Fiscal Deficit, Unemployment, and Price Stability in Nigeria: An Empirical Analysis

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Abstract: *The study examines the impact of fiscal deficit on unemployment and price stability in Nigeria from 1981 to 2022 using the ordinary least square technique. Fiscal deficit was measured by the budget deficit as a percentage of GDP, while unemployment was measured by the unemployment rate, and price stability was measured using the consumer price index. Control variables included were real GDP growth, population growth, domestic investment, and real interest rates. It was found that fiscal deficit had a negative and insignificant impact on unemployment, and a positive and insignificant impact on price stability. Real GDP growth had negative and significant impact on unemployment and price stability, while population growth had a positive and significant impact on unemployment and price stability. Domestic investment had a negative and insignificant impact on unemployment, while real interest rate had a positive and significant impact on price stability. It was concluded that there was no statistically significant impact of fiscal deficits on either unemployment or price stability in Nigeria. Redirecting fiscal deficits towards productive capital expenditures, like infrastructure and industrial development, should be the government's top priority in order to promote employment and price stability. To avoid unnecessary spending and reduce the inflationary pressures, it is also crucial to improve fiscal restraint and public spending efficiency.*

Keywords: Fiscal Deficit; Unemployment; Price Stability

JEL Classification: E62, E24, E31

1   Introduction

The possibility of poverty reduction is presented by a thriving economy. It raises the economy's potential for production, which boosts the supply of goods and services, creates jobs, and raises people's incomes. By supplying the goods and services that people need, it is also a successful means of raising living standards in the economy. It also confers prestige and economic power. Effective financial intermediation is one strategy to improve any economy's performance (Fisher, 2023). The accomplishment of macroeconomic goals, such as employment, and price stability among others, is typically used to evaluate macroeconomic performance (Jílková & Skaličková, 2019). Employment is the practice of working for pay as a self-employed person or as an employee. Employment raises people's social and economic standing, ensures income, and boosts confidence and self-worth (United Nations Development Programme – UNDP, 2013). The majority of the literature connected economic performance to either high employment or low unemployment rates. If the economy is growing, the unemployment rate would decrease; if it is not, it would decrease. Economic performance is also gauged by price stability. When the average prices of goods and services remain constant over time, it is referred to as price stability. Price instability, which is also a sign of weak economic performance, would result from a large shift (increase) in the cost of goods and services. The goal of governments worldwide is to guarantee full employment and price stability among other macroeconomic goals (Hawkes, 2023). The fiscal deficit is one of the elements that may have an impact on price stability and employment, particularly in developing nations.

A fiscal deficit occurs when the government's total expenses surpass its total revenue. A fiscal deficit occurs when a government spends more money than it takes in during a given fiscal year. An economy may experience a fiscal deficit for a number of reasons. These include, among other things, the government's high spending, corruption, and the lack of tax collection (Gllogjani & Balaj, 2021; Gushibet 2021). The Keynesians noted that a deficit could help nations quickly emerge from a recession. According to them, a fiscal deficit raises aggregate demand. It stimulates more investment, which multiplies income and, as a result, encourages growth and better economic performance overall. Additionally, a deficit may indicate faster growth and alert the government to the need for total credit. An increase in the fiscal gap may be essential because it could boost a weak economy by giving people more money to spend on investments, create demand, and purchase more goods (Edame & Okoi, 2015). In addition to the Keynesians, there is another opinion that it negatively influences the economy. They believe that in order to support a balanced budget policy, the government should avoid fiscal shortfalls. High expenditures and lower taxes, which could be interpreted as lower revenue, are the results of a deficit. Governments raise spending primarily for development and other purposes, but in exchange, they may have fewer sources of income and less money to cover their expenses. Long-term fiscal deficits may be detrimental to financial and price stability

as well as employment. A high fiscal deficit may make price instability, unemployment, and a persistent increase in macroeconomic imbalances unavoidable. Government spending is crucial in developing nations like Nigeria, which has continuously experienced deficits over the previous few decades (Mavodyo, 2020).

With the exception of 1995 and 1996, Nigeria's fiscal situation has been in deficit. Budget deficits have increased steadily over the past three decades, from N1, 105, 440 million in 2010 to N1, 153, 500 in 2013, according to data available from the Central Bank of Nigeria (2021). Nigeria's fiscal deficit was N7.3 trillion in 2021. Nigeria's budget deficit as a percentage of GDP from 2008 to 2020 was 26.89 percent, according to data comparing the budget deficit to GDP.

Policymakers are concerned about the potential detrimental impact of the growing fiscal deficit on macroeconomic performance indicators like price stability and unemployment. Thus, reducing the excessive fiscal deficit has been the top priority for policymakers in the majority of developing nations, particularly Nigeria, in recent years. The goal is to improve fiscal prudence and strive towards a balanced budget. Over the years, the Nigerian government has conducted expenditures that may not have been adequately supported by revenue inflows due to the need to meet development goals. Economic performance has been impacted by the high and ongoing fiscal deficits that have resulted from this (IMF, 2021). High fiscal deficits have been held responsible for Nigeria's economic problems, which include high unemployment, price instability, among others.

Nigeria's budget deficit has been steadily rising, which can be attributed to the government's intentional policy of keeping prices stable in order to stabilise the economy, make it more productive, increase job creation, and promote economic growth and development. The demand for goods from overseas is rising at the same time that domestic productivity has been low and recessions have been common in recent years. The fact that the unemployment rate has stayed in the double digits over time is another noteworthy aspect. It peaked at 13.38% in 2016 and increased to 17.46% in 2018, 22.56% in 2019, 27.1% in 2020, 37.7% in 2022, and 41% in 2023 (Egole, 2023). Nigeria has not yet seen strong macroeconomic performance in terms of stable prices, low unemployment, or sustainable growth and development, despite significant expenditures to boost the nation's economy. The nation continues to face numerous difficulties, such as high unemployment, and price instability. The main query is, how do fiscal deficits affect unemployment and price instability?

Numerous studies have examined the empirical link between Nigeria's fiscal deficit and real GDP growth, as well as that of other developed and developing nations. To the best of our knowledge, however, the majority of the research looked at how the fiscal deficit affected economic growth. There are not many studies that have linked fiscal deficit, price stability, and unemployment, despite the nation's rising unemployment and price instability concerns. In contrast to earlier research, this study offers insight into the empirical relationship between Nigerian fiscal deficit, price stability, and unemployment. Policy authorities in Nigeria and other developing nations will be able to pursue the right policy direction regarding the role of fiscal deficit in economic management using the findings of this study as a guide. The policy authority would benefit from the study's findings since they are valuable for directing the formulation of policies. The study can also help academics and other researchers learn more about fiscal deficits, unemployment and price stability, particularly in Nigeria. The study will also help close the gap in the literature on fiscal deficit, price stability, and unemployment, particularly in Nigeria.

2 Literature Review

2.1 Conceptual Literature

2.1.1 Fiscal Deficit

High spending and lower revenue result in a fiscal deficit, whereby spending exceeds revenue. A fiscal deficit occurs when the government's total expenses surpass its total revenue. It describes a situation whereby the government's anticipated revenue is less than its outlays. It is the difference between the government's total revenue (excluding borrowing) and total expenses. A fiscal deficit occurs when a government spends more money than it takes in from taxes and other sources over an extended period of time (Gllogjani & Balaj, 2021). According to Gushibet (2021), fiscal deficits are the excess of government spending over government income. Edame & Okoi (2015) provided a similar definition, defining the concept as the difference between government revenue and expenditure. Fiscal deficit, expressed as a percentage of GDP is used in this study for analysis.

2.1.2 Economic Performance

The concept of unemployment is widely defined in economics literature. Most authors agree that it refers to individuals of working age who are available, willing, and able to work but are unable to find employment. For instance, according to the International

Labour Organisation – ILO (2018), people who were available to work and had taken certain actions to look for work during a reference period but did not work for at least an hour are considered unemployed. OECD (2024), on the other hand, focus more on the prevailing wage rate. According to Gbosi (1997), unemployment happens when people who are willing and able to work are unable to find works that pay the current wage. As postulated by Nya (2021), unemployment encompasses not only the lack of employment but also the macro-socioeconomic factors (growth, policy changes, and institutional capacity) that support labour force absorption. By contrasting definitions that necessitate an active job search with definitions that relax the job search requirement under specific labour market conditions, the UNESCO-UNEVO-TVET glossary (2015) makes a helpful distinction. The criteria for availability and active search are where these definitions diverge most: the OECD and ILO cover both, while definitions such as Gbosi (1997) occasionally place more emphasis on wage constraints than search effort. The differences therefore lie in how rigorously authors require job search activity, the significance of wage levels, and how inclusive the definition is of those who are only loosely connected to the workforce, even though all definitions include ability and willingness.

Lucas (1988) and Barro (1989) developed the neoclassical theory, which placed a strong emphasis on the necessity of financing government spending through deficits while keeping tax rates reasonable. Such arrangements are thought to typically crowd out private investments because borrowing reduces aggregate supply. Nonetheless, government spending that is funded by a budget deficit can, particularly in the short term, lower unemployment (Musa, 2021). This theory states that fiscal deficits increase the economy's aggregate consumption, which lowers national savings and raises the real interest rate. Investment and general economic activity are thus adversely impacted. In an open economy, an increase in the fiscal deficit results in an increase in capital flows, which raises the value of the currency. In both situations, a larger fiscal deficit leads to a decrease in net exports and the exclusion of investment. The existence of external debt and the exclusion of investment have a negative impact on future output and, consequently, the economy's performance (Musa, 2021; Emmanuel, 2016).

The Keynesian theory, also known as the conventional approach or income expenditure approach, holds that growth is positively impacted by fiscal deficit. An increase in the money supply would result in higher government spending, which explains how the money supply grows. According to the money supply, there is a relative shortfall in demand. A larger money supply will result in a lower lending rate. Because of the incentive of lower lending rates, investment will rise, particularly in the private sector. Investment will rise as the Keynesian multiplier operates. The output capacity will be improved as investment rises. Additionally, Keynesian theory allows for the exclusion of private investment. Lending rates will rise and private investment will be discouraged due to limited financing options if the fiscal deficit is financed through debt instruments (Musa, 2021; Emmanuel, 2016). The positive impact of a fiscal deficit on growth is obscured when the crowding out effect and money supply expansion are combined. According to the Keynesians, fiscal deficits may also have a detrimental effect on the external sector, as evidenced by a trade deficit, but only if the domestic economy is unable to absorb the extra liquidity through an increase in output. Therefore, "the twin-deficits" hypothesis states that surplus spending would only increase imports if the output supply did not increase in response to the deficit, creating a trade deficit and a subsequent decline in the exchange rate (Musa, 2021).

2.2   Empirical Literature

Banerjee, Boctor, Mehrotra, & Zampolli (2023) investigated the relationship between inflation risks and fiscal deficits, concentrating on the function of monetary and fiscal regimes in 21 developed economies. The study period comprised of 1975 to 2011. The Ordinary Least Squares method was used to analyse the data. It was discovered that the underlying fiscal and monetary policy regimes had a significant impact on the relationship between larger deficits and future inflation. In particular, it was discovered that under a fiscally-led regime, that is, when the government places less emphasis on debt stabilisation and when monetary policy is less dedicated to price stability, the inflationary effects was significantly stronger. Behera & Mallick (2022) looked at how 14 major Indian states' economic growth was affected by fiscal deficits between 2019 to 2022. To analyse the data, the study used the panel fixed effect regression technique. Economic growth was found to be significantly affected by the gross fiscal deficit (GFD), tax revenue, and inflation rates. Additionally, it was discovered that fiscal deficits boosted growth. The results also demonstrated a threshold effect of fiscal deficit on growth, which means that GFD had a positive effect when it falls below a certain threshold and impedes states' economic growth beyond that threshold. Austine, James, Adetokun, & Abdulkamaru (2022) investigated how Nigeria's fiscal deficit affected the country's economic growth from 1981 to 2020. To analyse the data, the study used the autoregressive distributed lag (ARDL) approach. The results of the long-run ARDL model showed that government deficit financing had a negative effect on GDP. Additionally, there was a negative correlation between the gross domestic product and the interest and exchange rates. However, it was discovered that the inflation rate had a positive effect on GDP. The study generally found that financing the fiscal deficit had a negative effect on GDP.

Also, the effect of fiscal deficit on economic growth in thirty-seven European nations was studied by Bohach & Paientko (2021). The data, which covered the years 2001 to 2019, was analysed using panel regression. It was discovered that a strategy for boosting

economic growth in developed nations was to reduce their fiscal deficit. The results, however, indicated that this was not a suitable method of boosting economic growth in developing nations. Chigbo (2021) investigated the effect of Nigeria's fiscal deficit on economic growth between 1990 and 2020 using the Error Correction Model (ECM) technique. It was discovered that interest rates (INTR), total federal collection revenue (TFCR), and public external debt (PEXD) were the main drivers of economic growth in Nigeria. government spending (GOVE), real GDP, and exchange rate (EXCR) were used to calculate the financing of the public deficit. The results confirmed the long-run relationship by demonstrating that one standard deviation of fiscal deficit shocks had a significant impact on economic growth. Hussain, Hussain, Ali, & Ahmad (2021) looked at the short- and long-run effects on Pakistan's growth of the amount of fiscal adjustment. The study's time frame was 1981 to 2016. Granger causality and Autoregressive Distributed Lag (ARDL) methods were used to analyse the data. It was discovered that while tax-based adjustments eventually slowed economic growth, spending-based adjustments increased it. Additionally, it was discovered that the fiscal adjustments were weakly exogenous, which allowed the economic growth to have a feedback effect on the fiscal adjustment.

Kryeziu & Hoxha (2021) examined the impact of the deficit on economic growth for the Eurozone nations. The study's time frame was 1995 to 2015. The multiple linear regression model with least-squares regression was used to analyse the data. It was discovered that the ratio of the deficit to GDP was statistically significant and had a positive sign, suggesting that the expansion of the ratio positively impacted economic growth. Musa (2021) examined the relationship between Nigeria's fiscal deficit and economic expansion. The study's time frame was 1980 to 2019. To illustrate the trend of Nigeria's fiscal components, the author used a descriptive approach. The findings showed that the macroeconomic environment required for sustainable growth was not effectively provided by fiscal operation. Gyasi (2020) investigated the short- and long-term effects of Morocco's growth, fiscal deficit, and macroeconomic variables using the bounds test (ARDL) approach to cointegration from 1990 to 2017. Economic growth was found to be impacted by fiscal deficit, particularly in the long run. The impact of the budget deficit on Nigeria's growth was investigated by Yusuff & Abolaji (2020) from 1981 to 2016. The data was analysed using the ARDL bounds test Bounds test approach. It was discovered that while the budget deficit and gross domestic savings had a positive impact on economic growth in the short run, interest rates, gross domestic savings, and the budget deficit had a significant impact on economic growth in the long term.

Though, several studies have examined the empirical relationship between Nigeria's fiscal deficit and economic performance, as well as that of other developed and developing nations. Recent studies include Austine, James, Adetokun & Abdulkamaru (2022), Chigbo (2021), Musa (2021), Yusuff & Abolaji (2020), Banerjee, Boctor, Mehrotra & Zampolli (2023) among others. But, the majority of the research looked at how the fiscal deficit affected economic growth. Even though unemployment and prices are rising, particularly in Nigeria, there are not many studies that showed a relationship between fiscal deficit, price stability, and unemployment. Few studies, however, have found a relationship between productivity, unemployment, and the fiscal deficit. In contrast to earlier research, this study offers insight into the empirical impact of fiscal deficits, particularly on unemployment, and price stability in Nigeria.

3   Methodology

3.1   Data and Data Sources

The data is a time series that spans the years 1981 through 2023. Real GDP growth (annual percentage), population growth rate, fiscal deficit (measured as budget deficit as a percentage of GDP), unemployment rate (as a percentage of the labour force), and domestic investment are among the variables. The study also takes into account real interest rates and price stability as measured by the consumer price index (CPI). The Central Bank of Nigeria (CBN) Statistical Bulletin and the World Bank's World Development Indicators served as the sources of the data. The World Development Indicators provides the data for unemployment, while the CBN statistical bulletin, various issues provide the data for the rest of the variables.

3.2   Model Specification

To determine the effect of fiscal deficit on the unemployment, the following functional form is specified;

$$UNEMP = FDFICIT, \ RGDP, PGROWT, DINV \qquad (1)$$

Where UNEMP is unemployment rate (% of total labour force), FDFICIT is fiscal deficit, measured by budget deficit as percentage of GDP, while RGDP is real GDP growth (annual %). Also, PGROWT represents population growth rate, and DINV is domestic investment. The econometric model is specified as:

$$UNEMP = \varphi_0 + \varphi_1 FDFICIT + \varphi_2 RGDP + \varphi_3 PGROWT + \varphi_4 DINV + u_{i1} \qquad (2)$$

Where all the variables remained as defined earlier. u_{i1} is the error term. φ_1, φ_2, φ_3, and φ_4 are parameters to be estimated. The a priori expectation of all the parameters is negative except for population growth, which can be positive or negative. Equation (2) is the model for estimation. The model is specified to capture the effect of fiscal deficit on the unemployment rate.

On the other hand, to examine the effect of fiscal deficit on the price stability, the following functional form is specified;

$$PSB = FDFICIT, \ RGDP, PGROWT, INTR \qquad (3)$$

Where: PSB is price stability, measured by the consumer price index, FDFICIT is fiscal deficit, measured by budget deficit as percentage of GDP, while RGDP is real GDP growth (annual %). Also, PGROWT is population growth rate, while INTR is the real interest rate. The econometric model is specified as:

$$PSB = \rho_0 + \rho_1 FDFICIT + \rho_2 RGDP + \rho_3 PGROWT + \rho_4 INTR + u_{i2} \quad (4)$$

Where all the variables remained as defined earlier. u_{i2} is error term.

ρ_1, ρ_2, ρ_3, and ρ_4 are parameters to be estimated. The a priori expectation of all the parameters is negative except for population growth, which can be positive or negative. Equation (4) is the model for estimation. The model is specified to capture the effect of fiscal deficit on the price stability.

The regression equations are estimated using the Ordinary Least Square (OLS) technique. It is an effective technique for estimating linear regression equations. It is consistent when the regressors are exogenous and do not have multicollinearity issues, optimal in the class of linear unbiased estimators when the errors are homoscedastic and serially uncorrelated, and the best linear and unbiased estimator when the errors have finite variances. When the errors have finite variances, the OLS technique minimises the sum of squared residuals, indicating unbiased estimation. Furthermore, a normal distribution of the errors is assumed.

4   Results

4.1   Unit Root Test

The stationarity of the time series variables used in this study was tested using the Phillips-Perron and Augmented Dickey-Fuller tests. Table 1 reports the test result.

Table 1: Unit root test results

Variable	Augmented Dickey-Fuller Result		Philips–Perron Result		Lag order	Order of Integration
	Level	1st Difference	Level	1st Difference		
RGDP	-2.670	-4.079	-3.098	-10.921	2	I(1)
FDFICIT	-2.731	-4.537	-3.126	-7.354	2	I(1)
TRADGLO	-2.662	-4.596	-2.872	-5.741	2	I(1)
PGROWT	-2.234	-3.867	-2.840	-4.132	2	I(1)
DINV	-1.735	-3.760	-2.204	-4.786	2	I(1)
UNEMP	-2.175	-4.613	-2.014	-4.242	2	I(1)
PSB	-2.113	-4.735	2.101	4.280	2	I(1)
The optimal lag length of 2 was chosen using Akaike's Final Prediction Error (FPE), and Akaike's information criteria. The ADF 5% critical value at levels is -3.544, while at 1st difference is -3.548, while the Philips–Perron critical value at levels and 1st difference are -3.536 and -3.540.						

Source: Estimated by the researchers.

For every variable examined at levels, the augmented Dickey-Fuller 5% critical value is greater than the test statistics. The variables are therefore statistically insignificant. The null hypothesis that there is a unit root is thus accepted at levels. This indicates that there is a unit root at the level and that the variables are nonstationary. Because of this, the variables were differenced once, and the test was once more run at the first difference. The variables' test statistics at the first difference exceeded the critical value of 5%. As a result, at the first difference, the null hypothesis regarding the existence of the unit root is rejected. This shows that the variables

respectively are stationary at the first difference. The results of the Augmented Dickey-Fuller and Philips-Perron tests are comparable. It demonstrates that none of the variables was stationary at the level. However, the variables became stationary at the first difference. As a result, at first difference, every variable is stationary.

4.2   Impact of fiscal deficits on unemployment and price instability

The results of the cointegration test of the variables in the models for the effects of fiscal deficits on unemployment, and price stability, respectively, are shown prior to the examination of the effects of fiscal deficits on these two macroeconomic variables. Table 2 displays the outcome. For the impact of fiscal deficits on unemployment, Panel A in Table 2 displayed the cointegration test result of the variables in the model (2), and for the influence of fiscal deficits on price stability, Panel B presented the cointegration test result of the variables in model (4).

Table 2: Result of Johansen tests for cointegration

Panel A: Cointegration among the variables in equation 2			
Maximum rank	Eigenvalue	Trace statistic	5% Critical value
0		69.3584	59.46
1	0.5269	39.4178*	39.89
2	0.4547	15.1587	24.31
3	0.1908	6.6885	12.53
4	0.1493	0.2209	3.84
5	0.0055	-	-
Panel B: Cointegration among the variables in equation 4			
Maximum rank	Eigenvalue	Trace statistic	5% Critical value
0	-	90.7052	59.46
1	0.6212	51.8713	39.89
2	0.4599	27.2316	24.31
3	0.3103	12.3747*	12.53
4	0.2487	0.9345	3.84
5	0.0230	-	-

Source: Estimated by the author

The null hypothesis of no cointegration is suggested to be rejected in Panel A since the trace statistic at rank 0 (69.3584) is greater than the 5% critical value (59.46). Nevertheless, the trace statistics for ranks 1, 2, 3, and 4 below their respective critical values. As a result, the test indicates that the variables in equation (2) have a single cointegrating relationship. This suggested that the variables have a stable long-run relationship and gradually approach equilibrium despite short-run oscillations.

Panel B, on the other hand, showed stronger evidence of cointegration among the variables in equation (4). The trace statistics at maximum ranks up to 2 were all higher than their respective 5% critical values, indicating the rejection of the null hypotheses of no cointegration up to the second rank. However, the test becomes insignificant at rank 3, suggesting that there were three cointegrating vectors among the variables in equation (4). This result indicated a stronger long-run relationship among the variables in equation (4) compared to equation (2), implying that they are interrelated and tend to adjust together toward long-run equilibrium dynamics.

In Table 3, the estimates of the impact of fiscal deficits on unemployment and price stability are presented. Colum (1) reports the effect of fiscal deficit on unemployment, while column (2) reports the result of the impact of fiscal deficit on price stability.

Table 3: Estimates of the impact of fiscal deficits on unemployment and price stability

	[1] Impact of fiscal deficit on unemployment rate	[2] Impact of fiscal deficit on price stability
FDFICIT	-0.0090 (t = -0.34) (p = 0.734)	13.4007 (t = 1.56) (p = 0.128)
RGDP	-0.0278	-6.2975

	(t = -2.88) (p = 0.007)	(t = -2.10) (p = 0.042)
PGROWT	4.6205 (t = 3.61) (p = 0.001)	5.7234 (t = 2.75) (p = 0.009)
DINV	-2.9800 (t = -0.21) (p = 0.833)	-
INTR	-	13.6096 (t = 4.96) (p = 0.000)
Constant	0.0568 (t = 1.16) (p = 0.254)	-1.058 (t = -2.99) (p = 0.005)
R-squared	0.6446	0.7304
Adj R-squared	0.3828	0.6688
F-statistics	17.20 (p = 0.0012)	6.99 (p = 0.0003)
Durbin–Watson d-statistic	1.6038	2.4103
Breusch–Godfrey LM test	0.087 (p = 0.2971)	0.188 (p = 0.5702)
Breusch–Pagan test	0.99 (p = 0.2711)	0.750 (p = 0.9201)

Source: Estimated by the researchers

The fiscal deficit coefficient in column (1) is negative (-0.0090) and insignificant (p = 0.734), indicating that changes in the fiscal deficit had no significant effect on unemployment. This suggested that fiscal imbalances have not resulted in the creation jobs, perhaps as a result of the fact that recurring spending, rather than capital projects that create jobs, make up the majority of government spendings. Real GDP growth had a negative and significant impact (p = 0.007) on unemployment, suggesting that economic growth lowers unemployment. The positive and significant effect of population growth (p = 0.001) indicated that unemployment increases with population growth, most likely as a result of the labour market's limited absorptive capacity. The negative but insignificant coefficient of domestic investment (p = 0.833) indicated that investment levels were either insufficient or improperly distributed to low-labor-intensity sectors. The diagnostic tests validated the model's reliability, and the model's R2 of 0.6446 showed that the variables included account for roughly 64% of the variation in unemployment.

In column (2), fiscal deficit had a positive and insignificant impact (p = 0.128) on price instability. This implies that although higher fiscal deficits may result in inflationary pressures, the effect is not strong enough to be statistically confirmed. Higher economic growth improves price stability by increasing output and reducing supply constraints, as revealed by the real GDP growth coefficient, which is negative and significant (p = 0.042). The positive and significant effect of population growth (p = 0.009) suggested that growing populations drive up prices through increased aggregate demand. The real interest rate showed a positive and significant coefficient (p = 0.000), indicating that rising interest rates are connected with price instability, reflecting cost-push inflation caused by increasing borrowing costs or structural rigidities in the financial system. The model's R² of 0.7304 explains approximately 73% of the variation in price stability. Diagnostic tests indicated no serial correlation, and the absence of heteroskedasticity issues.

4.3   Discussion of the Findings

The results showed that Nigeria's fiscal deficits have not had a statistically significant direct impact on either unemployment or price stability. This could be due to the non-productive nature of fiscal spending, inefficiencies in budget implementation, and heavy debt servicing obligations that displace productive investment. These results are consistent with studies like Adeleye et al. (2022) and Ajisafe & Folorunso (2020), which showed that when consumption-based spending predominates, fiscal deficits frequently fail to boost employment or growth. Though insignificant, the positive relationship between consumer price index and the fiscal deficit is in line with Keynesian and monetarist theories, which link inflationary pressures to excessive government borrowing and deficit financing. The significant impacts of population and economic growth on price stability and unemployment are consistent with research by Blanchard & Leigh (2013) and Ali & Ahmed (2021), which highlights the importance of demographic pressures and growth-driven productivity gains in determining macroeconomic stability. Overall, the results point to poor expenditure quality and inadequate institutional fiscal management as the main causes of Nigeria's fiscal policy's inability to effectively combat unemployment and price instability.

5   Conclusion

The study has examined the impact of fiscal deficit on unemployment and price stability. Several findings are made. Based on the findings, it is concluded that government borrowing and deficit spending have not successfully resulted in better macroeconomic outcomes, as there has been no statistically significant impact of fiscal deficits on either price stability or unemployment in Nigeria. This implies that fiscal policy has not done much to promote job creation or maintain price stability in its current form. Fiscal imbalances may have mild inflationary pressures without being a major cause of price instability, as revealed by the positive and insignificant relationship with the consumer price index. On the other hand, the negative and insignificant relationship between the fiscal deficit and unemployment shows that deficit spending has not been allocated towards productive sectors that can create jobs.

The significant impacts of population growth and real GDP growth, however, show that economic expansion and demographic trends are more important factors affecting inflation and unemployment in Nigeria. The results highlight the necessity for the government to reorient fiscal policy in favour of investments that will boost growth and create jobs, especially in manufacturing, infrastructure, and human capital development. Additionally, to make sure that deficits are directed towards productive uses rather than recurring consumption, fiscal restraint and effective public expenditure management are crucial. Thus, the findings emphasise the value of fiscal quality over fiscal quantity, i.e., the effectiveness with which the deficit is used to attain price and economic stability is more important than the deficit's size.

Redirecting fiscal deficits towards productive capital expenditures, like infrastructure and industrial development, should be the government's top priority in order to promote employment and price stability. To avoid unnecessary spending and reduce the inflationary pressures, it is also crucial to improve fiscal restraint and public spending efficiency.

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