Fiscal Discipline, Size of Government and Economic Growth in A Small Macro-Model of the Nigerian Economy

Ozoemena Stanley Nwodo[1] and Stella Ifeoma Madueme[2]

ABSTRACT

This study examines the interplay between fiscal discipline, government size, and economic growth within a small macroeconomic model of Nigeria. It addresses the rising fiscal deficits and escalating public debt prevalent in Sub-Saharan Africa, driven by high-interest borrowing, limited revenue collection, and dependence on commodity exports. Using Nigeria as a case study, the research explores how fiscal discipline impacts government size, output growth, and unemployment through simulation scenarios. The study employs an autoregressive distributed lag (ARDL) model and simulations to analyze the responses of key macroeconomic variables to changes in fiscal discipline, including fiscal deficit, government debt, and public expenditure stimuli. Findings reveal that fiscal indiscipline, measured as deficits exceeding 5% of GDP, increases government size, reduces output growth, and exacerbates unemployment. Simulation results show a 5% fiscal deficit stimulus raises government size by 0.5%-2%, decreases output growth by 4.5%-7.5%, and elevates unemployment by 0.8%-5.5%. Furthermore, excessive government debt and spending lead to unsustainable fiscal conditions, underscoring the need for robust fiscal rules and efficient public finance management. This research contributes to understanding fiscal dynamics in resource-dependent economies, offering actionable insights for policymakers aiming to balance growth objectives with fiscal prudence.

Keywords: Fiscal discipline, size of government, economic growth, unemployment, small macro model.

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[1] Department of Economics, Coal City University, Enugu, Nigeria, ozoemena.nwodo@ccu.edu.ng

[2] Department of Economics, University of Nigeria, Nsukka, Nigeria