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Fiscal Deficit and Inclusive Economic Growth in Nigeria

Godwin Mfon Ekpo
Department of Economics
Ritman University, Ikot Ekpene, Akwa Ibom State, Nigeria
godwinmfon1121@gmail.com

Victor Edet Ebiefie
Department of Economics
University of Uyo, Uyo, Akwa Ibom State, Nigeria
ebiefievictor@gmail.com

Imowo Udoma Udobia
Department of Sociology
Ritman University, Ikot Ekpene, Akwa Ibom State, Nigeria
imowoudobia@gmail.com

Abstract
This study aimed to investigate the impact of fiscal deficit on inclusive economic growth in Nigeria, spanning from 1981 to 2024. Auto-regressive Distributed Lag (ARDL) and the principal component analysis were used to construct the inclusive growth index (IGI) while incorporating economic, social, institutional and environmental factors. The unit root test using the ADF and Philips-Perron tests revealed that all variables were stationary at first difference. The findings revealed that fiscal deficit exhibited a positive relationship with inclusive economic growth in the long-run, indicating that fiscal policy can play a significant role in fostering inclusive growth. However, the negative short-run relationship between fiscal deficit (FB) and inclusive growth index (IGI) suggests that fiscal policymakers must strike a balance between deficit spending and long-term economic growth. This is to ensure that short-term gains do not result in long-term negative effects on inclusive growth. The positive long-run relationship between broad money supply growth rate (BMS) and IGI highlights the importance of monetary policy in promoting inclusive growth. On the other hand, the negative short-run relationship between inflation and IGI indicates that maintaining price stability is crucial to support inclusive growth. The study highlights the importance of coordination between fiscal and monetary policy, as excessive deficit spending can lead to inflationary pressures that undermine inclusive growth.

Keywords: Auto-regressive Distributed Lag (ARDL), fiscal deficit, inclusive economic growth, inclusive growth index (IGI).

Introduction

Inclusive economic growth, in which everyone has a fair opportunity to benefit from economic growth and participate in the production and distribution of wealth, has become a pressing issue for governments and policymakers in the globalised world. In Nigeria, poverty remains a significant challenge despite the country's vast natural resources. To promote inclusive growth, the Nigerian government must invest in social programs and create policies that support small and medium-scale businesses, which can drive job creation and economic growth. However, these reforms will likely put pressure on the country's fiscal balance, potentially resulting in fiscal deficits (Ekpo, 2017).

The chronic fiscal deficit in Nigeria has had significant negative implications for the country's economy and its citizens. Recurrent budget shortfalls have resulted in a diminished ability to invest in key areas that drive inclusive economic growth, leading to economic instability and hardship, including multiple recessions, high inflation, high unemployment, and deteriorating social conditions. The past decade has been particularly challenging, with a sharp

rise in the misery index and persistent economic challenges. It is clear that resolving the fiscal deficit and promoting inclusive economic growth remain crucial priorities for Nigeria's government and policymakers. The government's efforts to manage the fiscal deficit and promote inclusive economic growth have been met with mixed success. While some measures, such as increased borrowing and monetisation of debt, have helped to finance government expenditure in the short term, they have also contributed to higher inflation and debt levels (Odim *et al*.2014; Austine *et al*.2022). Some economists argue that Nigeria needs a more comprehensive approach to address the fiscal imbalance, including measures to boost government revenue through increased tax collection, diversification of the economy, and a reduction in subsidies and wastage in government spending. However, these measures can be politically sensitive and challenging to implement (Onwioduokit, 2005; Onwioduokit & Akpo, 2006; Bassey & Onwioduokit, 2013; Ekpo, 2017; Ekpo, 2024).

Nigeria's economy has been affected by numerous crises at the global, regional, and domestic levels, exacerbating its chronic fiscal deficit and hindering inclusive economic growth. Structural reforms, such as reducing corruption, diversifying the economy, and promoting innovation and entrepreneurship, have been proposed as potential solutions to address these challenges. However, these reforms have faced significant obstacles, making it difficult to implement them in a meaningful way. Fiscal consolidation, inclusive economic growth, and structural reforms are critical components of a sustainable and equitable economic development in Nigeria (Zulfiqar 2018, Oluseye & Gabriel 2017).

In addition to the aforementioned challenges, the impact of these events on Nigeria's fiscal deficit and economic growth has been exacerbated by the country's weak institutional framework and governance structures. Transparency and accountability in public finance management are essential for promoting economic growth and equity. However, Nigeria has faced challenges in these areas, which have led to inefficiencies and waste in public spending, as well as opportunities for corruption and mismanagement. The country's political and economic elite have often been accused of mismanaging the country's resources for their benefit, with little regard for the well-being of the general population. The endorsement of running fiscal deficits at certain times can be beneficial, as they can stimulate demand, enhance productivity, and ultimately drive economic growth. However, the relationship between fiscal deficits and inclusive economic growth is multifaceted and not always linear, as demonstrated by the various outcomes observed in different economic environments (Ekpo,2024). This highlights the need for a nuanced and contextualised approach to managing fiscal deficits, taking into account factors such as the state of the economy, the level of debt, and the potential impact on future generations

The question, therefore, is how effective is fiscal deficit in achieving an inclusive economic growth in the face of these shocks in the country? This study will, therefore, investigate the role of fiscal deficit in achieving an inclusive economic growth in Nigeria, asking specific questions about whether fiscal deficits have influenced any significant changes in Nigeria's economy. The study will also examine empirically the level of inclusive economic growth vis-à-vis the required level of fiscal deficit effectiveness.

Review of Theoretical and Related Literature

Fiscal Deficit

A fiscal deficit occurs when a government spends more money than it earns during a fiscal year. Fiscal deficits, also known as national deficits, are a common feature of many economies, particularly those that face budget constraints or seek to stimulate demand through increased government spending. While deficit financing can be useful in promoting economic growth and employment, it can also lead to high levels of public debt, inflation, and other adverse

consequences if not managed effectively. The concept of fiscal deficits was developed by Keynesian economists as a tool for promoting economic stability, full employment, price stability, and poverty reduction through government intervention.

Inclusive Growth

Inclusive growth is a multifaceted concept that emphasises both the speed and distribution of economic growth, with a focus on ensuring that the benefits of growth are widely shared among all segments of society. It considers both quantitative measures, such as economic growth rates, as well as qualitative measures, such as improved well-being, equitable decision-making, and benefit-sharing. The concept is grounded in the idea that growth should be seen as a means to achieve sustainable development and poverty reduction, rather than an end in itself. Inclusivity in economic growth implies the equitable distribution of benefits to all sections of society, irrespective of socio-economic and demographic differences. Consequently, inclusive growth means participation and benefit-sharing (Ramos & Ranieri, 2013; Mesagan & Dauda, 2016).

Theoretical Framework

Two major economic theories, the Neoclassical Growth Theory and the Endogenous Growth Theory, are relevant to the study. The neoclassical growth theory, also known as the Solow-Swan or exogenous growth model, is a long-run economic model developed within the neoclassical economics framework. The Solow growth model provides a foundation for understanding the factors that drive economic growth, including technological advancement, population growth, and capital accumulation. However, the effects of external debt on this model, through the debt overhang and debt crowding out hypotheses, suggest that unsustainable levels of debt can negatively impact private investment and government spending on public goods, ultimately reducing total investment and hindering economic growth. This highlights the need for a balanced approach to debt management, which prioritises both debt repayment and public investment, to ensure sustainable and equitable growth.

In a similar vein, the endogenous growth theory, an extension of the neoclassical growth model, focuses on the role of endogenous factors, such as investment in human capital, in driving long-term economic growth. Unlike the neoclassical model, the endogenous growth theory highlights the potential of human capital development and technological progress to stimulate economic growth. This theory suggests that government policies can have a positive impact on economic growth by promoting investment in human capital, research and development, and trade openness, which in turn increases productivity and technological progress. However, the study will anchor its theoretical framework on the endogenous growth theory, which is an extension of the Solow growth model.

Empirical Literature

Numerous studies, including Bassey and Onwioduokit (2013), Ekpo (2024), have been conducted on this topic, with various authors offering different perspectives on the nexus between fiscal deficit and economic growth in Nigeria. However, despite this extensive body of literature, no previous studies have specifically focused on the interplay between fiscal deficits and inclusive economic growth in Nigeria. Aero *et al.* (2018), in investigating the effects of fiscal deficits on Nigeria's economic growth from 1981-2014, using the threshold autoregressive model, found that there existed a significant positive relationship between economic growth and the regressors – capital, labour, inflation rate, and trade openness. On the other hand, the study found that a significant negative relationship exists between fiscal deficits, financial depth and economic growth in Nigeria. The study established a threshold level of 5% which is conducive for economic growth at a lag of 1 year, for the Nigerian economy. The study recommends that the government should increase capital spending and ensure that an optimal fiscal deficit bracket level of 5% is maintained.

Similarly, Toriola *et al*. (2022) further corroborated Aero *et al.'s* (2018) view when they investigated fiscal stability and inclusive growth in Nigeria using ARDL on annual data from the Central Bank of Nigeria Statistical Bulletin from 1985 to 2015. The result of the short shows that the debt ratio and inflation have a significant negative effect on inclusive growth in Nigeria. However, in the long run, according to the result of their ARDL, the debt ratio has a significant negative effect on inclusive growth. Fiscal deficit and inflation have a significant positive effect on growth. It was evident from the result that fiscal stability in Nigeria is characterised by policy inconsistency and a high level of macroeconomic uncertainty, indicating a level of fiscal instability. To them, therefore, the government need to reduce the size of its deficits, broaden the revenue base by increasing the contribution from non-oil sources.

Furthermore, Angbas *et al*. (2018) in their study titled Can fiscal deficit promote inclusive and Sustainable growth in Nigeria: evidence from the data using a co-integration analysis and a Pairwise Granger causality test'' found out that there has been no long-run equilibrium relationship between government deficit spending and the rate of economic growth in Nigeria. The study also found that growth has been fueled largely by rent-seeking activities, and this has heightened the rate of unemployment in Nigeria, resulting in large-scale incidence of poverty on the one hand and growing income inequality on the other. This is the result of the non-inclusive and unsustainable nature of the country's growth, where a large proportion of the population has no access to the means of production. The result is further corroborated by the weak link in the log-linear equation results as well as a unidirectional causality between fiscal deficits and growth, unemployment on the one hand and poverty on the other. The Nigerian economic growth profile has been reported to be on the upward swing in the last decade; however, the incidence of poverty, unemployment, and income inequality has worsened, while the rate of labour force participation in productivity has declined.

To further buttress Angbas *et al.* (2018) propositions, Onwioduokit *et al.* (2019) in investigating fiscal deficit and economic growth in the West African Monetary Zone, adopting the Blundell and Bond (1998) dynamic panel system GMM and the Arellano and Bond (1991) difference GMM that accommodates potential endogeneity issues, corrects for possible serial correlation, and overcomes the potential problem of weak exogeneity of instruments in the model to analyse the dynamic effect of deficit and other macroeconomic fundamentals on growth. The finding reveals that apart from broad money supply, other variables met the theoretical *a priori* expectation and significantly impacted real GDP growth in the zone. Importantly, fiscal deficit was found to exert an adverse (but weak) effect on growth in the zone –a result that is not too surprising given the large, growing, and unsustainable levels of fiscal deficits that seemingly characterised the fiscal operations of member countries of the zone in the period under review. They therefore recommended that the government of WAMZ should adhere conscientiously to the fiscal deficit criterion (which is an integral part of the WAMZ convergence criteria). This will help to ensure a more sustainable level of fiscal deficit and eliminate the negative effect of deficit on growth for the economies in the zone.

The nexus between fiscal deficit and economic growth can be seen in the work of Zulfiqar (2018), who examined the role of fiscal policy in plummeting poverty and inequality, generating productive employment and attaining broad-based, inclusive economic growth for Pakistan using secondary data. However, the influence of government expenditure as well as taxes was examined using Vector Autoregressive (VAR) models. Their elasticity was estimated based on the impulse response function result between 1980-2015. The outcome of the analysis showed that fiscal policy is not a significant variable in promoting broad-based, inclusive economic growth in Pakistan. In the related development, Afolabi (2020) investigated the effect of financial inclusion on inclusive growth in Nigeria, covering the period of 1981 to

2017, and adopted the Auto-Regressive Distributed Lag (ARDL) model, using annual time series data from the CBN statistical bulletin and World Development Indicators (WDI). The variables adopted include: rural loan, number of bank branches, money supply-GDP ratio, private sector credit to GDP ratio and GDP per capita. The study found that financial inclusion, in the form of rural loans, the number of bank branches and the level of liquidity have a positive and significant effect on inclusive growth in the short and long run, while interest rate impedes inclusive growth.

More so, Adediran *et al.* (2017) investigated the interaction between monetary policy shocks and inclusive growth in Nigeria. The study adopted the Vector Auto-Regressive (VAR) model in its analysis, and the findings of the study show that monetary policy promotes inclusive growth, stabilises inflation and ensures macroeconomic stability. Similarly, Oluseye and Gabriel (2017) provided an empirical analysis of the relationship between inclusive growth and its determinants using annual time series data from 1981 to 2014. Using the autoregressive distributed lag model (ARDL) and error correction model, the study investigated the existence of a long-run relationship among the variables adopted in the study. The study found that an inverse relationship exists between government consumption, education expenditure and inclusive growth in Nigeria within the period of analysis. The study further showed that inflation and population growth positively impacted inclusive growth. Based on the findings, the study recommended that to achieve inclusive growth, appropriate steps should be taken to increase the inflow of foreign direct investment.

In Abiodun's (2022) work, he examined the direction of causality between financial sector development and inclusive growth using panel data of 32 countries in sub-Saharan Africa (SSA) between 2000 and 2019. Findings from Dumitrescu-Hurlin panel causality test revealed that the panel of SSA's countries and two other sub-regions (West and South African sub-regions) indicate unidirectional causality, while the other two (East and Central African) show evidence of no causality. Likewise, the study observes some variations at the country-specific level where 24 out of the 32 countries selected displayed evidence of no causality, and 8 countries demonstrated evidence of unidirectional causality. Thus, the study concludes that both inclusive growth and financial sector development are too weak to cause each other in most SSA countries since bi-directional causality is nonexistent. In a related investigation, Ekpo and Udoh (2022) conducted a study analysing the relationship between fiscal policy, measured by tax, and economic growth in Nigeria. Using time series data from 1980 to 2019 and the Ordinary Least Squares (OLS) technique, they found an inverse relationship between fiscal policy and economic growth. This study highlights the importance of fiscal policy in driving economic growth and suggests that a well-managed tax system may be a key factor in promoting economic development in Nigeria.

Similarly, Ekpo (2024) examined the fiscal deficit, inflation and economic growth nexus in Nigeria from 1981 to 2022. A set of macroeconomic variables, including GDP growth, CPI inflation, fiscal deficit as a ratio of GDP, gross fixed capital formation as a ratio of GDP, labour force participation rate, exchange rate and financial deepening, were used in the study with various econometric techniques deployed for empirical analysis. Auto-Regressive Distributed Lag (ARDL) bounds test was used to investigate the short-run and long-run relationship between the variables of interest, Threshold Auto-Regressive model was utilized to locate the optimal fiscal deficit and inflation thresholds that stimulate economic growth in Nigeria, The study revealed the following as the major findings: a positive, though statistically insignificant long-run relationship between fiscal deficit and inflation rate in Nigeria, a strong inverse relationship between inflation and economic growth in Nigeria, as well as a positive long-run relationship between fiscal deficit and economic growth in Nigeria. Further, the study

established optimal fiscal deficit and inflation thresholds at 2 per cent and 13 per cent, respectively.

METHODOLOGY

Research Design

This research employs both descriptive and quasi-experimental approaches for data analysis. The descriptive approach involves analysing the trends and stylised facts of fiscal deficit and inclusive economic growth, providing context and background information. The quasi-experimental approach integrates theoretical considerations with empirical observations, allowing for a more balanced analysis. The chosen timeframe spans 41 years from 1981 to 2022, providing a substantial period for studying the long-run relationship between fiscal deficit and inclusive economic growth. This extended timeframe enables the detection of patterns and trends, providing a comprehensive understanding of the interplay between these key economic indicators. To achieve the study's objective, an inclusive growth index was computed using a theoretical model based on the works of Mckinley (2010) and Paramasivan et al. (2014) and This model was used to identify and select a set of inclusive growth indicators, including life expectancy, control of corruption, GDP per capita, unemployment rate, government expenditure on education, electric power consumption, number of bank branches, credit to SMEs, financial sector efficiency, and personal income share in national income (GDP).

Data for the identified inclusive growth variables were collected and used to compute an inclusive growth index through principal component analysis in E-View 9. This approach generated a single value that represents the overall inclusive growth index for Nigeria. The inclusive growth index provides a comprehensive measure of economic development that includes a range of indicators beyond traditional measures of GDP. By taking into account factors such as health, corruption, access to financial services, and distribution of income, the index can provide a more complete picture of the extent to which a country's economic growth is inclusive and benefits all members of society.

Thus:

$$IGI_t = \frac{LEXP + CONCOR + GDPPC + EMP + GOVEXE + EPC + NBB + CTS + FSE + PIS}{IGI_{t-1}}$$

Using data from the World Bank's 2021 indicators, with 1981 as the base year, data for the ten variables were collected and aggregated for each of the years studied. This data was then divided by the base year data using principal component analysis in E-View 9. The computation reveals that the Inclusive Growth Index (IGI) for 1981 (the base year) is -2.23. As the Inclusive Growth Index ranges from 0 to 1, a value close to zero indicates that growth is not inclusive, while a value closer to one suggests that growth is more inclusive.

Model Specification:

Following the theories and the empirical literature reviewed, the model specification for this study is:

Inclusive Growth (IGI) and Fiscal Deficit Model is Specified as:

$$IGI = f(FB) \quad (1)$$

Equation 1 suggests a direct relationship between fiscal deficit and inclusive growth index (IGI). However, it is important to consider the impact of other variables on IGI, such as inflation rate, exchange rate, investment (INV) and population growth (POPg). These variables, from both the demand and supply sides of the economy, have been identified as key variables influencing inclusive economic growth. Equation 2 incorporates these variables into the analysis of IGI, modifying the previous equation. More so, it is appropriate to include in the empirical model the reform variables that also influence inclusive economic growth, like broad money supply growth rate (BMS), which serves as an indicator of the level of economic activity and is often used to monitor the effects of monetary policy on inflation and interest rates. The impact of BMS on IGI is particularly significant as it reflects the level of economic activity, inflation, and interest rates. Similarly, INV captures the changes in capital stock, which can influence inclusive economic growth. POPg also represents a significant factor affecting the IGI, as it reflects population changes.

$$IGI_t = f(BMS, EXR, INF, INV, POPg, FB)_t \quad (2)$$

Where:

BMS =Broad money supply growth rate, EXR= Exchange rate (depreciation), INF = Inflation rate
INV = Gross fixed capital formation as a ratio of GDP as a proxy for growth in capital stock
POPg = Population growth rate (labour), FB = Fiscal deficit

The econometric form of Equation 3.2 now becomes:

$$IGI_t = a_0 + a_1 BMSt + a_2 EXR_t + a_3 INF_t + a_4 INV_t + a_5 POPg_t + a_6 FB_t + Vt \quad (3)$$

Where; a_0 is the constant of regression, a_1 to a_6 are the parameter estimates of the explanatory variables to capture their direction and magnitude of effect on inclusive growth, and vt is the stochastic term.

The *a priori* expectation is that $a_1 > 0$; $a_2 < 0$, $a_3 < 0$; $a_4 < 0$; $a_5 > 0$; $a_6 > 0$;

The following ARDL representation of Equation 3 will be estimated to test the existence of long run relationship between inclusive economic growth and fiscal deficit as given in Equation 4

$$IGI_t = \beta^i_o + \sum_{i=1}^{k} \beta^i_1 \Delta BMS_{t-1} + \sum_{i=1}^{k} \beta^i_2 \Delta EXR_{t-1} + \sum_{i=1}^{k} \beta^i_3 \Delta INF_{t-1} + \sum_{i=1}^{k} \beta^i_4 \Delta INV_{t-1} + \sum_{i=1}^{k} \beta^i_5 \Delta POPg_{t-1} + \sum_{i=1}^{k} \beta^i_6 \Delta FB_{t-1} + \sum_{i=1}^{k} \beta^i_7 \Delta IGI_{t-1} + \beta^i_8 BMS_{t-1} + \beta^i_9 EXR_{t-1} + \beta^i_{10} INF_{t-1} + \beta^i_{11} INV_{t-1} + \beta^i_{12} POPg_{t-1} + \beta^i_{13} FB_{t-1} + + \delta t \quad (4)$$

Once the co-integrating relationship is established, the short run dynamics are also analysed and the error correction model representation of the ARDL model is specified in Equation 5 below:

$$\Delta IGIt = \beta^i_o + \sum_{i=1}^{k} \beta^i_1 \Delta IGI_{t-1} + \sum_{i=1}^{k} \beta^i_2 \Delta BMS_{t-1} + \sum_{i=1}^{k} \beta^i_3 \Delta EXR_{t-1} + \sum_{i=1}^{k} \beta^i_4 \Delta INF_{t-1} + \sum_{i=1}^{k} \beta^i_5 \Delta INV_{t-1} + \sum_{i=1}^{k} \beta^i_6 \Delta POPg_{t-1} + \sum_{i=1}^{k} \beta^i_7 \Delta FB_{t-1} + \mu M_{t-1} + \delta_t \quad (5)$$

Procedure for Data Collection

The analysis in this study uses annual data for the period 1981 to 2022 to evaluate the research objective. It exclusively leverages secondary data obtained from multiple reputable sources, including the Central Bank of Nigeria Statistical Bulletin (CBN, 2022), Central Bank of Nigeria (CBN) Annual Reports and Statements of Accounts spanning various years, and publications

from the World Development Indicators (WDI, 2022) and the National Bureau of Statistics (NBS,2022). The timeframe for data collection is deemed to have ensured a comprehensive overview of the interconnection between fiscal deficit and inclusive economic growth in Nigeria.

Model estimation procedure

The ADF and PP unit root tests were adopted to determine the order of integration. Co-integration test was used to determine the existence of a long-run equilibrium relationship (Gujarati & Porter, 2009). If the order of integration of the time series variables is of order one (i.e., I (1)), then Johansen co-integration test is suitable; but if the order of integration is a combination of order zero and one (i.e., I(0) and I(1)), ARDL-bounds co-integration test procedure is suitable. This study used both the Johansen and ARDL tests for co-integration. ARDL was used for inclusive growth and trade, and Error correction mechanism was used for the equation. The analytical software of the study is E-Views 9 software.

EMPIRICAL RESULTS AND DISCUSSION

Table 1a Descriptive Statistics

	IGI	BMS	EXR	INF	INV	POPG	FB
Mean	4.23E-17	22.32451	115.6556	18.94662	8.287706	2.612335	-1.530407
Median	-0.930000	17.49963	114.8990	12.94178	8.123488	2.594856	-1.911498
Maximum	3.410000	87.76135	425.9792	72.83550	15.63972	3.002988	5.857085
Minimum	-2.270000	-0.794167	0.617708	5.388008	1.501513	2.380007	-6.526412
Std. Dev.	2.090555	17.78082	119.1827	16.45496	3.926266	0.126263	2.829048
Skewness	0.357325	1.552694	1.025345	1.877082	0.048176	0.712649	0.731411
Kurtosis	1.426245	6.001165	3.230143	5.437063	1.898894	3.908412	3.437205
Jarque-Bera	5.227999	32.63825	7.452019	35.05778	2.138007	4.999199	4.079241
Probability	0.073241	0.000000	0.024089	0.000000	0.343350	0.082118	0.130078

Table 1b Corelation Matrix

	IGI	BMS	EXR	INF	INV	POPG	FB
IGI	1						
BMS	0.033	1					
EXR	0.063	0.107	1				
INF	0.097	0.142	-0.106	1			
INV	-0.291	0.216	0.165	-0.043	1		
POPG	0.344	-0.125	-0.227	-0.229	-0.222	1	
FB	0.083	0.105	-0.130	-0.146	-0.370	0.337	1

Presentation of Descriptive Data

Descriptive Statistics and Matrix of Correlations

Table 1a presents the descriptive statistics of the variables used in the study, which are inclusive growth index, broad money supply growth rate, exchange rate, inflation rate, gross fixed capital formation (INV), population growth rate, and fiscal deficit as a percentage of GDP over the sample period 1981 -2022. IGI, on average, had a dismal 4.23E-17.94 per cent. The inclusive growth indicator suggests that Nigeria's economy is experiencing almost no inclusive growth

at all, which can have several implications. This low value can suggest that a large portion of the population is not benefiting from economic growth, potentially leading to income inequality and poverty with moderate volatility as revealed by the standard deviation of 2.09 per cent. Further, with a mean value of 4.23E-17 and a standard deviation of 2.09, the distribution of inclusive growth across the country is not only extremely low but also highly variable, meaning that some regions or sectors may experience more or less inclusive growth than others. A mean value of. This is supported by the fact that the mean value is greater than the median, indicating that the economy witnessed a positive skewness.

A broad money supply growth rate of 22.32451% on average, with a median of 17.49963% and a standard deviation of 17.8%, is indicative of a high degree of volatility in the Nigerian economy. The high volatility of the money supply suggests that the economy is prone to rapid fluctuations in the levels of credit and liquidity, which can have several implications. A mean of 22.32451% and a median of 17.49963% for broad money supply growth rate in Nigeria indicate that the money supply has been growing at a high rate on average, but there may be a significant dispersion in growth rates across different periods. On average, the exchange rate was ₦115, which was highly volatile given the standard deviation of ₦120.6. The median value is less than the mean, indicating that the naira was highly undervalued compared to the average.

An average inflation rate of 18.94662% and a median of 12.94178%, with a high standard deviation of 16%, suggests that Nigeria has been experiencing high levels of inflation with significant volatility. Again, the mean value is greater than the median value of inflation, suggesting that the distribution of inflation rates over time is positively skewed, meaning that the majority of inflation rates have been below the average rate, while a few exceptionally high inflation rates drive up the average. This could be interpreted as a sign of persistent but volatile inflation, with a few periods of high inflation offset by more frequent periods of lower inflation. It could also suggest that the inflationary pressures in the economy are generally persistent but occasionally exacerbated by external shocks, such as currency devaluation or natural disasters. On average, gross fixed capital formation (GFCF) as a percentage of GDP in Nigeria was found to be 8.2%, with a relatively high standard deviation of 3.9%, indicating significant fluctuation in investment spending during the period under study. The positive skewness of the investment data implies that a significant proportion of investment expenditure was concentrated in a few,

high-value investments, or that a large number of small investments outweighed a smaller number of large investments.

A mean population growth rate of 2.612335%, with a median of 2.594856% and a low standard deviation of 0.126%, suggests that Nigeria has been experiencing steady population growth over time, with a relatively narrow range of variation. A higher mean than median population growth suggests that the distribution of population growth rates is skewed, with a few periods of high growth driving up the average. This could be due to several factors, such as periods of increased fertility, immigration, or improvements in public health. On average, fiscal deficit as a percentage of GDP recorded a value of 1.5%, exhibiting relative stability throughout the period, as indicated by a standard deviation of 2.86%. The mean value being higher than the median value implies that government expenditure has consistently exceeded government revenue by a substantial margin, perhaps due to increased spending on social investment programs and security. This suggests that GDP growth might not have kept pace with the growth in government spending.

Most of the variables in the study, such as inflation (INF), fiscal deficit (FB), exchange rate (EXR), and population growth rate (POPg), are found to be leptokurtic in their distribution, with kurtosis estimates greater than three (3). The kurtosis results for inclusive growth index (IGI) and investment (INV), however, are less than three (3), indicating a platykurtic distribution. This suggests that most observations for these variables lie close to their averages,

with fewer extreme values. The leptokurtic distribution of most variables indicates that the economy is not experiencing large fluctuations in key economic indicators, suggesting that the economy is relatively stable and less prone to extreme shocks. This scenario can be positive for policymakers, as it facilitates more accurate forecasting and planning. However, the platykurtic distribution of IGI and INV may reflect a greater degree of variability in these variables, which could indicate a less predictable economic environment. The Jarque-Bera test confirms the normality of most variables in the distribution, except fiscal deficit (FB) and investment (INV).

Correlation Matrix Results.

Correlation analysis was employed to measure the degree of linear association between the variables in the model. Table 1b displays the correlation coefficients, indicating that the strongest relationship exists between investment and fiscal deficit, while the weakest link is observed between inclusive growth index and broad money supply growth rate. The remaining correlations fall within the range of 0.043 to 0.34, indicating an acceptable level of association to avoid the issue of multicollinearity. Analysis of the correlation coefficients reveals that all explanatory variables, except investment, have positive associations with the dependent variable, the inclusive growth index. These results suggest that increases in inflation, exchange rate, population growth rate, and fiscal deficit are associated with higher inclusive growth, while higher broad money supply growth rate and investment are associated with lower inclusive growth. These results provide initial insights into the relationship between the variables in the model and the dependent variable, providing a foundation for further analysis and interpretation using more sophisticated statistical techniques.

Unit Root Test

While the Autoregressive Distributed Lag (ARDL) approach does not require unit root testing before model estimation, this analysis performed the Augmented Dickey Fuller (ADF) test as expressed in Table 2a to investigate the presence of a stationary trend in the time series. However, considering the possibility of structural changes that could bias the ADF test, the Phillips-Perron (PP) test was also conducted, which takes into account the presence of structural breaks at unknown points in time. This endogenised approach provides more robust results for stationarity, improving the accuracy of the subsequent cointegration analysis.

Table 2a: ADF unit root test results.

Variable	ADF Statistic	ADF Statistic	Integration Order
	At Level	At 1st Difference	
FB	-4.762859***	_____	I(0)
INF	-3.844173**	_____	I(0)
IGI	-2.935001	-3.605593***	I(1)
BMS	-2.935001**	--------	I(0)
EXR	2.953701**	_____	I(0)
INV	-3.666358**	_____	I(0)
POPg	-2.951125	--3.615588***	I(1)

Source: Authors' Computation (2024), Using E-Views 12

Note: *** significant at 1%, **significant at 5%, -4.192337 and -3.520787 are critical values at level for 1% and 5% respectively, while -3.600987 and -2.935001 are critical values at first difference for 1% and 5% respectively.

Table 2b: Phillips -Perron unit root test results

Variable	ADF Statistic	ADF Statistic	Integration Order
	At Level	At 1st Difference	
FB	-4.745708***	____	I(0)
INF	-2.998964**	____	I(0)
IGI	-2.935001	-3.605593***	I(1)
BMS	-2.935001 **	-----	I(0)
EXR	3.359016**	____	I(0)
INV	-2.224082	-12.76825***	I(1)
POPg	-2.935001**		I(0)

Source: Authors' Computation (2024), Using E-Views 12

Note: ***Significant at 1% , **significant at 5%, -3.596616 and -2.933158 are critical values at level for 1% and 5% respectively, while -3.600987 and -2.935001 are critical values at first difference for 1% and 5% respectively.

Analysis of the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests shows that while there are some differences between the results, a trend emerges regarding the stationarity of the variables. According to the ADF test, all variables except fiscal deficit as a percentage of GDP (FB), inflation rate (INF), broad money supply growth rate (BMS), gross fixed capital formation as a ratio of GDP (INV), and exchange rate (EXR) failed to be stationary at level, but passed the test for stationarity in first difference form.

The PP test, on the other hand, found that all variables except FB, INF, population growth rate (POPg), BMS, and EXR were non-stationary at level form, indicating that IGI and INV were stationary in first difference form. The PP test results, presented in Table 2b, provide valuable information about the stationarity properties of the time series, allowing us to make more informed decisions when modelling the relationship between the inclusive growth index (IGI) and the explanatory variables. By accounting for structural breaks, the PP test avoids the potential biases that can arise from the ADF test in the presence of structural changes, leading to more accurate and reliable results. The use of both the ADF and PP tests demonstrates the importance of employing multiple approaches in econometric analysis to account for different types of potential biases and ensure the robustness of the model. The discrepancy between the ADF and PP test results suggests the possibility of structural breaks in the data, which may influence the stationarity of the variables. Therefore, the results of the PP test were adopted for further analysis.

Table 3: VAR Lag Order Selection Criteria
Endogenous variables: IGI BMS EXR INF INV POPG FB

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-736.6763	NA	2.35e+08	39.14086	39.44252	39.24818
1	-562.3780	275.2077	336318.1	32.54621	34.95950*	33.40484
2	-521.5697	49.39954	679751.3	32.97735	37.50226	34.58728
3	-430.7509	76.47899*	172517.2	30.77636	37.41290	33.13759
4	-314.7979	54.92509	46884.82*	27.25252*	36.00068	30.36505*

* indicates lag order selected by the criterion
Source: Researchers' computation (2024), using E-Views 9.

Lag Length Selection

The determination of the appropriate autoregressive lag length is crucial in establishing an accurate ARDL model. As shown in Table 3, various lag length selection methods were applied to determine the optimal lag. The lagrange multiplier (LR), final prediction error (FPE), Akaike information criterion (AIC), Hannan-Quinn (HQ), and Schwarz information criterion (SIC) tests were performed on lag lengths of 1, 3, and 4, which resulted in a wide range of suggested lag lengths. After considering the sample size of 42 observations and the tendency of various tests to underestimate the optimal lag, the AIC was chosen as the preferred method, as it indicates a lag length of 4. The choice of AIC ensures that the model avoids potential underestimation of the lag length, providing a greater likelihood of achieving the correct lag duration. In the ARDL model, the selection of the appropriate lag length is a critical step that determines the model's accuracy and stability, and thus influences the reliability of the results.

Co-integration Test Results

From the bound testing result reported in Table 4, a long-run relationship exists amongst the variables in all the estimated equations, given that the value of the F-statistic is greater than the critical values at the five per cent level in both the upper and the lower bounds. Therefore, the null hypothesis of absence of co-integration is rejected, while the study proceeds to estimate the long-run coefficient of each of the equations.

Table 4: Co-Integration Test Results

			5% critical value		
Equations	**K**	**F-Stat**	**I (0)**	**I (1)**	**Outcome**
IGI (EXR, FB, INF, INV, POPG, BMS,)	6	4.14	2.27	3.28	Co-integration

Note: K =number of parameters
Source: Researchers' computation (2024), using E-Views 9.

Long Run Coefficient of Inclusive Growth Index and Fiscal Deficit Equation Results

Table 5a: Long-run coefficients of the inclusive economic growth and fiscal deficit equation

Dependent variable: IGI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BMS	0.039500	0.011167	3.537030	0.0095
EXR	0.002471	0.003210	0.769888	0.4665
INF	-0.108477	0.029916	-3.626081	0.0084
INV	0.088395	0.073458	1.203341	0.2680
POPG	-9.995368	4.815147	-2.075818	0.0766
FB	0.353634	0.136464	2.591405	0.0359
C	24.41314	12.91743	1.889938	0.1007

Source: Researchers' Computation (2024) from Eview 9.

The results of the long-run relationship, as shown in Table 5a, reveal that most of the variables are consistent with economic theory, with a few notable exceptions. A positive and statistically significant relationship was observed between fiscal deficit (FB) and inclusive growth index (IGI), indicating that a one percentage point increase in fiscal deficit will lead to a 0.35 per cent increase in IGI. The exchange rate (EXR) displayed a long-run positive relationship with IGI, but it was not statistically significant, indicating that a 1 per cent depreciation of the Naira will only increase IGI by 0.002 per cent in the long run. Broad money supply growth rate (BMS) displayed a positive and statistically significant relationship with IGI, suggesting that a 1 percentage point increase in BMS will cause a 0.0395 per cent increase in IGI, holding all other factors constant. In contrast to the positive relationship observed between BMS and IGI, the inflation rate (INF) exhibited a negative and significant relationship with IGI, signifying that a 1 percentage point increase in inflation will result in a 0.108 per cent decrease in IGI in the long run. The relationship between investment rate (INV) and IGI was found to be positive but statistically insignificant, implying that a 1 percentage point increase in INV will only lead to a 0.088 per cent increase in IGI in the long run.

Despite prevailing economic theories predicting a positive relationship between population growth rate and inclusive economic growth, the negative and significant relationship between population growth rate (POPg) and inclusive growth index (IGI) in Nigeria suggests a divergence from *a priori* expectations. This observed relationship could be explained by the persistent rise in unemployment rates across the country, resulting in a supply-demand mismatch in the labour market. A growing labour force without adequate job opportunities leads to downward pressure on economic growth, as the productive potential of the unemployed is not utilised. Moreover, inadequate staff training and skills development have hindered the productivity and efficiency of the workforce, resulting in inefficiencies within the labour market. In the absence of sufficient investment in human capital development, the labour force's potential contributions to economic growth remain unrealised, further exacerbating the negative relationship between population growth rate and inclusive growth.

These findings highlight the complex interplay of factors influencing the relationship between population growth rate and economic growth, challenging the traditional understanding of this relationship in the Nigerian context. This analysis suggests that a range of economic factors, including fiscal policy, monetary policy, exchange rate, inflation, and population growth, can have significant long-run effects on inclusive growth in Nigeria, with the effects varying in magnitude and direction.

Short Run Coefficient of Inclusive Growth Index and Fiscal Deficit Equation Results

Table 5b: Short-run coefficients of inclusive growth and fiscal deficit equation
Dependent variable: IGI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(IGI(-1))	-2.005482	0.265493	-7.553817	0.0001
D(IGI(-2))	-1.744525	0.259938	-6.711324	0.0003
D(IGI(-3))	-0.645897	0.187064	-3.452821	0.0107
D(BMS)	0.021055	0.002944	7.152329	0.0002
D(BMS(-1))	0.046450	0.006374	7.286946	0.0002
D(BMS(-2))	0.018080	0.004642	3.895236	0.0059
D(EXR)	-0.001556	0.002258	-0.689228	0.5129
D(EXR(-1))	-0.009073	0.002316	-3.917340	0.0058
D(EXR(-2))	-0.012240	0.002482	-4.930764	0.0017
D(EXR(-3))	-0.017239	0.003430	-5.025327	0.0015
D(FB)	-0.121575	0.016289	-7.463727	0.0001
D(INF)	0.017803	0.003047	5.842270	0.0006
D(INF(-1))	-0.043558	0.006507	-6.694531	0.0003
D(INF(-2))	-0.026063	0.004709	-5.534659	0.0009
D(INF(-3))	-0.016754	0.003787	-4.424581	0.0031
D(INV)	-0.117758	0.018051	-6.523615	0.0003
D(INV(-1))	-0.155765	0.019211	-8.108107	0.0001
D(INV(-2))	-0.229794	0.026053	-8.820120	0.0000
D(INV(-3))	-0.107918	0.025980	-4.153803	0.0043
D(POPG)	13.18073	1.726400	7.634806	0.0001
D(POPG(-1))	8.449016	1.162077	7.270618	0.0002
D(POPG(-2))	6.206164	0.941178	6.594042	0.0003
D(POPG(-3))	0.931684	0.518570	1.796639	0.1155
CointEq(-1)*	-0.630314	0.077365	8.147222	0.0001
R-squared	0.929018	Adjusted R-squared		0.812404

Source: Researchers' Computation (2024) from Eview 9.

The short-run dynamics of the inclusive growth index and fiscal balance equation, as shown in Table 5b, suggest the following relationships:

1. Exchange rate (EXR) displayed a negative and significant relationship with inclusive growth index (IGI) in all lagged periods, implying that depreciation of the Naira negatively impacts IGI in the short run.
2. Broad money supply growth rate (BMS) exhibited a positive and significant relationship with IGI in all lagged periods, indicating that increased money supply contributes to inclusive growth in the short term.
3. Fiscal balance (FB) showed a negative and significant relationship with IGI in the current period, suggesting that an increase in fiscal deficit (increase in FB) results in a reduction in IGI in the short term.

4. Inflation rate (INF) demonstrated a positive relationship with IGI in the current period, but a negative and significant relationship in all lagged periods, implying that inflation initially has a positive effect on IGI, but it decreases inclusive growth in the subsequent periods.
5. Investment rate (INV) showed a negative and significant relationship with IGI in all lagged periods, suggesting that an increase in investment rate has a negative impact on inclusive growth in the short term.
6. Population growth rate (POPg) displayed a positive and significant relationship with IGI in all lagged periods, indicating that population growth contributes positively to inclusive growth in the short run.
7. The results reveal that the estimated lagged error Correction mechanism (ECMC-1) is negative and highly significant at one per cent. This is consistent with the cointegration among the variables represented by Equation 3.5. The feedback coefficient is -0.63, suggesting a high speed of adjustment to equilibrium after a shock. Approximately, 63 per cent of the disequilibrium from the previous year's shock converges to the long-run equilibrium in the current year. R-squared value of 0.93 and the value of R-squared adjusted of 0.81 indicates that about 93 per cent of variation in the IGI is explained by current, one, two and three period lag of exchange rate, fiscal deficit, inflation rate, investment, population growth rate, and broad money supply growth rate, and about 7 per cent was unexplained which may be accounted for by other factors not included in the model

These relationships provide valuable insights into the short-run dynamics of the economy, highlighting the complex interplay of various economic factors in influencing inclusive growth.

Diagnostic Test Results

To ensure that some of the assumptions of the classical linear regression model are met, diagnostic tests are imperative to perform as presented in Table 4.6

Table 6: Diagnostic tests

TEST TYPE	STATISTIC	VALUE	PROBABILITY	REMARKS
Normality	Jarque-Bera	0.375509	0.8288	Normally distributed residuals
Serial correlation (LM)	F-Statistic	0.756310	0.5638	No serial correlation
Heteroskedasticity (ARCH)	F-Statistic	1.183974	0.3414	No heteroskedasticity

Source: Authors' Computation (2024)

Table 6 presents the results of the residual diagnostic tests. The residuals were found to be normally distributed. No serial correlation and Heteroskedasticity were observed in the equation. The overall model was well specified, implying that the estimates are reliable and, consequently, can be relied upon for policy formulation purposes.

Discussion of Findings

The long run and short run equations revealed that all the variables are in tandem with the economic theory, except exchange rate depreciation and population growth rate. In other words, the growth rate of broad money supply, inflation rate, investment and fiscal deficit have expected signs in the long run. While in the short run, fiscal deficit revealed a negative relationship, exchange rate depreciation displayed a negative relationship in all the lagged periods. This was in agreement with the *a priori* expectation. Inflation disclosed a positive relationship in the current period, but a negative and significant relationship in all lagged

periods, implying that inflation initially has a positive effect on IGI, but it decreases inclusive growth in the subsequent periods.

Investment exhibited a negative relationship with IGI in all lag periods, which, of course, contradicts the economic theory; population growth rate manifested a positive relationship with IGI in all lag periods. This corroborates *a priori* expectation. Noticeably, a positive and statistically significant relationship was observed between fiscal deficit (FB) and inclusive growth index (IGI), indicating that a one percentage point increase in fiscal deficit will lead to a 0.35 per cent increase in IGI. This is in line with the views of Adediran *et al*. (2017), Angbas *et al.* (2018), Onwioduokit *et al.* (2019), and Abiodun (2022). The exchange rate (EXR) displayed a long-run positive relationship with IGI, but it was not statistically significant, indicating that a 1 per cent depreciation of the Naira will only increase IGI by 0.002 per cent in the long run. Broad money supply growth rate (BMS) displayed a positive and statistically significant relationship with IGI, suggesting that a 1 percentage point increase in BMS will cause a 0.0395 per cent increase in IGI, holding all other factors constant.

In contrast to the positive relationship observed between BMS and IGI, the inflation rate (INF) exhibited a negative and significant relationship with IGI, signifying that a 1 percentage point increase in inflation will result in a 0.108 per cent decrease in IGI in the long run. The relationship between investment rate (INV) and IGI was found to be positive but statistically insignificant, implying that a 1 percentage point increase in INV will only lead to a 0.088 per cent increase in IGI in the long run. Despite prevailing economic theories predicting a positive relationship between population growth rate and inclusive economic growth, the negative and significant relationship between population growth rate (POPg) and inclusive growth index (IGI) in Nigeria suggests a divergence from *a priori* expectations. This observed relationship could be explained by the persistent rise in unemployment rates across the country, resulting in a supply-demand mismatch in the labour market. A growing labour force without adequate job opportunities leads to downward pressure on economic growth, as the productive potential of the unemployed is not utilised.

Moreover, inadequate staff training and skills development have hindered the productivity and efficiency of the workforce, resulting in inefficiencies within the labour market. In the absence of sufficient investment in human capital development, the labour force's potential contributions to economic growth remain unrealised, further exacerbating the negative relationship between population growth rate and inclusive growth. These findings highlight the complex interplay of factors influencing the relationship between population growth rate and economic growth, challenging the traditional understanding of this relationship in the Nigerian context. This analysis suggests that a range of economic factors, including fiscal policy, monetary policy, exchange rate, inflation, and population growth, can have significant long-run effects on inclusive growth in Nigeria, with the effects varying in magnitude and direction.

Conclusion and Policy Implications.

In conclusion, the results of this study indicate a complex relationship between fiscal policy, inflation, monetary policy, exchange rate, population growth, investment rate, and inclusive economic growth. While some relationships were consistent with existing economic theory, others highlighted unexpected findings. Hence, the policy implications are: For fiscal policy, the positive long-run relationship between fiscal deficit (FB) and inclusive growth index (IGI) suggests that fiscal policy can play a significant role in fostering inclusive growth. However, the negative short-run relationship between FB and IGI indicates the need for a balance between deficit spending and long-term economic growth. For monetary policy, the positive long-run relationship between the broad money supply growth rate (BMS) and IGI highlights the importance of monetary policy in promoting inclusive growth. However, the negative short-

run relationship between inflation and IGI indicates the need for maintaining price stability to support inclusive growth.

For the exchange rate, the insignificant long-run relationship between the exchange rate (EXR) and IGI suggests that exchange rate policies may have a limited impact on inclusive growth, but the negative short-run relationship indicates that currency devaluation can have adverse effects. Fourthly, for the population growth, the negative relationship between population growth rate (POPg) and IGI highlights the need for effective policies to address unemployment and skills development, as well as the promotion of family planning and educational programs to control population growth. For the investment rate, the insignificant relationship between investment rate (INV) and IGI highlights the need for targeted investment policies to improve the effectiveness of investments in fostering inclusive growth. Overall, these findings suggest that policymakers need to take into account the complex relationships among various economic factors and the short-term and long-term implications of their policies to promote inclusive growth in Nigeria.

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