FISCAL POLICY TOOLS AND SUSTAINABLE DEVELOPMENT IN NIGERIA: EVIDENCE FROM ADJUSTED NET SAVINGS

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Abstract
This study examines the effects of fiscal policy tools on sustainable development in Nigeria over the period 1981–2023. Anchored on the modified Keynesian framework, the study estimates the long-run and short-run effects of annual time-series data based on Autoregressive Distributed Lag (ARDL) approach. The findings indicate that government capital expenditure im proves Adjusted Net Savings(ANS), whereas recurrent expenditure undermines long-term sustainability. Non-oil tax revenue exerts significant negative effect, while, oil revenue has positive but insignificant impact on ANS.Similarly, fiscal deficit had negative and insignificant effect on ANS, reflecting limited sustainability of deficit-financed expenditure. The results also show that Nigeria's macro-economy is subject to recurrent structural breaks driven by oil-price cycles, discrete changes in the policy regime, and external financing conditions. Accounting for them is essential both for valid inferences and for the design of policies that can survive oil-price or political shocks.By adopting ANS as an indicator of sustainable development, the study extends the fiscal policy literature beyond conventional growth measures and provides new evidence on the heterogeneous effects of fiscal instruments in Nigeria. The findings underscore the need to reorient fiscal policy toward productive public investment, and prioritize investment-driven fiscal deficits to achieve sustainable development.

Keywords: Adjusted net savings, fiscal deficit, fiscal policy, government expenditure, Nigeria, non-oil tax revenue, oil revenue, sustainable development.

Jel Classification: E62, H50, H62, O40, Q01

1.0 Introduction

Fiscal policy remains one of the principal instruments through which governments promote economic development, macroeconomic stability, and long-term welfare. In developing economies, public expenditure, taxation, and fiscal deficits are expected to stimulate investment, improve infrastructure, and support inclusive growth. However, the effectiveness of these instruments depends on the efficiency of resource allocation, fiscal discipline, and institutional quality. In Nigeria, despite decades of fiscal reforms and substantial public expenditure, sustainable development outcomes remain weak, as reflected in declining public infrastructure, increasing public debt, environmental degradation, and low levels of national wealth accumulation (Anachedo et al., 2022; CBN, 2024; Odili, et al. 2019). Fluctuations in international oil prices frequently disrupt government revenue, resulting in increased borrowing and expenditure adjustments that undermine fiscal sustainability (Ejinkonye et al., 2023; Odili et al., 2024). Although deficit financing may stimulate aggregate demand during economic downturns, persistent deficits financed through borrowing may reduce national wealth, crowd out private investment, and weaken long-run economic sustainability (Nwani & Adukwu, 2024;Utouh & Kitole, 2025). These developments raise important questions regarding whether existing fiscal policy instruments are promoting sustainable development or merely supporting short-term economic expansion.

Empirical studies on fiscal policy in Nigeria have focused primarily on conventional measures of economic performance such as Gross Domestic Product (GDP) growth, investment, or employment (Chiekezie, et al., 2017; Dauda & Gbadebo, 2020; Ezeaku et al., 2020; Dabor et al., 2025). Although these indicators measure short-run economic performance, they provide limited evidence regarding whether current fiscal policies preserve the productive, human, and natural capital required for future generations. Conceptually, fiscal policy encompasses three primary components government expenditure, taxation, and fiscal deficits but there is no consensus on which of these best captures the stance of fiscal policy. Some scholars focus on tax revenue as a proxy (Abigail, 2023; Babatope & Adefisayo, 2022; Dabor et al., 2025; Eze & Ukwueni, 2023; Ogbonnaya & Nelson, 2018), while others emphasize fiscal deficits and deficit financing (Al-Saadi & Khudari, 2024; Adekunle, 2023; Adesuyi et al., 2024; Ugwu, et al., 2020). Others adopt a more comprehensive approach by incorporating both revenue and expenditure measures (Nkalu & Agu, 2023; Okorontah et al., 2024; Oluwayemisi et al., 2024; Phuc, 2018; Yahaya, 2020). Even within expenditure-based analyses, there is divergence, with some studies treating total government expenditure as a single aggregate, while others argue for its disaggregation into recurrent and capital components.Existing findings therefore remain mixed, with substantial disagreement over the appropriate measurement of fiscal policy and its long-run effects (Adebayo et al., 2024; Nkalu & Agu, 2023; Okorontah et al., 2024; Adesuyi,et al., 2024). These inconsistencies indicate that the relationship between fiscal policy and sustainable development remains insufficiently understood.

To address this limitation, this study adopts Adjusted Net Savings (ANS) as the measure of sustainable development to capture changes in a nation's comprehensive wealth by accounting for gross national savings, investment in human capital, depreciation of produced capital, depletion of natural resources, and environmental damages. Developed by the World Bank, ANS provides a forward-looking indicator of sustainability because it evaluates whether current economic activities increase or deplete the productive assets available to future generations. This study therefore fills three important gaps. First, it employs broader measure of sustainable

development (Adjusted Net Savings). Second, fiscal policy variables were disaggregatedto distinguish the individual effects of capital expenditure, recurrent expenditure, non-oil tax revenue, oil revenue, and fiscal deficits. Third, empirical methodology included structural breaks analysis to ensure shocks in the economy are captured in the model. The study seeks to:examine the effect of government capital expenditure; government recurrent expenditure;non-oil tax revenue; oil revenue; andfiscal deficit on Adjusted Net Savings in Nigeria. Using annual time series data spanning 1981-2023 and Autoregressive Distributed Lag (ARDL) framework, the study provides updated empirical evidence on the long-run and short-run relationships between fiscal policy instruments and sustainable development. The findings offer policy-relevant insights for improving fiscal resource allocation, strengthening fiscal sustainability, and supporting the achievement of Nigeria's Sustainable Development Goals.

2.0 Literature Review

This conceptual framework positions fiscal policy as the central mechanism through which government shapes the trajectory of sustainable development by influencing economic expansion, social welfare, and environmental sustainability. Government revenue, primarily derived from taxation, constitutes the lifeblood of public sector activity. It provides the financial foundation upon which development programmes and strategic investments are built. When tax systems are efficient, equitable, and well-administered, they strengthen the state's capacity to finance critical sectors such as infrastructure, education, and healthcare sectors that are indispensable for long-term growth. Complementing revenue generation is government expenditure, which serves as a direct instrument for stimulating economic activity and advancing societal well-being. Strategic and productive public spending particularly in infrastructure, agriculture, renewable energy, and social welfare has the potential to accelerate growth, create employment, and enhance living standards. Borrowing, when prudently undertaken, enables governments to bridge financing gaps and invest in capital projects that yield long-term economic returns. In such instances, debt becomes a catalyst for development rather than a constraint. Underlying these fiscal instruments is the principle of fiscal discipline and transparency, which serves as the institutional backbone of effective policy implementation. Sound fiscal governance ensures that public resources are managed responsibly, allocated in line with development priorities, and shielded from leakages associated with corruption and inefficiency.

Adjusted Net Savings offers a broader assessment of a nation's investment behavior by incorporating changes in natural and human capital (Olayiwola, 2025). Adjusted net savings framework expands the definition of assets to include natural and human capital recognizing that the depletion of non-renewable resources, or the overuse of renewable ones, constitutes a form of disinvestment in the future (Bui, 2018). By integrating these broader dimensions, ANS provides a more realistic and unambiguous indicator of whether a nation's fiscal and investment decisions are aligned with sustainable development objectives.Figure 1 presents a structured causal framework highlighting four theoretically coherent blocks that influence ANS through distinct but interconnected channels.

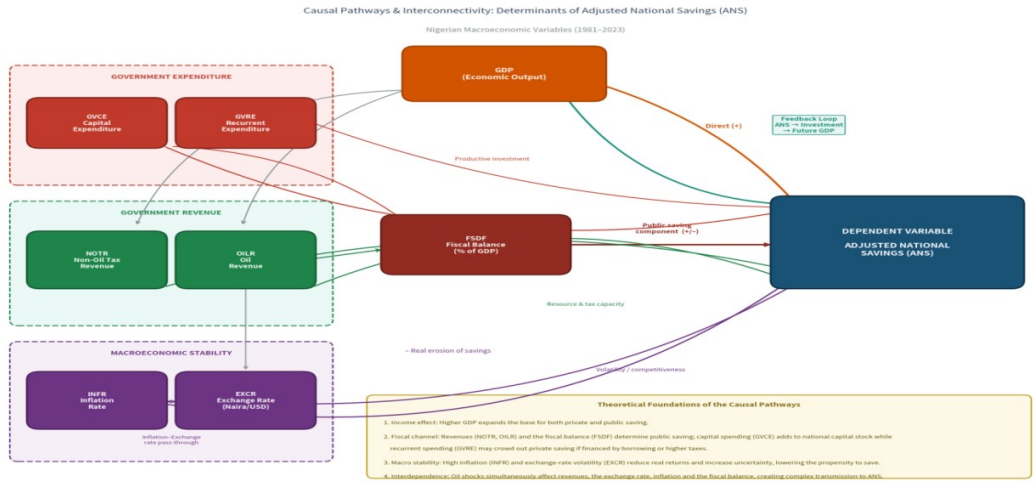


Figure 1: Conceptual framework on fiscal policy and sustainable development measured by adjusted net savings.

Table 1:
Key Causal Pathways

Block	Variables	Primary theoretical role
Government Expenditure	GVCE, GVRE	Capital spending contributes to national capital formation; Recurrent spending can crowd out private saving when deficit-financed.
Government Revenue	NOTR, OILR	Determine the size of public saving and the overall fiscal space.
Fiscal Balance	FSDF	Direct public-saving component of national savings (surplus adds, deficit subtracts).
Macroeconomic Stability	INFR, EXCR	Affect real returns, uncertainty and the propensity to save.

Source: Author's Computation, 2026.

Theoretical Underpinning

This study is anchored primarily on the Keynesian theory of fiscal policy (Keynes, 1936), which provides the principal theoretical foundation for examining the relationship between fiscal policy tools and sustainable development in Nigeria. Keynesian theory posits that government intervention through public expenditure, taxation, and fiscal deficits can influence aggregate demand, stimulate productive investment, and promote long-term economic growth, particularly in the presence of market imperfections and underutilized resources. Within this framework, productive fiscal expenditures are expected to enhance national wealth accumulation and improve Adjusted Net Savings (ANS) by increasing investment in physical, human, and social capital.

The study also draws on Ricardian Equivalence (Barro, 1974) as a complementary theoretical perspective. It provides a benchmark for evaluating the effectiveness of deficit-financed fiscal policy. Ricardian Equivalence argues that rational economic agents anticipate future tax liabilities associated with government borrowing and consequently increase savings, thereby offsetting the expansionary effects of fiscal deficits. Although the assumptions of perfect capital markets, infinite planning horizons, and fully rational agents are unlikely to hold in developing economies such as Nigeria, the theory offers a useful basis for interpreting whether fiscal deficits contribute to or weaken sustainable development.

Empirical Literature

Government Expenditure And Sustainable Development

Empirical evidence on the relationship between government expenditure and development outcomes remains mixed. Using Nigerian data (1990–2023), Olayiwola (2025) employed the Autoregressive Distributed Lag (ARDL) model and found that government expenditure negatively affected Adjusted Net Savings, although the relationship became positive after controlling for institutional quality. Similarly, Abdullahi and Lawal (2022) reported that capital expenditure promoted economic growth in the long run, whereas recurrent expenditure exerted a negative long-run effect despite positive short-run impacts. In contrast, Oluwayemisi et al. (2024) found that recurrent expenditure positively influenced economic growth, while capital expenditure produced a negative effect, suggesting that the effectiveness of public expenditure depends largely on expenditure composition and implementation efficiency.

Taxation Studies

Evidence on taxation presents equally divergent findings. Odili et al., (2019) and Ukangwa et al., (2023) reported that tax revenue negatively affected economic growth in Nigeria, implying that inefficient tax administration and resource utilization may offset the benefits of domestic revenue mobilization. Conversely, studies emphasizing fiscal sustainability argue that tax revenue contributes positively when accompanied by sound governance and efficient public expenditure (Olayiwola, 2025). These findings indicate that the developmental impact of taxation depends not only on revenue generation but also on the quality of fiscal management.

Fiscal Deficit And Public Debt Studies

The literature on fiscal deficits and public debt provides conflicting evidence regarding their macroeconomic effects. Okwoche and Iheonu (2021) found evidence of fiscal fatigue in Sub-Saharan Africa, suggesting that increasing debt weakens governments' fiscal adjustment capacity. Dauda and Gbadebo (2020) reported the absence of long-run fiscal sustainability in Nigeria due to persistent revenue-expenditure imbalances. Similarly, Ukangwa et al., (2023) observed that public debt negatively affected economic growth, while Abdullahi and Lawal (2022) found that although debt stock supported growth, debt servicing constrained long-run economic performance. These studies highlight the importance of distinguishing between productive borrowing and unsustainable fiscal deficits.

Sustainability-Focused Studies

Only a limited number of studies have examined fiscal policy from a sustainability perspective. Olayiwola (2025) used Adjusted Net Savings as a measure of sustainable development and demonstrated that institutional quality significantly moderates the effects of fiscal policy instruments. Beyond Nigeria, Olaoye et al. (2024) showed that fiscal policy alone has limited influence on sustainable development in Sub-Saharan Africa but becomes more effective when complemented by information and communication technology (ICT). Hwang et al. (2025), using a Dynamic Stochastic General Equilibrium (DSGE) model, further demonstrated that household saving behaviour influences the effectiveness of fiscal policy, highlighting the importance of transmission mechanisms between fiscal actions and long-run sustainability.

Empirical Gaps

Methodological gaps exist because most Nigerian studies rely on conventional econometric techniques such as Ordinary Least Squares (OLS), Vector Error Correction Models (VECM), or ARDL only to examine economic growth, but this study further carried out the Bai–Perron (1998,

2003) procedure which locates multiple structural breakpoints and accounts for major structural changes in the Nigerian economy. Second, measurement gaps remain evident, as the majority of studies employ Gross Domestic Product (GDP) or related macroeconomic indicators as proxies for development. This study utilizes Adjusted Net Savings, which captures changes in social, economic, and natural capital. Third, existing studies either focused on aggregate fiscal policy or broader cross-country analyses. This study fills the gap by recognizing the heterogeneous effects of disaggregated fiscal policy instruments.

3.0 Methodology

Data source

This study used annual time-series data for Nigeria covering the period 1981-2023, obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and the World Development Indicators (World Bank).

Model Specification

The theoretical founded of the research model is anchored on the Keynesian construct which states that government intervention (fiscal policy - the ratio of total tax revenue and government expenditure) is needed to improve the economy of a country.The functional relationship is expressed in equation 1, while the econometric model is specified in equation 2.

$$ANS = f(GVCE, GVRE, NOTR, OILR, FSDF, INFR, EXCR) \quad (1)$$

$$ANSt = \beta 0 + \beta 1 GVCEt + \beta 2 GVREt + \beta 3 NOTRt + \beta 4 OILRt + \beta 5 FSDFt + \beta 6 INFRt + \beta 7 EXCRt + \mu t \quad (2)$$

Where; ANS = Adjusted Net Savings (% of GNI); GVCE = Government Capital Expenditure; GVRE = Government Recurrent Expenditure; NOTR = Non-oil Tax Revenue; OILR = Oil Revenue; FSDF = Fiscal Deficit; INFR = Inflation Rate; EXCR = Official Exchange Rate; μt = stochastic error term;β_0 = constant; $\beta_1 - \beta_7$ = parameter estimates.

Because ANS, fiscal variables, and exchange rate exhibit strong positive skewness, their natural logarithms are employed to stabilize variance and reduce heteroscedasticity. However, inflation is retained in its level form because inflation may assume very low or occasionally negative values, making logarithmic transformation inappropriate and potentially introducing estimation bias.The estimated model therefore becomes a natural logarithmic form of equation 2and is specified in equations 3.

$$lnANSt = \beta 0 + \beta 1 lnGVCEt + \beta 2 lnGVREt + \beta 3 lnNOTRt + \beta 4 lnOILRt + \beta 5 lnFSDFt + \beta 6 INFRt + \beta 7 lnEXCRt + \mu t \quad (3)$$

Where;ln = natural log.

a priori expectations - the expected signs of the explanatory variables are derived from Keynesian fiscal theory and the sustainable development literature.

Table 2:
Variables, Expected Signs And Justification

Variable	Expected sign	Justification
Government Capital Expenditure (GVCE)	**Positive (+)**	Productive investment increases national wealth and sustainable development.
Government Recurrent Expenditure (GVRE)	**Ambiguous (±)**	May improve welfare but excessive consumption expenditure can reduce savings.
Non-oil Tax Revenue (NOTR)	**Ambiguous (±)**	Efficient taxation finances development, whereas distortionary taxation may discourage investment.
Oil Revenue (OILR)	**Positive (+)**	Increases fiscal capacity when efficiently managed.
Fiscal Deficit (FSDF)	**Negative (−)**	Persistent borrowing may reduce long-run fiscal sustainability.
Inflation (INFR)	**Negative (−)**	High inflation reduces real savings and investment.
Exchange Rate (EXCR)	**Ambiguous (±)**	Effects depend on trade competitiveness and imported inflation.

Source: Author's Computation, 2026.

Techniques of Data Analysis

The study employs the Autoregressive Distributed Lag (ARDL) model developed by Pesaran, Shin and Smith (2001). The ARDL approach is appropriate because it permits estimation when variables are integrated of mixed orders, I(0) and I(1), provided none is integrated of order two, I(2). It simultaneously estimates the long-run equilibrium relationship and the associated short-run dynamics.The unrestricted ARDL Error Correction Model is specified in equation 4.

$$\Delta lnANSt = \beta 0 + \beta 1\Delta lnANS\{t-i\} + \beta 2\Delta lnGVCE\{t-i\} + \beta 3\Delta lnGVRE\{t-i\} + \beta 4\Delta lnNOTR\{t-i\} + \beta 5\Delta lnOILR\{t-i\} + \beta 6\Delta lnFSDF\{t-i\} + \beta 7\Delta INFR\{t-i\} + \beta 8\Delta lnEXCR\{t-i\} + \delta 1lnANS\{t-1\} + \delta 2lnGVCE\{t-1\} + \delta 3lnGVRE\{t-1\} + \delta 4lnNOTR\{t-1\} + \delta 5lnOILR\{t-1\} + \delta 6lnFSDF\{t-1\} + \delta 7INFR\{t-1\} + \delta 8lnEXCR\{t-1\} + \mu t \quad (4)$$

The existence of a long-run relationship is examined using the Bounds cointegration test.

Model (ECM):

$$lnANSt = \beta X\{t-i\} + \lambda ECM\{t-1\} + \mu t \quad (5)$$

Where: ($ECM_{\{t-1\}}$) denotes the lagged error correction term and (λ) measures the speed of adjustment toward long-run equilibrium.

Endogeneity

Potential endogeneity arising from reverse causality and omitted variables is mitigated by the ARDL framework through the inclusion of lagged dependent and explanatory variables, thereby reducing simultaneity bias. To account for major structural changes in the Nigerian economy, structural break tests (Bai–Perron multiple breakpoint test) was conducted. The Bai–Perron (1998, 2003) procedure locates multiple structural breaks by minimising the residual sum of squares (SSR) of a linear model via dynamic programming, subject to a minimum regime length (here 5–6 observations to avoid degenerate segments). The number of breaks *m* is selected by the Bayesian information criterion(for pure mean shifts) or with a parameter-count penalty of 2(m+1) when intercept and linear trend are present.

$$BIC(m) = Tln(SSR(m)/T) + (m+1)ln(T) \quad (6)$$

Significance of the preferred partition is assessed by a joint Chow-type *F*-test against the no-break null. Complementary evidence is obtained from the Zivot–Andrews unit-root test (one endogenous break, intercept + trend) (Bai, & Perron, 1998;Bai & Perron, 2003; Zivot & Andrews, 1992). Two specifications were examined:pure mean shifts (appropriate for approximately stationary series such as inflation and the fiscal balance); an intercept + linear trend shifts (appropriate for the trending series ln(EXCR)).

Diagnostic Tests

The adequacy of the estimated model is evaluated using standard post-estimation diagnostic tests. These include the Breusch–Godfrey LM test for serial correlation, the Breusch–Pagan–Godfrey test for heteroskedasticity, the Jarque–Bera test for residual normality, and the CUSUM and CUSUM of Squares (CUSUMSQ) tests for parameter stability. Collectively, these tests ensure that the estimated model satisfies the assumptions required for valid statistical inference.

4.0 Results and Discussion

Descriptive statistics

Table 3:

Descriptive Statistics Result

	ANS	GVCE	GVRE	NOTR	OILR	FSDF	INFR	EXCR
Mean	16.77930	1022.559	3073.179	1689.848	2637.207	-2.550930	19.08047	147.4442
Median	14.13000	351.3000	696.8000	500.9900	1707.560	-2.410000	13.01000	118.5700
Max.	40.14000	8145.110	26914.64	13752.77	8878.970	0.780000	72.84000	1478.970
Min.	5.500000	4.100000	4.750000	2.980000	7.250000	-8.570000	5.390000	0.610000
Std. Dev.	9.057059	1761.559	5424.306	2673.439	2684.471	1.829471	16.28135	238.9037
Skewness	1.076261	2.582455	2.663159	2.621135	0.580891	-0.773684	1.867583	4.194464
Kurtosis	3.417869	9.314983	10.55226	11.20698	2.066398	4.161632	5.473588	23.67668
JB	8.614265	119.2449	153.0196	169.9142	3.979921	6.707533	35.95893	892.0697
Prob.	0.013472	0.000000	0.000000	0.000000	0.136701	0.034952	0.000000	0.000000
Obs.	43	43	43	43	43	43	43	43

Source: Author's Computation, 2026.

The descriptive statistics reveal a macroeconomic environment marked by volatility, asymmetry, and structural instability raising critical concerns about the consistency of Nigeria's fiscal and growth dynamics. ANS, though relatively more stable, also exhibits positive skewness and a leptokurtic distribution. The Jarque-Bera test confirms non-normality, suggesting uneven sustainability performance over time. GVCE and GVRE both display substantial dispersion, high skewness, and strong deviations from normality. These patterns reflect inconsistency and possible inefficiencies in public spending. NOTR is highly volatile, with extreme skewness and kurtosis, indicating structural weaknesses in domestic revenue mobilization. In contrast, OILR is relatively stable and normally distributed, highlighting Nigeria's continued dependence on oil as a more predictable revenue source. FSDF maintains a negative average, confirming persistent deficits, alongside non-normal distribution. INFR and EXCR further exhibit significant instability, with high skewness and kurtosis, reflecting macroeconomic uncertainty.

Unit Root Tests

Table 4:
Unit Root Tests Result

	ADF @ level		ADF @ first difference		Order
Variable	**t-Stat.**	**Prob.**	**t-Stat.**	**Prob.**	**of integration**
LNANS	-2.958931	0.1556	-8.381765	0.0000***	I(1)
LNGVCE	-1.787504	0.6930	-6.168730	0.0000***	I(1)
LNGVRE	-2.081571	0.5407	-8.453508	0.0000***	I(1)
LNNOTR	-1.847515	0.6635	-7.415322	0.0000***	I(1)
LNOILR	-0.825046	0.9549	-5.700862	0.0000***	I(1)
FSDF	-3.358131	0.0710	-7.226325	0.0000***	I(1)
LNINFR	-4.365412	0.0065***	-	-	I(0)
LNEXCR	-1.868705	0.6528	-4.793859	0.0020***	I(1)

Source: Author's Computation, 2026.

The results of the ADF unit root test(Table 4) reveal that LNANS, LNGVCE, LNGVRE, LNNOTR, LNOILR, FSDF, and LNEXCR become stationary after first differencing, indicating that they are integrated of order I(1). In contrast, LNINFR was stationary at level I(0). Thisjustifies the application of the bounds cointegration testing approach. Furthermore, when a variable enters the ARDL model at zero lag as observed with inflation it implies that its current value exerts an immediate influence on the dependent variable. In the transformation to the error correction model (ECM), this contemporaneous effect is absorbed into the long-run relationship or embedded within the intercept and lagged level terms that form the error correction component (Kripfganz & Schneider, 2023). Consequently, it does not appear explicitly among the short-run dynamics, which are captured by the differenced variables.

Bounds Test

Table 5:
Bounds Test

Test Statistic	Value	k	Critical Values	I(0)	I(1)	Decision
F-statistic	**5.4575**	7	10%	2.38	3.45	Reject H_0
			5%	2.69	3.83	Reject H_0
			1%	3.31	4.63	Reject H_0

Source: Author's Computation, 2026.

Table 5 presents the results of the ARDL Bounds Cointegration Test. The computed F-statistic of 5.4575 exceeds the upper bound critical value of 3.83 at the 5% significance level and is also greater than the 1% upper bound critical value of 4.63. Following the decision rule proposed by Pesaran, et al., (2001), the null hypothesis of no long-run relationship is rejected.This indicates that the variables move together over time despite short-run fluctuations, thereby justifying the

estimation of both the long-run coefficients and the associated Error Correction Model (ECM) within the ARDL framework.

Long-Run Estimation

Table 6:
Long-Run Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNGVCE	0.710113	0.124950	5.683196	0.0001
LNGVRE	-0.180187	0.577457	-0.312035	0.7600
LNNOTR	-1.423591	0.372940	-3.817213	0.0021
LNOILR	0.143537	0.204198	0.702931	0.4945
LNFSDF	-0.020871	0.049555	-0.421167	0.6805
LNINFR	-0.041637	0.079796	-0.521795	0.6106
LNEXCR	1.673485	0.597145	2.802476	0.0150

Source: Author's Computation, 2026.

Table 6 presents the long-run effects of fiscal policy instruments on ANS in Nigeria.GVCE has a positive and statistically significant effect (β = 0.7101, $p< 0.01$), indicating that a 1% increase in capital expenditure increases ANS by approximately 0.71%. Economically, this suggests that productive public investment enhances national wealth accumulation and promotes sustainable development.GVRE has a negative but insignificant effect (β = –0.1802, $p> 0.05$), implying that recurrent spending does not significantly contribute to long-term sustainability.NOTR exerts a negative and significant effect (β = –1.4236, $p< 0.01$). This indicates that higher NOTR is associated with lower ANS, suggesting that inefficiencies in revenue utilization may undermine sustainable wealth accumulation.OILR has a positive but insignificant coefficient (β = 0.1435, $p> 0.05$), implying that oil revenues have not translated into significant improvements in sustainable development, possibly due to revenue volatility and governance challenges.FSDF and INFR both exhibit negative but statistically insignificant effects, indicating that they have no significant long-run influence on ANS during the study period.EXCR has a positive and statistically significant effect (β = 1.6735, $p< 0.05$), suggesting that exchange rate movements contributed positively to sustainable development, possibly through improved export earnings and fiscal revenues.

Error Correction Mechanism (ECM) Estimation

Table 7:
Error Correction Mechanism

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.859733	0.609529	7.972927	0.0000
D(LNGVCE)	0.086721	0.183769	0.471900	0.6448
D(LNGVCE(-1))	-0.738588	0.238469	-3.097208	0.0085
D(LNGVRE)	-1.392249	0.288927	-4.818687	0.0003
D(LNGVRE(-1))	-1.589952	0.366289	-4.340701	0.0008
D(LNGVRE(-2))	-0.778096	0.350477	-2.220106	0.0448
D(LNNOTR)	-0.506093	0.232875	-2.173237	0.0488
D(LNNOTR(-1))	1.157190	0.258386	4.478532	0.0006
D(LNNOTR(-2))	0.576814	0.195527	2.950046	0.0113
D(LNOILR)	0.601526	0.163064	3.688899	0.0027
D(LNOILR(-1))	0.766963	0.178606	4.294149	0.0009

D(LNOILR(-2))	0.499404	0.209071	2.388678	0.0328
D(FSDF)	-0.122419	0.034655	-3.532546	0.0037
D(FSDF(-1))	-0.126833	0.047217	-2.686202	0.0187
D(FSDF(-2))	-0.116453	0.042676	-2.728767	0.0172
D(LNEXCR)	0.647057	0.360670	1.794039	0.0961
D(LNEXCR(-1))	-1.191437	0.538731	-2.211562	0.0455
D(LNEXCR(-2))	-2.237104	0.603596	-3.706295	0.0026
CointEq(-1)	-0.477136	0.180233	-2.647328	0.0199
R-squared	0.858360			
Adjusted R-squared	0.723802			
F-statistic	6.379095			
Prob(F-statistic)	0.000065			
Durbin-Watson stat	2.406577			

Source: Author's Computation, 2026.

Table 7 presents the short-run dynamics. The error correction term, CointEq (-1), is negative and statistically significant ($\beta = -0.4771$, $p < 0.05$), confirming the existence of a stable long-run equilibrium relationship among the variables. The coefficient implies that approximately 47.7% of short-run deviations from equilibrium are corrected each year, indicating a moderate speed of adjustment toward long-run sustainable development.

In the short run, lagged government capital expenditure exerts a significant negative effect on ANS, suggesting that capital investments require time before generating sustainability gains. Government recurrent expenditure consistently exhibits a significant negative effect, implying that recurrent spending reduces national wealth accumulation. Non-oil tax revenue initially reduces ANS but becomes positive in subsequent periods, indicating that the benefits of tax mobilization emerge only after efficient allocation of revenue. Oil revenue has a positive and significant effect across all lag periods, reflecting its short-run contribution to fiscal capacity and investment. Conversely, fiscal deficit has a significant negative effect, indicating that deficit-financed expenditure weakens sustainable development when not directed toward productive investment. Exchange rate effects are mixed, reflecting short-run macroeconomic adjustment and external sector dynamics. The model is statistically robust ($R^2 = 0.858$, Adjusted $R^2 = 0.724$, F-statistic = 6.379,$p < 0.01$), indicating that the fiscal policy variables jointly explain a substantial proportion of the variation in Adjusted Net Savings.

Structural Break Analysis (Bai–Perron Multiple Breakpoint Tests Results)

Table 8:
Inflation Rate (INFR, %)

m	SSR	BIC	F-stat	p-value	Break years (end of regime)
0	11 133.5	242.69	—	—	None
1	8 086.8	232.70	15.45	0.0003	1996
2	4 513.8	211.39	29.33	0.0000	1991, 1996
3	4 013.4	210.10	23.06	0.0000	1986, 1991, 1996
4	3 868.1	212.28	17.84	0.0000	1986, 1991, 1996, 2015
5	3 843.2	215.76	14.04	0.0000	1986, 1991, 1996, 2005, 2015

Source: Author's Computation, 2026.

BIC selects m = 3 breaks (end-of-regime years 1986, 1991, 1996). Regime means:
1981–1986: 13.8 %
1987–1991: 27.3 %
1992–1996: 52.2 %
1997–2023: 12.6 %
SSR falls from 11 133 (no break) to 4 013; the joint $F(3,39) = 23.06$ ($p \approx 0$). Zivot–Andrews rejects a unit root once a break around 1995 is allowed (stat = –7.07, $p = 0.001$). A fourth break in 2015 is only marginally favoured by BIC and produces a modest rise in the mean (to ~16 %).

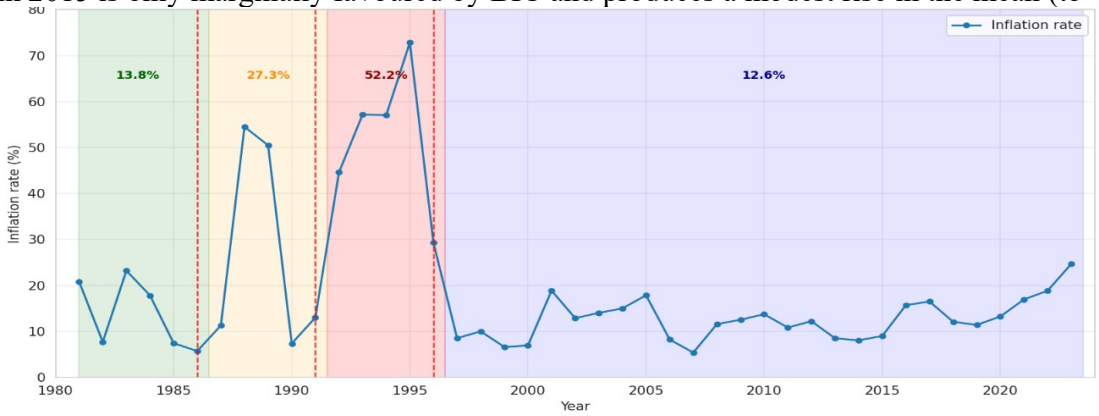


Figure 2; Inflation rate with Bai-Perron structural breaks [m-3] Break years: 1986 (SAP), 1991, 1996 - **Source**: Author's Computation, 2026.

Table 9:
Fiscal balance (FSDF, % of GDP)

m	SSR	BIC	F-stat	p-value	Break years
0	140.57	54.70	—	—	None
1	106.12	46.37	13.31	0.0007	1994
2	83.21	39.67	13.79	0.0000	1994, 2015
3	62.12	30.87	16.42	0.0000	1989, 1994, 2015
4	60.22	33.29	12.67	0.0000	1989, 1994, 2003, 2015

Source: Author's Computation, 2026.

BIC selects m = 3 (1989, 1994, 2015). Regime means:

- 1981–1989: –2.9 %
- 1990–1994: –5.5 %
- 1995–2015: –1.4 %
- 2016–2023: –3.4 %

The joint *F*-test is highly significant. Zivot–Andrews again rejects a unit root after a mid-1990s break.

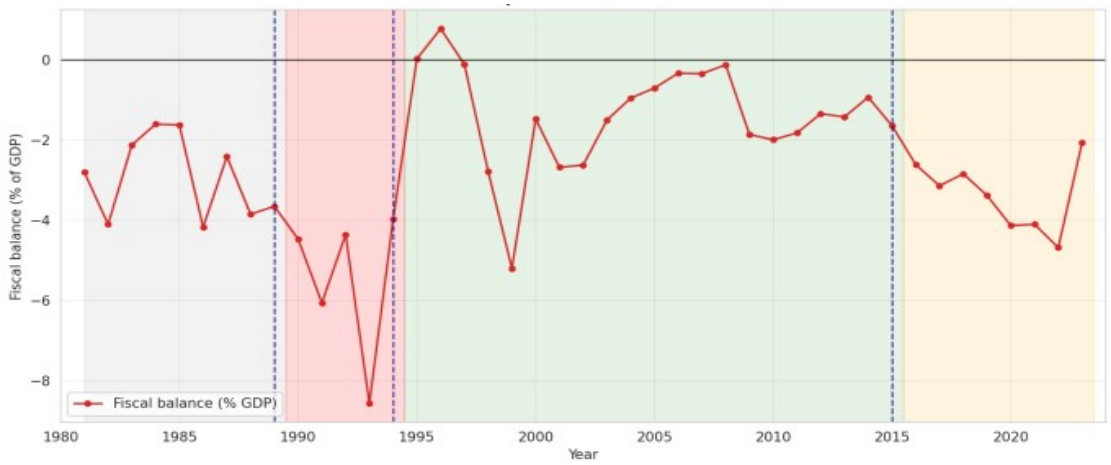


Figure 3: Fiscal balance (% of GDP)with Bai-Perron structural breaks [m-3] Break years: 1989, 1994/2015 - **Source**: Author's Computation, 2026.

Table 10:
Oil Revenue Share of GDP (%)

m	SSR	BIC	F-stat	p-value	Break years
0	1 318.1	150.94	—	—	None
1	863.8	136.53	21.56	0.0000	2014
2	492.7	116.15	33.50	0.0000	1989, 2012
3	415.6	112.59	28.23	0.0000	1988, 1999, 2008
4	272.3	98.17	36.49	0.0000	1988, 1999, 2008, 2014

Source: Author's Computation, 2026.

BIC prefers m = 4 (1988, 1999, 2008, 2014), although *m* = 3 is close. Regime means:

- 1981–1988: 5.6 %
- 1989–1999: 11.6 %
- 2000–2008: 17.2 %
- 2009–2014: 9.7 %
- 2015–2023: 3.4 %

The post-2014 collapse in the oil share is the single largest discrete shift in the sample.

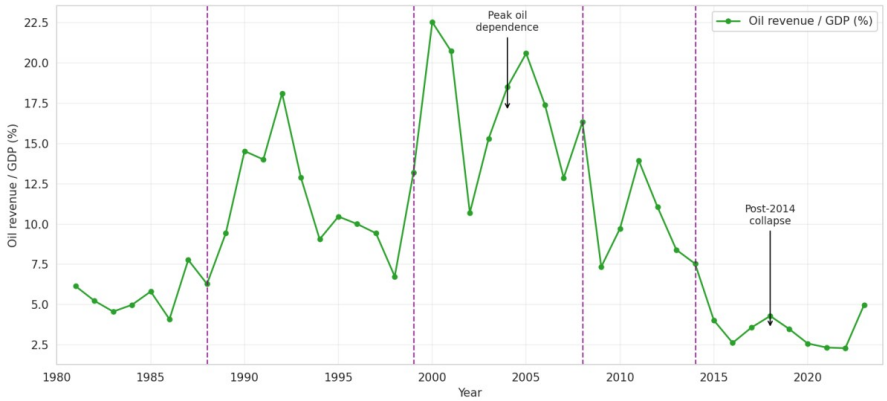


Figure 4: Oil revenue share of GDPwith Bai-Perron structural breaks [m-3] Break years: 1988, 1999, 2008, 2014 - **Source**: Author's Computation, 2026.

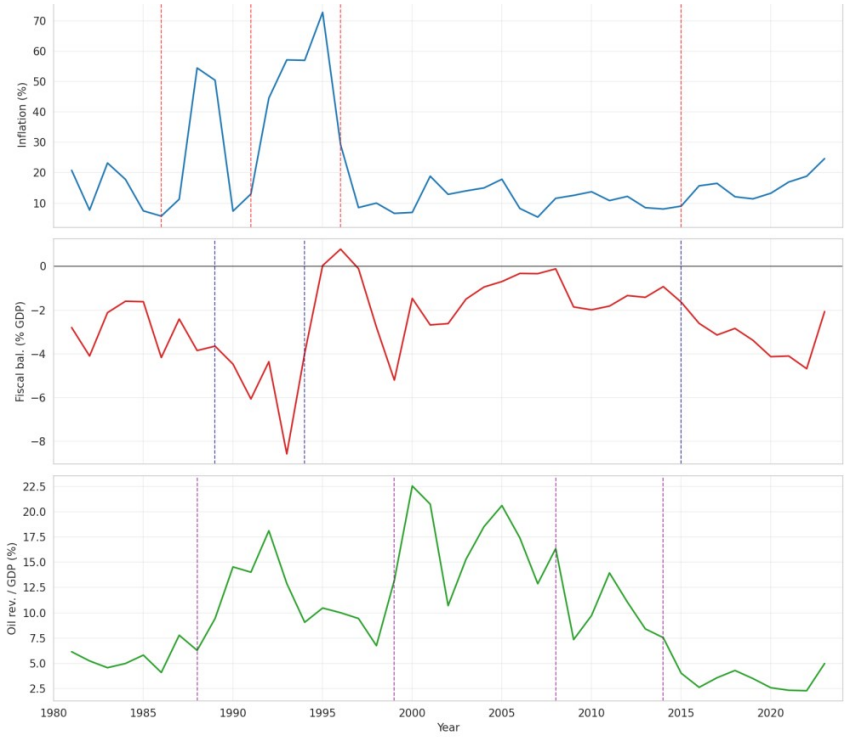


Figure 5: Structural breaks in key Nigerian macro series (Bai-Perron)- **Source**: Author's Computation, 2026.

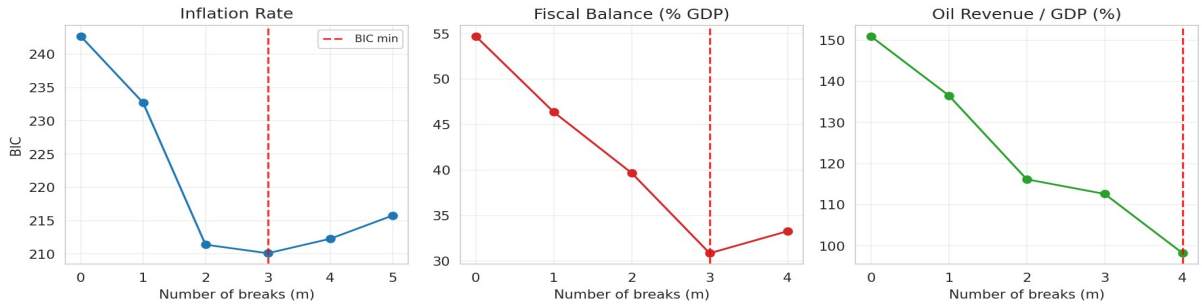


Figure 6:BIC criterion for selecting the number of structural breaks- **Source**: Author's Computation, 2026.

All three core series (Tables 8, 9, 10) reject the null of parameter constancy at conventional significance levels. The BIC-minimising models produce large reductions in SSR and highly significant joint F-statistics. Inflation and the fiscal balance are better characterised as stationary processes around a small number of mean shifts (confirmed by complementary Zivot–Andrews tests that reject unit roots once a mid-1990s break is allowed). The oil-share series exhibits four statistically preferred breaks, reflecting the pronounced commodity cycle.

The estimated break dates align closely with Nigeria's major policy and external shocks: 1986 (SAP): Appears in inflation trend. The Structural Adjustment Programme brought large devaluations, price liberalisation and an initial inflationary impulse that persisted into the early 1990s. 1988–1991 / 1994–1996: Cluster of breaks in inflation, the fiscal balance and the oil share. This period covers the peak of fiscal dominance, political crisis and the hyperinflation episode (mean inflation > 50 % in 1992–96). The fiscal deficit also reached its worst average level (–5.5 % of GDP). 1997–1999 onward: A durable downward shift in mean inflation (to 12.6 %) and an improvement in the fiscal balance (to –1.4 % of GDP on average through 2015). These coincide with the transition to civilian rule, tighter monetary management and the 2005 debt-relief episode. 2000–2008: Peak oil dependence (oil revenue averaged 17 % of GDP). 2008–2009 / 2014–2015: End of the oil-boom regime. The 2014 oil-price collapse produces the single largest discrete drop in the oil-share series and a clear deterioration in the fiscal balance after 2015. Inflation also shows an upward drift in the final regime. 2020–2023: The data registered the effects of COVID-19 and the 2023 subsidy removal/exchange-rate float.

Diagnostic Tests

Table 11:
Diagnostic Test Results

Test	Statistic	Prob.
Breusch-Godfrey Serial Correlation LM Test	0.328161	0.7256
Heteroskedasticity Test: Breusch-Pagan-Godfrey	0.471905	0.9511
Jarque-Bera Test	1.203544	0.5798

Source: Author's Computation, 2026.

The estimated ARDL model has no issues with serial correlation, hetroskedasticity and normal distribution, as presented in the residual tests.

Stability Test

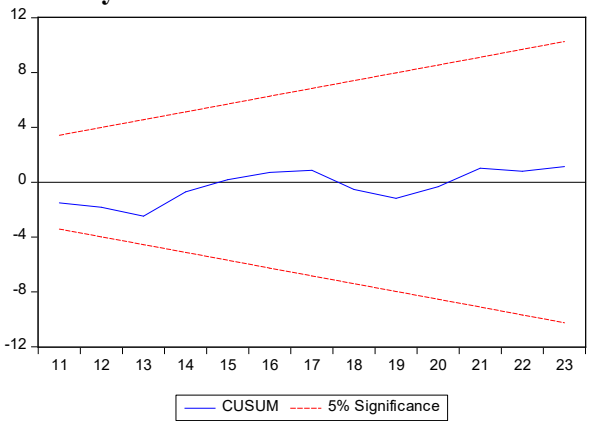


Figure 7: CUSUM
Source: Author's Computation, 2026.

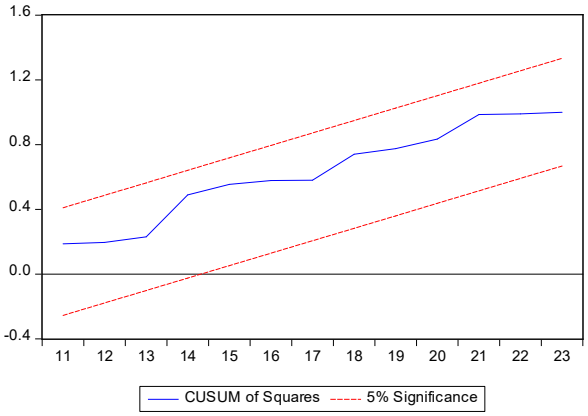


Figure 8: CUSUMSQ
Source: Author's Computation, 2026.

The CUSUM and CUSUMSQ plot demonstrated that the cumulative sum of residuals stays within the 5% significance boundaries throughout the sample period from 1981 to 2023.

Discussion of Results

The findings indicate that government capital expenditure is the fiscal instrument most closely associated with sustainable development in Nigeria. Its statistically significant positive relationship with Adjusted Net Savings suggests that investment in infrastructure and other productive assets contributes to national wealth accumulation by expanding productive capacity. Economically, this supports the Keynesian proposition that productive public investment enhances long-term development. From a policy perspective, increasing the share of capital expenditure in the national budget is likely to strengthen sustainable development outcomes. This finding is consistent with Bui (2018) and Chaudhry et al. (2014).In contrast, government recurrent expenditure is negatively associated with ANS, although the relationship is statistically insignificant. Economically, recurrent spending appears to contribute less to productive asset accumulation than capital expenditure. The policy implication is that improving the composition and efficiency of public expenditure is more important than simply increasing government spending, consistent with Bui (2018), and Maku and Alimi (2018).

The statistically significant negative relationship between non-oil tax revenue and ANS suggests that increased domestic revenue mobilization has not translated into sustainable wealth creation. This may reflect inefficiencies in revenue allocation rather than weaknesses in tax collection itself. Therefore, the developmental benefits of tax reforms depend on directing tax revenues toward productive investment, in line with Adebayo et al. (2024). Although oil revenue has a positive coefficient, its effect is statistically insignificant, indicating that oil receipts have not consistently contributed to sustainable development. This outcome may reflect revenue volatility and governance challenges associated with resource dependence, consistent with Chile et al. (2022).

Similarly, fiscal deficit exhibits a negative but statistically insignificant relationship with ANS. This suggests that the sustainability effects of deficit financing depend on the productivity of deficit-funded expenditure rather than borrowing itself, supporting the findings of Morakinyo et al. (2018) and Pasichnyi (2017).

The Bai–Perron tests confirm that the Nigerian macro-economy has experienced several economically large structural breaks. The Nigerian macro-economy is subject to recurrent, large structural breaks driven by three interacting forces: oil-price cycles, discrete changes in the policy regime (military versus civilian, reform versus populism), and external financing conditions. The post-1997 inflation regime, while lower than the hyperinflation years, remains elevated by international standards and has shown renewed upward pressure since the mid-2010s. The sharp post-2014 decline in oil dependence has not been matched by a commensurate rise in non-oil revenue, leaving the fiscal position vulnerable. COVID-19 and the 2023 subsidy removal, and exchange rate swings constitute a new potential break; the data show exchange-rate jump and deterioration in the fiscal position. Accounting for them is essential both for valid inference and for the design of policies that can survive the external finance conditions, oil-price or political shock.

Overall, the evidence suggests that the effectiveness of fiscal policy depends not only on the size of government revenues and expenditures but also on the efficiency with which fiscal resources are allocated. Consequently, improving expenditure quality, strengthening fiscal governance, and prioritizing productive investment are likely to yield greater sustainability gains than expanding fiscal activity alone.

5.0 Conclusion and Recommendations

Conclusion

This study examined the effects of fiscal policy tools on sustainable development in Nigeria over the period 1981–2023. Employing the Autoregressive Distributed Lag (ARDL) approach, the results confirmed the existence of a long-run relationship between fiscal policy and sustainable development.The findings indicate that government capital expenditure is the only fiscal instrument that significantly promotes sustainable development by enhancing national wealth accumulation. In contrast, recurrent expenditure and fiscal deficits are negatively associated with sustainability, while non-oil tax revenue exerts a significant adverse effect, suggesting that increased revenue mobilization alone does not guarantee sustainable development unless efficiently allocated. Although oil revenue has a positive effect, its contribution is statistically insignificant, reflecting the challenges of resource dependence and revenue volatility. The findings suggest that the sustainability effects of fiscal policy depend less on the magnitude of government intervention than on the quality of fiscal resource allocation, expenditure efficiency, and fiscal governance.Taken together, the results portray an economy whose macroeconomic dynamics are repeatedly reset by oil-price cycles, discrete changes in the policy regime, and external financing conditions.

Recommendations

Based on the findings, the study recommends that:

i. Government should increase the proportion of capital expenditure allocated to productive sectors such as infrastructure, education, health, and technology to strengthen long-term wealth creation.
ii. Recurrent expenditure should be rationalized through improved expenditure efficiency and public sector reforms to reduce unproductive consumption.
iii. Non-oil tax reforms should be accompanied by stronger public financial management systems to ensure that additional tax revenue finances productive investment rather than recurrent expenditure.

iv. Oil revenue should be managed through strengthened stabilization and sovereign wealth mechanisms to reduce revenue volatility and support long-term savings.
v. Fiscal deficits should be directed toward productive capital projects with measurable economic returns while limiting borrowing for recurrent expenditure.
vi. Any econometric model used for forecasting or policy simulation should incorporate the Bai–Perron dates (at minimum 1986, 1991–92, 1996–97, 2014–15, 2019-20 and 2023) either as dummy variables or via Markov-switching / threshold specifications.
vii. Medium-term fiscal and monetary frameworks must be designed to be robust across oil-price regimes; the sharp decline in the oil share after 2014 has not been matched by a commensurate rise in non-oil revenue, leaving the fiscal position vulnerable.

Contribution to Knowledge

First, the study extends the fiscal policy literature by adopting Adjusted Net Savings instead of conventional GDP growth rate as a measure of sustainable development. Second, the study accounted for major structural changes in the Nigerian economy, based on Bai–Perron multiple breakpoint testprocedure which locates multiple structural breaks by minimising the residual sum of squares (SSR) of a linear model via dynamic programming, subject to a minimum regime length. Third, the findings provide useful guidance for fiscal authorities and development planners by demonstrating that sustainable development depends on the quality rather than the size of fiscal intervention.

Limitations and Future Research

This study is limited to annual Nigerian time-series data and focuses on selected fiscal policy instruments using the ARDL framework. Future studies could employ panel data across African economies, incorporate institutional quality and governance indicators as moderating variables, and apply alternative estimation techniques such as Dynamic Ordinary Least Squares (DOLS), or Nonlinear ARDL (NARDL) to examine potential asymmetric effects of fiscal policy on sustainable development.

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