

## Analysis of the Relationship between Government Expenditure and Capital Market Development in Nigeria: 1981-2018

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### ABSTRACT

*The study examined the relationship between government expenditure and capital market development in Nigeria for the period of 1981-2018 in order to assess the effect of government spending on the development of the capital market. The study employed Autoregressive Distributed Lag Model (ARDL-ECM) approach to determine the nature of the relationship among the variables. The variables used were: market capitalisation (MCAP), Government Capital Expenditure (GCE), Government Recurrent Expenditure (CRE) and Oil Revenue (ORV). Unit Root test was performed on these variables and the result revealed that MCAP, GCE and CRE are stationary after first difference I (1) while ORV was stationary at level I (0). The study found out that there is long run relationship among the variables. The coefficient of ECM is negative (-0.968645) and significant. This implies that 97 percent disequilibrium in the previous period was corrected to restore equilibrium in the current year. The study found out that government capital expenditure has negative significant impact on the capital market. However, both government recurrent expenditure and oil revenue have positive significant impact on capital market in Nigeria. The study recommended that government should increase her recurrent expenditure in order to boost spending in the economy, thereby increasing capital market activities. Government to also massively invest in capital projects with the aim of promoting capital market activities and enhance the monitoring mechanism to ensure that funds are utilised for projects they are meant for. Finally, government should ensure that oil revenues are invested in the economy to enhance capital market performance towards enabling firms to access funds from such investment.*

**Key Words:** Capital Expenditure; Recurrent Expenditure; Capital Market; Nigeria

### 1.0 INTRODUCTION

The role of government as provider of security, protection, infrastructure and welfare services for residents within her borders has been well-established since historical times. Al-Yousif (2000) opined that every government performs basically two main functions - maintenance of security, law and order; and provision of essential amenities and infrastructure such as good roads, education, pipe borne water, health, electricity and so on. Thus, a key instrument of government action is fiscal policy, which refers to government revenue raised through taxation, and expenditure, through recurrent and capital expenditures. A major instrument being employed by the government in managing economic activities is therefore public expenditure.

Government expenditure, also referred to as public expenditure, is usually directed towards accelerating economic growth and development with the ultimate aim of improving the national economy; as well as raising standard of living of the people (Usman & Agbede 2015).

The importance of public expenditure in the functioning of any economy cannot therefore be over-emphasised. Okoro (2013) is of the view that the need for efficient allocation of resources among the various arms and organs of government, based on their fiscal capacity and responsibility, necessitated public expenditure management.

Given this scenario, it is generally believed that government can utilise her spending pattern and structure to determine the direction of economic growth. This is especially true of developing countries, like Nigeria, where the government sector is a major driver of growth. Unfortunately, in Nigeria, increases in annual government capital and recurrent expenditures have not necessarily resulted in concomitant increases in economic growth as evidenced by the decaying infrastructure, high level of unemployment, double-digit inflation and declining per capita income.

This position has been supported by Oyediran, Sanni, Adedoyin, & Oyewole (2006), who believed that even though there has been steady increase in government spending in Nigeria, the situation on ground in terms of development does not seem to justify the expenditure. Despite the continuous increases in government expenditure, not much meaningful growth and development have been recorded, leading to the recent assertion that Nigeria has become the poverty capital of the world (Kharas, Hamel & Hofer, 2018).

With regard to the capital market, it is generally believed that the Nigerian market is not yet fully developed. While the literature is replete with studies on the impact of government expenditure on the general macro economy, the relationship between government expenditures and the capital market is yet to be fully investigated. This paper therefore seeks to explore the nexus between government spending and capital market development in Nigeria, towards bridging the observed gap in the literature.

In terms of scope, the study intends to examine the relationship between government expenditure and capital market development in Nigeria from 1981 to 2018. The chosen period of study of 1981 to 2018 represent a vibrant period in the Nigerian economic history with several developments and reform initiatives. The study will rely on secondary data sourced from the National Bureau of Statistics and the Central Bank of Nigeria.

## **2.0 LITERATURE REVIEW**

### **2.1 Conceptual Review**

According to Barro and Grilli (1994), government spending (or government expenditure) includes all government consumption and investment, but excludes transfer payments made by the state. Government expenditure can be for the acquisition of goods and services for current use in order to directly satisfy individual or collective needs of the members of the community, or it can be for acquisition of goods and services intended to create future benefits such as infrastructure investment and the expenditures can represent transfers of money, such as social salaries and cost of administration.

Government expenditure is usually categorised into capital and recurrent expenditures. The capital expenditures are those government spendings on capital projects such as roads, bridges, dams, electricity, education, health, etc., while recurrent expenditures include expenditures of government on administration items such as wages, salaries, interest, loan, maintenance, etc. (Obinna, 2003). This distinction is critical in evaluating the significance of government

expenditure in the developmental process. While capital expenditure has a lasting impact on the economy and helps provide a more efficient, productive economy, (since it usually involves the acquisition of capital goods), recurrent expenditure is usually expended on consumables and so do not have such lasting impact on the economy.

Fiscal policy refers to the discretionary changes in the level, composition and timing of government expenditure and revenues (Ogbulu, Torbira, & Umezinwa, 2015). Fiscal policy deals with government expenditure (both recurrent and capital expenditure) and government taxation as well as other revenues aimed at influencing economic activities or achieving desired macroeconomic goals in a given economy.

The capital market has been described by Akingbohunge (1996) as the market where medium to long-term finance can be raised. Further expatiation provided by Mbat (2001) described the capital market as a forum through which long-term funds are traded. The capital market offers access to a variety of financial instruments that enable economic agents to pool, price, and exchange risk through assets with attractive yields, liquidity and risk characteristics. It also encourages savings in financial form and is very essential for government and other institutions in need of long-term funds and for suppliers of long-term funds (Nwankwo, 1991).

Included in the capital market is the stock market which occupies a central place in the capital market. It is regarded as the nucleus of the capital market so much so that studies on the capital market development are incomplete without reference to the stock market. Usually, stock market development indicators are often used as capital market development indicators in numerous empirical works (Kolapo & Adaramola, 2012; Acquah-Sam & Salami, 2014).

## 2.2 Theoretical Framework

The principal theories recognised by academics with regard to government expenditure are: the Wagner's theory of increasing state activities, the Keynesian theory, Musgrave theory of public expenditure growth, Solow's theory and the endogenous growth theory (Chude & Chude, 2013). However, two of these schools of thought – the Wagner and Keynesian schools of thought, predominate the literature. Wagner's law of the expanding state role is a model that showed that public expenditures are endogenous to economic growth and that there exists long-run tendencies for public expenditure to grow relatively to some national income aggregates such as the gross domestic product (GDP). This theory suggests the existence of causality between public expenditure and national income that runs from national income to public expenditure. Wagner (1883, cited in Hasnul, 2015) suggested that government expenditure is an endogenous factor or an outcome, but not a cause of economic development. Mathematically, Wagner's hypothesis can be formulated as:  $G_t = f(Y_t)$ , where  $G_t$  refers to the size of the public sector which reflects the level of government expenditure and  $Y_t$  which stands for the level of economic performance or growth. In other words, Wagner's law suggests that government expenditure increases because of the economic growth.

On the other hand, Keynes (1936) believes that public expenditure is a tool which government adopts to reverse economic downturns by borrowing money from the private sector and returning it to them through various spending programmes; hence economic growth is the outcome of public expenditure. The Keynesian hypothesis states that expansion of government expenditure accelerates economic growth. Thus, government expenditure is regarded as an exogenous force that changes aggregate output (Loizides & Vamvoukas, 2005). Therefore, a

proactive fiscal policy is an important instrument available to governments to stimulate economic activity and economic growth. By increasing government spending and/or cutting taxes, governments can offset a slower pace of economic activity. Hence, fiscal policy is viewed as a counter-cyclical policy tool that mitigates short-run fluctuations in output and employment (Zagler & Durnecker, 2003).

Solow (1956), in his neo-classical growth model believed that there is no long run impact of government expenditure on the economic growth rate. The neo-classical growth models suggest that fiscal policies cannot bring about changes in long-run growth of output. Neo-classical economists suggest that the long run growth rate is driven by population growth, the rate of labour force growth, and the rate of technological progress which is determined exogenously. Barro (1989) in his endogenous growth model, argues that GDP growth is negatively related to the government consumption expenditure. He argues that government consumption introduces distortions, but does not provide an offsetting stimulus to investment and growth. Moreover, he stated that there is little relation of growth to the quantity of government investment expenditure.

The Musgrave Theory of Public Expenditure, propounded by Musgrave (1964) posits that at low levels of per capita income, demand for public services tends to be very low. This is so because according to him, such income is devoted to satisfying basic primary needs and that when per capita income starts to rise above these levels of low income, the demand for services supplied by the public sector such as health, education and transport starts to rise, thereby forcing government to increase expenditure on them. He observes that at the high levels of per capita income, typical of developed economics, the rate of public sector growth tends to fall as the more basic wants are being satisfied.

### **2.3 Empirical Review**

Several empirical studies have been carried out on the impact of government expenditures on economic growth globally and particularly in Nigeria. Yasin (2000) tried to find a conclusive position on this matter by examining the effect of government spending on economic growth, using panel data set from 26 sub-Saharan Africa. He developed the model on the basis of neoclassical production function. The results he got by employing Fixed and Random estimation techniques indicated that government spending had positive and significant effect on economic growth. By nurturing productive activities, reducing unproductive ones and implementing appropriate policies, the relationship between government spending and economic growth can be maintained in the positive direction.

Fosler and Henrekson (2001) conducted a panel study over a period of 26 years to discover the relationships that exist between public expenditure and economic development. Their empirical findings support the position that large public spending affects growth negatively. To examine the causal link between government spending and national output in Turkey, Muhlis and Hakan (2003) carried out an econometric analysis on time series statistics spanning from 1965 to 2000. Empirically, the study found no support for either Wagner or Keynes hypothesis in public spending, implying that the use of predetermined fiscal policy tool in the management of fiscal policy should not be applicable to the Turkish economy; rather a discretionary fiscal policy approach should be adopted to address any fiscal policy challenge as they arise.

Likewise, Akpan (2005) used a disaggregated approach to determine the components and concluded that there was no significant association between most components of government expenditure and economic growth in Nigeria. Omoke (2009) studied the direction of causality between government expenditure and national income in Nigeria using annual data for the period covering 1970-2005. There was no cointegration established and it was also inferred that the direction of causality was running from government expenditure to economic growth implying that Keynesian hypothesis holds, but not the Wagner's postulation.

Abu and Usman (2010) analysed the relationship between government expenditure and economic growth using a disaggregated analysis in Nigeria. His study revealed that government total capital expenditure (TCAP), total recurrent expenditures (TREC), and government expenditure on education (EDU) have negative effect on economic growth. On the contrary, rising government expenditure on transport and communication (TRACO), and health (HEA) resulted in an increase in economic growth. The study revealed that government total capital expenditure has negative effect on economic growth, comparing the relative effectiveness of fiscal versus monetary policies on economic growth in Nigeria.

The Keynesian school opine that the analysis of the interactions between fiscal policy action and interest rates suggest that stock market activities cannot be completely independent of fiscal policy shocks. Changes in fiscal instruments (like government spending, taxes and other revenue items) can change market interest rates instantaneously and force investors to revalue their asset (stock) holdings. As such, the value of investors' wealth (which includes equity holdings), derived by the summation of the discounted value of future cash flows could be affected by an easing or tightening of fiscal policy (Reilly and Norton, 1999).

Generally, in the Keynesian sense, government expenditure affects the development of the stock market through its effect on the decisions and activities of the private sector firms and households (Razin, 1987). Aigheyisi and Edore (2014) further stated that all things being equal, the turnover of firms which enjoy high government patronage, may experience a boost, which could translate into enhanced profitability and impressive dividends for the shareholders of the firms.

However, there is no unanimity of opinion in the literature regarding the effect of government's expenditures on stock markets globally, as empirical evidence across various economies produced mixed results. While some scholars believe that fiscal policy and government expenditures do not affect stock markets prices, others believe there is significant effect. Still others believe there is no nexus between them at all. Garcia and Liu (1999) have explained that volatility in economic policies has significant impact on the performance of stock market because unexpected changes in macroeconomic policies - monetary policy, fiscal policy, exchange rate policy and trade policy - influence the profit positions of corporations.

Bordo and Wheelock (2004) suggested that results of fiscal policy actions such as changes in government expenditure or taxes are important determinants of asset prices. For example, when government increases its tax rates with government expenditures unchanged, investors would be discouraged from further investing in the stock market and this would lower asset prices and returns which could compel investors to revalue their portfolios.

Ogbulu, *et al.* (2015) carried out a study in Nigeria for the period 1985-2012 with the main aim of investigating the nature and behaviour of the relationship between fiscal policy and stock

market returns. They found out that there was a significant but negative relationship between public expenditure and stock performance. The Domestic Debt Outstanding had a positive and significant relationship with stock prices and non-oil revenue had a significant and positive relationship with stock prices.

Afonso and Sousa (2011) discovered that government's expenditure shocks have negative effects on stock prices, while government's revenues shocks have a small and positive effect. Vector Autoregression (VAR) analysis also suggested that fiscal shocks play a minor role in the asset markets in the U.S. and Germany, and substantially increase the variability of stock prices in the U.K., while government's revenues shocks have increased volatility in Italy. Agnello and Sousa (2011), adopted a panel VAR for ten industrialised countries, which showed a negative reaction of stock markets to an increase in primary fiscal deficit, although this reaction seems to be only temporary.

Bekhet and Othman (2012) employed vector error correction modeling to analyse the role of fiscal policy in the Malaysian stock market using quarterly data covering the period from 1999 to 2011. The result showed amongst others, that government expenditure had no significant long-run and short-run effect on the growth of the Malaysian stock market in the sample period. In the same vein, Gowriah, Seetana, John, & Keshav (2014) investigated the effect of monetary and fiscal policies on stock prices on the Mauritius Stock Exchange using an Auto-Regressive Distributed Lag (ARDL) Model with the results showing no significant short term or long term relationships between budget deficit and stock prices.

Muyanga (2014) carried out a research with the main objective of determining the relationship between fiscal policy and performance of the Nairobi Securities Exchange. To do this, he regressed the share index against fiscal policy instruments such as government expenditure, government tax revenue and government debt expressed as a percentage of the GDP for the period between January 2004 and December 2013. The study revealed that government expenditure and government revenue had positive effect on stock market performance for the period.

Laopodis (2006) empirically examined the dynamic linkage between the Federal Government budget deficits and the stock market performance indicators for the period 1960 to 2004 in the USA. The outcome suggested a higher sensitivity of stock market indices to taxes, relative to government expenditures. In addition, Ezirim, Muohgalu, Elike & Amuzie (2010) reported that public expenditure growth significantly and positively preceded persistent price increases in Kenya, United Kingdom and the United States of America; but not in Nigeria. It was also found that price increases significantly affect public expenditure growth in Kenya and the United States of America.

Afful and Asiedu (2013) analysed the influence of fiscal policy and stock market activity on the lending-deposit rates spread in Sub-Saharan Africa, using data from Botswana, Ghana, Mauritius and South Africa. Findings revealed that when pooled data were used, a positive and significant relationship exists between fiscal policy and the interest rate spread and stock market activity respectively. When analysed separately, stock market activity had no significant impact on interest rate spread in all the other countries, except for South Africa,

### **3.0 METHODOLOGY**

The data used in this study were collected from secondary sources: National Bureau of Statistics (NBS) and the Central Bank of Nigeria (CBN) Statistical Bulletin, 2018. The data were analysed through Auto Regressive Distributed Lag Model (ARDL-ECM) to determine the nature of relationship between capital market and government expenditure for the period under investigation. The model was adopted from Abu (2009); Adenuga (2010); and Ogbulu, *et al.* (2015). The stationarity of the model was tested using the Augmented Dickey-Fuller (ADF) test and cointegration was done through ARDL Bound Test and estimation was done through the use of E-view 10.0

### 3.1 Model Specification

The model for this study is specified below:

$$MCAP = F(GCE, GRE, ORV) \dots \dots \dots (3.1)$$

Where:

MCAP - Market Capitalization as proxy for stock market

CEX - Government Capital Expenditure

REX - Government Recurrent Expenditure

ORV - Oil Revenue

The oil revenue was introduced into the model in order capture other variables that also influence government expenditure in Nigeria. Increase or decrease in this variable also has impact on government expenditure as well as the capital market in Nigeria.

$$MCAP = a_0 + a_1GCE + a_2GRE + a_3ORV + U_t \dots \dots \dots (3.2)$$

Where:  $U_t$  - Error term

Instructively, the ARDL-ECM model is expressed as

$$\Delta MCAP_t = \alpha_0 + \sum_{j=1}^m \alpha_{1j} \Delta MCAP_{t-j} + \sum_{j=1}^m \alpha_{2j} \Delta GCE_{t-j} + \sum_{j=1}^m \alpha_{3j} \Delta GRE_{t-j} + \sum_{j=1}^m \alpha_{4j} \Delta ORV_{t-j} +$$

$$\theta_1 MCAP_{t-1} + \theta_2 GCE_{t-1} + \theta_3 GRE_{t-1} + \theta_4 ORV_{t-1} + \theta_5 ECM_{t-1} + U_t$$

The coefficient of ECM is expected to be negative if it is correctly signed while  $a_1, a_2, a_3, > 0$ . They are expected to have positive impact on market capitalisation in Nigeria

#### 4.0 DATA PRESENTATION AND INTERPRETATION OF RESULTS

The data used in this study were market capitalisation (MCAP), Government Capital Expenditure (GCE), Government Recurrent Expenditure (CRE) and Oil Revenue (ORV) for the period of 1981-2018.

##### 4.1 Summary Statistics

**Table 4.1: Summary Statistics**

	MCAP	GCE	GRE	ORV
Mean	5049.940	426.2259	1286.977	2348.605
Median	386.1500	289.3336	455.6312	977.6369
Maximum	21904.04	1682.099	5675.186	8878.970
Minimum	5.000000	4.100100	4.750800	7.253000
Std. Dev.	7235.740	441.8904	1637.927	2711.057
Skewness	1.127328	0.901350	1.119582	0.858719
Kurtosis	2.731860	2.989323	2.981852	2.438049
Jarque-Bera	8.162672	5.145582	7.939124	5.170189
Probability	0.016885	0.076322	0.018882	0.075389
Sum	191897.7	16196.59	48905.14	89246.99
Sum Sq. Dev.	1.94E+09	7224884.	99263783	2.72E+08
Observations	38	38	38	38

**Source: E-View 10.0 Regression Output, 2019.**

From Table 4.1 shows the summary statistics of the variables used in the paper. The mean, median, maximum, minimum, standard deviation, skewness, kurtosis and Jarque-Bera were presented in the table. The minimum values for MCAP, GCE, GRE and ORV were 5.000000, 4.100100, 4.750800 and 7.253000 respectively while the maximum values MCAP, GCE, GRE and ORV are; 21904.04, 1682.099, 5675.186 and 8878.970 respectively. The coefficient of skewness of 1.127328, 0.901350, 1.119582 and 0.858719 implies that MCAP, GCE, GRE and ORV are positively skewed respectively and also comply with symmetrical distribution assumption. The Jarque-Bera is used to determine the normal distribution of a variable. The descriptive statistics revealed that ORV and GCE were normally distributed while MCAP and GCE were not normally distributed. ARDL approach is not limited whether a variable is normally distributed or not.



## 4.2 Stationarity Result

**Table 4.2: Stationarity Result**

Time Series	ADF Statistics	Critical Value		Stationary Status
MCAP	-5.613647	-4.262735	1% level	(1)
		-3.552973	5% level	
		-3.209642	10% level	
GCE	-5.742884	-4.323979	1% level	(1)
		-3.580623	5% level	
		-3.225334	10% level	
GRE	-4.011083	-4.284580	1% level	(1)
		-3.562882	5% level	
		-3.215267	10% level	
ORV	-4.158553	-3.679322	1% level	(0)
		-2.967767	5% level	
		-2.622989	10% level	

Source: E-View 10.0 Regression Output, 2019.

Table 4.2 presents stationarity result for each variable used in the study using ADF stationarity test. The result revealed that MCAP, GCE and GRE are stationary after first difference I(1) while ORV is stationary at level I(0).

## 4.3 Cointegration Results

**Table 4.3: Cointegration Results**

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	8.362274	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: E-View 10.0 Regression Output, 2019.

The cointegration was carried using ARDL Bound test, which is preferable to Johansen cointegration because it is not limited by order of integration either I(0) or I(1). The study indicates a long run relationship among the variables. The F-Statistics is greater than both the upper and lower Bound Value i.e. 8.362274 is greater than 2.79 and 3.67 at 5% level of significant. This implies that there is a long run relationship between capital market and its explanatory factors.

#### 4.4 Error Correction Mechanism

**Table 4.4 Error Correction Mechanism**

ARDL Error Correction Regression				
Dependent Variable: D(MCAP)				
Selected Model: ARDL(3, 3, 4, 4)				
Case 2: Restricted Constant and No Trend				
Date: 09/30/19 Time: 15:44				
Sample: 1981 2018				
Included observations: 34				
ECM Regression				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MCAP(-1))	0.667308	0.117162	5.695592	0.0000
D(MCAP(-2))	-1.506982	0.155113	-9.715393	0.0000
D(GCE)	2.048523	0.918662	2.229899	0.0404
D(GCE(-1))	9.811521	1.447749	6.777088	0.0000
D(GCE(-2))	3.783270	1.825259	2.072731	0.0547
D(GRE)	1.643525	1.231262	1.334830	0.2006
D(GRE(-1))	-0.553375	0.968588	-0.571321	0.5757
D(GRE(-2))	7.023160	1.199059	5.857225	0.0000
D(GRE(-3))	-6.513287	1.042509	-6.247705	0.0000
D(ORV)	-1.972077	0.219975	-8.965017	0.0000
D(ORV(-1))	-0.726323	0.300783	-2.414774	0.0281
D(ORV(-2))	-0.867858	0.231591	-3.747374	0.0018
D(ORV(-3))	0.967681	0.293904	3.292508	0.0046
CointEq(-1)*	-0.968645	0.133987	-7.229399	0.0000
R-squared	0.953865	Mean dependent var	644.0747	
Adjusted R-squared	0.923878	S.D. dependent var	2165.569	
S.E. of regression	597.4865	Akaike info criterion	15.91624	
Sum squared resid	7139801.	Schwarz criterion	16.54474	
Log likelihood	-256.5761	Hannan-Quinn criter.	16.13058	
Durbin-Watson stat	2.632993			

**Source: E-View 10.0 Regression Output, 2019.**

The result of ECM clearly revealed that the variables convergence in the long run. The coefficient of ECM is negative (-0.968645) and significant. This implies that 97 percent disequilibrium in the previous period is being corrected to restore equilibrium in the current year. Government capital expenditure and oil revenue have significant impact on market capitalization while government recurrent expenditure has insignificant impact on market capitalization in the short run.

#### 4.5 ARDL Long Run Regression

**Table 4.5 ARDL Long Run Regression**

ARDL Long Run Form				
Dependent Variable: D(MCAP)				
Selected Model: ARDL(3, 3, 4, 4)				
Case 2: Restricted Constant and No Trend				
Date: 09/30/19 Time: 15:43				
Sample: 1981 2018				
Included observations: 34				
Conditional Error Correction Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-139.7573	220.1764	-0.634752	0.5346
MCAP(-1)*	-0.968645	0.464395	-2.085821	0.0534
GCE(-1)	-6.194862	2.137279	-2.898480	0.0105
GRE(-1)	3.821861	1.210917	3.156171	0.0061
ORV(-1)	1.312302	0.531064	2.471080	0.0251
D(MCAP(-1))	0.667308	0.439849	1.517132	0.1487
D(MCAP(-2))	-1.506982	0.251925	-5.981870	0.0000
D(GCE)	2.048523	1.676446	1.221944	0.2394
D(GCE(-1))	9.811521	2.701518	3.631855	0.0022
D(GCE(-2))	3.783270	2.645842	1.429893	0.1720
D(GRE)	1.643525	1.966251	0.835867	0.4155
D(GRE(-1))	-0.553375	1.451299	-0.381296	0.7080
D(GRE(-2))	7.023160	2.493822	2.816224	0.0124
D(GRE(-3))	-6.513287	2.189169	-2.975233	0.0089
D(ORV)	-1.972077	0.421785	-4.675556	0.0003
D(ORV(-1))	-0.726323	1.042930	-0.696425	0.4962
D(ORV(-2))	-0.867858	0.950569	-0.912988	0.3748
D(ORV(-3))	0.967681	0.647828	1.493731	0.1547
* p-value incompatible with t-Bounds distribution.				
Levels Equation				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
GCE	-6.395392	3.115342	-2.052870	0.0568
GRE	3.945576	1.004297	3.928695	0.0012
ORV	1.354781	0.395062	3.429285	0.0034
C	-144.2813	212.4453	-0.679146	0.5068
EC = MCAP - (-6.3954*GCE + 3.9456*GRE + 1.3548*ORV -144.2813 )				

**Source: E-View 10.0 Regression Output, 2019.**

The ARDL result shows that the variables under investigation have significant impact on market capitalization in the long run. In the analysis, it was revealed that government capital expenditure has negative significant impact on the capital market. However, both government

recurrent expenditure and oil revenue have positive significant impact on capital market in Nigeria for the period under investigation. A unit increase in government capital expenditure will lead to 6.395392 decrease in market capitalisation, holding government recurrent and oil revenue constant. However, a unit increase in government recurrent expenditure and oil revenue will lead to 3.945576 and 1.354781 in market capitalization respectively in the long run holding other variables constant. By implication, improvement in capital market activities is as a result of increases in government recurrent expenditure and oil revenue. It was noted that government capital expenditure does not improve capital market in the long run which does not conform with apriori expectation. It is expected that government capital expenditure should have positive impact on market capitalisation; but the result shows otherwise.

## 5. CONCLUSION AND RECOMMENDATIONS

The study examined relationship between Government Expenditure and Capital Market Development in Nigeria for the period of 1981-2018. The study revealed that government capital expenditure, government recurrent expenditure and oil revenue have significant relationship with capital market in Nigeria. Both the short and long run government expenditure have significant impact on capital market in Nigeria. This is in line with the findings of Garcia and Liu (1999), who found out unexpected changes in macroeconomic policies - monetary policy, fiscal policy, exchange rate policy and trade policy, influence the profit positions of corporations. It was also noted by Muyanga (2014) who revealed that government expenditure and government revenue had positive effect on stock market performance for the period on the Nairobi Securities Exchange.

On the contrary, Ogbulu, *et al.* (2015) revealed that public expenditure has significant but negative relationship with stock performance which was supported with disaggregated data used in the study that government capital expenditure has negative significant relationship between capital markets in Nigeria. Also Afonso and Sousa (2011) discovered that government's expenditure shocks have negative effects on stock prices, while government's revenues shocks have a small and positive effect. However, Gowriah, *et al.*, (2014) results showed no significant short term or long term relationships between budget deficit and stock prices.

This study recommends that:

- i. Government should ensure consistent fiscal policy in terms of government expenditure that favours investment activities.
- ii. Government should invest massively in capital expenditure with the aim of promoting capital market activities in Nigeria.
- iii. Government should ensure that part of the oil revenue should be made available to enhance capital market performance and avenues should be created for the companies to raise funds from such investment.
- iv. Government should enhance the activities of monitoring agencies that will ensure that funds meant for public projects are not diverted away from the project they are meant for.

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