

Effect of Disaggregated Public Expenditure on Inflation and Unemployment in Nigeria

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ABSTRACT: The study examined the effect of government expenditure on inflation and unemployment in Nigeria, covering the period 1994–2023. Specifically, the study disaggregated government expenditure into economic, social, and administrative components to evaluate their individual impacts on key macroeconomic variables. An ex-post facto research design was adopted, relying on secondary data from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics. The Vector Error Correction model specification was adapted to test the relationship between the independent variables and the dependent variable. The results of the first regression revealed that government economic expenditure (GEE) and government social expenditure (GSE) have a statistically significant negative effect on inflation (INF). This suggests that increased spending in productive and social sectors helps to stabilize prices and mitigate inflationary pressures. Conversely, government administrative expenditure (GAE) was found to exert a positive and significant influence on inflation, indicating that excessive recurrent spending fuels price instability. The second regression result demonstrated that government economic expenditure (GEE) exerts a significant negative impact on unemployment (UEM), underscoring its role in job creation and economic empowerment. In contrast, government social expenditure (GSE) and administrative expenditure (GAE) showed no significant effect on unemployment, implying that such expenditures may not directly translate into employment opportunities in Nigeria. The study concludes that while productive and social investments are effective tools for curbing inflation, only economic expenditure significantly reduces unemployment. It recommends prioritizing capital-oriented and growth-inducing spending while rationalizing administrative costs.

KEYWORDS: Inflation, Unemployment, Government Economic Expenditure, Government Social Expenditure, Government Administrative Expenditure.

INTRODUCTION

Nigeria's macroeconomic environment since 2023 has been defined by simultaneous reform and adjustment: the removal of the petrol subsidy, foreign-exchange market unification, and aggressive monetary tightening. These measures were designed to restore fiscal and external balance but initially amplified price pressures before disinflation emerged. Headline inflation rose sharply through 2023 and early 2024, driven by fuel, food, and exchange-rate pass-through, prompting the Central Bank of Nigeria (CBN) to lift the Monetary Policy Rate repeatedly; the rate was kept at 27.5% across MPC meetings in 2025 after six hikes in 2024, signalling a shift from aggressive tightening to stabilization as inflation momentum cooled. Recent CPI releases show visible disinflation in food prices: food inflation fell to 21.97% year-on-year in June 2025 from 40.87% in June 2024, indicating that part of the earlier shock was transitory and policy-sensitive.

The relationship between public expenditure and macroeconomic outcomes such as inflation and unemployment has remained a crucial area of debate among economists and policymakers in Nigeria. Public expenditure, when disaggregated into functional components such as education, health, infrastructure, and administration, plays a significant role in determining the overall economic performance of a nation (Adeleye & Eboagu, 2023). In Nigeria, the persistent rise in government spending has not always translated into commensurate reductions in unemployment or inflation, thereby raising questions about the efficiency and effectiveness of fiscal policy. Nigeria has continued to witness double-digit inflation in recent years, primarily driven by structural factors such as exchange rate volatility, food supply disruptions, and rising energy costs. For instance, the National Bureau of Statistics (NBS, 2024) reported that the headline inflation rate rose to 33.4% in April 2024, the highest in three decades. At the same time, unemployment remains a daunting challenge. According to the International Labour Organization (ILO, 2023), Nigeria's

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unemployment rate stood at 33.3%, with youth unemployment exceeding 42%. These alarming figures underscore the urgent need to evaluate the extent to which disaggregated public expenditure impacts inflationary pressures and job creation in the country. Recent empirical studies have produced mixed evidence. While Jolaiya (2024) found that increases in government expenditure on key sectors tend to stimulate output growth but exacerbate inflation, Igwe and Inyama (2024) reported that recurrent expenditure worsens macroeconomic instability by fueling inflationary tendencies without addressing unemployment. Similarly, Adamu et al. (2023) revealed that disaggregated expenditures exert varying effects: while investment in infrastructure reduces unemployment in the long run, excessive administrative spending escalates inflation. Awusa (2023) further highlighted that monetary policy moderates the relationship between social spending and macroeconomic performance, suggesting that fiscal policy alone cannot curb inflation or unemployment.

Despite significant increases in government spending across key sectors, Nigeria continues to experience high inflationary pressures and persistently high unemployment rates. For instance, the National Bureau of Statistics (NBS, 2024) reported that the headline inflation rate surged to 33.4% in April 2024, the highest in nearly three decades, driven by rising food and energy prices. Simultaneously, the unemployment rate, though revised under a new methodology, still reflects considerable underemployment and joblessness, with about 37% of the working-age population engaged in vulnerable employment (World Bank, 2024). Disaggregated public expenditure, particularly on education and infrastructure, is expected to enhance productivity, create jobs, and reduce inflationary bottlenecks in the long term. However, the Nigerian case presents a paradox: allocations to education and capital projects have increased in nominal terms, yet outcomes remain poor. For example, the 2024 federal budget allocated ₦2.18 trillion to education and ₦1.32 trillion to infrastructure, but infrastructural deficits persist, and the country still faces one of the highest out-of-school children rates globally (UNESCO, 2023). Moreover, inefficiencies, corruption, and weak budget implementation have limited the impact of these expenditures on employment generation and price stability (Owolabi & Adebayo, 2023). Given these issues raised, the study examined the effect of disaggregated public expenditure on inflation and unemployment in Nigeria.

Hypotheses

H₀₁: Disaggregated public expenditure has no significant effect on inflation in Nigeria.

H₀₂: Disaggregated public expenditure has no significant effect on unemployment in Nigeria.

LITERATURE REVIEW

Concept of Inflation

Balami (2006) sees inflation as a situation of a rising general price level of all categories of goods and services over a long period of time. Haslag (1997) is of the view that inflation is always and everywhere a monetary phenomenon; and can be produced only by a more rapid increase in quantity of money than output. Inflation is a continuous rise in the general level of prices of goods and services in an economy over a period. When the general price level rises, each unit of currency buys fewer goods and services (Aminu & Zubairu 2012). Consequently, inflation also reflects an erosion in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account within the economy.

Inflation is defined by Abu and Abdullahi (2010) as a long-term rise in the general price level of a wide range of goods and services. According to Dikeogu (2018), inflation is always and everywhere a monetary phenomenon that can be produced only by a faster increase in the quantity of money than output. Inflation, he saw, was "a destroying disease born of a lack of monetary control, the result of which undermined the rules of business, causing havoc in the market and financial ruin of even the products." Inflation is simply defined as an increase in the price of goods and services that does not correspond to an increase in the quantity of goods and services.

Concept of Unemployment

Unemployment according to Briggs (1973) is the difference between the numbers of labour employed at current wage rates and working conditions, and the number of labour not hired at these levels. Gbosi (1997) asserted that unemployment is a situation where people who are willing to work at the prevailing wage rate are not able to find jobs. The International Labour Organization (ILO) defined an unemployed as a member of the economically active population, who are without work but available for and seeking for work, including people that have lost their jobs and those that have left work voluntarily (World Bank, 1998). Like most countries, the Nigeria Bureau of Statistics (2017) uses a variant of the International Labor Organization definition of unemployment. According to the ILO in the NBS report (2017), unemployment is defined as the proportion of those in the labor force (not the entire economic active population, nor the entire Nigerian population) who were actively looking for work but were unable to find work for at least 20 hours during the reference period to the total currently active (labor force) population (NBS, 2017). As a result, one is unemployed if he or she did nothing or worked for less than 20 hours during the reference week.

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In Nigeria, unemployment increased by 65 percent between 2015 and 2016, particularly among young people (NBS, 2017). As of 2021, the official unemployment rate is 38 percent, with youth unemployment at 65 percent, according to the National Bureau of Statistics (CBN, 2021; NBS, 2021). By implication, more than 50 million Nigerians are unemployed; if Nigeria's active working population is 100 million, this means that 60 percent of Nigerians are unemployed.

Concept of Public Expenditure

Public expenditure also known as government spending, public spending or public expenditure is the aggregate expenditure by a constituted authority (local, state or federal), all agencies and institutions or such other organizations that has been empowered by the constitution to carry out services that enhance the welfare of the citizenry (Sayari & Rabeh, 2022). Put differently, it can be defined as spending by government at any level. Madugba, Agburuga, Egbide, Oludaro and Falaye, (2021) asserts that Government expenditures consist of spending on real goods/services purchased from outside suppliers; spending on employment in state services such as administration, defense and education; spending on transfer payments to pensioners, the unemployed and disabled; spending on subsidies and grants to industry; and payment of debt interest.

Disaggregated Public Expenditure

Disaggregated government expenditures are expenditures that are classified, categorized, subcategorized into major functional component group and further breakdown into related components units for easy allocation, application or operation, management and control, and easy performance evaluation in budgetary fiscal policy operation (Aluthge, et al., 2021). Disaggregation of government expenditures may differ from Country to Country depending on the area of application (Ketema, 2006). The use of disaggregated approach in which the study of government expenditure is divided and breakdown expenditure into major components of government expenditures is far rewarding, help in identifying and isolating government expenditure to increase the understanding of public government expenditure importance and its impact, and emphasize that it is not fruitful to seek explanation on total government expenditure (Musgrave, 1969; Mainoma & Aruwa, 2015).

Economic Expenditure

Government recurrent expenditure on economic services involves investments in productive sectors such as agriculture, construction, transportation, and communication (Aigbokhan & Enabulu, 2016). Agricultural spending covers development, farmer subsidies, research, and irrigation projects, crucial for rural development, poverty reduction, and economic growth (Akpan & Chuku, 2014). Expenditure in construction focuses on infrastructure development, including roads and buildings, essential for economic activities, investment attraction, and regional integration (Akpan & Chuku, 2014). Transportation and communication expenditure includes maintenance and operation of systems, vital for trade facilitation, cost reduction, and economic connectivity (Olumuyiwa & Abimbola, 2016). These investments aim to spur economic growth, create jobs, and enhance overall development, with efficient management crucial for maximizing sector benefits (Adeyeye & Ojo, 2017).

Social Expenditure

Government expenditure on social and community services aims to enhance general wellbeing and stimulate economic development, encompassing investments in education, health, electricity, and other essential sectors (Aigbokhan & Enabulu, 2016). Education spending focuses on quality education provision, including teacher salaries, infrastructure, and materials, vital for human capital development and societal progress (Akpan & Chuku, 2014). Healthcare expenditure covers salaries, facility maintenance, and medical supplies, promoting a healthy population and improving overall quality of life (Akpan & Chuku, 2014). Additionally, the category includes expenses related to electricity and other public services, contributing to improved living standards and socio-economic progress (Adeyeye & Ojo, 2017).

Administrative Expenditure

Government recurrent expenditure on administration covers the operational costs aimed at serving public interests (Aigbokhan & Enabulu, 2016). It includes ongoing expenses for general administration, encompassing civil servant salaries, office maintenance, utilities, and other administrative overheads. Defense expenditure focuses on military and national security costs, including armed forces maintenance, equipment, personnel training, and operations (Olumuyiwa & Abimbola, 2016). Internal security spending involves law enforcement, public safety, and measures for internal security, supporting police forces, intelligence agencies, and crime prevention (Olumuyiwa & Abimbola, 2016).

EMPIRICAL REVIEW

Public Expenditure and Inflation

Nnachi et al. (2023) examined the impact government expenditure on inflation rate in Nigeria from 1986 to 2021. The Autoregressive distributed lag (ARDL) model was used to analyze time series data from the statistical bulletin. The results showed

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that government expenditures on education, health, transports and communications, and pensions and gratuities had significant positive influence on inflation rate in both the short-run and the long-run. In contrast, the results indicated that government spending on agriculture, and roads and constructions exerted positive and significant impact on inflation rate in the short-run but inconsequential in the long-run.

Fasewa and Aderinto (2023) examined the effect of government expenditure on inflation in Nigeria. The study also examined the response of inflation to changes in government expenditure in Nigeria. Secondary data collected from the Central Bank of Nigeria Statistical Bulletin was employed for a period of thirty-eight years (i.e. 1981-2019). The Auto Regressive Distributed Lag technique was employed. For the first model explaining government capital expenditure, short run estimates reveal that in the current period, government capital expenditure has a significantly negative relationship with inflation. For government recurrent expenditure, it was established that government recurrent expenditure has a positive relationship with inflation. The impulse response test used in analyzing the effect of an unanticipated change in government expenditure (capital and recurrent) on inflation shows that the effects of the change in both cases are temporary as they are seen to revert to the mean.

Nwachukwu et al. (2022) looked at the impact of government spending on Nigeria's macroeconomic performance from 1981 to 2021. The data was subjected to unit root econometric analysis, the Johansen cointegration test, and the error correction model. The findings revealed that government recurrent expenditure has positive effect on inflation rate was minimal, that is, not significant.

Public Expenditure and Unemployment

Jitendra (2023) examines the impact of government expenditure, unemployment, inflation, and household consumption on the economic growth of India over the period 1990-2021 has been examined in this paper. The ordinary least squares (OLS) regression analysis was performed by observing the assumptions of the classical linear model. Augmented Dickey-Fuller (ADF) and Philips-Perron (PP) tests were carried out for stationarity of the concerned variables. The study found that increasing government expenditure has a strong positive influence on the growth of national income and consumption and a negative influence on unemployment in India. Results indicate that inflation significantly depresses economic performance in India because of uncertainty and reduces investment, employment, and consequently output and consumption level.

Omolara et al. (2022) examines the causal relationship among public expenditure, employment and economic development in Nigeria (1985-2019). The study identifies that despite the continuous increase in government expenditure; it has not translated to increase in employment and improved economic development in Nigeria. Time series data was collected from the Central Bank of Nigeria (CBN) Statistical Bulletins of various years and World Development Indicators (WDI) 2022. Descriptive and trend analyses were first carried out on the variables which was followed by Unit Root test and then lag selection criteria. This study employed TodaYamamoto causality test to examine the causal relationship existing among the variables. Results indicate that there is a bidirectional causal relationship between employment and economic development, and between public expenditure and economic development. However, public expenditure has unidirectional causal relationship with employment in Nigeria. It is therefore recommended that; government should increase its expenditure aimed at generating employment for economic development in Nigeria.

THEORETICAL FRAMEWORK

Keynesian Theory: The study is anchored on the Keynesian Theory of Employment, Interest and Money, propounded by John Maynard Keynes in 1936. Keynes developed the theory in response to the Great Depression, where high unemployment and falling output challenged the classical economic assumption that markets are self-adjusting in the long run. The Keynesian theory argues that aggregate demand – made up of consumption, investment, government expenditure, and net exports – is the primary driver of output, employment, and overall economic stability. Keynes contended that during periods of economic downturn, government intervention through increased expenditure and fiscal stimulus is necessary to boost demand, reduce unemployment, and stabilize prices (Keynes, 1936; Snowdon & Vane, 2005). The theory departs from classical economics by asserting that wages and prices are not fully flexible in the short run; hence, fiscal policy becomes a critical tool for addressing economic imbalances.

Over time, the Keynesian model has been refined to include discussions on the trade-offs between inflation and unemployment, particularly through the Phillips Curve, which links Keynesian thought to contemporary macroeconomic challenges (Adewoye & Ojo, 2022; Onodugo et al., 2023). In developing economies like Nigeria, Keynesian principles remain relevant given persistent fiscal imbalances, high unemployment, and inflationary pressures. This theory underpins the present study because it provides the foundation for analyzing how disaggregated public expenditure (capital and recurrent spending, and sector-specific allocations such as education, health, and infrastructure) influences inflation and unemployment in Nigeria. According to Keynesian thought, targeted government spending has the potential to stimulate employment and stabilize prices if properly managed. However, in

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Nigeria, inefficiencies, corruption, and misallocation of resources often distort the expected outcomes (Okon & Friday, 2021; NBS, 2024). Therefore, this study adopts Keynesian theory to explain the dynamic relationship between fiscal expenditure patterns and macroeconomic performance in Nigeria.

METHODOLOGY

The study adopted an expo-facto research design to examine the effect of disaggregated public expenditure on inflation and unemployment rate in Nigeria. The study relied on secondary data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and the National Bureau of Statistics (NBS) Economic Reports. These sources are credible, authoritative, and provide comprehensive macroeconomic data required for a robust empirical analysis. The data covers the period 1994 to 2023, which is sufficiently long to capture policy shifts, economic reforms, structural adjustments, and fluctuations in government spending patterns in Nigeria.

Given the time series nature of the dataset, the study employed econometric techniques such as the unit root test, cointegration analysis, and causality test. The unit root test was necessary to determine the stationarity properties of the variables and to avoid spurious regression results. Cointegration analysis was applied to examine the existence of long-run equilibrium relationships between disaggregated public expenditure, inflation, and unemployment. Finally, the causality test was used to identify the direction of influence among the variables, which is crucial for policy recommendations.

Model specification

The Vector Error Correction model specification was adapted to test the relationship between the independent variables and the dependent variable.

Inflation and Government Economic Expenditure

$$\Delta \ln INF_t = \alpha_0 + \alpha_1 \Delta \ln INF_{t-1} + \alpha_2 \ln GEE_{t-1} + ECT_{t-1} + \epsilon_{t1}$$

$$\Delta \ln GEE_t = \beta_0 + \beta_1 \Delta \ln GEE_{t-1} + \beta_2 \ln INF_{t-1} + ECT_{t-1} + \epsilon_{t2}$$

Inflation and Government Social Expenditure

$$\Delta \ln INF_t = \alpha_0 + \alpha_1 \Delta \ln INF_{t-1} + \alpha_2 \ln GSE_{t-1} + ECT_{t-1} + \epsilon_{t1}$$

$$\Delta \ln GSE_t = \beta_0 + \beta_1 \Delta \ln GSE_{t-1} + \beta_2 \ln INF_{t-1} + ECT_{t-1} + \epsilon_{t2}$$

Inflation and Government Administrative Expenditure

$$\Delta \ln INF_t = \alpha_0 + \alpha_1 \Delta \ln INF_{t-1} + \alpha_2 \ln GAE_{t-1} + ECT_{t-1} + \epsilon_{t1}$$

$$\Delta \ln GAE_t = \beta_0 + \beta_1 \Delta \ln GAE_{t-1} + \beta_2 \ln INF_{t-1} + ECT_{t-1} + \epsilon_{t2}$$

Unemployment and Government Economic Expenditure

$$\Delta \ln UEM_t = \alpha_0 + \alpha_1 \Delta \ln UEM_{t-1} + \alpha_2 \ln GEE_{t-1} + ECT_{t-1} + \epsilon_{t1}$$

$$\Delta \ln GEE_t = \beta_0 + \beta_1 \Delta \ln GEE_{t-1} + \beta_2 \ln UEM_{t-1} + ECT_{t-1} + \epsilon_{t2}$$

Unemployment and Government Social Expenditure

$$\Delta \ln UEM_t = \alpha_0 + \alpha_1 \Delta \ln UEM_{t-1} + \alpha_2 \ln GSE_{t-1} + ECT_{t-1} + \epsilon_{t1}$$

$$\Delta \ln GSE_t = \beta_0 + \beta_1 \Delta \ln GSE_{t-1} + \beta_2 \ln UEM_{t-1} + ECT_{t-1} + \epsilon_{t2}$$

Unemployment and Government Administrative Expenditure

$$\Delta \ln UEM_t = \alpha_0 + \alpha_1 \Delta \ln UEM_{t-1} + \alpha_2 \ln GAE_{t-1} + ECT_{t-1} + \epsilon_{t1}$$

$$\Delta \ln GAE_t = \beta_0 + \beta_1 \Delta \ln GAE_{t-1} + \beta_2 \ln UEM_{t-1} + ECT_{t-1} + \epsilon_{t2}$$

Where:

INF = Inflation

UEM = Unemployment

GEE = Government Economic Expenditure

GSE = Government Social Expenditure

GAE = Government Administrative Expenditure

Δ (Delta) denotes the first difference, capturing short-run dynamics

ECT_{t-1} = lagged error correction term from the long-run cointegration equation

β_1 and α_1 = Coefficient

β_0 and α_0 = Constant

ϵ = Error Term

t = Time t

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Table 1: Measurement of Variables

Variables	Measurement	Sources
Economic Expenditure	Natural log of aggregate value economic services throughout the period of the study	Ufoeze et al. (2018); Bounsaythip and Inthakason (2022)
Social Expenditure	Natural log of aggregate value social services throughout the period of the study	Dore (2022); Samuel and Lawrence (2021) and Bounsaythip and Inthakason (2022)
Administrative Expenditures	Natural log of total Administrative Expenditures incurred throughout the period of the study	Dore (2022); and Bounsaythip and Inthakason (2022)
Inflation	Percentage change in consumer price index	Ufoeze et al. (2018); Bounsaythip and Inthakason (2022)
Unemployment Rate	The percentage of the working population that is not currently employed	Ajibade, et al. (2018) Dore (2022); Samuel and Lawrence (2021)

Source: Researcher Compilation 2025

RESULTS AND DISCUSSION OF FINDINGS

Table 2: Descriptive Statistics

	Mean	Maxi	Mini	Std.Dev.	Skew	Kurt	J-Bera	Prob	Obs
INF	13.31077	29.29152	5.386104	5.257987	1.050426	4.451903	8.152006	0.016975	30
UEM	4.086667	5.740000	3.070000	0.596954	1.357149	4.239013	11.12821	0.003833	30
GEE	234.2781	600.9884	3.909870	198.1066	0.397159	1.821244	2.525509	0.282874	30
GSE	569.1509	1751.700	10.08542	554.2586	0.729610	2.261894	3.342652	0.187998	30
GAE	911.1910	2631.032	20.53564	798.9900	0.701747	2.383766	2.936926	0.230279	30

Source: E-Views, 2025

The descriptive statistics in Table 2 provide a summary of the key characteristics of the variables employed in the study over the observation period of 30 years. The mean value of inflation (INF) stood at 13.31%, with a minimum of 5.39% and a maximum of 29.29%. This indicates that Nigeria experienced periods of relatively low inflation as well as episodes of significant inflationary pressures. The standard deviation (5.26) suggests moderate variability around the mean. The skewness value of 1.05 indicates a positively skewed distribution, meaning that extreme high inflation values occurred more often than extremely low ones. The kurtosis value (4.45) is above 3, showing that the distribution is leptokurtic, with fatter tails, implying higher chances of extreme inflationary shocks. The Jarque-Bera statistic (8.15) with a probability of 0.017 rejects the null hypothesis of normality, showing that inflation data is not normally distributed.

Unemployment had a mean value of 4.09% with relatively narrow variation (std. dev = 0.60). The minimum was 3.07%, while the maximum was 5.74%, suggesting unemployment remained within a tight range over the study period. The skewness (1.36) shows a positive skew, meaning higher unemployment values occurred more frequently. The kurtosis value (4.24) also indicates a leptokurtic distribution, confirming clustering around the mean with occasional spikes. The Jarque-Bera statistic (11.13) with a p-value of 0.0038 further rejects normality, indicating non-symmetric distribution. The average government economic expenditure (GEE) was ₦234.28 billion, with a wide range between ₦3.91 billion and ₦600.99 billion. The standard deviation (198.11) reveals significant variability in expenditure over time. The skewness (0.40) indicates mild positive skewness, while kurtosis (1.82) suggests a platykurtic distribution, which is flatter than normal. The Jarque-Bera probability of 0.283 fails to reject normality, implying that GEE data is approximately normally distributed.

The mean value of GSE was ₦569.15 billion, with a minimum of ₦10.09 billion and a maximum of ₦1,751.70 billion. The large standard deviation (554.26) reflects high volatility in social spending. The skewness (0.73) indicates moderate positive skew, while kurtosis (2.26) shows the distribution is slightly platykurtic. The Jarque-Bera probability (0.188) fails to reject normality, suggesting that GSE is approximately normally distributed. GAE averaged ₦911.19 billion, with a minimum of ₦20.54 billion and a maximum of ₦2,631.03 billion. The high standard deviation (798.99) points to very large fluctuations in administrative expenditure. The skewness value (0.70) indicates moderate positive skew, while kurtosis (2.38) also suggests a platykurtic distribution. The Jarque-Bera probability (0.230) implies that GAE is normally distributed.

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Table 3: Summary of Unit Root Test (Augmented Dickey-Fuller Test)

Variables	Test Statistics at Level	5% Critical Value at Level	Order of Integration
INF	-3.432293	-2.967767	I(0)
UEM	-3.500557	-2.986225	I(0)
LOGGEE	-3.514741	-2.981038	I(1)
LOGGSE	-6.564032	-2.971853	I(1)
LOGGAE	-7.040720	-2.971853	I(1)

Source: Eview Output 2025

The results of the Augmented Dickey-Fuller (ADF) test indicate that inflation (INF) and unemployment (UEM) are stationary at level [I(0)], suggesting that these variables do not require differencing to achieve stationarity. However, government expenditures, namely government economic expenditure (LOGGEE), government social expenditure (LOGGSE), and government administrative expenditure (LOGGAE), are stationary at first difference [I(1)]. This mixture of stationarity levels justifies the use of cointegration analysis to test for long-run equilibrium relationships among the variables, since some are integrated at order zero and others at order one.

Table 4: Vector Error Correction Estimates for Inflation Model

Cointegrating Eq:	CointEq1			
INF(-1)	1.000000			
LOGGEE(-1)	0.929600 (3.41395) [0.27229]			
LOGGSE(-1)	-1.425940 (4.54584) [-0.31368]			
LOGGAE(-1)	-2.396909 (6.99227) [-0.34279]			
Error Correction:	D(INF)	D(LOGGEE)	D(LOGGSE)	D(LOGGAE)
CointEq1	-0.705848 (0.17351) [-4.06805]	0.051905 (0.01794) [2.89316]	0.028780 (0.00934) [3.08149]	0.037772 (0.00911) [4.14394]
D(INF(-1))	0.172221 (0.19447) [0.88560]	-0.042447 (0.02011) [-2.11098]	-0.013569 (0.01047) [-1.29625]	-0.023688 (0.01022) [-2.31872]
D(INF(-2))	0.085643 (0.15459) [0.55400]	-0.036796 (0.01598) [-2.30197]	-0.026454 (0.00832) [-3.17909]	-0.028860 (0.00812) [-3.55373]
D(LOGGEE(-1))	2.201615 (2.61851) [0.84079]	0.285371 (0.27075) [1.05400]	0.224477 (0.14095) [1.59260]	0.044851 (0.13756) [0.32605]
D(LOGGEE(-2))	3.635223 (2.64261) [1.37562]	-0.142753 (0.27324) [-0.52244]	-0.025021 (0.14225) [-0.17590]	0.185886 (0.13882) [1.33902]
D(LOGGSE(-1))	-5.653288 (6.30165) [-0.89711]	1.131567 (0.65159) [1.73664]	0.258768 (0.33921) [0.76286]	0.402144 (0.33104) [1.21478]
D(LOGGSE(-2))	-6.053280 (5.57143) [-1.08649]	-0.217541 (0.57608) [-0.37762]	0.227511 (0.29990) [0.75862]	0.144661 (0.29268) [0.49426]
D(LOGGAE(-1))	-0.263342	-2.362368	-0.690855	-1.013391

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	(6.79939)	(0.70305)	(0.36600)	(0.35719)
	[-0.03873]	[-3.36017]	[-1.88759]	[-2.83713]
D(LOGGAE(-2))	8.631786	0.324025	-0.386750	-0.732105
	(8.36099)	(0.86452)	(0.45006)	(0.43922)
	[1.03239]	[0.37480]	[-0.85934]	[-1.66681]
R-squared	0.717212	0.676905	0.677011	0.679184
Adj. R-squared	0.567501	0.505855	0.506017	0.509340
F-statistic	4.790639	3.957348	3.959264	3.998872

Source: Eview Output 2025

Table 4 presents the results of the Vector Error Correction Model (VECM) for the inflation model. The coefficients of LOGGEE (0.929600), LOGGSE (-1.425940), and LOGGAE (-2.396909) suggest mixed effects of fiscal expenditure categories on inflation. Specifically, government economic expenditure (LOGGEE) has a positive association with inflation in the long run, implying that increases in government investment in economic sectors tend to fuel price levels. This is consistent with the Keynesian view that higher government spending can stimulate aggregate demand, potentially leading to demand-pull inflation if supply responses are inadequate (Ogunleye & Akinwunmi, 2021). In contrast, government social expenditure (LOGGSE) and administrative expenditure (LOGGAE) show negative long-run effects on inflation, indicating that these forms of spending may help stabilize prices by addressing structural bottlenecks or improving governance efficiency (Adeniran & Olayiwola, 2022). The error correction term (CointEq1) in the inflation equation is statistically significant and negative (-0.705848), confirming the presence of a long-run equilibrium relationship. The coefficient indicates that about 70.6% of short-run deviations from equilibrium are corrected annually, implying a relatively fast adjustment speed towards long-run stability. This aligns with findings from recent studies that emphasize the importance of fiscal discipline and structural expenditure allocation in achieving price stability in Nigeria (Okorie et al., 2023; Hassan & Lawal, 2024).

In the short-run dynamics, inflation lags (INF(-1) and INF(-2)) are positive but statistically insignificant, suggesting limited persistence effects of past inflation on current inflation. However, the short-run coefficients of government expenditures reveal important insights. For example, the first lag of government economic expenditure (D(LOGGEE(-1))) shows a positive but insignificant effect on inflation, while its second lag (D(LOGGEE(-2))) exhibits similar patterns. This supports the argument that the inflationary impact of economic expenditure manifests more strongly in the long run than in the short run (Eze & Omodero, 2021). On the other hand, government administrative expenditure in its first lag (D(LOGGAE(-1))) has a significant negative effect on government expenditure equations, suggesting that excessive recurrent expenditure may crowd out productive investment and reduce fiscal sustainability (Bashir & Musa, 2022). The model's R-squared values (ranging between 0.677 and 0.717) and adjusted R-squared values (0.506 to 0.567) demonstrate that the explanatory variables account for a substantial proportion of the variation in inflation and expenditure categories. Moreover, the F-statistics across the models confirm overall significance, indicating that the explanatory variables jointly influence the dependent variables.

Table 5: Vector Error Correction Estimates for Unemployment Model

Cointegrating Eq:	CointEq1			
UEM(-1)	1.000000			
LOGGEE(-1)	0.566349			
	(0.46734)			
	[1.21185]			
LOGGSE(-1)	-2.425849			
	(0.61960)			
	[-3.91522]			
LOGGAE(-1)	1.404989			
	(0.92893)			
	[1.51248]			
Error Correction:	D(UEM)	D(LOGGEE)	D(LOGGSE)	D(LOGGAE)
CointEq1	-0.190867	0.350121	0.274169	0.306716
	(0.11096)	(0.14941)	(0.07450)	(0.07595)
	[-1.72014]	[2.34339]	[3.68017]	[4.03865]

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D(UEM(-1))	0.918265 (0.19903) [4.61364]	-0.199335 (0.26800) [-0.74380]	-0.059636 (0.13363) [-0.44627]	-0.062705 (0.13622) [-0.46030]
D(UEM(-2))	-1.191289 (0.41918) [-2.84197]	0.024174 (0.56442) [0.04283]	-0.131983 (0.28144) [-0.46896]	-0.220558 (0.28690) [-0.76876]
D(LOGGEE(-1))	0.108126 (0.22552) [0.47944]	0.171912 (0.30367) [0.56612]	0.040357 (0.15142) [0.26653]	-0.142148 (0.15436) [-0.92091]
D(LOGGEE(-2))	0.025350 (0.19556) [0.12963]	-0.333756 (0.26332) [-1.26749]	-0.025923 (0.13130) [-0.19743]	0.121479 (0.13385) [0.90760]
D(LOGGSE(-1))	-0.234537 (0.52566) [-0.44618]	1.386520 (0.70780) [1.95892]	0.366939 (0.35293) [1.03970]	0.563461 (0.35978) [1.56613]
D(LOGGSE(-2))	-0.536121 (0.43532) [-1.23154]	-0.241513 (0.58616) [-0.41202]	0.456219 (0.29228) [1.56091]	0.257048 (0.29795) [0.86272]
D(LOGGAE(-1))	0.353609 (0.54051) [0.65421]	-2.709218 (0.72780) [-3.72248]	-0.936685 (0.36290) [-2.58111]	-1.286513 (0.36995) [-3.47758]
D(LOGGAE(-2))	0.625644 (0.65675) [0.95264]	0.395473 (0.88431) [0.44721]	-0.919167 (0.44094) [-2.08455]	-1.069147 (0.44950) [-2.37851]
R-squared	0.581591	0.604353	0.637146	0.606755
Adj. R-squared	0.360080	0.394893	0.445046	0.398566

Source: Eview Output 2025

Table 5 reports the Vector Error Correction Model (VECM) estimates for the unemployment model. The cointegrating equation highlights the long-run relationship between unemployment (UEM) and the disaggregated components of government expenditure. The coefficients reveal that government economic expenditure (LOGGEE) and administrative expenditure (LOGGAE) have positive associations with unemployment in the long run, while government social expenditure (LOGGSE) has a negative and significant effect. Specifically, LOGGSE (−2.425849) reduces unemployment, suggesting that investments in education, health, and social welfare enhance human capital and labour market absorption capacity. This finding is consistent with recent studies showing that social spending reduces structural unemployment in developing economies (Okoye & Alao, 2021; Osei & Agyemang, 2023). Conversely, the positive coefficient of LOGGAE indicates that higher administrative spending may worsen unemployment by diverting resources away from productive sectors (Idris & Abiola, 2022).

The error correction term (CointEq1) is negative (−0.190867) but only weakly significant, indicating a relatively slow adjustment of unemployment back to its long-run equilibrium following short-term shocks. This suggests structural rigidities in the Nigerian labour market, where fiscal policies may take longer to translate into employment gains (Bello & Ijaiya, 2020; Hassan & Lawal, 2024).

In the short-run dynamics, past unemployment values strongly influence current unemployment. The first lag of unemployment (UEM(−1)) is positive and significant (0.918265), showing persistence in unemployment rates, while the second lag (UEM(−2)) is negative and significant (−1.191289), indicating some corrective mechanism in subsequent periods. This persistence effect is consistent with hysteresis theories, which argue that unemployment tends to self-perpetuate in economies with weak labour market institutions (Okorie et al., 2023).

Regarding expenditure components, the short-run coefficients reveal mixed results. The lags of government social expenditure (LOGGSE) are largely insignificant, except for some marginal positive influences on expenditure dynamics, suggesting that social spending requires longer time horizons to influence unemployment significantly. On the other hand, administrative expenditure (LOGGAE) shows a strong negative impact in the short run, with significant coefficients in both the first and second lags (−2.709218 and −0.919167, respectively). This confirms that recurrent administrative costs do little to reduce unemployment and may even crowd out employment-generating sectors (Bashir & Musa, 2022).

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The model's explanatory power is moderate, with R-squared values ranging between 0.581 and 0.637, and adjusted R-squared between 0.360 and 0.445. These values indicate that while fiscal variables explain a significant portion of unemployment variations, other structural factors (such as labour productivity, private investment, and demographic trends) also play critical roles (Uchenna & Ibrahim, 2024).

CONCLUSION AND RECOMMENDATIONS

The study examined the effect of disaggregated public expenditure on inflation (INF) and unemployment (UEM) in Nigeria over the period 1994–2023. The results suggest that macroeconomic outcomes such as inflation and unemployment respond in the short and long run to variations in government expenditure categories. In particular, while inflation and unemployment exhibit more immediate shocks, government expenditure requires differencing to achieve stationarity, implying that policy impacts from fiscal spending may take time before stabilizing in the economy.

Based on these findings, the study recommended that, since social expenditure significantly reduces unemployment in the long run, the government should increase funding for education, healthcare, and social welfare, as these sectors directly enhance human capital and labour market productivity.

The positive association between administrative expenditure and unemployment suggests that excessive bureaucratic costs do not contribute to economic growth. Efforts should be made to reduce recurrent administrative expenses and reallocate such resources towards growth-enhancing sectors.

Economic expenditure should be channelled into infrastructure, agriculture, and industrial development to boost supply capacity and mitigate inflationary pressures. When well-targeted, economic spending has the potential to both stabilize inflation and create employment opportunities.

Given the significant adjustment speeds observed, maintaining fiscal discipline is essential to ensure that expenditure allocations remain consistent with long-term macroeconomic stability goals. Fiscal policies should be coordinated with monetary measures to address inflation and unemployment simultaneously.

Continuous monitoring of the impact of disaggregated expenditure is crucial for evidence-based policymaking. Establishing an expenditure evaluation system would help ensure that funds allocated to social and economic sectors yield measurable outcomes in terms of job creation and price stability.

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