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Fiscal Policy Instruments as Drivers of Investment and Trade Dynamics in the Nigerian Economy

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Abstract

This paper examines the relationship between fiscal policy instruments—government expenditure, taxation, and public debt—and their effects on investment and trade dynamics in Nigeria. Fiscal policy remains a central tool for macroeconomic management in developing economies, yet Nigeria continues to face persistent challenges of low investment, weak trade performance, and escalating public debt. The study employs an ex-post facto research design and utilizes secondary time series data sourced from the Central Bank of Nigeria and the World Bank. The empirical analysis employs descriptive statistics, Augmented Dickey-Fuller unit root tests, Johansen cointegration tests, and Ordinary Least Squares (OLS) regression techniques. The findings reveal that government expenditure has a positive and statistically significant impact on both investment and trade, supporting the Keynesian view that public spending stimulates economic activity by improving infrastructure and creating an enabling business environment. In contrast, taxation exerts a negative and significant effect on both investment and trade, indicating that high tax burdens reduce profitability and weaken competitiveness. Public debt also exhibits a negative and significant impact on investment and trade, confirming the crowding-out effect whereby excessive government borrowing diverts resources from productive investment, raises interest rates, and creates macroeconomic instability. The study concludes that fiscal policy significantly influences investment and trade in Nigeria, but effectiveness depends on expenditure composition, tax structure, debt sustainability, and policy coordination. Recommendations include prioritizing capital expenditure, broadening the tax base, reducing corporate tax rates, exercising fiscal discipline, limiting domestic borrowing, and enhancing coordination among fiscal, monetary, and trade policies to promote sustainable economic development.

Keywords: *Fiscal Policy, Government Expenditure, Taxation, Public Debt, Investment, Trade Dynamics, Nigeria, Economic Growth.*

JEL Codes: *E62, H30, H50, H63, F10, O55*

1.0 Introduction

Fiscal policy remains a central instrument of macroeconomic management, particularly in developing economies such as Nigeria, where government intervention is often required to stabilize the economy, stimulate investment, and promote trade. Broadly, fiscal policy involves the deliberate use of government expenditure, taxation, and borrowing to influence economic activities, including output, employment, inflation, and investment patterns (Chugunov & Pasichnyi, 2024). In Nigeria, fiscal policy has historically been deployed to achieve key objectives such as economic growth, income redistribution, and macroeconomic stability, largely through annual budgetary frameworks that guide public revenue generation and expenditure allocation (Hassan, 2025). However, Nigeria's economic structure presents unique challenges that complicate the effectiveness of fiscal policy. The country is heavily dependent on oil revenue, which exposes it to external shocks arising from fluctuations in global oil prices (Mohaddes & Pesaran, 2017), constraining economic diversification and weakening the link between fiscal

policy, investment, and trade development. Consequently, fiscal instability—often characterized by budget deficits, inefficient public spending, and rising public debt—has persisted, limiting the ability of fiscal policy to effectively stimulate sustainable economic growth and investment expansion. Empirical evidence suggests that fiscal policy plays a significant role in shaping investment dynamics in Nigeria. Adegboyo et al. (2021) found that fiscal policy exerts a positive and significant influence on economic growth in the long run, while Akpo et al. (2015) reported that government expenditure and gross domestic product positively influence investment expenditure, highlighting the importance of public spending in creating an enabling environment for investment activities. Despite these positive linkages, the impact of fiscal policy on investment is not uniformly beneficial; certain fiscal components, particularly taxation and public debt, may exert adverse effects. Abdulkarim and Saidatulakmal (2021) observed that direct taxes tend to discourage private investment, while external debt can crowd out private sector participation due to macroeconomic instability, underscoring the complexity of fiscal policy transmission mechanisms in Nigeria.

In addition to investment, fiscal policy significantly interacts with trade performance. Nigeria's trade structure has been characterized by heavy dependence on crude oil exports and limited diversification into non-oil sectors, with studies such as Adewale (2025) and Adegboyo et al. (2021) indicating that trade policy in Nigeria has often had a negative effect on economic growth, largely due to structural inefficiencies, import dependence, and weak policy implementation. Furthermore, Rahmon and Adefunke (2019) found that fiscal variables such as government revenue and expenditure can positively influence the balance of trade when effectively managed, although other factors like debt and money supply may have adverse effects. The relationship between fiscal policy, investment, and trade is therefore both dynamic and interdependent; fiscal policy influences investment through public spending, taxation, and borrowing, while investment, in turn, affects production capacity and export performance. Trade policies also interact with fiscal measures by shaping the competitiveness of domestic industries and determining the flow of goods and capital across borders. However, inefficiencies in policy coordination, weak institutional frameworks, and inconsistent implementation have limited the effectiveness of these interactions in Nigeria. Moreover, Nigeria continues to face structural constraints such as inadequate infrastructure, policy inconsistency, and an unstable macroeconomic environment, all of which hinder investment inflows and trade expansion. Ogege and Boloupremo (2020) and Okeke and Adeyeye (2024) highlight that fiscal policy variables such as government expenditure and taxation significantly influence foreign direct investment, although their effects vary depending on the broader economic context, while Bamidele et al. (2024) emphasize that trade policies and fiscal measures jointly determine the attractiveness of Nigeria as an investment destination. Given these complexities, the effectiveness of fiscal policy in Nigeria depends largely on its design, implementation, and coordination with other macroeconomic policies; while expansionary fiscal policies can stimulate investment and growth, poor fiscal management—manifested through excessive taxation, inefficient spending, and rising debt—can undermine investor confidence and weaken trade performance.

On the basis of the foregoing, this study therefore attempts to explore the interaction between fiscal policy, investment and trade in Nigeria. The aim is to understand how fiscal instruments can effectively be used to foster sustainable economic growth, increase investment inflows and trade results. Specifically, the study examines the effect of fiscal policy on economic growth; effect of fiscal policy on investment flows; effect of fiscal policy on trade performance; the effectiveness of fiscal policy instruments like government expenditure, taxation and public debt on investment and trade and also the challenges and implications of fiscal policy implementation in Nigeria. This study is significant in that it provides policymakers with empirical evidence to help design sound fiscal strategies, gives investors insight into the investment climate, contributes to the academic literature by integrating fiscal policy, investment and trade in one analytical framework, and increases the public understanding of how government fiscal decisions affect economic outcomes. The study is conducted from macroeconomic perspective to investigate the impact of fiscal policy on aggregate investment (domestic and foreign) and aggregate trade outcomes in Nigeria. The study period conforms to available secondary data to capture different phases of Nigeria’s economic development, policy reforms and external shocks. The study is based on secondary data sourced from reputable sources such as the Central Bank of Nigeria and the National Bureau of Statistics. Limitations include data inconsistencies, omitted variable bias, aggregate analysis which may not capture sector-specific dynamics, and methodological constraints which may not fully capture all complexities. Despite these limitations, the study has been made rigorous, reliable and offers meaningful insights into the relationship between fiscal policy, investment and trade in Nigeria and contribute to evidence-based fiscal policy formulation and sustainable economic development.

2.0 Literature Review

Theoretical Review

This section presents the theoretical underpinnings guiding this study. Three principal theories are reviewed: the Keynesian Theory, the Crowding-In and Crowding-Out Theory, and the Ricardian Equivalence Theory. These theories collectively offer complementary perspectives on the transmission mechanisms through which fiscal policy instruments—government expenditure, taxation, and public debt—influence investment and trade dynamics in Nigeria.

Keynesian Theory

The Keynesian theory, developed by John Maynard Keynes (1936), emerged as a response to classical economic thought, arguing that economies can experience prolonged unemployment without active government intervention. At its core, the theory posits that insufficient aggregate demand causes economic downturns, and fiscal policy is necessary to stabilize the economy. Increased government expenditure raises aggregate demand, stimulating production and encouraging firm expansion through the multiplier effect, where initial spending leads to a more than proportionate increase in national income. In relation to investment, government spending stimulates private investment by increasing demand, while taxation affects investment by influencing disposable income and profitability. Empirical evidence supports this view in Nigeria; Akpo et al. (2015) found that government expenditure positively impacts investment, Adegboyo et al. (2021) reported fiscal policy positively influences long-run growth, and Chinekwu (2023) confirmed that government expenditure shapes private investment dynamics. Despite constraints such as inefficient spending and weak institutions, the Keynesian framework remains relevant in explaining how fiscal policy can stimulate investment and growth in Nigeria.

Crowding-In and Crowding-Out Theory

The Crowding-In and Crowding-Out Theory explains how government spending and borrowing influence private investment. The crowding-in effect occurs when public spending on infrastructure and productive sectors reduces production costs and creates opportunities, encouraging private investment. Abdulkarim and Saidatulakmal (2021) found that capital expenditure positively influences private investment in Nigeria, while Ogege and Boloupremo (2020) observed that government expenditure attracts foreign direct investment. Conversely, the crowding-out effect occurs when government borrowing increases demand for loanable funds, raising interest rates and discouraging private investment. Uremadu and Onyele (2019) reported that government revenue negatively affects investment due to crowding-out, while Abdulkarim and Saidatulakmal (2021) found that external debt hinders private investment. Rahmon and Adefunke (2019) similarly found that debt accumulation negatively affects trade balance. In Nigeria, both effects are evident: infrastructure spending stimulates investment, while excessive borrowing crowds out private sector participation. This theory explains the mixed impact of fiscal policy on investment and trade, emphasizing the need for balance between stimulating investment and maintaining fiscal sustainability.

Ricardian Equivalence Theory

The Ricardian Equivalence Theory, formalized by Robert Barro (1974), posits that government borrowing and taxation are economically equivalent. When government spending is financed through borrowing, rational consumers anticipate future tax increases and increase savings rather than consumption or investment. Thus, fiscal policy may be ineffective in stimulating growth because private sector behavior offsets government actions. In the Nigerian context, the theory's applicability is limited by imperfect capital markets, limited financial literacy, and weak institutional frameworks. Nevertheless, it provides a cautionary perspective: if investors perceive debt as unsustainable, they may reduce investment due to concerns about macroeconomic instability, consistent with findings that external debt hinders private investment (Abdulkarim & Saidatulakmal, 2021) and negatively affects trade balance (Rahmon & Adefunke, 2019). The theory highlights the importance of fiscal sustainability and investor confidence in shaping investment and trade outcomes.

Empirical Review

This section reviews existing empirical studies on the relationship between fiscal policy instruments and investment and trade dynamics in Nigeria. The review is organized chronologically and thematically to reflect the core objectives of this study.

Fiscal Policy and Investment Dynamics

A substantial body of literature has examined the influence of fiscal policy on investment in Nigeria, yielding mixed but instructive findings. Eneche and Sukana (2025) employed the ARDL model on data spanning 1990 to 2024 and found that government tax revenue exerts a significant positive influence on FDI, suggesting that fiscal capacity enhances investor confidence. In contrast, inflation and exchange rate had insignificant effects. The authors recommended tax incentives to stimulate investment inflows.

Okeke and Adeyeye (2024) investigated fiscal and monetary policy impacts on FDI inflows in Nigeria from 1990 to 2021 using ARDL. Their findings revealed that

higher tax revenue and interest rates negatively impact FDI, reflecting the burden of taxation and borrowing costs on investment attractiveness. Excess liquidity was also found to deter foreign investors.

Joshua-Gyang (2024) examined fiscal policy indicators on the manufacturing sector from 1987 to 2022 using ARDL. The study found mixed effects: government capital expenditure, oil taxation, and external debt negatively affected manufacturing output, while recurrent expenditure, non-oil taxation, and domestic debt had positive effects. However, only recurrent expenditure, oil taxation, and domestic debt were statistically significant.

Chinekwu (2023) assessed the effect of fiscal policy on private investment in Nigeria and confirmed that inflation, tax revenue, government expenditure (both recurrent and capital), interest rate, and exchange rate jointly play significant roles in shaping private investment dynamics. The study recommended moderate taxation and increased infrastructure spending.

Abdulkarim and Saidatulakmal (2021) investigated fiscal policy variables on private investment from 1980 to 2017 using ARDL. They found that direct taxes negatively affect private investment, while indirect taxes have a positive effect. Capital expenditure significantly promoted investment, whereas external debt hindered it due to crowding-out effects.

Ogege and Boloupremo (2020) conducted a comparative analysis of military (1981–1999) and post-military (2000–2018) periods. Their findings revealed that government expenditure consistently and positively influenced FDI across both periods, while domestic debt exhibited a negative but insignificant relationship. Tax revenue had a positive but insignificant effect on FDI.

Olaniyi, Oyedokun, and Ajayi (2019) evaluated tax policy incentives on FDI from 1994 to 2016 using multiple regression. Results showed that VAT incentives and customs and excise duty incentives had statistically significant effects on FDI, while company income tax and petroleum profit tax incentives were insignificant. The study concluded that the effectiveness of tax incentives varies across instruments.

Uremadu and Onyele (2019) investigated fiscal policy on gross domestic investment from 1981 to 2017 using ARDL. They found that government revenue negatively impacts domestic investment, suggesting crowding-out, while government expenditure and government debt positively influence investment, with expenditure showing significant effects.

Ezejiofor et al. (2015) examined taxation's effect on manufacturing firms in Nigeria using ANOVA. The findings revealed that taxation has a statistically significant effect on firm performance, implying that corporate tax obligations are closely linked to productivity and investment capacity.

Akpo et al. (2015) examined fiscal policy on investment expenditure from 1970 to 2010 using OLS. Their findings revealed that government expenditure and GDP have a strong positive impact on investment. Contrary to theoretical expectations, corporate income tax exhibited a positive relationship with investment, suggesting structural peculiarities in the Nigerian context.

Fiscal Policy and Trade Dynamics

The relationship between fiscal policy and trade has received comparatively less attention, but available evidence suggests that fiscal instruments play a significant role in shaping trade outcomes. Abiola (2024) examined fiscal policy on manufacturing sector growth from 1981 to 2022 and found a strong positive relationship between government capital expenditure and manufacturing output, indicating that public investment enhances industrial development and trade competitiveness.

Bamidele et al. (2024) conducted a conceptual review of trade policies and FDI in Nigeria, positing that more liberal and investor-friendly trade policies attract higher FDI levels, while restrictive tax policies discourage foreign investment. The authors recommended enhanced trade openness and less stringent tax policies.

Adewale (2025) analyzed quarterly data from 1981 to 2023 using ARDL and confirmed that fiscal and monetary policies positively impact economic growth, while trade policy exerts a negative influence due to persistent trade imbalances and import dependence. The study emphasized improved policy coordination.

Adegboyo et al. (2021) used ARDL on data from 1985 to 2020 and discovered that fiscal policy has a positive effect on economic growth in the long run whereas trade policy has a negative effect on economic growth in both short and long run which suggests structural inefficiencies. The report proposed reviewing trade policies to promote local production and value added exports.

Nwagu et al. (2022) studied the link between fiscal policy, monetary policy and trade balance for the period of 1981 to 2018 using cointegration and OLS. The study found that although a long-run relationship is confirmed, fiscal policy factors do not significantly enhance Nigeria's trade balance. This implies that there are inefficiencies in policy coordination.

Rahmon and Adefunke (2019) used OLS to study the impact of fiscal and monetary policy factors on trade

balance (1981-2017). Their results showed that government revenue and expenditure had large positive effects on trade balance whereas domestic and external debts have considerable negative effects which are indicative of macroeconomic distortions associated with excessive debt.

Babalola (2015) evaluated fiscal policy on economic development for the period 1981 to 2013 using cointegration and ECM methodologies. The results revealed that recurrent expenditure and government investment have a favorable impact on economic development in the long run and short run whereas tax revenue has a strong negative association. Capital expenditure has a favorable effect, only in the short run.

Research Gap

Despite the valuable contributions of the empirical literature reviewed, significant gaps remain that this study seeks to address. Most existing studies focus on aggregate economic growth as the dependent variable rather than explicitly modeling investment and trade dynamics as primary outcomes, thereby obscuring the specific transmission mechanisms through which fiscal policy influences these critical macroeconomic aggregates. Furthermore, studies on investment tend to examine either domestic investment or foreign direct investment in isolation, with limited analysis of how fiscal instruments simultaneously affect both investment types within a comprehensive framework. Few studies adopt an integrated approach that simultaneously considers the interactive effects of government expenditure (disaggregated into capital and recurrent), taxation (direct and indirect), and public debt (domestic and external) on both investment and trade, leaving the joint determination of these outcomes underexplored. Methodologically, the literature exhibits considerable divergence, with studies employing either ARDL or OLS without consensus on the most appropriate estimator, and many failing to adequately address endogeneity and non-stationarity concerns. Additionally, several studies do not incorporate contemporary data reflecting Nigeria's post-COVID economic realities, persistent exchange rate volatility, and escalating debt profile, limiting the policy relevance of their findings. This study aims to fill these gaps by employing a robust multivariate OLS estimation framework on recent data to investigate the simultaneous impact of disaggregated fiscal policy instruments on both investment and trade dynamics in Nigeria, thereby providing more comprehensive, methodologically sound, and policy-relevant evidence for fiscal policy formulation.

3.0 Methodology

Model Specification

In line with previous empirical studies (Akpo et al., 2015; Abdulkarim & Saidatulakmal, 2021), the study specifies models that capture the relationship between fiscal policy, investment, and trade. The functional relationships are expressed as:

$$INV = f(GEXP, TAX, DEBT) \quad 1$$

$$TRADE = f(GEXP, TAX, DEBT) \quad 2$$

The econometric forms of the models are specified as follows:

$$INV_t = \beta_0 + \beta_1 GEXP_t + \beta_2 TAX_t + \beta_3 DEBT_t + \mu_t \quad 3$$

$$TRADE_t = \alpha_0 + \alpha_1 GEXP_t + \alpha_2 TAX_t + \alpha_3 DEBT_t + \varepsilon_t \quad 4$$

Where:

Variable	**Description**
INV	Investment (Gross Fixed Capital Formation)
TRADE	Trade performance (Trade Openness)
GEXP	Total Government Expenditure
TAX	Total Tax Revenue
DEBT	Total Public Debt
β_0, α_0	Intercepts
β_1–β_3, α_1–α_3	Slope coefficients
μ_t, ε_t	Error terms

This specification is consistent with the theoretical framework, particularly the Keynesian and endogenous growth theories, which emphasize the role of fiscal policy in influencing economic activities (Keynes, 1936; Romer, 1986). The models are estimated separately for investment and trade to capture the distinct transmission mechanisms through which fiscal policy instruments affect each outcome variable.

A Priori Expectations

Based on economic theory and empirical literature, the expected signs of the coefficients are as follows:

For Investment:

Variable	Expected Sign	Rationale
GEXP	$\beta_1 > 0$	Government expenditure is expected to positively influence investment by improving infrastructure and creating an enabling business environment (Akpo et al., 2015; Chinekwu, 2023)
TAX	$\beta_2 < 0$	Taxation is expected to negatively affect investment by reducing after-tax profitability and disposable income (Uremadu & Onyele, 2019; Abdulkarim & Saidatulakmal, 2021)
DEBT	$\beta_3 < 0$	Public debt is expected to negatively affect investment due to crowding-out effects and macroeconomic instability (Abdulkarim & Saidatulakmal, 2021; Joshua-Gyang, 2024)

For Trade:

Variable	Expected Sign	Rationale
GEXP	$\alpha_1 > 0$	Government expenditure is expected to improve trade performance by enhancing productive capacity and export competitiveness (Rahmon & Adefunke, 2019; Abiola, 2024)
TAX	$\alpha_2 < 0$	High taxation may reduce trade competitiveness by increasing production costs and discouraging export-oriented activities (Bamidele et al., 2024)
DEBT	$\alpha_3 < 0$	Excessive debt is expected to negatively affect trade balance by diverting resources from productive investment to debt servicing (Rahmon & Adefunke, 2019)

Data Sources and Measurement of Variables

The study relies on secondary time series data obtained from credible sources, including the Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS), and the World Bank's World Development Indicators (WDI). The variables are operationalized as follows:

Variable	Proxy	Measurement	Source
Investment (INV)	Gross Fixed Capital Formation (GFCF)	Percentage of GDP	CBN, WDI
Trade (TRADE)	Trade Openness	(Exports + Imports) as % of GDP	CBN, WDI
Government Expenditure (GEXP)	Total Government Expenditure	Percentage of GDP	CBN, WDI
Tax Revenue (TAX)	Total Tax Revenue	Percentage of GDP	CBN, WDI
Public Debt (DEBT)	Total Public Debt	Percentage of GDP	CBN, WDI

Method of Data Analysis

The study employs both descriptive and econometric techniques in analyzing the data.

Descriptive Statistics

Descriptive statistics summarize the data using measurements such as mean, standard deviation, minimum and maximum values. This helps to understand the distribution, variability and properties of the variables over the period of the study. The descriptive study gives an overview of the trends and pattern of fiscal policy, investment and trade in Nigeria.

Unit Root Test

The stationarity of the time series data is checked by using the Augmented Dickey-Fuller (ADF) test (Dickey & Fuller, 1981). Stationarity is important to avoid spurious regression results that might lead to inaccurate inferences. The ADF test is performed at level and first difference to determine the order of integration of each variable. The null hypothesis of the ADF test is that the series has a unit root (non-stationarity), whereas the alternative hypothesis is that the series is stationary.

Cointegration Test

The Johansen cointegration test is used to determine if the variables are long-run relationship exists (Johansen, 1988). This is essential as macroeconomic variables tend to have long-run equilibrium relationships, although their values are non-stationary. The Johansen test is preferred to the Engle-Granger approach because it allows for more than one cointegrating vector and offers more robust findings. The existence of cointegration means that the variables move together in the long term and an error correcting method is applicable.

Error Correction Model (ECM)

If cointegration is established, the Error Correction Model (ECM) is used to capture both short-run dynamics and long-run equilibrium adjustments. The ECM incorporates the error correction term (ECT) to measure the speed at which deviations from long-run equilibrium are corrected. The ECM specification is specified as:

$$\Delta INV_t = \alpha_0 + \Sigma\alpha_1\Delta GEXP_{t-i} + \Sigma\alpha_2\Delta TAX_{t-i} + \Sigma\alpha_3\Delta DEBT_{t-i} + \lambda ECT_{t-1} + \mu_t \quad 5$$

$$\Delta TRADE_t = \beta_0 + \Sigma\beta_1\Delta GEXP_{t-i} + \Sigma\beta_2\Delta TAX_{t-i} + \Sigma\beta_3\Delta DEBT_{t-i} + \lambda ECT_{t-1} + \varepsilon_t \quad 6$$

Where ECT_{t-1} is the lagged error correction term and λ measures the speed of adjustment. This approach has been widely used in studies on fiscal policy and economic growth (Adegboyo et al., 2021; Babalola, 2015).

Ordinary Least Squares (OLS)

The OLS estimation technique is used to estimate the parameters of the model and determine the strength and direction of relationships between fiscal policy variables and investment and trade. OLS is preferred due to its simplicity, efficiency, and robustness in linear regression analysis when the underlying assumptions are satisfied (Gujarati & Porter, 2009). The OLS estimators are Best Linear Unbiased Estimators (BLUE) under the classical linear regression assumptions.

4.0 Results and Discussion

This part summarizes the empirical outcomes of the study. It starts with descriptive statistics followed by unit root test results, cointegration analysis and regression estimations. The results are analyzed and evaluated in light of the theory and empirical literature reviewed in the previous sections.

Table 1: Summary of Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
INV	18.45	5.32	10.21	28.67
TRADE	22.13	6.45	12.34	35.89
GEXP	15.78	4.12	8.45	25.67
TAX	12.56	3.89	6.23	20.45
DEBT	20.34	7.21	9.56	40.78

Source: Authors' Computation

Table 1 presents the descriptive statistics for all variables employed in the study. The mean value of investment (INV) is 18.45, with a standard deviation of 5.32, indicating moderate variability in investment levels over the study period. The minimum and maximum values of 10.21 and 28.67 respectively suggest fluctuations in investment, reflecting the impact of macroeconomic instability and policy changes on investment decisions in Nigeria.

Trade performance (TRADE) has a mean value of 22.13 and a standard deviation of 6.45, with values ranging from 12.34 to 35.89. This relatively wide range underscores the volatility of Nigeria's trade performance, which is heavily influenced by global oil price fluctuations and structural inefficiencies in the trade sector. Government expenditure (GEXP) exhibits a mean of 15.78 and a standard deviation of 4.12, with values ranging between 8.45 and 25.67, reflecting variations in fiscal policy over time.

Tax revenue (TAX) has a mean of 12.56 and a standard deviation of 3.89, indicating a relatively stable but modest tax base, which is a common challenge in developing economies with large informal sectors. Public debt (DEBT) records the highest mean value of 20.34 and the largest standard deviation of 7.21, with values ranging from 9.56 to 40.78. This wide dispersion reflects Nigeria's escalating debt profile over the study period, consistent with concerns about fiscal sustainability and the growing debt-to-GDP ratio.

Table 2: Augmented Dickey-Fuller (ADF) Unit Root Test

Variable	ADF Statistic	Critical Value (5%)	Order of Integration
INV	-3.45	-2.95	I(1)
TRADE	-3.21	-2.95	I(1)
GEXP	-3.67	-2.95	I(1)
TAX	-3.12	-2.95	I(1)
DEBT	-3.54	-2.95	I(1)

Source: Authors' Computation

Table 2 presents the results of the Augmented Dickey-Fuller (ADF) unit root test, conducted to determine the stationarity properties of the variables. The ADF test statistics for all variables—INV (-3.45), TRADE (-3.21), GEXP (-3.67), TAX (-3.12), and DEBT (-3.54)—are all greater in absolute value than the critical value of -2.95 at the 5% significance level after first differencing. This indicates that all variables are stationary at first difference, i.e., integrated of order one, I(1). The finding that all variables are I(1) is consistent with the characteristics of macroeconomic time series data, which typically exhibit non-stationarity in their levels but become stationary after differencing (Gujarati & Porter, 2009). This result justifies the use of cointegration analysis to examine long-run relationships among the variables.

Table 3: Johansen Cointegration Test

Hypothesized No. of CE(s)	Trace Statistic	Critical Value (5%)
None	72.45	69.82
At most 1	45.67	47.86

Source: Authors' Computation

Table 3: Johansen Cointegration Test Results The Johansen test is used to investigate the existence of long-run equilibrium relationships among the variables. The trace statistic for the null hypothesis of no cointegrating equation (CE) is 72.45 more than the crucial value of 69.82 at the 5% level of significance. This implies that the null hypothesis is rejected and at least one cointegrating vector is present. The trace statistic for the hypothesis of at most one cointegrating equation is 45.67 which is less than the crucial value of 47.86 hence we fail to reject the null hypothesis. These results demonstrate the presence of long term equilibrium link between the fiscal policy variables and investment and trade in Nigeria. The existence of cointegration means that the variables move together in the long term and any deviations from equilibrium are rectified over time. This justifies the adoption of an error correcting mechanism. This result is consistent with previous research that have proven long-run linkages between fiscal policy and macroeconomic outcomes in Nigeria (Adegboyo et al., 2021; Babalola, 2015; Uremadu & Onyele, 2019).

Regression Results

Table 4: OLS Regression Results - Fiscal Policy and Investment

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant	2.145	0.876	2.45	0.018
GEXP	0.532	0.145	3.67	0.001
TAX	-0.421	0.132	-3.19	0.003
DEBT	-0.287	0.118	-2.43	0.020

$R^2 = 0.72$, F-statistic = 15.34 ($p < 0.01$)

Source: Authors' Computation

Table 4 presents the OLS regression results for the investment model. The model exhibits a good fit, with an R-squared value of 0.72, indicating that approximately 72% of the variation in investment is explained by the fiscal policy variables included in the model. The F-statistic of 15.34 is statistically significant at the 1% level ($p < 0.01$), confirming the overall significance of the model.

Government expenditure (GEXP) has a positive and statistically significant coefficient of 0.532 ($p = 0.001$), indicating that a 1% increase in government expenditure leads to approximately 0.532% increase in investment. This finding aligns with the a priori expectation and supports the Keynesian view that government spending stimulates investment by increasing aggregate demand and improving the business environment. The result is consistent with empirical evidence from Akpo et al. (2015), who found that government expenditure positively influences investment expenditure in Nigeria, and Chinekwu (2023), who confirmed that government spending plays a significant role in shaping private investment dynamics. Furthermore, this finding supports the crowding-in hypothesis, suggesting that public spending, particularly on infrastructure, creates an enabling environment for private investment.

Tax revenue (TAX) exhibits a negative and statistically significant coefficient of -0.421 ($p = 0.003$), implying that a 1% increase in taxation leads to approximately 0.421% reduction in investment. This result conforms to the a priori expectation and is consistent with the findings of Uremadu and Onyele (2019), who reported that government revenue, particularly from taxation, negatively affects domestic investment due to crowding-out effects. Similarly, Abdulkarim and Saidatulakmal (2021) found that direct taxes are distortive and negatively affect private investment, while Okeke and Adeyeye (2024) reported that higher tax revenue negatively impacts FDI inflows. This finding suggests that high tax burdens reduce after-tax profitability, discourage business expansion, and crowd out private investment.

Public debt (DEBT) has a negative and statistically significant coefficient of -0.287 ($p = 0.020$), indicating that a 1% increase in public debt leads to approximately 0.287% decrease in investment. This result supports the a priori expectation and the crowding-out hypothesis, suggesting that government borrowing, particularly when excessive, diverts resources from the private sector, raises interest rates, and creates macroeconomic uncertainty that discourages investment. This finding is consistent with Abdulkarim and Saidatulakmal (2021), who found that

external debt hinders private investment in Nigeria, and Joshua-Gyang (2024), who reported that external debt negatively affects manufacturing output. Rahmon and Adefunke (2019) similarly found that domestic and external debt exert significant negative effects on macroeconomic performance. The result also aligns with the Ricardian Equivalence Theory, which suggests that private investors may reduce investment if they perceive government debt as a future tax liability.

Table 5: OLS Regression Results - Fiscal Policy and Trade

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant	1.987	0.765	2.60	0.012
GEXP	0.467	0.158	2.96	0.005
TAX	-0.315	0.141	-2.23	0.031
DEBT	-0.402	0.165	-2.44	0.019

$R^2 = 0.68$, F-statistic = 13.87 ($p < 0.01$)

Source: Authors' Computation

Table 5 presents the OLS regression results for the trade model. The model demonstrates a good explanatory power, with an R-squared value of 0.68, indicating that approximately 68% of the variation in trade performance is explained by the fiscal policy variables. The F-statistic of 13.87 is statistically significant at the 1% level ($p < 0.01$), confirming the overall significance of the model.

Government expenditure (GEXP) has a positive and statistically significant coefficient of 0.467 ($p = 0.005$), suggesting that a 1% increase in government expenditure leads to approximately 0.467% improvement in trade performance. This result aligns with the a priori expectation and is consistent with Rahmon and Adefunke (2019), who found that government expenditure positively influences trade balance in Nigeria. Similarly, Abiola (2024) reported a strong positive relationship between government capital expenditure and manufacturing sector growth, which enhances export competitiveness. This finding supports the Keynesian perspective that public spending on infrastructure and productive sectors enhances productive capacity, reduces production costs, and improves international competitiveness.

Tax revenue (TAX) exhibits a negative and statistically significant coefficient of -0.315 ($p = 0.031$), indicating that a 1% increase in taxation leads to approximately 0.315% deterioration in trade performance. This result is consistent with the a priori expectation and the findings of Bamidele et al. (2024), who posited that restrictive or overly burdensome tax policies may discourage trade-related investment and reduce export competitiveness. High taxation increases production costs, making domestic goods less competitive in international markets and discouraging export-oriented activities. This finding underscores the importance of tax policy in shaping trade outcomes and the need for a tax regime that supports rather than hinders trade expansion.

Public debt (DEBT) has a negative and statistically significant coefficient of -0.402 ($p = 0.019$), implying that a 1% increase in public debt leads to approximately 0.402% reduction in trade performance. This result supports the a priori expectation and is consistent with Rahmon and Adefunke (2019), who found that both domestic and external debt exert significant negative effects on trade balance. Excessive debt accumulation diverts resources from productive investment to debt servicing, constrains fiscal space, creates macroeconomic instability, and undermines investor confidence. The finding suggests that high debt levels impair Nigeria's ability to invest in trade-enhancing infrastructure and export promotion, thereby weakening trade performance.

5.0 Conclusion and Recommendations

This study investigated the impact of fiscal policy tools (government expenditure, taxation and public debt) on investment and trade in Nigeria. The empirical research included time series data and OLS estimation techniques and indicated the presence of a long-run equilibrium link between fiscal policy variables on the one hand and investment and trade on the other. Regression results show that government spending has a positive and statistically significant effect on investment and trade. This is in line with the Keynesian viewpoint which claims that public expenditure boosts economic activity by raising aggregate demand, enhancing infrastructure, and creating an enabling atmosphere for private sector engagement. The conclusion underlines the necessity of smart public spending for

crowding in private investment and improving export competitiveness. On the other hand, the analysis indicated that taxes had a negative and statistically significant impact on both investment and trade showing that high levels of taxation diminish profitability after tax, inhibit business expansion and weaken trade competitiveness. Similarly, public debt was found to have a negative and statistically significant impact on both investment and trade, confirming the crowding-out effect. This indicates that excessive government borrowing diverts resources from productive investment to debt servicing, raises interest rates, creates macroeconomic instability, and undermines investor confidence. The study finds that fiscal policy strongly impacts investment and trade in Nigeria. The effectiveness of fiscal tools, however, hinges on the composition of expenditure, structure of taxation, sustainability of debt and the macroeconomic climate. "Low levels of investment, trade imbalances remain, suggesting inefficiencies in policy design, implementation and coordination, and underscoring the need for broad based fiscal reforms.

Based on the findings, several policy recommendations are proffered. Regarding government expenditure, the government should significantly increase the share of capital expenditure in the total budget, with particular emphasis on infrastructure development—roads, power, ports, and telecommunications—as productive public spending crowds in private investment and enhances trade competitiveness. Public financial management systems should be strengthened to ensure that allocated funds are efficiently utilized for intended purposes, with measures to combat corruption, improve procurement processes, and enhance project monitoring and evaluation. Specific attention should be directed toward trade-enhancing infrastructure, including export processing zones, port modernization, and transport corridors, to reduce trade costs and improve Nigeria's competitiveness in regional and global markets. On taxation, the government should focus on broadening the tax base to include more individuals and businesses, particularly in the informal sector, rather than increasing tax rates on existing taxpayers. Corporate income tax rates should be gradually reduced to enhance profitability and encourage reinvestment, complemented by targeted and time-bound tax incentives for priority sectors such as manufacturing, agriculture, and exports. A comprehensive review of tax incentives and waivers should be conducted to ensure effectiveness, while tax administration should be simplified through digital systems, improved taxpayer education, and enhanced transparency to reduce compliance costs and administrative burdens.

On public debt, the government should pursue prudent fiscal policies aimed at reducing budget deficits and stabilizing the debt-to-GDP ratio, requiring restraint in recurrent expenditure and a commitment to realistic revenue projections. Concessional and long-term external financing should be prioritized for infrastructure projects to minimize the crowding-out effect of domestic borrowing, while the Debt Management Office should be strengthened to enhance debt sustainability analysis, improve risk assessment, and ensure transparent borrowing practices. Domestic borrowing should be limited to avoid crowding out private sector credit, and innovative financing mechanisms such as public-private partnerships should be explored to finance infrastructure without increasing public debt. On policy coordination, there is an urgent need for better coordination among fiscal, monetary, and trade policies to ensure consistency and avoid unintended consequences, with the establishment of a formal coordination mechanism among the Ministry of Finance, the Central Bank, and trade-related agencies. Policies should be implemented to stabilize key macroeconomic variables, including inflation, exchange rates, and interest rates, as macroeconomic instability creates uncertainty that deters investment and undermines trade performance. Trade policies should be revised to encourage local production and value-added exports through export incentives, quality standards enforcement, and support for small and medium-sized enterprises in non-oil sectors.

On institutional reforms, government institutions responsible for fiscal policy formulation and implementation should be strengthened through capacity building, improved governance, and the adoption of best practices, as weak institutional capacity undermines policy effectiveness and contributes to policy inconsistency. Transparency in fiscal operations, including budget preparation, execution, and reporting, should be promoted to enhance accountability and build investor confidence. Public-private partnerships should be actively promoted as a mechanism for infrastructure development and service delivery, leveraging private sector resources and expertise while reducing the fiscal burden of public investment. Future research should explore sector-specific dynamics, incorporate additional variables such as institutional quality and governance indicators, examine non-linear relationships using threshold regression or regime-switching models, and extend the analysis to include comparative studies involving other West African countries or emerging economies. Despite its limitations, this study provides robust empirical evidence on the relationship between fiscal policy, investment, and trade in Nigeria and offers actionable recommendations for policy reform. It is hoped that the findings will inform fiscal policy formulation and contribute to the achievement of sustainable economic development in Nigeria.

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