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RELATIVE EFFECTIVENESS OF MONETARY AND FISCAL POLICY ON UNEMPLOYMENT IN NIGERIA (1986 - 2023)

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ABSTRACT

The study examined the relative effectiveness of monetary (money supply, interest rate, exchange rate, inflation rate) and fiscal policy (government capital expenditure, recurrent expenditure, tax revenue and external debt) on unemployment in Nigeria from 1986 to 2023. The study employed the Auto Regressive Distributive Lag (ARDL) and Error Correction Models (ECM) as the primary estimation technique to capture the short and long run effects. Monetary policy model and fiscal policy model were identified and estimated separately. In the monetary model the study found that interest rate, exchange rate, and inflation affect unemployment only after 2 - 3 years while money supply has no significant short-run effect and only becomes effective in the long run. The fiscal policy model show that capital expenditure significantly reduces unemployment in both the short and long run while recurrent expenditure and debt strongly increase unemployment. Importantly, government tax revenue consistently shows a negative but statistically insignificant effect on unemployment in both the short and long run with. The study therefore, concluded that fiscal policy is relatively more effective than monetary policy in reducing unemployment in Nigeria. Based on this finding, the study recommended that for Nigeria to meaningfully reduce unemployment, government should focus on implementing stronger and productive fiscal policies since they are more impactful, while monetary policy should play a supportive rather than primary role in labour market stabilisation.

Keywords: Monetary Policy, Fiscal Policy, Unemployment, Relative Effectiveness, ARDL, ECM

Introduction

Unemployment persists as one of the top macroeconomic issues affecting Nigeria, and it has consequently generated massive interest from both researchers and policymakers. As defined by Fapohunda (2012) and Oseni and Ogunmuyiwa (2016), unemployment can be viewed as a severe and chronic economic underachievement and a social problem. Apart from chronic underutilization of the workforce, it causes poverty and inequality, and creates a greater menace of economic insecurity in the country (Ekpo and Umoh, 2018; Linus et al., 2024).

In this context, fiscal and monetary policies represent the major levers for limiting unemployment. The two policies have been employed either in a stimulatory or a restrictive manner respectively, to achieve varied goals of price stability, full employment, gains and sustainability in the economy, and an optimal balance of payments. Nonetheless, the relative success of fiscal and monetary policies in unemployment contained remains elusive, inspiring further empirical studies (Onwuka, 2022; Davies et al., 2023; Ologbenla, 2021).

High unemployment rates are among the biggest macroeconomic challenges facing Nigeria. Several years of the application of fiscal and monetary policies have been unable to reduce unemployment with a 2022 surge of 33.3% and an even higher 2023 indication of 40.6% (Eyone et al, 2024). With these estimates and the rising unemployment rate, it becomes clear that the available tools will struggle to achieve effective reductions in unemployment. The application of both policies to the problem has, and continues to be the focus of much empirical and policy based research. However, there is still no consensus on the relative effectiveness of the two, as well as the conditions that would facilitate their achievement.

Nwankwo et al. (2025) largely attribute the ineffectiveness of monetary policy to weak

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financial markets, structural inflexibility in the Nigerian economy, and labor market mismatches. Monetary policy instruments, including the control of interest rates, exchange rates, and money supply, address unemployment. Unfortunately, policy outcomes are further complicated by the trade -off between inflation and unemployment (Nwikina et al., 2025).

One of the major empirical issues outlined by Eyone et al. (2024), is the pass-through of monetary policy. This relates to the impact of policy rate changes on lending and deposit rates. These are intended to encourage private investment and job creation. However, theinks between policy inputs and labor market outputs is evident in the high unemployment rates despite adjustments to prime lending rates and private sector credit.

Fiscal policy has some deficiencies as well when it comes to demand-side stimulation. According to Ashiru (2023), between 2018 and 2021, when government spending reached 11.9% to 13% of GDP, there was no significant improvement in employment figures. This is likely due to the composition of fiscal spending; in 2022, it was reported that fiscal spending for that year was dominated by recurrent spending, with only 14% of the budget set aside for spending that has the potential for job creation (CBN, 2022). Obayori (2016) stressed the importance of reviewing the instruments of fiscal policy as, although fiscal instruments such as capital and recurrent expenditure have been widely used, unemployment continues to worsen.

Gaps in the literature due to deficiencies in methods are also apparent. Most existing studies fail to cover both fiscal and monetary policies and tend to analyze one or the other. Only a few studies attempt to deconstruct fiscal policies into their respective elements (government capital expenditure, government recurrent expenditure, taxation, and fiscal deficit) and monetary policy through money supply, interest rate, exchange rate and price level. These methodological deficiencies in the literature are apparent.

There are many inconsistencies in the literature. Nwankwo, Kalu and Chiekezie (2017) find a positive and significant impact of fiscal policy on economic growth. However, Babalola (2015) and Osuala and Ebieri (2014) find the effect of fiscal policy on economic growth to be insignificant, showing the need for an updated more inclusive analysis. Olurinola and Egbe (2024) believe that Little coordination of policies is done between fiscal and monetary policies, and their interaction terms are understudied and are an important empirical gap.

These gaps call for the research to be undertaken. This study seeks to analyze the relative impact of fiscal and monetary policies in dealing with unemployment in Nigeria. It aims to provide both methodological and empirical gaps by: Disaggregating fiscal policy into government capital and current fiscal spending and tax receipts; Disaggregating monetary policy into the money supply, the cost of credit, the foreign exchange rate and inflation; Using the recent data from 1986 to 2023, being the first year of the implementation of the Structural Adjustment Programme; Analyzing the trends in all relevant variables to derive a historical context; Assessing the impact of fiscal and monetary policies on unemployment and assessing the impact of fiscal and monetary policies on unemployment; and Determining the policies that are more impactful on unemployment in Nigeria.

The purpose of the study is to evaluate the impact of monetary and fiscal policies on unemployment levels in Nigeria for the period 1986 to 2024. The study is comprised of five chapters. Chapter one covers the study background, formulation of the problem, research questions and objective, and the approach to the study. Chapter two reviews the literature. Chapter three covers the study methodology. Chapter four contains the results and discussions, while chapter five contains the conclusions and recommendations.

Literature Review

Conceptual Review

Unemployment

Unemployment is a major issue across all tiers of government in Nigeria. It is a problem at all levels of society. Unemployment occurs when individuals within the economically active population, capable of and ready to take on employment, are unable to secure

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employment at the prevailing wages (Nimenibo et al., 2016). This can be explained as individuals being willing and able to take on employment at the prevailing wages, but unable to find employment. Some of the major or primary causes of unemployment in the Nigerian economy in the last few years can be attributed to poor economic policies, poor educational policies, corruption, global economic crises, the inferior performance of the smaller scale enterprises and imperfect information flow, rapid population growth, etc (Nimenibo et al., 2016).

Monetary Policy

The management of the money supply and interest rates by a country's central bank or other monetary authority is termed monetary policy. The aim is to accomplish the objectives of economic policy, specifically price and economic stability and control of inflation. Economic policy refers to the science and the ability to manage a country's money supply to achieve long-term price stability and sustained economic growth (Chowdhury et al., 2003).

To summarize, monetary policy concerns decisions by central banks regarding lending ratios and the amount of money they print, as well as their use of tools, including open market operations (OMO), the reserve requirement, the discount rate, moral suasion, control of lending, and the management of the interest rate (Loayza & Schmidt-hebbel, 2012). Monetary authorities attempt to achieve their overall policy goals with expansionary or contractionary policies. Expansionary monetary policy refers to government efforts to increase the money supply. A contractionary policy strives to achieve the reverse, and is implemented by either increasing or decreasing the deposits held by banks, or by curtailing the expansion of bank lending (Ojo, 2013).

Fiscal Policy

Governments manage the economy in order to achieve particular macro-economic targets or goals using the government's spending and income control in order to achieve economic growth, amongst other goals (Nimenibo et al., 2016). Akpakpan (1994) argues that fiscal policy is about the government's management of spending and income in order to manage the volume of economic activities. All governments set several economic goals for themselves including the attainment of full or high levels of employment, achieving high rates of growth, balance of payments equilibrium, stability of the exchange rate, and low inflation (Nimenibo et al., 2016). There are several types of economic policy to achieve these goals. Of particular relevance here is fiscal policy.

Monetary Policy and Unemployment in Nigeria

The relationship between monetary policy and unemployment in Nigeria can be explained in the context of the Phillips curve. A monetary policy of the central bank that is set to be contractionary, and involves an increase in interest rates as a means of combating inflation, can lead to lower economic activities, decreased investment, and higher levels of unemployment (Iyun, 2019), while an expansionary monetary policy that involves a decrease in interest rates, can increase economic activities and employment.

Fiscal Policy and Unemployment in Nigeria

There are strong views on the connections between fiscal policy and unemployment in Nigeria, presented in both theoretical and empirical accounts. Fiscal policy relates to unemployment through government spending and taxation in their effects on aggregate demand, investments, and labor market conditions. When fiscal policy is expansionary, meaning that either government spending is increased or taxation is decreased, it is expected that this would create opportunities for economic activities and in turn create jobs (Keynes, 1936). In the case of Nigeria, the effectiveness of fiscal policy in mitigating unemployment has been mixed, mainly due to the overemphasis on current spending and institutional inefficiencies (Onwuka, 2022; Davies, Echekoba, & Ezu, 2023).

Empirical Review

Nwankwo et al. (2025) examined the relationship between unemployment and monetary policy in Nigeria and specifically looked at the impacts of some key monetary indicators: interest rate, money supply, inflation, GDP growth, government spending,

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and exchange rate. Using the Autoregressive Distributed Lag (ARDL) model on annual time series data covering the period 1980-2023, the study examined the short-run and long-run dynamics. The study concluded that monetary policy is an important determinant of the level of employment in Nigeria. To address unemployment in Nigeria, the study recommended the strengthening of inflation-targeting policies to allow for more balance between price stability and the generation of employment.

The study by Nwikina et al. (2025) analyzed how monetary policy influenced unemployment in Nigeria in a time span of 1985 to 2022. The authors utilized annual data available in Central Bank of Nigeria's (CBN) Statistical Bulletins and publications of National Bureau of Statistics (NBS). The authors utilized the methods of the Augmented Dickey-Fuller test, the limits Co-integration test, and the Autoregressive Distributed Lag (ARDL) approach. The study tackled the effect of monetary policy on unemployment in Nigeria. The authors of the study recommended that the Central Bank of Nigeria (CBN) should come up with ways of reducing lending rates and expanding credit facilities to businesses.

Olurinola and Egbe, (2024) evaluated the effects of the synergism between monetary and fiscal policies over time on unemployment in Nigeria. The IS-LM model was the basis for this study. Data from various sources over a thirty-nine year period spanning 1985-2023 were used for this study. The ARDL method was used along with the Bounds test and other post-estimation tests. The result of the study is that, in Nigeria, the conjunction of these two policies was significant and showed a negative relationship to unemployment. Others, however, were not significant and perhaps are a result of poor implementation of the policies in the Nigerian economy. The study suggested that, prior to the economy implementing an effective policy mix, these policies should be reviewed to ensure that there is a balance in the dominance of these policies as this was the result of the study.

Eyone et al. (2024) analyzed the effects of monetary policy mechanisms and the reduction of unemployment in Nigeria from 1986 to 2022. The job search and Keynesian theories of unemployment served as the basis of this study, and the data used in this study are unemployment, broad money supply, prime lending rate, foreign direct investments, private sector credit, and population growth and inflation. The analysis used the dynamic autoregressive distributed lag and the Granger causality methods. The data for these variables were obtained from the Statistical Bulletin of the Central Bank of Nigeria and the National Bureau of Statistics. It was found that at the 5 percent level of significance, the prime lending rate was positive and significant, while the broad money supply was negative and significantly related to unemployment. The lagged values of the inflation rate were positively and significantly related to unemployment. The authors recommended, among other things, that stability in the macroeconomy should be attained by creating jobs through the productivity of the Nigerian economy and the availability of credit to the private sector.

Davies et al. (2023) studied government recurrent expenditure, government capital expenditure, government transfer payment, government fiscal deficit and government tax revenue's effect on unemployment in Nigeria. Existing works concentrated on a 36-year period, spanning 1986 to 2021, based on data provided by the Central Bank of Nigeria. The study employed Auto-Regressive Distributed Lag (ARDL) and Granger causality. Their findings showed that there is a positive and significant relationship between government Transfer Payment and unemployment, between government Capital Expenditure and unemployment, between government Recurrent Expenditure and unemployment, and between government Fiscal Deficit and unemployment. Tax revenue was found to be a significant negative factor in unemployment in Nigeria. Given these findings, the government should increase capital expenditure and reduce recurrent consumption to a greater degree. The government's expenditure should be directed towards provision of core infrastructure like roads and highways, airports, mass transit and communication, sewer and water supply, among others, taking the 70 percent share of total expenditure.

Ibrahim, (2023) investigates the impact of fiscal policy tools on unemployment rate in Nigeria between 1991 and 2021 using the autoregressive distributed lag model. In the short run, both taxation and government

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spending worsen the unemployment situation in Nigeria. It, therefore, indicates that the tax system in Nigeria may not be very effective over time. It is thus recommended that the government should consider cutting down expenses and accomplish an expenditure switch from more recurrent spending to more capital and infrastructural spending which will encourage job creation.

Gaps in the Literature

Most existing works have either focused exclusively on monetary or fiscal policy without offering a comparative analysis of their relative effectiveness in tackling unemployment in Nigeria (Obayori, 2016; Onwuka, 2022; Davies, Echekoba, & Ezu, 2023). Yet, there is no consensus on which of the two policy approaches is more effective in reducing unemployment, thereby creating a substantive empirical gap.

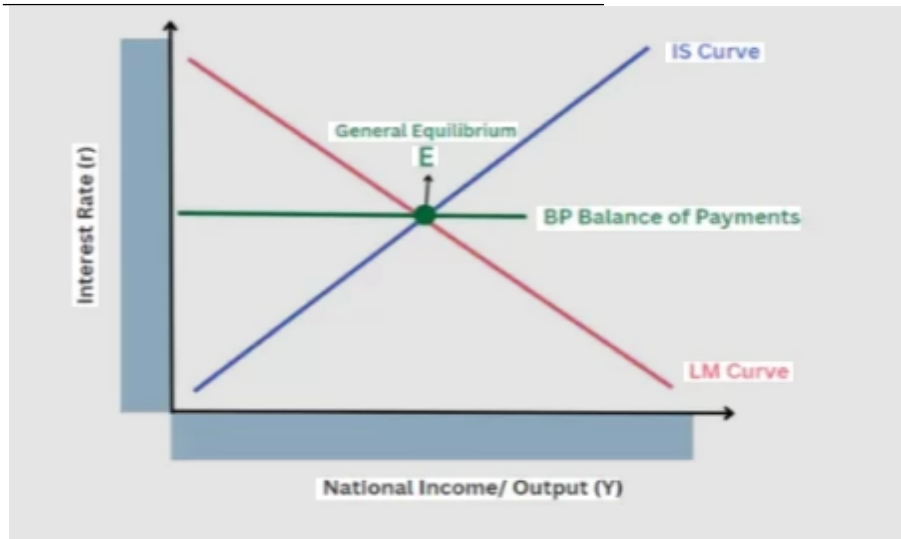
Also, there are inconsistencies in the empirical results of existing studies. While some authors find significant negative relationships between government spending and unemployment (Nwankwo, Kalu, & Chiekezie, 2017; Babalola, 2015), others report insignificant or even positive relationships, pointing to inefficiencies and mismanagement in policy implementation (Osuala & Ebieri, 2014; Ekong, Okon, & Effiong, 2019). Similarly, while certain studies show that monetary policy tools such as interest rate adjustments can influence unemployment through investment and credit channels (Ikpe, 2024; Eyone et al., 2024), others demonstrate little to no effect, citing inflationary pressures, exchange rate instability, and poor monetary transmission mechanisms as constraints (Nwikina et al., 2025; Linus et al., 2024).

Lastly, the literature review reveals that few studies explicitly investigate the interaction or coordination between monetary and fiscal policies in addressing unemployment (Olurinola & Egbe, 2024; Qin, 2025). This gap is particularly important given that the effectiveness of one policy may depend on the stance of the other, and isolated use of either policy has often proven inadequate in solving Nigeria's unemployment challenge (Onwuka, 2022; Davies et al., 2023). By examining both policies simultaneously and comparatively, this study will provide new evidence on their relative effectiveness, as well as practical guidance on how they can be coordinated to achieve better labour market outcomes.

3. Methodology

The study is based The Mundell-Fleming model (Marcus J. Fleming, 1962; Robert A. Mundell, 1963) extends the IS-LM framework to an open economy by introducing the balance of payments (BP) sector. The model explains how monetary and fiscal policies simultaneously influence national income, employment, exchange rate, and capital flows. Fiscal policy affects aggregate demand through government expenditure and taxation, while monetary policy operates through money supply and interest rate. Because output (Y) determines labour demand, unemployment responds to changes in aggregate demand and interest rate. In this model, unemployment decreases when expansionary fiscal or monetary policy increases national output.

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Model Specification

Based on the Mundell-Fleming model and the econometrics model of Onwuka, (2022), we can determine the interactions between fiscal policy, monetary policy and unemployment by modifying their model and considering other variables the following model was specified:

Model 1

This model is to examine the effect of monetary policy variables (money supply, interest rate, exchange rate, inflation rate) on unemployment in Nigeria from 1986 to 2023.

The functional relationship is expressed as:

UNE = f (MS, INT, EXR, INF) …… (1)

Transforming to semi-log model to have:

UNE = f (lnMS, INT, EXR, INF) …… (2)

This can be written in econometrics form as:

$UNE = \beta_0 + \beta_1 lnMS + \beta_2 INT + \beta_3 EXR + \beta_4 INF + \mu$ …… (3)

The Unrestricted ARDL (p, q_1, q_2, q_3, q_4) – levels form equation is specified as:

…… (4)

And the ARDL-based ECM (error-correction) represented as:

…… (5)

Where:

UNE = Unemployment (Unemployed, total (% of total labour force))

lnMS = Log of Money Supply (M_2/M_3 (₦' Billion))

INT = Interest Rate (Real interest rate (%))

EXR = Exchange Rate (Official exchange rate (LCU per US$, period average))

INF = Inflation Rate (consumer prices (annual %))

μ = error term or stochastic element.

β_0 = constant/ intercept

β_1, β_2, β_3, β_4 = coefficient of independent variables

Δ denotes first difference.

The term in square brackets is the long-run equilibrium relation; δ1,…,δ4 are the long-run coefficients.

Λ is the speed of adjustment (expected λ<0 and significant if cointegration exists).

Choose lag orders p, q1, …, q4 by AIC/SIC/HQ; replace the indices with chosen lags when estimating.

The a priori expectation for the effect of money supply, interest rate, exchange rate and inflation rate on unemployment rate is stated below:

$\beta_1 < 0$, $\beta_2 < 0$, $\beta_3 < 0$ and $\beta_4 > 0$

This implies that the coefficient of money

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supply, interest rate, exchange rate are expected to be negative while inflation rate is expected to be positive.

Model 2

Analyse the effect of fiscal policy variables (government capital expenditure, recurrent expenditure, and tax revenue) on unemployment in Nigeria from 1986 to 2023.

The functional relationship is expressed as:

UNE = f (GCE, GRE, TAX, DBT) …….. (6)

Transforming to semi-log model to have:

UNE = f (lnGCE, lnGRE, lnTAX, lnDBT) …….. (7)

The can be written in econometrics form as:

$UNE = \beta_0 + \beta_1 lnGCE + \beta_2 lnGRE + \beta_3 lnTAX + \beta_4 lnDBT + \mu$ …… (8)

The Unrestricted ARDL (p, q_1, q_2, q_3, q_4) – levels form equation is specified as:

…….…… (9)

And the ARDL-based ECM (error-correction) represented as:

……. (10)

Where:

UNE = Unemployment (Unemployed, total (% of total labour force))

lnGCE = Log of Government Capital Expenditure (₦' Billion)

lnGRE = Log of Government Recurrent Expenditure (₦' Billion)

lnTAX = Log of Taxation (₦' Billion) (Proxied by Non-Oil Revenue primarily comprises taxes levied by the Federal Inland Revenue Service (FIRS) and the Nigeria Customs Service like CIT, PIT, VAT, Custom and excise duties, as well as federal independent revenue)

lnDBT = Log of External Debt (Nigeria's Public External Debt Outstanding (₦' Billion))

μ = error term or stochastic element.

β_0 = constant/ intercept

β_1, β_2, β_3, β_4 = coefficient of independent variables

Δ denotes first difference.

The term in square brackets is the long-run equilibrium relation; δ1,…,δ4 are the long-run coefficients.

Λ is the speed of adjustment (expected λ<0 and significant if cointegration exists).

Choose lag orders p, q1, …, q4 by AIC/SIC/HQ; replace the indices with chosen lags when estimating.

The a priori expectation for the effect of government capital expenditure, government recurrent expenditure, taxation and external debt on unemployment rate is stated below:

$\beta_1 < 0$, $\beta_2 < 0$, $\beta_3 > 0$ and $\beta_4 < 0$

This implies that the coefficient of government capital expenditure, government recurrent expenditure and external debt are expected to be negative while taxation is expected to be positive.

Note that: All fiscal and monetary variables expressed in naira values were transformed into natural logarithms to stabilize their variances and ensure comparability of coefficients.

Sources of Data

The study will mainly employ secondary data for this study and the major sources of data will be CBN Statistical Bulletin and World Development Indicators (WDI) for the period of 39 years from 1986 to 2023. Specifically, data on money supply, government capital expenditure, government recurrent expenditure, taxation and external debt will be retrieved from the CBN Statistical Bulletin while unemployment rate, interest rate, exchange rate and inflation rate will be retrieved from World Development Indicators (WDI).

Estimation Techniques

This study employed the Autoregressive Distributed Lag (ARDL) bounds testing approach to cointegration developed by Pesaran et al. (2001). The ARDL model is chosen for its flexibility and suitability when the variables are integrated of different orders, i.e., I(0) and I(1), but not I(2). This technique allows for simultaneous estimation of both short-run dynamics and long-run relationships between unemployment rate and the explanatory variables: money supply, interest rate, exchange rate, inflation rate, government

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recurrent expenditure, government capital expenditure, taxation, and external debt.

ARDL Bounds Test for Cointegration

The ARDL bounds testing approach will be used to determine whether a long-run equilibrium relationship exists among the variables. The procedure involves estimating an unrestricted error correction version of the ARDL model and conducting an F-test to determine the existence of long-run relationships.

Error Correction Model (ECM)

An error correction model belongs to a category of multiple time series models most commonly used for data where the underlying variables have a long run common stochastic test also known as co-integration. ECM are theoretical driven approach useful form estimating both short term and long-term effect of one time series on another. The term error correction relates to the fact that last period deviation forms a long run equilibrium, the error, influence the short-term dynamic. Thus, ECM directly estimate the speed at which a dependent return to equilibrium after a change in other variables.

RESULTS AND DISCUSSIONS

Trend Analysis

Fig. 1 Trend of UNE, MS, INT, EXR, INF, GCE, GRE, TAX and DBT in Nigeria from 1986 to 2023

Source: EViews 13

The trend analysis shows the fluctuations of macroeconomic variables in Nigeria from 1986 to 2023 where the UNE showed a slightly stable pattern moving from 6.14% in 1986 to a peak of 5.74% in 2020 before slightly declining to 3.07% in 2023. MS showed a generally increasing pattern over the years reflecting the expansion of the monetary sector. INT was unstable throughout the period, switching between positive and negative values; depicting the unstable nature of monetary policy. EXR depreciated massively throughout the period from N1.79/$ in 1986 to N634.16 in 2023. Inflation rate was also highly volatile and unstable showing about 4 spikes during the study period. GCE and GRE both exhibit an upward trend, increasing from ₦8.5 billion and ₦7.7 billion in 1986 to ₦4,486.2 billion and ₦14,287.6 billion in 2023, respectively, which mean that there has been an expansion in fiscal spending. Similarly, TAX rose from ₦4.5 billion in 1986 to ₦13,587.5 billion in 2023. DBT followed an upward trajectory, increasing sharply from ₦41.45 billion in 1986 to ₦38,219.85 billion in 2023, illustrating how much Nigeria depends on external borrowing to finance budget her deficits. In sum, both the monetary and fiscal policy has been expanding substantially.

Descriptive Statistics

Results revealed that UNE averaged at 4.27% in Nigeria under the period of study while MS, INT, EXR, INF, GCE, GRE, TAX and DBT averaged at N7.51 Billion, 2.46%, N131.185, 19.42%, N5.66455 Billion, N6.4412Billion, N5.9991Billion and N7.1228 Billion respectively. The maximum and minimum values indicates the highest and lowest values of the variable. The Jarque-Bera test results show that most variables are approximately normally distributed, except for unemployment (UNE), interest rate (INT), and inflation (INF), whose probabilities are below 0.05, indicating some degree of non-normality.

Table 4.2: Descriptive Statistics

	UNE	MS	INT	EXR	INF	GCE	GRE	TAX	DBT
Mean	4.27013	7.5152	2.46745	131.185	19.4264	5.66455	6.4412	5.9991	7.1228
Median	3.963	7.6647	4.52218	125.808	12.8765	6.21060	7.0128	6.3380	6.7988
Maximum	6.92	10.788	18.1800	634.16	72.8355	8.05000	9.3058	9.1277	9.8363

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Minimum	3.601	3.1701	-31.452	1.75452	5.38800	1.85629	2.0412	1.5040	3.7244
Jarque-Bera	32.1886	2.9544	17.0961	5.11797	24.4041	4.54928	3.0160	3.1360	0.2979
Probability	1.02407	0.2282	0.00019	0.07738	5.02005	0.10283	0.2213	0.2084	0.8616
Observations	37	37	37	37	37	37	37	37	37

Source: Authors' Computation 2025

Stationarity Test

The result from the below Augmented Dickey Fuller (ADF) and Phillips Perron (PP) test for stationarity conducted revealed a mixed order of integration at I (0) and I (1). This means that all variables were found stationary at level or/and after first differencing. This validated the continuity of the analysis and the employment of Auto Regressive Distributive Lag (ARDL) model which is capable of determining both short and long run relationships among the variables.

Table 4.3: Unit Root Test

Variable	ADF Statistic	PP Statistic	5% Critical Value	Prob. (ADF)	Prob. (PP)	Order of Integration	Remark
UNE	-2.396133	-5.666641	-2.945842	0.0182	0.0000	I(1)	Stationary at 1st Diff.
lnMS	-4.163815	-4.160754	-2.945842	0.0024	0.0025	I(1)	Stationary at 1st Diff.
INT	-5.050206	-3.732422	-2.945842	0.0002	0.0075	I(0)	Stationary at Level
EXR	-4.045107	-3.966518	-2.945842	0.0034	0.0042	I(1)	Stationary at 1st Diff.
INF	-3.533848	-2.991794	-2.945842	0.0126	0.0449	I(0)	Stationary at Level
lnGCE	-6.881828	-6.823078	-2.945842	0.0000	0.0000	I(1)	Stationary at 1st Diff.
lnGRE	-8.550445	-4.128282	-2.945842	0.0000	0.0026	I(0)	Stationary at Level
lnTAX	-7.412878	-4.315238	-2.945842	0.0000	0.0016	I(0)	Stationary at Level
lnDBT	-4.327698	-4.344435	-2.945842	0.0016	0.0015	I(1)	Stationary at 1st Diff.

Source: Authors' Computation 2025

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Effects of Monetary Policy on Unemployment in Nigeria

Short-Run ARDL Result

The result below showed that the UNE has positive and significant lag values UNE(-1). This means that the past value of unemployment affects the current level of unemployment. i.e unemployment adjusts slowly; increase in unemployment takes at least one period for it to fall back to initial rate. The coefficient of lnMS is positive but not statistically significant which implies that increase in money supply by any percentage does not have a clear impact on unemployment in the short run in Nigeria. INT has a positive significant relationship with UNE at lag 2 and 3 implying that when interest rates rise, unemployment tends to increase about two to three years later. In other words, increase in INT three periods ago increases the current unemployment level. This happens because higher interest rates make borrowing costly, discourage investment, and reduce job opportunities.

Similarly, there is a positive significant relationship between EXR and UNE at 3 lag period. This mean that depreciation in Naira three periods ago translates to higher unemployment rate in the current period. Lastly, INF has a positive significant relationship with UNE at 2 lags period meaning that increase in inflation rate increases unemployment rate after 2 periods suggesting that rise in prices eventually reduce the real purchasing power and production and eventually leading to jo losses in Nigeria in the short run period.

The model has a very good fit with R-Squared value at 0.947 implying that 94.7% of variations in UNE is explained by MS, INT, EXR and INF. Overall, the probability value of the F-statistics which is less than 0.05 indicated that the entire model is a good fit. Lastly, the Durbin-Watson value of 2.73 indicates the model is not suffering from autocorrelation.

In simple terms, the result shows that monetary policy does not have an instant impact on unemployment in Nigeria. Changes in interest rates, exchange rates, and inflation take about 2–3 years before their effects are felt. Money supply, even when increased, does not directly reduce unemployment in the short term suggesting that Nigeria's job creation problems are not just about liquidity but about how monetary policy translates into real sector growth.

Table 4.4.1: ARDL Short-Run Result

Variable	Coefficient	t-Statistic	Prob. Value
UNE(-1)	2.3763	6.951	0.0000
lnMS	0.5878	0.859	0.408
INT(-2)	0.0505	3.551	0.005
INT(-3)	0.0326	3.230	0.008
EXR(-3)	0.0102	2.479	0.031
INF(-2)	0.0327	3.160	0.009
C (Constant)	3.2617	2.081	0.062
R-Squared	0.947		
Adjusted R-Squared	0.846		
F-Statistics (Prob.)	9.394 (0.00025)		
Durbin-Watson	2.73		

Source: Authors' Computation 2025

Error Correction Model (ECM)

The error correction coefficient (COINTEQ = -0.6310) is correctly negative and significant, confirming

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that there is a long-run equilibrium relationship between UNE and monetary policy variables (MS, INT, EXR, and INF). The magnitude of -0.63 means that about 63% of any short-run deviation from the long-run equilibrium is corrected in each year. The economy adjusts by roughly two-thirds each year to restore stability. The R-squared (0.87) and F-statistic ($p < 0.05$) indicate that the model is robust and the explanatory variables collectively explain most of the short-run variations in unemployment, while the Durbin-Watson (2.73) shows no autocorrelation, meaning the model is well-specified and reliable.

Table 4.4.2: ECM Result

Variable	Coefficient	t-Statistic	Prob. Value
COINTEQ(-1)	-0.6310	-6.308	0.0000
R-Squared	0.872		
Adjusted R-Squared	0.743		
F-Statistics (Prob.)	6.786 (0.0002)		
Durbin-Watson	2.73		

Source: Authors' Computation 2025

Bounds Tests for Cointegration

Since F-statistic value (4.559) is greater than the upper and lower bound critical value at the 5% significance level, there is a significant long-run equilibrium relationship between UNE, MS, INT, EXR and INF in Nigeria. In simpler terms, changes in monetary policy also has a sustained long-term impact on unemployment over time.

Table 4.4.3: F-Bounds Test

Test Statistic	F-Statistic Value	Lower Bound (I(0)) @ 5%	Upper Bound (I(1)) @ 5%
F-Bounds Test	4.559	2.947	4.088

Source: Authors' Computation 2025

Long Run Result of the ARDL

The ARDL long run result above reveals that MS has a significant negative relationship with UNE. Implying that a increase in money supply will reduce unemployment level in the long run. INT is positive and statistically not significant implying that increase or decrease in INT does not tangible effect UNE. Also, EXR and INF are positive and statistically significant suggesting that depreciation in exchange rate and increase in inflation increases unemployment rate therefore worsening it.

Table 4.4.4: ARDL Long Run Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
lnMS(-1)	-0.5361	0.2396	-2.238	0.033
INT(-1)	0.2237	0.1142	1.960	0.060
EXR(-1)	0.0084	0.0024	3.502	0.002
INF(-1)	0.0878	0.0368	2.384	0.024
C	5.1692	1.8306	2.824	0.009

Source: Authors' Computation 2025

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Post Estimation Tests

The post-estimation diagnostic results show that the model and the results are statistically reliable and well-behaved. The Breusch-Pagan-Godfrey test for heteroskedasticity confirms that the variance of the residuals is constant this is known because the probability value of the test statistics is greater than 0.05. Also, the Breusch-Godfrey LM test for serial correlation indicates that the residuals are not correlated over time also known because the probability value of the test statistics is greater than 0.05. Taken together, the model's predictions are stable and not biased by autocorrelation and heteroscedasticity.

Although the variance inflation factor (VIF) values are relatively high due to multiple lagged variables (a common occurrence in ARDL models), it does not pose a severe multicollinearity problem. Similarly, The Jarque-Bera test shows a slight deviation from normality, which is common in time series data, but since the sample size is large enough, this does not invalidate the model. Overall, the model passes the major diagnostic checks and it is good for policy interpretation and recommendations.

Table 4.4.5: Diagnostics Test

Test	Test Type	Test Statistic	Prob. Value
Heteroskedasticity Test (Breusch-Pagan-Godfrey)	F-statistic	1.1111	0.4442
Serial Correlation Test (Breusch-Godfrey LM)	F-statistic	2.0006	0.1989
Multicollinearity Test (VIF)	Centred VIF	Mean VIF ≈ 15	< 10 is ideal; some variables > 10
Normality Test (Jarque-Bera)	JB Statistic	7.7438	0.0208

Source: Authors' Computation 2025

Effect of Fiscal Policy Variables on Unemployment in Nigeria

Short Run ARDL

The short-run ARDL results show that Nigeria's fiscal policy significantly influences unemployment both immediately and over time. UNE has positive and significant lag values UNE(-1). This means that the past value of unemployment affects the current level of unemployment. i.e. unemployment adjusts slowly; increase in unemployment takes at least one period for it to fall back to initial rate. The coefficient of lnGCE(-1) (0.5811) is positive and significant, implying that an increase in government capital spending in the previous year initially raises unemployment. However, the negative and significant coefficients of lnGCE(-3) (-0.6154) and lnGCE(-4) (-0.4597) show that capital expenditure reduces unemployment after about three to four years. This suggests that capital projects take time to yield employment effects; jobs are not created immediately but materialize when projects mature.

lnGRE at lag two (0.6425) has a positive and significant impact, indicating that higher recurrent expenditure increases unemployment. This may be because the spending focuses more on salaries and administration rather than job creation. lnTAX is a negative and insignificant at all 4 lag periods showing that changes in tax does not affect unemployment.

lnDBT in the current period (0.5365) is positive and significant, showing that increase in borrowing in the short term increases unemployment. However, the negative coefficient of lnDBT(-1) (-0.2154) indicates that public borrowing from the previous year helps reduce unemployment later, perhaps when borrowed funds are eventually channelled into productive public projects.

The model is statistically robust, as shown by the R-squared of 0.94, meaning that about 94% of the variations in unemployment is explained by the fiscal variables. The F-statistic (22.28) is highly significant, confirming the overall strength of the model. The Durbin-Watson statistic (2.19) also

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indicates no autocorrelation in the residuals.

Table 4.5.1: ARDL Short Run Result

Variable	Coefficient	t-Statistic	Prob. Value
UNE(-1)	1.4600	13.72	0.0000
lnGCE(-1)	0.5811	3.42	0.0029
lnGCE(-3)	-0.6154	-4.23	0.0005
lnGCE(-4)	-0.4597	-2.98	0.0077
lnGRE(-2)	0.6425	2.12	0.0474
lnTAX	-0.1095	-0.37	0.7110
lnDBT	0.5365	4.71	0.0002
lnDBT(-1)	-0.2154	-2.17	0.0433
C (Constant)	1.3906	3.57	0.0020
R-squared	0.9426		
Adj. R-squared	0.9003		
F-statistic	22.28		
Prob (F-statistic)	0.0000		
Durbin-Watson	2.19		

Source: Authors' Computation 2025

Error Correction Model (ECM)

The error correction coefficient (COINTEQ = -0.9916) is correctly negative and significant, confirming that there is a long-run equilibrium relationship between UNE and fiscal policy variables (lnGCE, lnGRE, lnTAX, and lnDBT). The magnitude of -0.99 means that about 99% of any short-run deviation from the long-run equilibrium is corrected in each year. The economy adjusts by roughly fully each year to restore stability. The R-squared (0.86) and F-statistic ($p < 0.05$) indicate that the model is robust and the explanatory variables collectively explain most of the short-run variations in unemployment, while the Durbin-Watson (2.18) shows no autocorrelation, meaning the model is well-specified and reliable.

Table 4.5.2: ECM Result

Variable	Coefficient	t-Statistic	Prob. Value
COINTEQ(-1)	-0.9916	-9.258	0.0000
R-Squared	0.863		
Adjusted R-Squared	0.812		
F-Statistics (Prob.)	16.853 (0.0000)		
Durbin-Watson	2.18		

Source: Authors' Computation 2025

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Bounds Test for Cointegration

Since F-statistic value (11.30) is greater than the upper and lower bound critical value at the 5% significance level, there is a significant long-run equilibrium relationship between UNE, lnGCE, lnGRE, lnTAX and lnDBT in Nigeria. In simpler terms, changes in fiscal policy also has a sustained long-term impact on unemployment over time.

Table 4.5.3: F-Bounds Test

Test Statistic	F-Statistic Value	Lower Bound (I(0)) @ 5%	Upper Bound (I(1)) @ 5%
F-Bounds Test	11.30	3.058	4.223

Source: Authors' Computation 2025

Long Run ARDL Results

The ARDL long run result above reveals that lnGCE has a significant negative relationship with UNE. Implying that an increase in government capital expenditure will reduce unemployment level in the long run. Similarly, lnTAX has a negative but insignificant effect on UNE implying that increase or decrease in taxes does not have tangible effect on UNE. Conversely, lnGRE and lnDBT both has positive and statistically significant effect on UNE. This means that increase in government recurrent expenditure and external debt will significantly worsen unemployment level in Nigeria in the long run.

Table 4.5.4: ARDL Long Run Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
lnGCE(-1)	-0.38190	0.18533	-2.06061	0.0484
lnGRE(-1)	0.44169	0.20218	2.18458	0.0371
lnTAX	-0.11050	0.29698	0.37210	0.7125
lnDBT(-1)	0.32386	0.04223	7.66828	0.0000
C	1.40232	0.35905	3.90557	0.0005

Source: Authors' Computation 2025

Post Estimation Tests

The post-estimation diagnostic results show that the model and the results are statistically reliable and well-behaved. The Breusch-Pagan-Godfrey test for heteroskedasticity confirms that the variance of the residuals is constant this is known because the probability value of the test statistics is greater than 0.05. Also, the Breusch-Godfrey LM test for serial correlation indicates that the residuals are not correlated over time also known because the probability value of the test statistics is greater than 0.05. Taken together, the model's predictions are stable and not biased by autocorrelation and heteroscedasticity.

Although the variance inflation factor (VIF) values are relatively high due to multiple lagged variables (a common occurrence in ARDL models), it does not pose a severe multicollinearity problem. Similarly, The Jarque-Bera test shows that the variables are normally distributed Overall, the model passes the major diagnostic checks and it is good for policy interpretation and recommendations.

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Table 4.5.5: Diagnostics Tests

Test	Test Type	Test Statistic	Prob. Value
Heteroskedasticity Test (Breusch-Pagan-Godfrey)	F-statistic	1.4574	0.2191
Serial Correlation Test (Breusch-Godfrey LM)	F-statistic	2.1560	0.1239
Multicollinearity Test (VIF)	Centred VIF	Mean VIF ≈ 15	< 10 is ideal; some variables > 10
Normality Test (Jarque-Bera)	JB Statistic	0.2626	0.8769

Source: Authors' Computation 2025

Relative Effectiveness of Monetary and Fiscal Policy on Unemployment in Nigeria

The findings from the two models above shows that both policies have significant effects on unemployment in the short run and long run, but their transmission process strength, speed of adjustment, explanatory power and channels of influence differ considerably, making fiscal policy relatively more effective in influencing unemployment outcomes in Nigeria.

Firstly, the monetary policy model shows that interest rate, exchange rate, and inflation affect unemployment only after 2 - 3 years, showing a slow transmission process but the fiscal policy model shows a much stronger and faster influence on unemployment where several fiscal variables are significant even in the current period or after a year, showing a much quicker transmission process. Money supply has no significant short-run effect and only becomes effective in the long run. This finding is consistent with the works of (Okeke & Chukwu, 2021; Nwoko et al., 2016; Ikpe, 2024; Nwikina et al., 2025; Saad & Ahmad, 2019). Capital expenditure significantly reduces unemployment in both the short and long run while recurrent expenditure and debt strongly increase unemployment. Importantly, TAX (government tax revenue) consistently shows a negative but statistically insignificant effect on unemployment in both the short and long run. This means that changes in tax revenue whether increases or decreases do not translate into meaningful changes in unemployment in Nigeria. This finding corroborates with the works of (Davies et al., 2023; Ibrahim, 2023; Nimenibo et al., 2016; Saad & Ahmad, 2019).

Furthermore, the error correction term of the monetary model which shows the speed of adjustment from short-run deviation from equilibrium is moderate at 63% per year, showing that the economy returns to its long-run unemployment path gradually but the error correction term (ECM) for the fiscal model is -0.9916, showing that approximately 99% of any short-run deviation from equilibrium is corrected within one year. This is far higher than the 63% speed recorded under monetary policy, indicating that fiscal policy restores long-run unemployment stability almost completely and much faster.

Surprisingly, monetary policy model has a high explanatory power 94.7% which is similar to that of 94% of the fiscal policy model, but the significant coefficients of monetary policy variables are mostly lagged, revealing again the delayed impact of monetary actions. But the significance and consistency of the fiscal variables across both short and long run make fiscal policy a more direct and potent tool for addressing unemployment.

Finally, the fiscal model shows a stronger long-run relationship with unemployment, confirmed by the F-Bounds statistic of 11.30, which is much higher than the monetary model's 4.559. This means fiscal policy has a more stable and sustained influence on unemployment in Nigeria.

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CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the findings, the study concludes that fiscal policy is relatively more effective than monetary policy in reducing unemployment in Nigeria. This is because fiscal policy especially through capital expenditure reduces unemployment faster with smaller lag periods and corrects deviations from the long-run unemployment path almost completely within a year while monetary policy has longer lag periods and weaker transmission process, making its effect on unemployment slower and less immediate. Therefore, for Nigeria to meaningfully reduce unemployment, government should focus on implementing stronger and productive fiscal policies since they are more impactful, while monetary policy should play a supportive rather than primary role in labour market stabilization.

Recommendations

Based on the findings of the study, the following recommendations were made: The government should prioritize and expand productive capital expenditure and increase investment in job creating sectors like infrastructure, agriculture, transport and industrial sectors to reduce unemployment since capital expenditure significantly reduces unemployment both in the short and long run. Government should reform recurrent expenditure to improve efficiency by channelling recurrent expenditure to programmes that support employment like youth skill development and empowerment since it was found that the current recurrent government expenditures focus largely on administrative overheads.

Government should implement tax reforms that would help promote private expansion and stimulate business activities by introducing tax incentives or reliefs for SMEs, start-ups, and labour-intensive industries since it was found that the Nigeria's tax system is not effectively supporting employment. Since the results show that debt worsens unemployment in both the short and long run when poorly utilized, borrowing should be strictly tied to productive and employment-generating projects.

Given that monetary policy alone has less strong and delayed impacts on unemployment, particularly due to prolonged lag effects, the Central Bank of Nigeria (CBN) and ministry of finance should come together to design policies that reduce interest rate rigidities, stabilize the exchange rate, and maintain moderate inflation to support fiscal job-creation interventions. The government should develop the financial sector so as to remove the slow response of monetary cause mostly by structural rigidities and weak credit transmission mechanism.

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