A Vector Autoregressive Model of the Impact of Public Expenditure On Economic Growth in Nigeria

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Abstract

The link between public expenditure and economic growth has attracted considerable interests on the part of economic researchers both at the theoretical as well as empirical level. This study is poised to determine whether public expenditure cause economic growth, and to determine whether shocks from changes in public spending affect economic growth in Nigeria. Vector autoregressive model and impulse response charts were used. The results show that there are bi-directional relationships between recurrent and capital expenditures, private domestic investment and government capital expenditure, growth rate of national output and recurrent expenditure. Using impulse response charts, results show that the volatility of aggregate public expenditures affects the output growth. In similar way, when this aggregate is decomposed into recurrent and capital expenditures, it was found that the shocks from each of the components have very significant impact on the volatility of output growth. It is recommended that provision of social infrastructures is germane as it provides avenues for private investment to increase. The government should exercise some restraints in its use of recurrent expenditure because it is inflationary and can worsen the economic situations.

Keywords: Public Expenditure, Economic Growth, Domestic Investment, Vector Autoregressive.

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