Financial Institutions and Services

Impact of Macroeconomic Policies on Poverty and Unemployment Rates in Nigeria, Implications for Attaining Inclusive Growth

Philip Nwosa[1]

Abstract: This paper examined the effect of macroeconomic policies on unemployment and poverty rates in Nigeria from 1980 to 2013 with implication to achieving inclusive growth. The inability of macroeconomic policies in addressing the rising issues unemployment and poverty rates in Nigeria despite the impressive economic growth experience over the last decades has increasingly called for the need for the pursuance of inclusive growth to address the social issues of unemployment and poverty rate. Previous studies have not considered the extent to which macroeconomic policies affects unemployment and poverty rate in Nigeria, and the implication of this relationship to the attainment of inclusive growth in Nigeria. The study adopts the Ordinary Least Square (OLS) technique. The study observed that among macroeconomic policy variables only exchange rate significantly influenced unemployment rate while only fiscal policy significantly influenced and poverty rate. This implies that present macroeconomic policies in Nigeria do not guarantee the attainment of inclusive growth in Nigeria. The contribution of the paper is that to achieve inclusive growth that guarantees high employment and reduced poverty rate, there is the need for a re-examination of macroeconomic policy management in Nigeria.

Keywords: macroeconomic policies; poverty; unemployment; inclusive growth.

JEL Classification: E24; E52; E62; I32; O40

1. Introduction

The importance of inclusive growth is increasingly being recognised and highlighted in work plans and strategies of Millennium Development Goals (MDGs) crusaders (such as International Monetary Fund (IMF), G20, European Commission and the UK's Department for International Development); due to the failure of macroeconomic policies in creating productive employment opportunities and addressing issues of poverty and income inequalities prevailing in developing countries. While macroeconomic policies have played an indispensable role in the achievements of recent impressive growth experienced by some developing counties, such recent growth patterns have bypassed important segments of the

[1] Lecturer, PhD, Department of Economics, Federal University Oye-Ekiti, Nigeria, Address: Oye-Ekiti, Ekiti State, Nigeria, Tel.: +234(0)806-243-4663, Corresponding author: nwosaphilip@yahoo.com.

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society; thereby undermining its sustainability and further entrenching existing poverty level, unemployment rates and income inequalities (Pedro and Paula, 2013)[1]. With respect to Nigeria, available data show (see Fig 1 and table 1 below) that over the past three dates (1981 to 2010), the Nigerian economy grew from an average growth rate of 0% between 1981 and 1990 to 3% between 1991 and 2000 and further to 6.5% between 2001 and 2010. Disappointedly, the average growth of the aggregate economy was accompanied by increased in the average growth of unemployment and poverty rates from 3.93% and 42.07% respectively between 1981 to 1990 to an alarming rate of 14.7% and 63.99% respectively between 2001 and 2010. Also, within this period the disparity in income distribution (measured by Gini Index) rose from 34.18 in 1980 to 42.9 in 2004 and further to 48.8 in 2013 (World Bank Indicators, 2013).

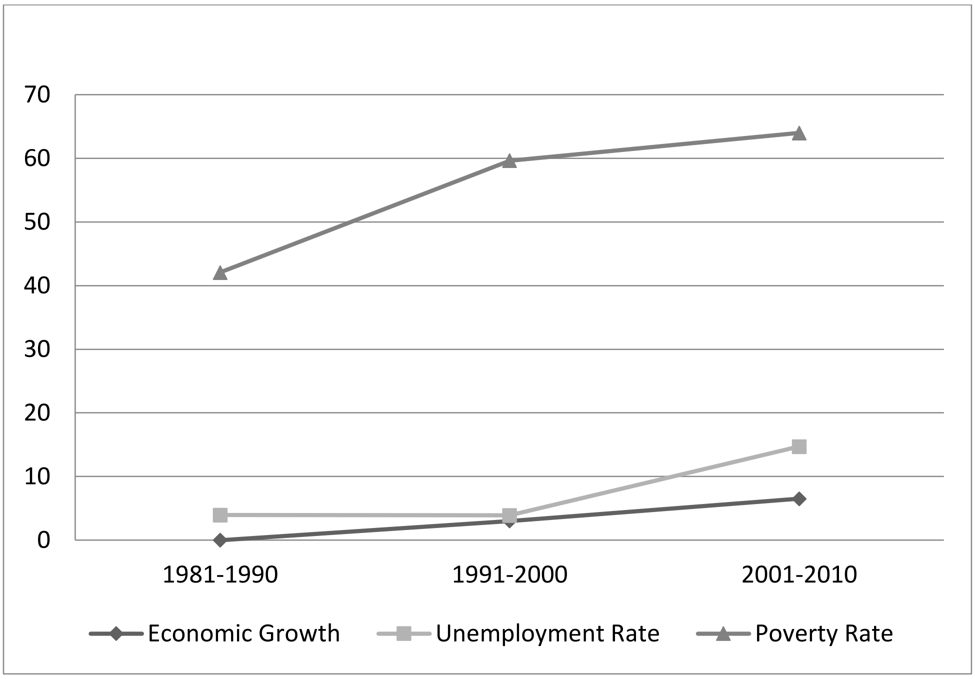

Figure 1. Average Growth Rates of Economic Growth, Unemployment and Poverty Rates (1981-2010)

Source: Authors computation using data from CBN annual reports and NBS Bulletin of various Editions.

[1] Martins (2012) noted that in Mozambique, the growth of GDP by an average rate of 8% during 2002 to 2008 was accompanied with an increase in poverty rate.

Table 1. Average Growth Rates of Economic Growth, Unemployment and Poverty (1981 to 2010)

Years	Economic Growth	Unemployment Rate	Poverty Rate
1981-1990	0	3.93	42.07
1991-2000	3	3.88	59.65
2001-2010	6.5	14.7	63.99

Source: Authors computation using data from CBN annual reports and NBS Bulletin of various Editions.

This inconsistent link of rising economic growth rates with rising unemployment, poverty and income inequality; undoubtedly demonstrate that the trickle-down effect of such growth is utterly inconsequential on the welfare of the greater Nigerian populace. The above further demonstrates that despite the notable growth rate experienced over the years, the problems of unemployment, poverty and income inequality appears a pig-headed one.

Apart from the foregoing, macroeconomic policy is also intended to achieve full employment level. Achievement of full or sustainable employment opportunities is a key dimension to wellbeing and human development; because employment is the main mechanism through economic growth translates in poverty reduction accompanied by reduction in income inequalities (Pedro and Paula, 2013). Also, employment opportunity is a major channel of addressing poverty.

While acknowledging the inestimable importance of macroeconomic policies, it is however worrisome to note that over the past decades, there is little or no evidence of a meaningful impact of such macroeconomic policy on employment and poverty rates in Nigeria. This inconsistent scenario between macroeconomic policies and unemployment and poverty rates makes it unclear on the exact empirical relationship between these variables. Against this backdrop, this seeks to empirically examine the following research question: Do macroeconomic policies affect unemployment and poverty rates in Nigeria? If yes, which of the macroeconomic policies (monetary, fiscal or trade policy) affect unemployment and poverty rate the most?

Although, empirical literature on this issue have produced inconclusive results (Holden and Sparrman, 2013), the issue is even more worrisome as previous indigenous studies have paid little or no attention to this issue. Bulk of the indigenous studies on government spending has focused on macroeconomic policy (monetary, fiscal or trade policies) and economic growth nexus (see Taiwo and Agbatogun, 2012; Bakare, 2012; Uma et al, 2013; Onakoya and Somoye, 2013) while other focused on the impact of economic growth on unemployment and poverty (see Ijaiya, Ijaiya, Bello and Ajayi, 2011; Sodipe and Ogunrinola, 2011; Oloyede, 2014). Thus, examination this issue becomes pertinent because, increasing unemployment and poverty rates can have significant negative social and economic consequences—making reforms more difficult, constraining economic growth, undermining social cohesion and stability, derailing various ongoing policy reforms (Lin et al., 2008) and even undermining the country's long term desire of achieving inclusive growth and development. Thus, without an utmost and urgent attention to this issue, it is doubtful how the Nigerian government hopes to attain the country's goal of becoming one of the top 20 economies by year 2020 (Nwosa, 2014). Also, the outcomes of this study will aid policymakers on the prudent management of macroeconomic policy in achieving inclusive growth which is pivotal to tackling unemployment, poverty and income inequality.

2. Literature Review

Barcena, Prado, Rosales and Perez (2014) examined the role of international trade in influencing inclusive development. The findings of the study showed that international trade does not automatically contribute to inclusive development. Inclusive development is observed to depend crucially on the quality of the public-private policies that direct and complement it. The study further noted that inclusive development is a type of growth that generates a more equitable labour force, production structure and society; the outcome of which depends mainly on policies that promote production convergence and institutional reforms and guarantee social protection.

Oloyede (2014) examined the effect of poverty reduction programs on economic development in Nigeria for the period 1980 to 2010. Using the Ordinary Least square (OLS) regression technique, the study observed that economic development significantly contributed to poverty reduction in Nigeria. The study recommended that government policy on poverty alleviation should follow a multi- sectoral approach where all stakeholders are given specific roles to play. Kasha (2014) examined the impact of macroeconomic variables on poverty level in Iranian. The macroeconomic variables used are economic growth, inflation, government expenditure and unemployment rate. Using the Ordinary least Square (OLS) technique, the study observed that economic growth has negative and significant effects on poverty in Iran while unemployment and inflation have positive effects on poverty. Also, social security expenditure relating to government expenditure has insignificant effects on poverty.

Nwosa (2014) examined the impact of government expenditure on unemployment and poverty rates in Nigeria for the period spanning 1981 to 2011. The study employed an Ordinary Least square (OLS) estimation technique. From the empirical analysis, the study observed that government expenditure had positive and significant impact on unemployment rate while government expenditure had a negative and insignificant impact on poverty rate. Based on the findings, this study recommended that urgent attention should be accorded to rising unemployment and high poverty rates in order to achieve objective 20-2020 and of halving poverty rate by 2015. Okungbowa (2014) examined the impact of globalization on poverty rate in Nigeria for the period 1981 to 2009. The study employed co-integration and error correction modelling techniques. The co-integration estimate showed the existence of a long run relationship between poverty rate and the explanatory variables while error correction estimate showed that globalization (proxy by trade openness) had a negative and significant effect on poverty rate in Nigeria. Thus, the study recommended the need for government to encourage globalization, by embarking on trade liberalization policies in order to accelerate and sustain industrial growth which is capable of reducing poverty rate in Nigeria.

Ogujiuba (2014) x-rayed poverty issues in Nigeria and reviewed poverty reduction measures between 2007 and 2012; and identified pertinent issues that could orchestrate MDGs targets to a stalemate; which include poor targeting of recipients' in the previous poverty reduction measures, lack of necessary infrastructure, corruption amongst others. Employing descriptive analysis, the study suggests that new poverty reduction strategies for Nigeria should be anchored on inclusive growth fundamentals, redistributive public expenditure, increasing rate of productive job creation and a broad based sectoral growth. The study recommended that growth should be broad-based, cutting across all sectors and inclusive of the large part of the workforce that poor men and women make up. Also, new strategies should encompass the key elements of benefit incidence amongst the poor population, to support Nigeria's current development agenda. Akinmulegun (2014) examined the link between unemployment and poverty in Nigeria. Using descriptive statistics - charts, percentages and ratios, the study observed that unemployment is a major cause of poverty in Nigeria. Therefore, the study recommended a structural shift in the macroeconomic policies towards employment generation.

Umaru, Donga and Musa (2013) examined the effect of unemployment and inflation on economic growth in Nigeria for the period 1986 to 2010. The study employed the Granger causality and Ordinary Least Square (OLS) regression techniques. The causality estimate showed that a unidirectional causation from unemployment and inflation to economic growth while no feedback causation was observed from economic growth to unemployment and inflation rate. The regression estimate showed that unemployment and inflation had positive impact on economic growth. Thus, the study recommended the need for a concerted effort by policy makers to increase the level of output in Nigeria by improving productivity/supply in order to reduce unemployment and inflation rate so as to boost the growth of the economy. Eneji, Mai-Lafia and Weiping (2013) examined the relationship between social policy, economic development, education and unemployment rate in Nigeria for the period 1990 to 2011.using an Ordinary Least Square, the study observed an insignificant effect of the explanatory variable on employment in Nigeria. Thus, this study recommended that agriculture and tourism should be main priority sectors for employment creation. The study also agitated for entrepreneurship, infrastructure construction for both rural and urban geography, stable polity, maximum security, sound education and health system, international partnership as well as regional economic, social and political integration.

Khalil and Ammara (2011) analyzed the determinants of poverty in Pakistan for the period 1974 to 2009. The study employed bounds testing co-integration approach. The study observed that education, unemployment and economic growth are significant determinants of poverty in Pakistan while inflation rate was insignificant in determining poverty in Pakistan. Ijaiya, et al. (2011) analyzed the impact of economic growth on poverty reduction in Nigeria for the period 1980 to 2008. The study took into account a time subscript and a difference-in-difference estimator that describes poverty reduction as a function of changes in economic growth. using an ordinary least square, the study observed that the initial level of economic growth had insignificant effect on poverty reduction while change in economic growth had significant effect on poverty reduction. Thus, the study recommended the need to ensure stable macroeconomic policies, huge investment in agriculture, infrastructural development and good governance.

Azizi, Yazdani, Aref and Taleghani (2011) examined the effect of macroeconomic policies on poverty in Iran. Specifically, the study analysed the effectiveness of government intervention on poverty groups using a general equilibrium model and the social accounting matrix of year 2002 was used to estimate the general equilibrium model. The findings of the study showed that absolute poverty line for the urban and rural regions are 3.7 and 2.4 million Rials respectively. The study further revealed that a greater percentage of Iranian households are living under the poverty line. Sodipe and Ogunrinola (2011) examined the effect of economic growth on employment in Nigeria for the period 1981 to 2006. Using an Ordinary Least Squares technique, the study observed that a positive and statistically significant relationship exists between employment level and economic growth in Nigeria while a negative relationship was observed between employment growth rate and the GDP growth rate in the economy. The study recommended the need for increased labour-promoting investment strategies that will help to reduce the high current open unemployment in Nigeria.

Agu and Evoh (2011) examined the prospects and challenges of productive employment and decent work in Nigeria within essential macroeconomic policy targets for the period 1961 to 2009. Using a recursive structural Vector Autoregressive model, the study observed that increases in monetary policy rate (MPR) to cut down on inflation have a depressing impact on the economy. This findings study does not support the assertion that a tight monetary policy coupled with a contractionary fiscal policy will engender natural rate of growth of the Nigerian economy. This is contrary to persuasive monetary policy advice for inflation targeting pursued by central banks and the International Monetary Fund (IMF). The study recommended that a more flexible inflation rate, increased money supply, access to credit and a modest but upward adjustment to capital and recurrent expenditure would have greater potential in accelerating GDP growth and for the attainment of full employment and poverty reduction in Nigeria. Mehmood and Sadiq (2010) examined the relationship between government expenditure and poverty in Pakistan for the period 1976 to 2010. Using the error correction modelling technique, the study observed that government expenditure had negative and significant impact on poverty rate both in the long run and short run.

Gillani, Rehman and Gill (2009) examined the relationship among unemployment, poverty, inflation and crime in Pakistan for the period spanning 1975 to 2007. The study employed the Johansen Co-integration and Granger Causality techniques to observe the long run and short relationship among the variables. Based on the co-integration result, the study observed the existence of a long-run relationship among unemployment, poverty, inflation and crime in Pakistan while the Granger causality estimate observed a unidirectional causality from unemployment, poverty and inflation to crime in Pakistan. Based on the above findings, the study recommends that economic growth with social and economic justice should be a key objective of the planning strategy of the Pakistan government for crime to reduce. The study also recommended that the key determinants of crime – unemployment, inequalities and economic growth should be addressed adequately by policymakers, so as to checkmate the rising rate of crime in Pakistan.

Iceland, Kenworthy and Scopilliti (2005) analyzed the impact of macroeconomic performance on poverty in the United States of America (USA) during the 1980s and 1990s. Macroeconomic performance was proxied by employment, unemployment and per capita gross state product) while poverty rate was proxied by absolute and relative poverty rate. Utilizing a multiple regression estimate, the study observed the importance of employment for poverty reduction. Specifically, the study observed that employment contributed to lower absolute and relative poverty by boosting hours worked and wages in low-income households. Also, per capita gross state product contributed to lower absolute poverty by increasing hours worked and low-end wage levels, but it had very little impact on relative poverty because it also was associated with increased wage inequality. However, unemployment had little or no effect on both absolute and relative poverty.

Amiad and Kemal (1997) examined the impact of macroeconomic policies on the poverty levels; and also analysed the impact of Structural Adjustment Programmes on the levels of poverty in Pakistan for the period 1963 to 1992. Specifically, the study examined the effect of factors - economic growth, agricultural growth, terms of trade for the agriculture sector, industrial production, rate of inflation, employment, wages, remittances, and the tax structure on poverty level. The study cautioned that on account of the limited number of observations the results of the study should be interpreted cautiously. The findings of the study suggests that at a growth rate above a threshold level of about 5 percent, increase in employment, and remittances are the most important variables explaining the change in poverty. The study also observed that policies pursued under the Structural Adjustment Programme tend to increase the poverty levels mainly because of decline in growth rates, withdrawal of subsidies on agricultural inputs and consumption, decline in employment, increase in indirect taxes, and decline in public expenditure on social services. The study recommended the need for the promotion of employment programmes and the development of informal sector enterprises, which are essential in addressing poverty.

3. Research Methodology

Although studies have acknowledged that without economic growth, the prospects for creating decent employment and reducing poverty are significantly diminished (Pedro and Paula, 2013). Nonetheless, recent findings have observed in many developing countries (Nigeria inclusive), that the link between economic performance (growth) and unemployment rate on the one hand; and between economic growth and poverty rate the other hand appear to be weak. However, empirical literatures predict that macroeconomic policies play an important role in addressing the problems of unemployment and poverty (Amiad and Kemal, 1997; Cashin, Mauro, Pattillo and Sahay, 2001; Azizi, et al., 2011)). Thus, this study seeks to examine the direct impact of macroeconomic policy on unemployment and poverty. To this end, this study specifies a simple model below to deal with macroeconomic policies, unemployment and poverty in Nigeria.

$$X_t^i = f(MP_t, Z_t) \qquad (1)$$

Where X_t is the dependent variable and i refers to unemployment (*UNE*) and poverty (*POV*) rate, MP refers to macroeconomic policies (monetary (*MON*), fiscal (*FIS*) and exchange rate (*EXH*)) and Z refers to other macroeconomic variables – economic growth (*EG*), trade openness (*OPNX*) and inflation rate (*INF*). Therefore, equation (1) becomes:

$$X_t^i = f(MON_t, FIS_t, EXH_t, EG_t, OPNX_t, INF_t) \qquad (2)$$

Linearizing equation (2) and introducing constant (β_0) and error term (ε_t) becomes:

$$X_t^i = \beta_0 + \beta_1 MON_t + \beta_2 FIS_t + \beta_3 EXH_t + \beta_4 EG_t + \beta_5 OPNX_t + \beta_6 INF_t + \varepsilon_t \qquad (3)$$

Drawing from equation (3) and with respect to the objective of this study which is to examine the impact of macroeconomic policy on unemployment and poverty; this study estimates two different models - unemployment model and poverty model. Therefore, equation (3) is re-written as:

(i) Macroeconomic Policy - unemployment Model

$$UNE_t = \beta_0 + \beta_1 MON_t + \beta_2 FIS_t + \beta_3 EXH_t + \beta_4 EG_t + \beta_5 OPNX_t + \beta_6 INF_t + \varepsilon_t \quad (4)$$

(ii) Macroeconomic Policy - Poverty Model

$$POV_t = \beta_0 + \beta_1 MON_t + \beta_2 FIS_t + \beta_3 EXH_t + \beta_4 EG_t + \beta_5 OPNX_t + \beta_6 INF_t + \varepsilon_t \quad (5)$$

Theoretically, it is expected that increase in: monetary policy (proxy by money supply); fiscal policy (proxy by government spending); exchange rate (EXH); economic growth (EG) and trade openness (OPNX) would lead to a decline in unemployment and poverty rates. This indicates that an increase in these variables should lead to a decline in poverty and unemployment rates in Nigeria. With respect to inflation rate it is expected that an increase in inflation rate would result in an increase in unemployment and poverty rates.

3.1 Data Measurement and Sources

Unemployment rate (*UNE*) is measured by the unemployment rate as provided by the National Bureau of Statistics (NBS); the poverty rate (*POV*) is measured by poverty incidence; monetary policy (*MON*) is measured by broad money supply, fiscal policy (*FIS*) is measured by aggregate government expenditure; exchange rate policy (*EXH*) is measured by the average official US Dollar/Naira exchange rate; economic growth (*EG*) is measured by the real gross domestic product; trade openness (*OPNX*) is measured by the ratio of import plus export to real gross domestic product and inflation rate (*INF*) is measured by the annual inflation rate. Data on unemployment rate and poverty rate were obtained from the National Bureau of Statistics while data on monetary policy, fiscal policy, foreign exchange policy, economic growth, trade openness and inflation rate were obtained from the Central Bank of Nigeria (CBN) statistical bulletin, 2014 edition.

4. Regression Estimate on the Impact of Macroeconomic Policies on Unemployment Rate and Poverty Rate in Nigeria

With respect to the regression estimate on the impact of macroeconomic policies on unemployment rate in Nigeria for the period 1980 to 2013, the result is presented on table 2 below. The coefficient of determination (that is R^2) showed that the explanatory variables jointly explained about 92 per cent of variations in unemployment rate in Nigeria during the study period. The F-statistics (54.12; p=0.000) showed that the model estimated is appropriate while the Durbin Watson statistics is 1.75. Furthermore, the regression estimate showed that monetary policy had an insignificant effect on unemployment rate in Nigeria. However, fiscal policy and exchange rate policy were observed to have significant influence on unemployment rate in Nigeria. This suggests that a unit increase in fiscal policy will reduce unemployment rate by 3.66 per cent while a unit increase in exchange rate policy would positively influence unemployment rate in Nigeria. In a similar fashion, a unit increase in trade openness would unemployment rate in Nigeria. For economic growth and inflation rate, these variables were insignificant in influencing unemployment rate in Nigeria.

Table 2. Regression Estimate on Unemployment Rate and Macroeconomic Policies

Independent Variables	**Coefficient**	**St. Error**	**t-Statistic**
MON	2.2353	2.3252	0.9613
FIS	-3.6551	1.7239	-2.1202
EXH	0.0826	0.0203	4.0658*
EG	0.6664	1.4288	0.4664
OPNX	1.3153	0.5059	2.6002**
INF	-0.0117	0.0232	-0.5044
R-Square	0.9259		
Adj. R-Square	0.9088		
F-Statistics	54.12		
Prob (F-Stat).	(0.000)		
D.W. Statistics	1.75		

Note: * and ** denote 1% and 5% significance level respectively.

On the regression estimate on the impact of macroeconomic policies on poverty rate in Nigeria for the period 1980 to 2013, the result is presented on table 3 below. The coefficient of determination (that is R^2) showed that the explanatory variables jointly explained about 59 per cent of variations in poverty rate in Nigeria during the study period. The F-statistics (6.302; p=0.000) showed that the model estimated is appropriate while the Durbin Watson statistics is 1.92. In contrast to the results from the regression estimate on macroeconomic policies and unemployment rate, table 5 showed that fiscal policy and inflation rate had significant impact on poverty rate in Nigeria. Thus, an increase in government spending reduces poverty rate in Nigeria while and increase in inflation rate escalates the poverty rate. Besides these two variables, other variables in the model had insignificant influence on poverty rate in Nigeria.

Table 3. Regression Estimate on Macroeconomic Policies and Poverty Rate

Independent Variables	Coefficient	St. Error	t-Statistic
MON	-7.3972	11.6567	-0.6346
FIS	-0.0524	0.0122	-4.2592*
EXH	0.0304	0.1019	0.2988
EG	3.3096	7.1627	0.4620
OPNX	-1.1431	2.5360	-4.4507
INF	0.4290	0.1297	3.3081*
R-Square	0.5925		
Adj. R-Square	0.4985		
F-Statistics	6.3010		
Prob (F-Stat).	(0.000)		
D.W. Statistics	1.92		

Note: * denotes 1% significance level.

5. Conclusion and Policy Recommendation

This study examined the impact of macroeconomic policy (monetary, fiscal and foreign exchange policy) on unemployment and poverty rates in Nigeria for the period 1980 to 2013 with implication to achieving inclusive growth. Utilizing the Ordinary Least Square technique, the study observed that fiscal policy and exchange rate policy significant influenced unemployment rate with fiscal policy having the most significant effect while fiscal policy and inflation rate influenced poverty rate in Nigeria. With respect to the focus of this study, it was discovered from the empirical analysis that fiscal policy, exchange rate policy and inflation rate significantly influenced unemployment poverty rates in Nigeria. Therefore, to achieve inclusive growth there is the need for fiscal and exchange policies to be prudently utilized to further reduce unemployment rate. Specifically, fiscal policy needs to focus on the development of productive-infrastructural facilities that are capable of enhancing production and employment opportunities. There is also the need for fiscal policy to focus on the development of the growth of the non-oil sector (such as the agricultural sector) which possesses the great employment opportunities for the rising unemployment rate in Nigeria. In addition to ensuring growth inclusiveness, at the grassroots level (that is at the local government level) there is the need for the development entrepreneurial and skill acquisition centers; and development of industrial estate with modern production infrastructural amenities, which will enable trained entrepreneurs to carry out productive activities. The development of industrial estate at the local level will create a linkage to the agricultural sector. This will also create more employment and business activities at the local government levels. Monetary policy needs to re-examine particularly in the areas of interest management that can enhance the growth of the non-oil sector by providing loans with reduced interest rates to investors. Furthermore, much is needed to be done in the areas of the growth of Small and Medium Scale Enterprises (SMEs) given the importance of this sector in the attainment of inclusive growth as evident in Asian countries like Japan and China. Still in the area of SMEs, there is the need for the Bank of Industries (BOI) with collaboration with the Central Bank of Nigeria (CBN) in the provision of long term and affordable loans that can enhance the growth of the SMEs sector. These measures will lead to reduction in unemployment rate; and given the link between unemployment and poverty rate, it is believed that the expected reduction in unemployment rate will culminate into declined in poverty rate in Nigeria.

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