

## The Assessment of the Effect of Public Budget as An Economic Tool for Corporate Investment in Nigeria

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DOI: 10.56201/wjfir.v9.no1.2025.pg15.37

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### **Abstract**

*This study investigates the impact of public budgeting as an economic tool for promoting corporate investment in Nigeria, using data spanning 1990 to 2023. Employing the auto-regressive technique, the study analyzes the dynamic relationship between public budgeting and corporate investment. Data for the research were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, ensuring reliability and consistency. The findings reveal that public budgeting significantly influences corporate investment, serving as a critical driver of economic growth and development. Specifically, the study highlights that well-structured public budgets, focused on investment, can create a conducive environment for attracting domestic investment and foreign direct investment (FDI). Based on these findings, the study recommends that the government prioritize investment-focused budgeting to stimulate economic activity and growth. Additionally, laws governing investments should be reformed to become less stringent and more investor-friendly, thereby encouraging both domestic and foreign investors to engage in the Nigerian economy. The study contributes to the literature by emphasizing the strategic role of public budgeting in fostering corporate investment and economic development, providing valuable insights for policymakers and stakeholders.*

**Keywords:** *Public budget, Corporate investment, Budgetary reforms, Developing economy, Development finance*

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### **Background of the study**

Government plays a pivotal role in establishing a coordinated economic system and policy environment essential for fostering public and private investments. Through fiscal, monetary, and budgetary mechanisms, governments aim to create sustainable business environments that attract and grow investments (Adner, 2013). This role is particularly significant in developing countries facing economic challenges such as widening current-account deficits, balance-of-payments pressures, inflation, rising foreign debt, and declining growth rates. These issues have reduced living standards and necessitated a re-evaluation of development strategies and budgetary processes that can stimulate corporate investment within a market-oriented economy. Consequently, market-based reforms have become central to growth-oriented adjustments (Mohsin & Carmen, 2017).

A well-structured and inclusive budget channels a country's resources into productive enterprises by addressing current weaknesses, anticipating future challenges, and responding to strategic competition. Budgeting reflects a nation's priorities, goals, and policies and has a significant influence on macroeconomic indicators such as the monetary policy rate (MPR), exchange rate (EXR), and inflation rate. These indicators, in turn, impact capital budgeting, recurrent budgeting, and the broader economic contributions to citizens (Adner & Helfat, 2013). However, Nigeria's budgetary trends from 1965 to the present demonstrate a persistent imbalance, with recurrent expenditures averaging 60% compared to 40% for capital expenditures. This pattern has limited the budget's ability to stimulate private-sector investment and broader economic growth.

Private capital accumulation is a critical driver of economic growth and development. According to Bwonde (2000), private investment is pivotal for long-term growth, while Chhibber and Dailami (1993) emphasize its role in short-term stabilization programs, particularly in developing countries. Key questions arise regarding the factors influencing domestic private investment and the ways government policies impact it. For instance, does fiscal and monetary tightening hinder private capital formation and reduce growth? Furthermore, how do public-sector capital expenditures affect private investment? Addressing these questions is essential for formulating policies that support economic stability and development.

Economic theories present differing perspectives on the relationship between government budgets and private investment. The Keynesian model posits that increased government spending boosts total demand and investment. In contrast, neoclassical and new Keynesian economists argue that expansionary fiscal policies may have limited or negative effects. For example, the Ricardian equivalence proposition suggests that forward-looking consumers internalize government budget constraints, neutralizing the impact of increased government spending on demand and investment (Barro, 2019). Additionally, government borrowing can lead to higher interest rates, discouraging private-sector investment due to lower returns (Blanchard, 2018).

The transmission channels of fiscal policy are often ambiguous. While federal budgeting can have aggregate positive or negative effects, its impact is not uniform across all participants in the economy. This variability underscores the importance of understanding how public-sector expenditures interact with private investment in developing countries like Nigeria. Specifically, increasing public-sector capital expenditures could have significant implications for private-sector growth and overall economic performance.

In light of Nigeria's budgetary trends, restructuring the budget to prioritize capital-intensive projects over recurrent expenditures could enhance private-sector investment and stimulate economic growth. By aligning fiscal policies with economic realities and private-sector dynamics, Nigeria can drive sustainable development and create a robust foundation for long-term growth. Based on the above, the problem of this research is to assess the effect of public budgeting on corporate investment.

## **Review of Relevant Literature and Hypotheses Development**

### **Public Budgeting and Corporate Investment I**

#### **Public Budgeting: A Conceptual Framework**

Budgeting is a fundamental practice for governments and businesses, serving as a legally authorized annual financial plan that establishes spending priorities across programs derived from legislation, policy, and organizational objectives (Nshisso, 2008; Graham, 2011). Public budgeting is essentially an executive-legislative bargaining model, reflecting the priorities of constituencies, districts, regions, or states within a federating unit (Persson & Tabellini, 2002). It is the art and science of allocating available financial resources among competing needs, supporting programs that provide essential services to various segments of the population (Oklahoma Policy Institute, 2022).

A public budget outlines planned revenues and expenditures over a fiscal year and is typically approved by the highest governmental bodies, such as parliaments, municipal councils, or regional legislatures. It is a crucial tool for implementing fiscal policy, ensuring citizens' rights, and delivering public services such as health, education, housing, and social protection. According to Isah (2012), the public budget reflects a government's commitment to fulfilling its national and international obligations, such as improving public health and promoting economic development.

Public budgets are divided into two main sections: projected revenues and projected expenditures. The revenue section outlines the funds expected to be generated from various sources, while the expenditure section details the allocation of funds for implementing government programs. Effective public budgeting serves as an economic tool for addressing societal needs, fostering development, and driving corporate investment through strategic fiscal allocations.

#### **Corporate Investment**

Corporate investment involves allocating capital by private corporations—either domestic or international—toward ventures aimed at generating profits and economic value. Schultz Financial Group (2022) defines corporate investment as a private, alternative financial asset distinct from public market investments like stocks, bonds, and cash. Corporate investment is inherently driven by profitability. High-risk environments demand higher returns to justify the risks, while extremely volatile conditions deter investment altogether.

Private enterprises prioritize shareholder interests, and governments must create conducive environments to attract and retain corporate investments. Developing economies, in particular, need policies that incentivize private enterprise activity, as it is a primary driver of economic growth and development. Investments in infrastructure, education, and healthcare are critical for laying the foundation for sustainable growth and encouraging private sector participation.

#### **Hypothesis Development**

Drawing from the discussion, the null hypothesis was drafted:

H1: Public budgeting has no significant positive impact on corporate investment.

### **Public Budgeting, Corporate Investment, and Market Growth-Oriented Concepts**

The market growth-oriented model emphasizes aligning public budgeting with market-driven variables to support and promote corporate investment. This model, grounded in the works of Musgrave (1974) and Rustow (1971), argues that countries progress through distinct stages of development, each requiring targeted public expenditure to stimulate investment and foster economic growth. Early stages often necessitate significant public spending on infrastructure, housing, telecommunications, education, and healthcare to prepare for economic takeoff (Isah, 2012).

Musgrave's theory highlights that government spending should be strategically directed toward productive ventures, including private and public corporations, to drive growth and development. Market-based reforms have become integral to this approach, as they emphasize liberalized goods and factor markets, financial system flexibility, and a prominent role for the private sector in economic activities (Mohsin & Carmen, 1990).

### **Budgetary Reforms and Growth-Oriented Adjustments**

Supporters of market-oriented adjustments, including multilateral institutions such as the International Monetary Fund (IMF) and the World Bank, emphasize the benefits of aligning public budgets with growth-oriented strategies. These include stable macroeconomic policies, liberalized trade, and export-oriented strategies to maximize gains from global market access (Gallo, 1991). By fostering competitive resource allocation, governments can reduce capital costs, increase labor productivity, and enhance economic output.

However, disparities in resource allocation such as currency overvaluation, subsidized interest rates, and social insurance taxes can distort capital and labor pricing. Addressing these inefficiencies requires integrating export-oriented trade strategies and ensuring unrestricted access to developed markets, as these offer significant growth opportunities for developing countries (World Bank, 2019).

### **Implications for Developing Economies**

Developing countries must adopt policies that liberalize trade, enhance educational systems, and support domestic markets to increase growth rates and living standards. For instance, an export-oriented approach enables economies to leverage their factor endowments and gain competitive advantages in global markets. Policymakers in developing countries should prioritize reforms that align public budgeting with market dynamics, fostering environments conducive to both domestic and foreign investments. Public budgeting serves as a vital economic tool for driving corporate investment and fostering economic growth. By adopting investment-focused budgeting and aligning fiscal policies with market-driven variables, governments can create sustainable environments for economic development. The drafted hypothesis provide a framework for further empirical research on the relationship between public budgeting, corporate investment, and market growth-oriented reforms, offering valuable insights for policymakers and stakeholders.

## **Public budgeting and Corporate Investment II**

### **Capital Budgeting, Recurrent Budgeting, and Corporate Investment**

Capital budgeting refers to the component of public expenditure dedicated to developmental initiatives and investments, often referred to as public investment (Chhibber & Dailami, 1993). It involves government decisions to allocate current funds into long-term assets with the expectation of generating economic benefits over several years (Pandey, 2013). This aspect of budgeting emphasizes infrastructure development and economic expansion by incentivizing private and multinational corporations to invest in critical sectors. Akinsulire (2014) further elaborates that capital budgeting revolves around prudent allocation to long-term investments with anticipated positive returns, contingent upon effective investment strategies.

Governments' capital budgeting activities can significantly influence corporate investment decisions. For instance, during President Buhari's administration in Nigeria (2018–2019), the government's focus on agriculture led to policies like embargoes on rice imports and incentives for local production. These measures created an attractive investment climate within the agricultural sector, demonstrating how government priorities impact private sector activities. However, according to Taehyun and Quoc (2019), inefficiencies in project execution and overlapping timelines often diminish the economic impact of such initiatives. This underscores the need for alignment between government investment strategies and private sector expectations.

Infrastructure investment exemplifies public capital budgeting's role in economic growth. Harry Stein (2020) highlights that infrastructure projects like transportation and water systems improve connectivity and reduce costs, boosting productivity and economic output. Moreover, investments in human capital, such as education and scientific research, have significant long-term returns. For example, studies have shown that universal pre-kindergarten programs can yield \$8.90 in societal benefits for every dollar spent, enhancing employment, education, and public health outcomes.

### **Hypothesis Development**

H2: Effective capital budgeting does not positively influences corporate investment.

### **Recurrent Budgeting and Its Implications**

Recurrent budgeting refers to government expenditures that cover ongoing operational costs, such as administrative expenses and governance (Gallo, 1991). It is a consumption-focused budget component that does not directly contribute to asset creation. Over the years, recurrent expenditure has grown significantly in Nigeria, often at the expense of capital investments. According to YourBudget.com, states across Nigeria increasingly allocate larger portions of their budgets to recurrent expenditures. For example, in the 2010 Central Bank of Nigeria (CBN) Annual Report, recurrent expenditure accounted for ₦2.4 trillion, overshadowing the ₦1.5 trillion allocated to capital projects.

This trend raises concerns about fiscal sustainability and the high cost of governance. By 2017, recurrent expenditure had increased by 18%, reflecting Nigeria's expensive presidential

democracy. The persistent prioritization of recurrent spending over capital investment undermines the country's ability to attract foreign direct investment (FDI) and achieve long-term economic growth.

### **Summary of Nigeria's Economic Policies and Performance**

Nigeria's economic policies since independence reveal a mixed trajectory of successes and challenges. The initial post-independence era saw significant foreign investments, with over 25% of companies being foreign-owned by 1956 and 70% of manufacturing investments originating from abroad by 1963 (Ohiorhenuan, 1990). The first National Development Plan (1962–1968) aimed to diversify the economy and reduce reliance on foreign trade. However, restrictive policies in the 1970s, such as indigenization, reduced FDI and shifted investments to other African countries with more favorable environments, like South Africa.

The second National Development Plan (1970–1974) accelerated indigenization but led to the withdrawal of significant foreign investors like Chase Manhattan Bank and IBM. Although incentives for industrialization during the third National Development Plan (1975–1980) briefly boosted manufacturing output, agriculture suffered, and public expenditure surged unsustainably. The structural adjustment program (SAP) of the 1980s attempted to liberalize the economy but faced implementation challenges.

In 1995, Nigeria adopted one of Africa's most liberal FDI regimes, opening its economy to foreign investors. However, structural deficiencies and corruption hindered its success. The 1999 democratic transition introduced opportunities for economic reforms, culminating in the National Economic Empowerment and Development Strategy (NEEDS) in 2003. NEEDS emphasized private-sector-led growth, but its impact was limited due to inadequate implementation.

### **Hypothesis Development**

H3: Increasing recurrent expenditure relative to capital expenditure does not negatively affect economic growth and corporate investment.

By aligning fiscal policies with strategic developmental goals, Nigeria can optimize its public and recurrent budgeting processes to create an investment-friendly environment that fosters sustainable economic growth.

### **Public Budgeting and Corporate Investment III Inflation, Taxation and Corporate investment**

#### **Inflation**

Inflation, defined as a sustained increase in the general price level over time, has been a significant challenge for Nigeria's economy. It erodes the purchasing power of money, reduces real incomes, and discourages investment. Folorunso and Abiola (2000) describe inflation as a persistent rise in the cost of goods and services, negatively impacting macroeconomic stability. In periods of high inflation, consumers' disposable incomes diminish, leading to lower consumption rates and reduced investment by businesses.

In Nigeria, inflation has fluctuated considerably over the years. For instance, it peaked at 79.9% in 1995 due to high monetary growth and fiscal expansion (Bawa and Abdullahi, 2012). Efforts to curb this included monetary policy tightening and fiscal discipline, which helped reduce inflation to 6.6% by 1999. However, inflationary pressures persisted, with rates rising from 6.9% in 2000 to 17.8% in 2005, driven by government budget deficits. Although inflation moderated to 9.7% in 2015 due to agricultural output and macroeconomic policies, it surged again, reaching 21.84% in January 2023 (Udoh and Isaiah, 2018). The high inflation rates in Nigeria discourage corporate investments as they increase costs and reduce returns. Studies by Fisher (1993) and the World Bank (1996) suggest that countries with low inflation, stable exchange rates, and efficient economic policies experience faster economic growth than those with prolonged inflation rates above 30%.

### Taxation

Taxation plays a dual role in economic management: as a revenue source for the government and as a tool for economic stabilization. However, high tax rates can deter corporate investment by reducing after-tax returns and increasing costs for businesses. For corporations, profitability is essential, and excessive taxation without corresponding improvements in infrastructure or public services negatively impacts their willingness to invest. The works of Barro (1990) and Aghion (2016) indicate that the impact of taxation on firm performance depends on the balance between its revenue-generating role and its ability to finance public goods. Efficient tax systems can encourage private sector investments and entrepreneurial activities, while poor tax policies may distort investment decisions.

Nigeria's tax policies, despite providing incentives, have often failed to attract significant investment flows. Studies by Serhan and Miryugin (2018) recommend simpler corporate income tax (CIT) structures with lower burdens to promote fixed investments and attract foreign direct investment. Dabla-Norris (2017) emphasizes that high compliance costs disproportionately affect small and medium-sized enterprises (SMEs), reducing their productivity and competitiveness. Countries like Mauritius, Costa Rica, and Ireland demonstrate that investment attraction requires more than tax incentives. Stable political and economic conditions, good infrastructure, and effective governance are critical for creating an investor-friendly environment. Nigeria must address these structural challenges to complement its tax incentives and stimulate investments.

Inflation and taxation significantly influence corporate investment decisions. While inflation erodes purchasing power and discourages economic activity, excessive taxation reduces after-tax returns and deters investors. Nigeria's government must adopt stable macroeconomic policies to manage inflation and reform its tax systems to attract investments. Enhancing infrastructure, reducing compliance costs, and fostering a stable economic environment are essential for sustainable growth and development.

## **Assessment of Public Budgeting and Corporate Investment in Nigeria**

### **I. Public Budgeting and Its Implications**

In recent years, Nigeria's public budget has been overburdened, with minimal tangible contributions to the economy. Despite a modest GDP growth rate of 3.65% in real terms, the country's investment levels remain dismal, averaging approximately 0.98% (Alan Kirman, 2010). This underperformance highlights the inefficiencies in budgetary allocation and execution.

The narrative of foreign direct investment (FDI) and domestic investment in Nigeria is largely dominated by the oil and gas sector, which, while significant, has marginalized other critical sectors. At the time of independence in 1960, FDI was more diverse, with substantial foreign participation across various industries. However, subsequent policy missteps, political instability, economic mismanagement, and systemic corruption have significantly eroded Nigeria's ability to attract and sustain FDI. These issues have been exacerbated by deteriorating social conditions and inadequate physical infrastructure, despite increased public revenues from the oil sector.

While FDI remains prominent in the oil and gas sector, its presence in other sectors is negligible and of limited developmental value. This imbalance underscores the need for broader reforms to create a conducive environment for investment in non-oil sectors.

### **II. Revenue Streams and Uncertainties**

The prediction of revenue streams for public projects often carries significant uncertainties, influenced by fluctuating market conditions. Interest rates, a critical factor in estimating the future value of cash flows, are particularly volatile and subject to global and domestic economic trends. To mitigate risks, financial analyses should evaluate income projections across varying interest rate scenarios to assess the robustness of profitability.

Furthermore, while financial analyses traditionally focus on monetary values, a comprehensive evaluation should also consider intangible costs and benefits. These may include enhanced safety, intellectual property gains, corporate social responsibility, and marketing advantages, all of which contribute to long-term investment sustainability.

### **III. International Investment Position: Bilateral and Multilateral Investments**

Bilateral and multilateral investments, commonly referred to as foreign direct investments (FDI), involve cross-border financial activities that significantly influence a nation's economic standing. The International Investment Position (IIP) serves as the balance sheet of a country's external assets and liabilities, offering insights into its financial openness and the sustainability of its external debt.

The IIP is closely tied to balance of payments (BOP) statistics, with financial account flows, reserve assets, and valuation adjustments contributing to variations over time. Lane and Milesi-Ferretti (2002) highlight the influence of net foreign asset positions on long-term real exchange rates. Larger liabilities result in higher net payments—such as interest and dividends—to foreign entities, necessitating a trade surplus to maintain equilibrium. This dynamic often requires a lower



currency valuation, creating a negative correlation between the trade balance and real exchange rates.

Conversely, exchange rate fluctuations also impact the IIP. Depreciation of a national currency increases the value of external assets and liabilities denominated in foreign currencies. This immediate change can influence economic behavior, such as encouraging a shift toward foreign currency-denominated assets, which subsequently affects the IIP.

#### **IV. Nigeria's IIP and Investment Dynamics**

Nigeria's Net International Investment Position stood at -77.562 billion USD as of December 2022, a decline from -73.340 billion USD in the previous year. This persistent negative position reflects the country's struggles with external liabilities and highlights the need for effective strategies to bolster foreign reserves, improve creditworthiness, and enhance investment attractiveness.

Strong foreign reserves positively influence key investment variables such as exchange rates, interest rates, and currency value, creating an enabling environment for investment (Ambya and Saimul, 2020). Recognizing this, Nigeria has implemented various reforms to attract FDI and stimulate local investments as part of efforts to transition towards a private sector-driven economy (Danielle, 2020).

Public budgeting in Nigeria remains inefficient, with limited impact on economic growth and investment diversification. Addressing these challenges requires a more strategic approach to resource allocation, emphasizing infrastructure development and policy stability. Simultaneously, enhancing the country's international investment position through reforms aimed at boosting foreign reserves and improving fiscal discipline will create a more conducive environment for both domestic and foreign investments.

### **Theoretical and Empirical Framework**

#### **Theoretical foundation**

##### **Neo-Classical Theory**

The neo-classical theory, rooted in the economic principles of Adam Smith, was further refined by economists such as David Ricardo, John Stuart Mill, and Reverend Thomas Malthus. This theory provides a framework for understanding the interplay between public budgeting and macroeconomic performance, particularly its effects on corporate investment. According to the theory, the desired capital stock is determined by the level of output and the relative price of capital services to output. The price of capital services is influenced by factors such as the cost of capital goods, prevailing interest rates, and the tax treatment of business income. Consequently, changes in these variables alter the desired capital stock, thereby influencing investment.

The theory posits that increases in government spending or reductions in personal income tax rates can stimulate investment by boosting aggregate demand, leading to increased output. Similarly, changes in the tax treatment of business income directly impact the cost of capital services, altering investment behavior.

Neo-classical economics assumes full employment of resources and finite lifespans, distinguishing it from Keynesian and Ricardian frameworks. Empirical evidence supports the neo-classical assertion that tax incentives influence investment. For instance, studies by Hall and Jorgenson (1967) demonstrated how changes in tax policies could significantly alter the cost of capital and, by extension, corporate investment decisions. However, the theory's reliance on the assumption of full employment has been criticized for its limited applicability in economies with significant resource underutilization, such as Nigeria.

### **Keynesian Theory**

The Keynesian theory, developed by John Maynard Keynes during the 1930s, presents a contrasting perspective. It emphasizes the role of government fiscal policy in stimulating economic growth through increased consumption, employment, and private investment. Keynesians argue that government borrowing to finance budget deficits can stimulate economic activities in the short run. This is achieved by increasing households' perceived wealth, thereby raising both private and public consumption expenditures (Okpanachi and Abimiku, 2007).

The theory posits an inverse relationship between interest rates and investment. Higher interest rates discourage investment projects with marginal efficiencies below the cost of borrowing. However, this view has been critiqued for oversimplifying investment decisions, which often depend on multiple factors beyond interest rates (Ghura and Goodwin, 2011).

Keynesians challenge the notion that government deficits crowd out private investment. Instead, increased government spending can enhance aggregate demand, improving the profitability of private investments and creating a "crowding-in" effect. Eisner (1989) argued that fiscal deficits often stimulate savings and investment, even in the presence of higher interest rates. Empirical evidence from post-recession economies, such as the United States during the 2008 financial crisis, supports this view, where expansionary fiscal policies led to significant economic recovery without crowding out private investments.

**Application to Nigeria's Economic Context:** In Nigeria, where unemployment, resource underutilization, and fiscal inefficiencies are prevalent, the Keynesian framework offers more practical insights. For instance, increased government spending on infrastructure and social programs can stimulate aggregate demand and attract private sector investments. However, empirical studies have also shown that excessive budget deficits can lead to current account imbalances and currency depreciation, limiting their long-term sustainability.

Conversely, neo-classical principles can guide tax reforms to lower the cost of capital and incentivize private investment. For example, reducing corporate tax rates while broadening the tax base has been effective in economies like Ireland and Mauritius, which have successfully attracted foreign investments.

## **Empirical Evidences**

H1: Public budgeting has no significant positive impact on corporate investment.

Isah (2012) investigated how deficit financing affects private sector investment in Nigeria. The study revealed that deficit financing has a dual effect: while short-term spending stimulates economic activities, long-term reliance on deficit financing leads to higher inflation and borrowing costs, discouraging private investment. This underscores the need for prudent fiscal management to ensure that public spending does not impede private sector growth.

Biza et al. (2015) analyzed the impact of budget deficits on private investment in South Africa. The findings indicated that persistent budget deficits crowd out private investment due to rising interest rates and increased government borrowing. The study recommended fiscal consolidation and targeted public investments to minimize the adverse effects on private investment, highlighting the interplay between macroeconomic stability and investment.

H2: Effective capital budgeting does not positively influences corporate investment.

Ambya (2020) examined the relationship between government spending and private investment in Indonesia using time-series data. The study found that government capital expenditure positively impacts private investment by providing essential infrastructure, while recurrent expenditure can crowd out private investment if it leads to excessive borrowing or higher taxes. This aligns with findings in other developing economies, emphasizing the importance of maintaining a balanced fiscal approach to promote private investment.

Serhan and Fedor (2018) studied the effect of taxation on corporate investment in ASEAN countries. The research showed that high corporate tax rates negatively affect investment by reducing after-tax returns and increasing operational costs. However, the study noted that tax incentives and rebates for specific sectors could offset the negative impact, fostering corporate investment. This empirical evidence highlights the role of tax policy in shaping investment behavior.

H3: Increasing recurrent expenditure relative to capital expenditure does not negatively affects economic growth and corporate investment.

Taehyun and Quoc (2019) investigated the effect of public spending on private investment using panel data from multiple countries. Their findings suggested that public spending on infrastructure positively influences private investment by improving productivity and reducing operational costs. However, excessive recurrent spending was found to have a negative impact, especially in countries with limited fiscal capacity. The study recommended prioritizing capital expenditure to enhance private sector growth.

Gilbert et al. (2022) explored the relationship between budget deficits, public debt, and private investment in emerging economies. The results revealed that high levels of public debt discourage private investment by creating uncertainty about future tax policies and inflation. However, the study also found that targeted public investments in infrastructure could attract private investors if accompanied by fiscal discipline. This emphasizes the need for balanced fiscal strategies.

**Methodology**

The study focuses on assessing the relationship between public budgeting and corporate investment in Nigeria, analyzing macroeconomic variables such as capital budgeting, recurrent budgeting, and the consumer price index (CPI) as a proxy for corporate investment over the period 2000–2023. Secondary data were sourced from credible institutions such as the Central Bank of Nigeria (CBN) Statistical Bulletin, CBN Annual Reports, World Bank databases, Index Mundi, the International Monetary Fund (IMF), the Debt Management Office (DMO), textbooks, academic journals, and online resources.

**Model Specification**

According to Mohsin and Carmen (2017), model specification is the process of expressing a relationship in a precise mathematical form. The study adopts a quantitative approach to examine the relationship between public budgeting and corporate investment using the following model:

Model Equation:

$$Y_t = X_{1t} + X_{2t} + \dots + X_{nt} \dots \dots \dots (i)$$

Where:

- $Y_t$  ..... represents the dependent variable (Corporate Investment, proxied by (CPI)).
- $X_{1t}, \dots, X_{nt}$  ..... are the independent variables (e.g., Capital Budgeting, Recurrent Budgeting, and other macroeconomic variables).
- $t$  ..... denotes the time period (2000–2023).

To express this in a linear econometric form:

$$CPI = \beta_0 + \beta_1 CBI + \beta_2 RBI + \beta_3 INF + \beta_4 TaxR + \hat{\epsilon} \dots \dots \dots (ii)$$

Where

- CPI = Consumer Price Index proxied as Private Investment Index
- $\beta_0$  = Constant of the equation
- INF = Inflation rate
- RBI = Recurrent Budget Index
- CBI = Capital Budget Index
- TaxR = Taxation rate proxy with Company Income Tax, CIT
- $\hat{\epsilon}$  = Error terms, accounting for unobserved factors
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Parameters

**Variables/ Data Sources/ Analytical Method/ Expected Outcomes**

Variables	Data Sources	Analytical Method	Expected Outcomes
Corporate Investment (CPI) Proxy for corporate investment	CBN Statistical Bulletin and World Bank Database	The study employs auto regression analysis to determine	Positive or negative relationships between individual

		the relationship between public budgeting and corporate investment. The method ensures a robust examination of how variations in public budgeting variables influence corporate investment levels in Nigeria over the period.	components of public budgeting (capital and recurrent expenditures) and corporate investment
Capital Budgeting: Measured as government capital expenditure	CBN Annual Reports		
Recurrent Budgeting: Measured as government recurrent expenditure	CBN Annual Reports and IMF databases		
Other Variables: Additional macroeconomic variables relevant to the study, such as inflation rates, GDP growth, and interest rates	Index Mundi and IMF		

**Source: Author's compilation (2024)**

## Presentation and Analysis of Results

### Discussion of Findings

The results from Table 5 in appendix B (Auto Regression) indicate that capital budgeting has a positive impact on corporate investment, contributing 0.000163. This means that for every unit change in capital budgeting, there is a corresponding positive change of 0.000163 in corporate investment. Since the p-value of 0.0000 is less than the 5% significance level, it confirms that the impact of capital budgeting on corporate investment is statistically significant. The calculated t-statistic is 13.71778, and the f-statistic is 188.1775, both of which support the conclusion that capital budgeting has a significant effect on corporate investment.

From Table 6 in appendix B (Pairwise Granger Causality Test), it was observed that government budgeting does not Granger cause inflation rates and corporate investment, as evidenced by the p-value of 0.3117, which is greater than the 5% significance level. This indicates that government budgeting activities do not have a causal effect on inflation rates or corporate investment.

In Table 7 in appendix B (Correlation Analysis), the results show a strong positive correlation between recurrent budgeting and corporate investment, with a correlation coefficient of 0.992231. This suggests that for every unit change in recurrent budgeting, there is a corresponding significant change in corporate investment. The findings in Table 8 in appendix B (Auto Regression Analysis) show a t-statistic of 26.83279, an f-statistic of 719.9987, and a p-value of 0.0000, which is again less than the 5% significance level. This confirms that there is a significant impact of taxation on corporate investment, with a contribution of 6.36.

Based on these findings, there is a clear need for the Nigerian government to revisit and potentially restructure past economic policies, such as the Structural Adjustment Program (SAP) and the National Economic Empowerment and Development Strategy (NEEDS). These policies should be reviewed using updated economic models that account for recent developments in the economic landscape. Additionally, the government should strike a balance between capital and recurrent expenditure, as both are crucial in shifting towards a private sector-driven economy. While several studies have focused on public investment as a key driver of corporate investment, few have examined government budgeting directly as a catalyst for private investment. Previous studies, such as Kiptui (2005), found that recurrent expenditure significantly boosted private investment, while M'Amayi and Morrissey (2005) showed that development expenditure promoted private investment. This study supports those findings by indicating that both recurrent and capital expenditure have a positive influence on private investment, as evidenced by the auto-regression analysis results. It is clear that corporate investment heavily relies on the actions and decisions taken by the government in these areas.

Furthermore, this study expands on existing research by including additional variables such as taxation and inflation rates, both of which also play an important role in influencing corporate investment. The results indicate that these variables, along with government budgeting decisions, have significant effects on private investment. The findings emphasize the importance of government spending decisions and their direct influence on private sector growth. It is crucial for the government to create a conducive environment for investment by maintaining a balanced and well-structured budget that aligns with the goals of fostering a private-sector-led economy.

## **Conclusion and Recommendation**

### **Conclusion**

The findings from this study provide valuable insights into the complexities of economic modeling, particularly regarding the impact of public budgeting on private investment and overall economic growth. While economic models can offer a clearer understanding of how government spending influences the economy, they also have inherent limitations. Dynamic scoring, for

instance, goes too far by expecting more from economic models than they can realistically deliver. No set of mathematical formulas will ever fully capture the multifaceted relationship between public budgeting and economic performance, especially with regard to private investment. Furthermore, economic models tend to reflect biases that may overlook or understate the effects of certain programs, particularly those that do not fit neatly into the model.

The analysis also underscores the importance of considering taxation and inflation within the broader fiscal system. Tax policies should be examined in conjunction with other variables such as deficits and inflation, as these factors interact to influence economic outcomes. Economic models should measure the effects of tax policies, deficits, and inflation, and account for the potential impact on private investment. The fiscal decisions made by the government, particularly regarding spending cuts and tax policies, can have significant effects on aggregate demand, and should therefore be modeled to consider various scenarios. Tax policy, as a key component of the fiscal system, must be analyzed in the context of how it influences both the public budget and private investment. This research highlights the critical role that public budgeting plays in shaping the economic landscape, with particular emphasis on its elastic effect on private investment. The findings suggest that government policies, particularly those related to public spending and taxation, have far-reaching implications for investment decisions and economic growth.

### **Recommendations**

The development of the Nigerian economy is closely linked to the creation of a conducive environment for corporate investments. This will foster economic growth and development by stimulating job creation, promoting non-oil exports, and reviving underperforming industries. Based on the findings of this study, the following recommendations are made:

Public budgeting should be leveraged to create a favorable investment environment. This can be achieved by facilitating the emergence of a market-oriented growth model. The market should be allowed to function competitively, with the government playing a supportive role in attracting both domestic and foreign direct investments (FDI). This approach will help create jobs, revitalize industries, and boost non-oil exports.

In order to strengthen a private sector-led economy, the government should prioritize the introduction of market-driven growth variables such as interest rates, exchange rates, inflation rates, and taxation rates. These variables can help boost market purchasing power and stimulate private investment.

The government should work on reducing the levels of macroeconomic variables such as taxation, inflation, and deficit financing. Additionally, efforts should be made to improve funding for the informal sector and small and medium enterprises (SMEs), integrating them into the formal economy. A strengthened tax regime should also be pursued to minimize tax evasion and maximize revenue, ensuring a balanced approach between capital and recurrent expenditures. By implementing these recommendations, the Nigerian government can create a more favorable

environment for investment, promote sustainable economic growth, and enhance the country's overall economic performance.

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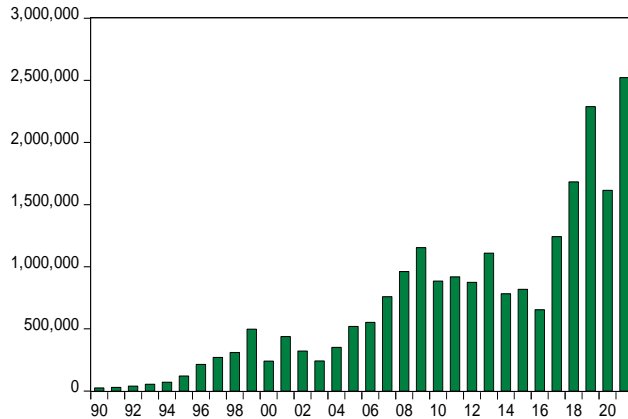
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**Appendix: A**

**4.1a Descriptive analysis of the result**

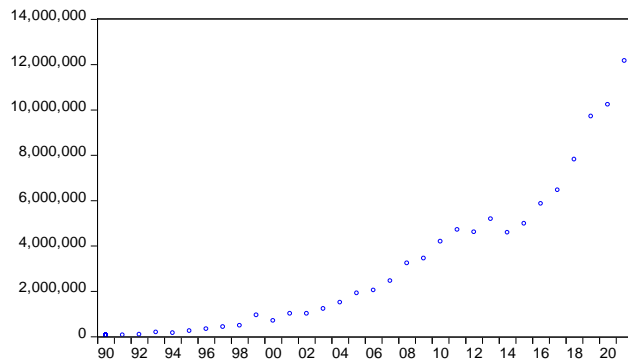
**Figure 1:** Bar Chart of Nigeria Capital Budgeting from 1990 to 2023  
 CAPITAL\_BUDGETING



**Table 1:** Descriptive statistics of Nigeria Capital Budgeting from 1990 to 2023

Capital_Budgeting	
Mean	704910.703125
Median	535942.9
Maximum	2522500
Minimum	24000
Sum	22557143
Std. Dev.	633408.9929665556
Skewness	1.259425156813269
Kurtosis	4.199749649424412

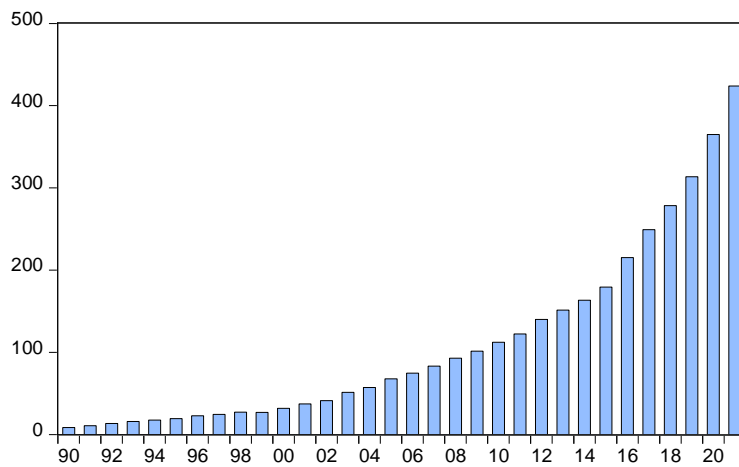
**Figure 2:** Dot plot of government budget on inflation rate from 1990 to 2023  
 Government Budget on Inflation Rate



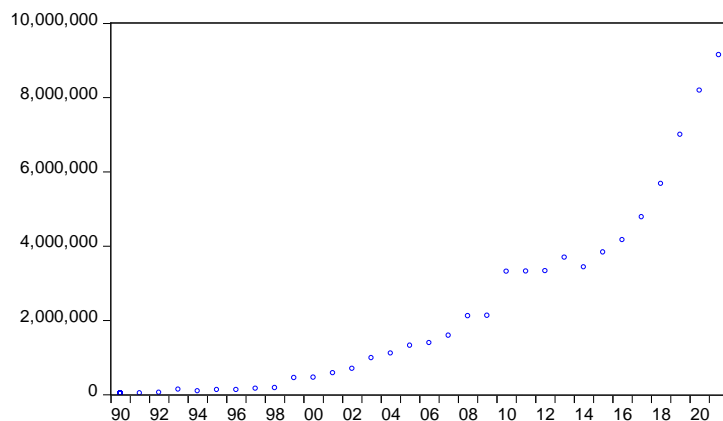
**Table 2:** Descriptive statistics of Government Budget on Inflation Rate from 1990 to 2023

<b>Government Budget on Inflation Rate</b>	
Mean	3190801.
Median	1978850.
Maximum	12164100
Minimum	60300.00
Std. Dev.	3293721.
Skewness	1.125284
Kurtosis	3.466339

**Figure 3:** Bar Chart of Nigeria Corporate Investment from 1990 to 2023  
**CORORATE INVESTMENT**



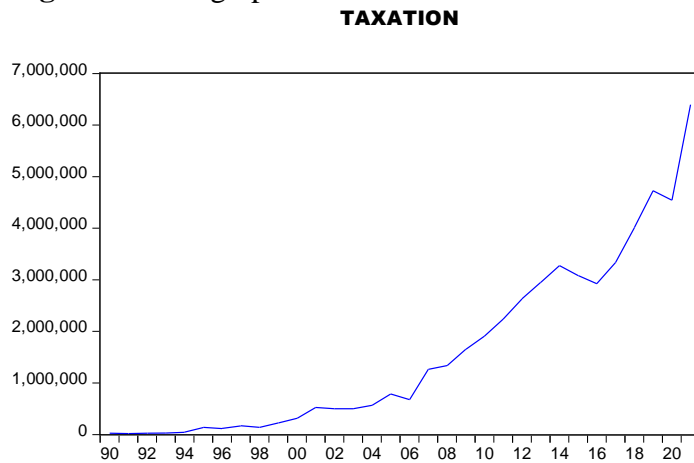
**Figure 4:** Dot Plot of Nigeria Recurrent Budgeting from 1990 to 2023  
**RECURRENT BUDGETING**



**Table 3:** Descriptive statistics of Nigeria Recurrent Budgeting from 1990 to 2023

<b>Recurrent Budgeting</b>	
Mean	2300468.
Median	1355751.
Maximum	9145200.
Minimum	36200.00
Std. Dev.	2504668.
Skewness	1.201806
Kurtosis	3.665765

**Figure 5:** Line graph of Taxation from 1990 to 2023



**Table 4:** Descriptive statistics of Taxation from 1990 to 2023

<b>Taxation</b>	
Mean	1595569.
Median	731300.0
Maximum	6397100.
Minimum	18700.00
Std. Dev.	1714775.
Skewness	1.026431

**Appendix: B**

**4.1b Test of Hypothesis**

**Table 5: Auto-Regressive Analysis Result of the Impacts of Capital budgeting on corporate investment in Nigeria.**

Dependent Variable: CORPORATE\_INVESTMENT

Date: 06/12/23 Time: 17:20

Sample: 1990 2023

Included observations: 33

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CAPITAL_BUDGE TING	0.000163	1.19E-05	13.71778	0.0000
C	-4.525744	11.20262	-0.403990	0.6891
R-squared	0.862497	Mean dependent var		110.5878
Adjusted R-squared	0.857914	S.D. dependent var		111.3776
S.E. of regression	41.98301	Akaike info criterion		10.37287
Sum squared resid	52877.20	Schwarz criterion		10.46448
Log likelihood	-163.9659	Hannan-Quinn criter.		10.40323
F-statistic	188.1775	Durbin-Watson stat		1.206093
Prob (F-statistic)	0.000000			

**Source:** E-View output, version 10 computed

**Table 6: Pairwise Granger Causality Tests result of the causal relationship between government budget on corporate investment in Nigeria**

Pairwise Granger Causality Tests

Sample: 1990 2023

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
Gov_Budgeting does not Granger Cause CORORATE_INVESTMENT	30	1.221	0.3198
Corporate_Investment does not Granger Cause GOV_BUDGETING	6	8.1948	0.0018

**Table 7: Correlation analysis showing the result of the relationship between recurrent budgeting and corporate investment in Nigeria**

Covariance Analysis: Ordinary

Sample: 1990 – 2023

Included observations: 33

Correlation	RECURRENT_BUDGETING	CORPORATE_INVESTMENT
Probability		
RECURRENT_BUDGETING	1.000000 -----	
CORPORATE_INVESTMENT	0.992231 0.0000	1.000000 -----

**Source:** E-View output version10 computed (2023)

**Table 8: Auto-Regressive Analysis Result of the Impacts of Taxation on corporate investment in Nigeria**

Dependent Variable: CORPORATE\_INVESTMENT

Method: Least Squares

Date: 06/13/23 Time: 01:42

Sample: 1990 2023

Included observations: 33

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TAXATION	6.36E-05	2.37E-06	26.83279	0.0000
C	9.046731	5.508484	1.642327	0.1110
R-squared	0.960000	Mean dependent var		110.5878
Adjusted R-squared	0.958667	S.D. dependent var		111.3776
S.E. of regression	22.64375	Akaike info criterion		9.138106
Sum squared resid	15382.18	Schwarz criterion		9.229715
Log likelihood	-144.2097	Hannan-Quinn criter.		9.168472
F-statistic	719.9987	Durbin-Watson stat		0.815872
Prob(F-statistic)	0.000000			

**Source:** E-View output, version 10 computed (2023)