



FISCAL POLICY AND UNEMPLOYMENT NEXUS IN NIGERIA: AN EMPIRICAL ANALYSIS (1990–2021)

Ejinkonye Remigius Chinwoke^{1*}, Nwosu Samuel N.²,
Ibecheole Onyekachi Chikamnele³, Zakari Muhammed Ulohobui⁴,
Momodu Zuriat Mansur⁵ and Usman Abdulmalik⁶

¹Department of Banking and Finance, College of Management Sciences, Evangel University Akaeze, Ebonyi State. E-mail: rejinkonye@evangeluniversity.edu.ng

²Department of Accounting, College of Management Sciences, Evangel University Akaeze, Ebonyi State. E-mail: sn.nwosu@evangeluniversity.edu.ng or samca880@gmail.com

³Department of Banking and Finance, Faculty of Management Sciences, Nnamdi Azikiwe University, Awka, Anambra State. E-mail: oc.ibecheole@unizik.edu.ng

⁴Department of Banking and Finance, School of Financial Studies, Auchi Polytechnic, Auchi, Edo State. E-mail: zakarimuhammed2001@yahoo.com

⁵Department of Accounting, School of Financial Studies, Auchi Polytechnic, Auchi, Edo State. Email: manzuliat@gmail.com

⁶Department of Accounting, School of Financial Studies, Auchi Polytechnic, Auchi, Edo State. Email: Usman.endeavour@gmail.com

*Corresponding Author E-mail: rejinkonye@evangeluniversity.edu.ng

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ABSTRACT: This study assessed the fiscal policy and unemployment nexus in Nigeria using time series data covering 1990 to 2021. Economic downturn, poor living standard, inadequate employment generation and increasing unemployment rate are sources of concern and worry. Job creation seems not to be getting the needed attention in the scheme of economic policies in Nigeria. The proxies for fiscal policy were: government capital expenditure (GCE), government revenue expenditure (GRE), government external debt (GED) and government total revenue (GTR), while that for unemployment was the unemployment rate. Specifically, this sought to examine the nexus between GCE and unemployment rate, GRE and unemployment rate, GED and unemployment rate, and GTR and unemployment rate. The ex-post-facto research design was used while the hypotheses were tested at 5% significance level. The time series data obtained from the Central Bank of Nigeria statistical bulletin was analyzed using the OLS technique. The test results showed that: GCE had a coefficient of 3.84 and a probability of 0.9893; GRE had -0.000481 coefficient and a probability of 0.6365; GED had 0.000584 coefficient and a probability of 0.1292 while GTR had 0.002070 coefficient and a probability of 0.0000. The probability f-statistic value of 0.000000 showed that proxies for fiscal policy are jointly significant to the unemployment rate. The adjusted R² and Durbin-Watson values were 86% and 1.798125 respectively. It was recommended that the federal government should: (1) apply her capital expenditure properly and direct it to sectors that will help create more jobs and reduce unemployment rate, (2) make her recurrent expenditure to be supportive of the various government infrastructures, (3) drastically reduce her growing and high debt profile without commensurate job opportunities, (4) use her revenue to drive the economy instead of being applied on non-productive, white elephant projects or misappropriated.

KEYWORDS: Capital Expenditure, Recurrent Expenditure, External Debt, Revenue, Unemployment Rate.



INTRODUCTION

Nigeria is the most populous nation with high rising population growth; the country ranks first in gross domestic product in Africa. Nigeria is commonly described as the giant of Africa but it is however worrisome that the poor living standard of most Nigerians is a persisting economic challenge for the nation. To compound this challenge is the rising level of unemployment over the years which has continued to worsen the existing hardship and living condition in Nigeria. Nigeria has a large labor market with thousands of young people graduating from tertiary institutions and adding to the number of the unemployed. While many unemployed youths still rely on family and friends for survival, some have indulged in social vices instead of contributing to the economic growth of the country.

The Nigerian government has at various times embraced policies that are expected to help reduce unemployment. The National Directorate of Employment (NDE) was set up to help find ways of employment generation in order to combat unemployment. The Nigerian government has in recent years used NAPEP, SURE-P, and YOU-WIN among others as intervention programs undertaken to curb unemployment. Despite these measures, unemployment is yet to be fought to a standstill. Fiscal policy is known to be relevant in revamping and stabilizing a depressed economy as it plays a significant role in effective employment of resources, reduction of poverty, and control of inflation, among others (Ozor et al., 2016).

Fadare's study (2010, as cited in Ekong et al., 2020) defined fiscal policy as a deliberate action of the government to influence the macroeconomic variables in some desired direction through government spending, taxes and borrowing. Government expenditure is on the increase; expansionary fiscal policy is being pursued; yet the rate of unemployment is not dwindling. The unemployment rate has since 2017 to 2021 been over 20%; hence, fiscal policy measures as regards employment generation need to be reviewed. There is a need to assess the current nexus between our fiscal policy variables and unemployment rate in Nigeria. This will help our policy makers to get the policies regarding employment generation to the right and positive growth trajectory for better job creation for the teeming unemployed Nigerians.

Enyoghasim et al. (2022) stated that fiscal policy is the means by which a government modifies its level of spending in order to monitor and control a country's economy. Similarly, Jeffrey's study (2019, as cited in Ojimadu & Ogu, 2022) defined fiscal policy as those ways the government use to adjust her spending and revenue to influence the broader economy. The government expenditure, external debt and revenue are on the increase over the years and the unemployment rate is increasing instead of decreasing. Unemployment has been one of the crucial macroeconomic problems facing the Nigerian government, which fiscal policy can be employed to correct. It is expected that if the policy makers get it right, jobs will be continually created, hence pushing the unemployment rate to a minimal level. The prevalent high rate of unemployment is a serious cankerworm facing the Nigerian economy and Nigerians. It has continued to rear its ugly head over the years without the government curbing it.

Anaele and Ayenke (2021) defined fiscal policy as the use of government instruments of revenue and expenditure to influence the economy. Government expenditure helps to put idle funds to productive uses as in the areas of roads, schools, hospitals, electricity, water, health care and security among other social amenities. These amenities will spur private sector investors to open up businesses and companies, hence helping in job creation in addition to that of the government. The foregoing, if achieved, will lead to the creation of more job



opportunities for citizens who in turn will have funds to increase their consumption and invest in the economy and in turn boost economic growth. Ozor et al. (2016) stated that increased demand has an effect on the allocation of resources and the production of goods and services. This they said will also affect in a positive way the factor input utilisation, income generation, human capital development and technological innovation in the economy.

The economic downturn, poor living standard, inadequate employment generation and increasing unemployment rate in Nigeria is a source of concern and worry. There have been various economic cum fiscal policies of the government and various assurances for a better job availability but to no avail as the unemployment rate is not going down. Job creation seems not to be getting the needed attention in the scheme of economic policies in Nigeria. To compound the issue of non-creation of new jobs is the loss of jobs occasioned by the folding up of companies/industries due to a high cost of production, lack of basic amenities and wrong policies. New start-up businesses are also few due to the aforementioned challenges and others; hence, they are not contributing enough to unemployment reduction. There seems not to be a commensurate level of job creation vis-à-vis government expansionary expenditures and measures. The various government interventions, policies, borrowings and expenditure geared towards boosting job creation seem not to be properly channeled or executed.

Some studies have assessed the effect of government expenditure, government expenditure and tax revenue, or government expenditure and external debt on the unemployment rate in Nigeria. These studies reviewed however did not employ up to 2021 data. This study is filling the variable and period gap by bringing in variables from government expenditure, revenue and external debt to interplay simultaneously, while also using data up to 2021.

The study's broad objective therefore was to assess the fiscal policy and unemployment nexus in Nigeria for the period 1990 to 2021. The specific objectives were to ascertain the relationship between: government capital expenditure and unemployment rate, government recurrent expenditure and unemployment rate, government external debt and unemployment rate, and finally government total revenue and unemployment rate in Nigeria.

The following null hypotheses were therefore formulated from the specific objectives above:

H01: Government capital expenditure had no positive and significant effect on unemployment rate in Nigeria.

H02: Government recurrent expenditure had no positive and significant effect on unemployment rate in Nigeria.

H03: Government external debt had no positive and significant effect on the unemployment rate in Nigeria.

H04: Government total revenue had no positive and significant effect on unemployment rate in Nigeria.



LITERATURE/THEORETICAL UNDERPINNING

Conceptual Review

Alex and Peter's study (2008, as cited in Ekong et al., 2020) defined fiscal policy as a macroeconomic policy tool that is associated with the use of taxation and public expenditure to influence the level of economic activities. Egbulonu and Amadi (2016) defined it as taxation and spending policies that the government pursues so as to influence the overall state of the economy. They further defined unemployment as the condition and extent of joblessness within an economy. The fiscal policy variables include: taxation, government expenditure, government revenue, and government borrowing (both internal and external). It is expected that the government expansionary policy will be applied in a recession, while contractionary policy is applied during periods of inflation.

Unemployment is the unavailability of job for those that are capable and willing to work. The International Labour Organisation's study (2009, as cited in Udeze et al., 2020) defined unemployment as the state of joblessness which occurs when people are without jobs and are actively searching for work. Also, Ojimadu and Ogu (2022) stated that unemployment occurs when individuals who are capable and willing to work are without a job or cannot get employment that is powerful and gainful to do or do jobs that are opposite or lower than their academic capabilities or areas of specialization. That is why the attainment of full employment remains a major macroeconomic goal of countries. Even where full employment cannot be achieved, the unemployment rate needs to be minimal, but that is not the case in Nigeria. The unemployed who are willing and able to work divided by the total labour force available gives the unemployment rate. It is this rate that is used to know those who are capable of working but do not have a job. Schmidt's study (2018, as cited in Ojimadu & Ogu, 2022) also opined that fiscal policy is government use of its spending and taxing powers to have an impact on the economy. Unfortunately, the expected impact of government fiscal policies in the area of employment generation is not commensurate with the unemployed population in Nigeria.

Theoretical Review

The Keynesian theory postulated that unemployment is involuntary and occurs as a result of cyclical fluctuations in market driven economies. Keynes saw unemployment as inherent in a strictly market driven economy. Also, unemployment happens when there is insufficient aggregate demand in the economy to offer employment to everybody who needs to work. Therefore, when demand for most goods and services falls, fewer production is required and thus fewer workers are required, wages are sticky (not flexible) and do not fall to meet the equilibrium level, and the resultant effect will be increased unemployment. Thus, Keynes argued that demand management policies (fiscal and monetary) by the government will stimulate aggregate demand, investment and employment in the economy. Put differently, the expansion in the fiscal policy of the government will increase the investment level, employment generation, higher productivity and economic growth (Anaele & Nyenke, 2021; Ekong et al., 2020).



Empirical Review

Enyoghasim et al. (2022) studied the impact of fiscal policy on unemployment in Nigeria covering the period from 1990 to 2020. Fiscal policy proxies were recurrent expenditure, capital expenditure, debt servicing, inflation rate, interest rate spread, and gross fixed capital formation. It was an ex-post-facto research which used Auto Regressive Distributed Lag (ARDL) to analyze data obtained from CBN statistical bulletin. They found out that government capital expenditure, gross fixed capital formation and debt servicing impacted significantly on unemployment, while inflation rate, interest rate and recurrent government expenditure had an insignificant impact on unemployment.

Ojimadu and Ogu (2022) assessed the effect of fiscal policy on unemployment in Nigeria covering the period 1990 to 2020. Fiscal policy variables were recurrent expenditure, capital expenditure and debt servicing, while control variables were inflation rate, interest rate spread and gross fixed capital formation. The ex-post-facto research design was employed with ARDL analysis. The data was obtained from CBN Statistical Bulletin 2020. Results showed that there is no significant relationship between inflation rate, interest rate spread, government recurrent expenditure, gross fixed capital formation and unemployment rate in Nigeria. Also, there is a significant relationship between government capital expenditure, debt servicing and unemployment rate in Nigeria.

Anaele and Nyenke (2021) examined the effect of fiscal policy on the misery index in Nigeria for the period 1981 to 2018. The fiscal policy proxies were government capital expenditure (GCEX), government recurrent expenditure (GREX) and government external debt (GEDT). Their study adopted the ordinary least square analysis, Philip Perron (PP) unit root test, Johansen cointegration test and Error Correction Mechanism (ECM). Their findings showed that GCEX, GREX and GEDT conformed to the Keynesian theory of government expenditure, that is, an increase in the independent variables reduced misery index in Nigeria in the period reviewed.

Ekong et al. (2020) studied the influence of fiscal policy on unemployment in Nigeria using time series data from 1990 to 2018. The study used unemployment rate as the dependent variable, while tax revenue, capital expenditure, recurrent expenditure and external debt were proxies for fiscal policy. Stationarity tests, Johanson cointegration test and OLS analysis were done. Their findings showed that capital expenditure, recurrent expenditure, external debts, inflation rate and exchange rate had a positive relationship with unemployment in the long-run, while tax revenue had an opposite relationship. In the short-run, capital expenditure, recurrent expenditure and external debts reduced unemployment rate whereas inflation rate, exchange rate and tax revenue were positive.

Udeze et al. (2020) examined the impact of fiscal policy on urban unemployment in Nigeria using data of 1981 to 2018. Proxies for fiscal policy were government spending, government revenue, fiscal deficit and public debt. They found out that capital expenditure and government revenue had a significant and negative impact on urban unemployment. Also, recurrent expenditure and fiscal deficit had a significant impact on urban unemployment during the period reviewed.



Saad and Ahmad (2019) did a study of the impact of fiscal policy shocks on unemployment in Nigeria using annual time series data for the period 1985 to 2018. Augmented Dickey-Fuller (ADF) test, Johansen cointegration test and Vector Autoregression (VAR) residual LM test were carried out. Findings showed the absence of long-run convergence and no serial correlation among the error terms. Furthermore, public capital expenditure attributes a stable negative impact on unemployment, while public recurrent expenditure had a positive effect on unemployment in Nigeria for the reviewed period.

METHODOLOGY

The research type is *ex-post-facto* and data was obtained from the Central Bank of Nigeria statistical bulletin. The descriptive statistics analysis was done as well as the unit root test. The multiple regression analysis was done, which measures the association between a given dependent variable and two or more independent variables in a given regression function.

This relationship can be expressed as:

$$Y_t = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + \dots + B_tX_t + e_t$$

where:

Y = dependent variable

b_0 = intercept

X_1, X_2, X_3 are the independent variables

e_t = random error term

b_0, b_1, b_2, b_3 are the parameters of the model

This study used the model:

$$UNR = f(GCE, GRE, GED, GTR)$$

The above is estimated as follows:

$$UNR = b_0 + b_1GCE + b_2GRE + b_3GED + b_4 GTR + e_t$$

UNR = Unemployment rate

GCE = Government capital expenditure

GRE = Government recurrent expenditure

GED = Government external debt

GTR = Government total revenue



DATA PRESENTATION

Table 1: Data on unemployment rate, government capital expenditure, government recurrent expenditure, government external debt and government total revenue

YEAR	GCE (N'Billion)	GRE (N'Billion)	GED (N'Billion)	UNR	GTR (N'Billion)
1990	24.0	36.2	298.61	3.5	98.1
1991	28.3	38.2	328.45	5.2	101.0
1992	39.8	53.0	544.26	3.4	190.5
1993	54.5	136.7	633.14	2.7	192.8
1994	70.9	90.0	648.81	2	201.9
1995	121.1	127.6	716.87	1.8	460.0
1996	212.9	124.3	617.32	3.8	523.6
1997	269.7	158.6	595.93	3.2	582.8
1998	309.0	178.1	633.02	5.2	463.6
1999	498.0	449.7	2,577.37	5.2	949.2
2000	239.5	461.6	3,097.38	13.1	1,906.2
2001	438.7	579.3	3,176.29	13.6	2,231.6
2002	321.4	696.8	3,932.88	12.6	1,731.8
2003	241.7	984.3	4,478.33	14.8	2,575.1
2004	351.3	1,110.8	4,890.27	13.4	3,920.5
2005	519.5	1,321.3	2,695.07	11.9	5,547.5
2006	552.4	1,390.2	451.46	12.3	5,965.1
2007	759.3	1,589.3	438.89	12.7	5,727.5
2008	960.9	2,117.4	523.25	14.9	7,866.6
2009	1,152.8	2,128.0	590.44	19.7	4,844.6
2010	883.9	3,109.4	689.84	21.1	7,303.7
2011	918.5	3,314.5	896.85	23.9	11,116.8
2012	874.7	3,325.2	1,026.90	27.4	10,654.7
2013	1,108.4	3,689.1	1,387.33	24.7	9,759.8
2014	783.1	3,426.9	1,631.50	26.5	10,068.9
2015	818.4	3,831.9	2,111.51	10.4	6,912.5
2016	653.6	4,160.1	3,478.92	19.12	5,616.4
2017	1,242.3	4,780.0	5,787.51	20.42	7,444.8
2018	1,682.1	5,675.2	7,759.23	23.13	9,551.7
2019	2,289.0	6,997.2	9,022.42	29.13	10,262.3
2020	1,614.9	8,188.8	12,705.62	27.2	9,276.1
2021	2,522.5	9,145.2	15,855.23	27.2	10,755.4

Source: CBN statistical bulletin (2021)



RESULTS/FINDINGS

Table 2: Descriptive statistics

	UNR	GCE	GRE	GED	GTR
Mean	14.22500	704.9097	2294.211	2944.404	4837.595
Median	13.25000	535.9500	1355.750	1207.118	5196.046
Maximum	29.13000	2522.468	9145.153	15855.23	11116.85
Minimum	1.800000	24.04860	36.21960	298.6144	98.10240
Std. Dev.	8.945362	633.3983	2502.310	3728.684	3981.583
Skewness	0.131864	1.259454	1.211776	2.046817	0.185133
Kurtosis	1.709238	4.199828	3.691311	6.780452	1.520553
Jarque-Bera	2.314158	10.37932	8.468688	41.39954	3.101148
Probability	0.314403	0.005574	0.014489	0.000000	0.212126
Sum	455.2000	22557.11	73414.74	94220.94	154803.0
Sum Sq. Dev.	2480.605	12436994	1.94E+08	4.31E+08	4.91E+08
Observations	32	32	32	32	32

The above shows the descriptive statistics for the variables used in the study.

Table 3: Unit root test extracts

Null hypothesis: There is unit root

Variables	ADF STAT	5% critical	Inference	p-value	Decision
GCE	-7.235135	-2.963972	1(1)	0.0000	Reject H0
GRE	-10.07402	-2.967767	1(2)	0.0000	Reject H0
GED	-5.606271	-2.971853	1(1)	0.0001	Reject H0
GTR	-5.408436	-2.963972	1(1)	0.0001	Reject H0

Source: Researcher's extraction from the unit root tests results using ADF methods.

The above Table 3 shows that there is no unit root for GCE, GED and GTR at difference order 1, while GRE was at difference order 2. Since the probability values are less than 5% significant, the series are stationary and suitable for estimation using the regression technique of analysis.

**Table 4: Regression output**

Dependent Variable: UNR
 Method: Least Squares
 Date: 10/02/23 Time: 23:59
 Sample: 1990 2021
 Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.565544	1.101900	3.235814	0.0032
GCE	3.84E-05	0.002836	0.013551	0.9893
GRE	-0.000481	0.001005	-0.478024	0.6365
GED	0.000584	0.000373	1.564969	0.1292
GTR	0.002070	0.000383	5.401061	0.0000
R-squared	0.879094	Mean dependent var		14.22500
Adjusted R-squared	0.861181	S.D. dependent var		8.945362
S.E. of regression	3.332895	Akaike info criterion		5.388161
Sum squared resid	299.9211	Schwarz criterion		5.617182
Log likelihood	-81.21057	Hannan-Quinn criter.		5.464075
F-statistic	49.07828	Durbin-Watson stat		1.798125
Prob(F-statistic)	0.000000			

DISCUSSION OF HYPOTHESES

Hypothesis 1 (H0): There is no positive and significant relationship between government capital expenditure and unemployment rate in Nigeria.

From the multiple regression result above, government capital expenditure had a coefficient of 3.84 and a probability value of 0.9893. Hence, we conclude that there is a positive and non-significant relationship between government capital expenditure and unemployment rate in Nigeria for the period reviewed. This positive relationship with unemployment agrees with the findings of Ozor et al. (2016), Ejemazu et al. (2021), and Ekong et al. (2020). The non-significant effect disagrees with Enyoghasim et al. (2022), Ojimadu and Ogu (2021), and Udeze et al. (2020).

Hypothesis 2 (H1): There is no positive and significant relationship between government recurrent expenditure and unemployment rate in Nigeria.

From the multiple regression result above, government recurrent expenditure had a coefficient of -0.000481 and a probability value of 0.6365. Hence, we conclude that there is a negative and non-significant relationship between government recurrent expenditure and unemployment rate in Nigeria for the period reviewed. This negative effect on unemployment agrees with the findings of Anaele and Nyenke (2021), Ozor, et al. (2016) and Udeze et al. (2020) but disagrees with Ekong et al. (2020). The non-significant effect agrees with Enyoghasim et al. (2022) and Ojimadu and Ogu (2021) but disagrees with Udeze et al. (2020).



Hypothesis 3 (H2): There is no positive and significant relationship between government external debt and unemployment rate in Nigeria.

From the multiple regression result above, government external debt had a coefficient of 0.000584 and a probability value of 0.1292. Hence, we conclude that there is a positive and non-significant relationship between government external debt and unemployment rate in Nigeria for the period reviewed. This positive effect on unemployment agrees with the findings of Ekong et al. (2020).

Hypothesis 4 (H3): There is no positive and significant relationship between government total revenue and unemployment rate in Nigeria.

From the multiple regression result above, government total revenue had a coefficient of 0.002070 and a probability of 0.0000. Hence, we conclude that there is a positive and significant relationship between government total revenue and unemployment rate in Nigeria for the period reviewed. This positive effect on unemployment disagrees with the findings of Udeze et al. (2020). The significant effect however agrees with the finding of Udeze et al. (2020).

The Student Test (t-test):

From the result output at 5% level of significance, the government total revenue (GTR) is the only statistically significant variable with probability value of 0.0000, while government capital expenditure (GCE), government recurrent expenditure (GRE) and government external debt (GED) are insignificant with probability values of 0.9893, 0.6365 and 0.1292 respectively.

F-Statistics Test (Joint Significance Test):

The result of the F-statistic showed 49.07828 and a probability of 0.000000 at 5% level of significance. This finding showed that the fiscal policy proxies used in this study (government capital expenditure, government revenue expenditure, government external debt and government total revenue) are jointly statistically significant in explaining the changes in unemployment rate in Nigeria for the period reviewed.

Adjusted R² (R-squared):

The result of the analysis showed antibacterial R² value of 0.879094 and an adjusted R² value of 0.86181. This showed that fiscal policy variables accounted for about 86% of the variations in unemployment rate.

Autocorrelation test:

The result of the analysis showed a Durbin-Watson value of 1.798125. This showed that the variables are not serially correlated.



CONCLUSION

This study has shown the fiscal policy variables nexus with unemployment rate in Nigeria for the period reviewed. Their relationships are evidenced in the result of the regression analysis which showed that the coefficient of GCE, GED and GTR are positive, while that of GRE is negative. These proxies of fiscal policy can be used to fine-tune the job creation policies and hence tackle the unemployment problem in Nigeria. The result of joint significance, as seen in the F-statistic probability, is also in agreement with the various research works presented in the empirical literature. Hence, it is pertinent to note that the fiscal policies of Nigeria can be fine-tuned to have the expected effect on unemployment for the overall positive benefit of the economy.

RECOMMENDATIONS

- 1) The federal government capital expenditure should be properly directed to sectors such as construction, agriculture, communication, transportation, health, and education among others. This will help create more jobs and reduce the unemployment rate in Nigeria. The private sector will also find an enabling environment to thrive hence creating jobs in addition to that of the government.
- 2) Federal government recurrent expenditure needs to be supportive of the various government infrastructures. This will help ensure sustenance of facilities that aid the productive sector so as to ensure continued employment of available labour force.
- 3) The federal government external debt profile is worrisome without commensurate job opportunities to show for it. The external debt should be directed to productive sectors so as to create jobs and grow the overall economy so as to ease the repayment of such borrowings.
- 4) The federal government revenue had a significant effect on unemployment rate. The revenue needs to be used to drive the economy instead of being applied on non-productive, white elephant projects or misappropriated.

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