the increases in inflation may cause reduction in quantities of the amount of goods which government expenditure may purchase thereby affecting the Nigerian

community negatively. The variables came up to be statistically significant at five percent level of significance as presented by the t-stat and its p-value with the value -2.512816 and 0.0454 respectively. The variable proved to be in disagreement with its *a priori* expectation. In the case of interest rate (INT), the variable shows a negative or inverse relationship with government consumption expenditure. This means interest rate has the potential to reduce government consumption expenditure. This claim is buttressed by the coefficient of the variable with the value -0.024761. This indicate that a one percent increase in interest rate (INT) may lead to a decrease of about 0.025 percent in government consumption expenditure. This shows that interest rate (INT) marginally decreases government consumption expenditure in Nigeria during the period covered by the study. This is likely to be as a result of the fact that the increase in the interest rate will push up the cost of borrowing and a rational government will cease borrowing in the case of high interest rate. Government will have to optimize the resources available to them subjective to the amount of constraint imposed by interest rate. When government is not able to get more revenues through borrowing, the government will have to draw a scale of preference and forgo some obligations that are not so pressing or important thereby decreasing government consumption expenditure (GCE). The variable proved statistically insignificant thereby presenting it as a variable which does not create much problem in the Nigerian economy given

the t-stat -0.704390 and p-value 0.4936 respectively. The variable also complied with its *a priori* expectation.

Furthermore, there is positive relationship between investment and government consumption expenditure. This meant that investment (INV) has the potential to increase government consumption expenditure in Nigeria. This is supported by the coefficient of the variable 0.145924. This indicates that a one percent increase in investment may lead to an increase of less than proportionate increase of about 0.15 percent increase in government consumption expenditure in Nigeria. This result is due to the fact that increase in investment in Nigeria contributes positively to some economic development factors like increase in employment due to increase in investment in production activities which will result to increase in the volume of social commodities and reduction in the general prices of the commodities boosting the standard of living. In addition, increase investment activities to boost the economy will force the government consumption expenditure up to finance the investment activities. In addition, the variables came up to be statistically significant at one percent level of significance as presented by the t-stat and its p-value with the value 3.289902 and 0.0059 respectively. The variable also complied with its *a priori* expectation.

Moreover, in the case of exchange rate (EXR) the variable shows a negative relationship with government consumption expenditure (GCE). This means it has the potential to decrease government consumption expenditure in Nigeria.

This claim is buttressed by the coefficient of the variable with the value -0.001259. This indicates that a one percent increase in exchange rate may lead to a decrease of about 0.001259 percent in government consumption expenditure. The variables came up to be statistically insignificant as presented by the t-stat and its p-value with the value -0.357825 and 0.7262 respectively. The behaviour of this result may be due to the fact that the current high exchange rate (EXR) and the devaluation of the Nigerian currency discouraged investors from importing raw materials at very expensive cost and decided to look inward for raw materials engaged as input in production such that such practices reduced cost of production which subsequently led to reduction in domestic prices in real term which eventually assisted in reducing government consumption expenditure in Nigeria due to decrease in inflation. The variable behaved contrary to its *a priori* expectation.

In the case of broad money supply (MS_2), the variable has an inverse relationship with government consumption expenditure. This meant that broad money supply (MS_2) have the potential to decrease government consumption expenditure in Nigeria. This is supported by the coefficient of the variable -0.040968. This indicates that one percent increase in broad money supply may lead to a decrease of less than proportionate decrease of about 0.041 percent decrease in government consumption expenditure in Nigeria. The variables came up to be statistically significant at five percent level of significance as presented by the t-stat and its p-value with the value -4.298740 and 0.0216

respectively. This result is due to the fact that increases in broad money supply in Nigeria with a corresponding increase in the production of goods and services often causes prices decreases thereby causing decrease in inflation due to excess supply of goods and services. The decrease in inflation will therefore lead to eventual decrease in government consumption expenditure in Nigeria. The variable does not behave in accordance to its *a priori* expectation. However, the result shows that there is positive relationship between unemployment (UNP) and government consumption expenditure in Nigeria. This claim is supported by the coefficient of the variable with the value 0.243126. This indicate that one percent increase in unemployment rate may lead to an increase of 0.24 percent in government consumption expenditure. This shows that unemployment rate (UNP) marginally increased government consumption expenditure in Nigeria. during the period covered by the study. This result may be due to the fact that an increase in unemployment rate will bring about increase in the obligations of government in giving allowances and reliefs to the unemployed the higher the rate of unemployment the higher the amount to be spent on grants and reliefs to the unemployed. Unemployment therefore contributed to government consumption expenditure and push it upward. However, the variables came up to be statistically insignificant as presented by the t-stat and its p-value with the value 0.602744 and 0.5570 respectively. The variable behaves in consonance with its *a priori* expectation.

In addition, there is negative relationship between Real Gross Domestic Product (RGDP) and government consumption expenditure (GCE). This meant that real gross domestic product (RGDP) has the potential to reduce government consumption expenditure in Nigeria. This is supported by the coefficient of the variable -0.049364. This indicates that a one percent increase in real gross domestic product may lead to a decrease of less than proportionate decrease of 0.049 percent decrease in government consumption expenditure in Nigeria. However, the variables came up to be statistically insignificant as presented by the t-stat and its p-value with the value -1.443865 and 0.1724 respectively. This result is not far from the fact that increase in real gross domestic product (RGDP) is an indication that the economy is a stable one with positive economic factors like decrease in inflation, full employment, stability, favourable balance of payment thereby leading to increase in standard of living and so far this continue to be in place, there is decrease in government consumption expenditure because of limited social responsibilities. The variable behaves in consonance with the *a priori* expectation.

In contrast, public debt (DEBT) has a positive or direct relationship with government consumption expenditure (GCE). This means it has the potential to enhance government consumption expenditure. This claim is supported by the coefficient of the variable with the value 1.062412. This indicate that a one percent increase in public debt may lead to an increase of about 1.06 percent

in government consumption expenditure in Nigeria. This shows that public debt (DEBT) marginally increases government consumption expenditure in Nigeria during the period covered by the study. This is likely to be as a result of the fact that the amount borrowed from within or outside the economy has increased government's revenue and the government was able to spend more to the economy. The more government spends the higher the tendency of the presence of inflation in the economy and whenever there is increase in inflation there will be increase in government consumption expenditure because the government will have to perform their obligation despite inflation. The government will also have to service the debt which will cause more increase in government consumption expenditure. Finally, the variable also proved to statistically significant at 1% level of significance as presented by its t-value and prob value with the value 7.216270 and p-value 0.0000 respectively. The variable also complied with its a *priori* expectation.

Conclusion

The study concluded that inflation has an inverse relationship on government consumption expenditure in the long-run which implies that any increase in inflation retarded government consumption expenditure. Moreso, in the short-run inflation also has an inverse relationship on government consumption expenditure which also implies that any increase in inflation retarded government consumption expenditure. The study concluded that inflation had

a significant and long-lasting adverse effect on government consumption expenditure in Nigeria within the period covered by the study.

Recommendations

Since inflation is inversely related to government consumption expenditure, Government should formulate appropriate policy to ensure that there is reduction in consumer price index to reduce the general price level so that inflation will be reduced and the government will be able to buy more commodity with the given income or revenues.

The government, as a matter of urgency, through the Central bank of Nigeria should reduce the interest rate prevailing in the economy since interest rate is inversely related to government consumption expenditure.

Following the negative influence of interest rate on government consumption expenditure, a contractionary monetary policy should be maintained by the monetary authority to control inflationary pressure.

Since broad money supply has an inverse relationship with government consumption expenditure, government should introduce policy that can adequately ensure that the government consumption spending should be well coordinated by all arms of government to prevent “Crowding out” effect on government investment.

Since there is a long-run positive relationship between unemployment rate and government consumption expenditure, the government should introduce

policy that will improve expenditures to create more employment opportunities for the unemployed.

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