

EFFECTIVENESS OF FISCAL AND MONETARY POLICY NEXUS ON NIGERIA'S INCOME GAP

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Abstract

Income inequality, like other macroeconomic welfare concerns, has become a defining feature of modern economies, influencing both social stability and economic performance. Thus, this study investigated the impact of fiscal–monetary policy coordination as a tool for combating widening income inequality in Nigeria from 1990 to 2024. Having employed various preliminary statistics, the Autoregressive Distributed Lag (ARDL) model was employed to analyze the objective of the study. It was revealed that fiscal and monetary policy tools, as well as their combination had no discerning effect in combating income inequality in Nigeria. Intuitively, while fiscal policy revealed a no significant effect on income inequality, monetary policy also did not show any discerning effect, including the policy combination, except for their one-year lagged periods. With this, the study concludes that effective policy coordination between fiscal and monetary authorities exists in Nigeria and it is an intervening tool for mitigating income disparity that can enhance welfare outcomes, but only after a year period, showing a delayed effect. And thus, recommends that there should be more synergy between fiscal and monetary authorities to promote instant inclusive growth and macroeconomic stability that will help to combat income disparity in Nigeria and bring about inclusive growth.

Keywords: Income Inequality, Fiscal Policy, Monetary Policy, Inclusive Growth, Oil Price

JEL classification: E24, E61, E52, H25

1. INTRODUCTION

Income inequality which reflects market and government failure in efficient allocation of resources has remained one of the most persistent socio-economic challenges confronting nations globally, especially an emerging economy like Nigeria. With global ranking as the 6th most populated country, having a fast-growing population of approximately 240 million, yet having only 88.9 million people in the labor force and a Gini index revolving between 33.9 and 35.1, this shows a

considerable gap between the rich and the poor (Harmon, 2023). Given the fraction / percentage of work force in relation to its population, one would expect a lower Gini coefficient with a flatter curve, but this seems to be a far cry as it seems as though resources revolve in hands of a few.

Fiscal and monetary policies on one hand are regulatory strategies employed by the government to combat the diverse inefficiencies causing macroeconomic imbalances in the economy. Put differently, fiscal policies are government tactics used to control government activities in terms of public expenditure and tax revenue collections so as to achieve a targeted macroeconomic objective. Meanwhile, monetary policies are efforts of the government as well but through the monetary authorities to bring about economic balances by regulating price fluctuations and other monetary indicators to reach a common goal of economic stability. However, in some extreme cases, there is the possibility of combining these two policies by using their separate tools jointly to achieve the common goal of macroeconomic stability and promote inclusive growth.

Nigeria's persistent rising inequality continues to pose significant challenges to inclusive economic development, despite decades of fiscal and monetary interventions. Fiscal authorities have pursued expansionary budgets and social investment programs aimed at reducing deprivation, while the Central Bank of Nigeria (CBN) has alternated between tight and accommodative monetary stances to stabilize prices and promote economic growth. Yet, these efforts have produced limited welfare gains overtime and has given rise to the increasing concerns in this discourse as evident in literature. Moreover, OECD (2023) recorded that income disparities have widened even in developed economies, as the top 10 percent of earners control over half of global income. These trends have intensified concerns about the sustainability of economic growth and the fairness of resource distribution in both advanced and developing economies.

In the same vein, Owusu and Asare (2021) highlighted the effect of misaligned policies which often leads to stagflation and widening inequality in Sub-Saharan Africa, Abata, Kehinde, and Bolarinwa (2020) examined fiscal and monetary policy unconnectedly as against their joint impact, Aghion and Howitt (2020) also posited that there is a possibility of fiscal and monetary policies interaction working out better welfare outcome. Another dimension of concern is the concentration on economic wide aggregates of which Nwokoye and Chike (2022) gave a divergent view on the inability of macroeconomic stability to automatically translate to equitable welfare improvements in the absence of inclusive policy coordination. This suggests that Nigeria's challenge is not only about achieving growth but ensuring that the gains of growth are evenly distributed through effective fiscal-monetary synergy. Therefore, despite the multiplicity of policy reforms, income inequality continues to deepen. The disjointed implementation of monetary and fiscal policies has often neutralized potential welfare benefits. The result is a cycle of policy inconsistencies, fiscal inefficiencies, and socio-economic deprivation. There is, thus,

a need to empirically re-examine the current effect of the interactive impact of policy mix on Nigeria's socio-economic welfare indicator of income inequality, from 1980 to 2024. This study therefore attempts to extend the literature in this discourse and bridge the existing gap by providing a holistic analysis of how Nigeria's policy mix affects welfare outcomes particularly in the period under review (1990–2024). It is on this note that the objectives of this study stands and they include; effect of monetary policy measured by lending rate on income inequality, tax revenue collection, together with the coordination of both variables on income inequality in Nigeria.

2. LITERATURE REVIEW

2.1. CONCEPTUAL LITERATURE

Income inequality, like other macroeconomic welfare concerns, has become a defining feature of modern economies, influencing both social stability and economic performance. It refers to the uneven distribution of income, wealth, or opportunities among individuals or groups within a society (OECD, 2023). While some degree of inequality may be inevitable in a market economy, excessive disparity undermines social cohesion, reduces aggregate demand, and restricts the potential for sustained growth (Stiglitz & Rosengard, 2015; IMF, 2023). Martinez, Sosa and Hernadez (2019) further contend that inequality can result from structural factors such as unequal access to education, health, finance, and labor markets, as well as regressive fiscal systems that seems more favorable to higher-income groups.

In development discourse, inequality is viewed as both a cause and a consequence of poverty, with each reinforcing the other in a vicious cycle. Simply put, income inequality refers to disparities in the distribution of resources (income, wealth) and opportunities (access to education, healthcare, jobs) among individuals or groups within a society.

Policy coordination or mix on the one hand involves the combination of both fiscal and monetary policy tools to achieve a common macroeconomic objective in an economy. In most nations of the world, policy coordination could be the standard, owing to the fact that no single policy tool can effectively and efficiently generate incentives for inclusive welfare and growth. Accordingly, Aghion and Howitt (2020) posited that coordinated fiscal–monetary frameworks tend to yield better welfare outcomes than isolated policies. Monetary policy is a macroeconomic tool used in regulating price and other macroeconomic imbalance within an economy either through its expanding or contracting policy motive (Popov & Steininger, 2023). Fiscal policy simply refers to government expenditure both on current expenses and capital infrastructure, as well as tax revenue collection which serves as a source of funds to the government form its populace (Emeru, 2023).

2.2. THEORETICAL LITERATURE

The Lorenz Curve Theory

The Lorenz Curve is one of the most widely used theoretical and graphical tools in economics for analyzing income distribution and inequality. Developed by Max O. Lorenz in 1905, the curve provides a visual representation of how income or wealth is distributed among individuals or households in a given economy. The curve plots the cumulative percentage of total income received by the cumulative percentage of the population, starting with the poorest and moving to the richest. By comparing the actual distribution curve to a hypothetical line of perfect equality, economists can assess the degree of inequality present in an economy (Lorenz, 1905; Gastwirth, 2017).

The theoretical foundation of the Lorenz Curve rests on the principle that inequality can be expressed as the deviation from perfect equality. If income were distributed equally, the Lorenz Curve would coincide with the 45-degree line, known as the “line of equality.” The further the Lorenz Curve bows away from this line, the greater the degree of inequality as seen in Fig 2.1. Thus, the Lorenz Curve provides an intuitive way to conceptualize inequality, complementing other theoretical frameworks such as the Kuznets Hypothesis and the Neoclassical growth models.

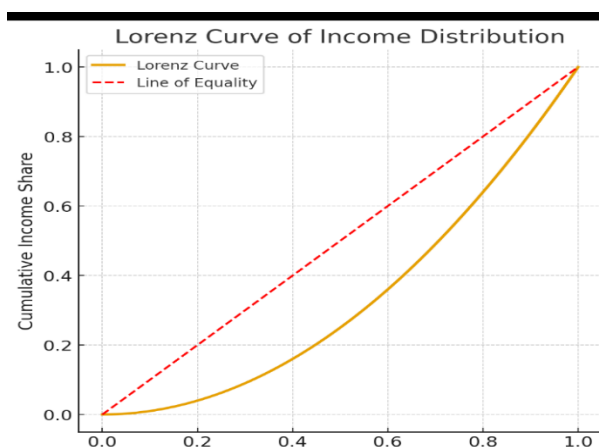


Figure 1: *The Lorenz Curve of Income Distribution*

Globally, the Lorenz Curve has been employed in both theoretical and empirical studies to quantify inequality and to evaluate the redistributive impacts of economic policies. One of the strengths of the Lorenz Curve theory is its adaptability in analyzing policy impacts.

Empirical Literature

To begin with, Oduro and Fosu (2019) examined the effects of central bank policies on income distribution on a panel data of twenty (20) Sub-Saharan African countries between 1995 and 2017. The panel GMM estimator, revealed that while

monetary expansion helped reduce income inequality, high inflation volatility eroded real incomes for low-income groups, thereby aggravating inequality. The study concluded that, in Africa, monetary policy can only sustainably reduce inequality if complemented by strong fiscal redistribution and inflation stabilization mechanisms. Martinez et al (2019) studied income inequality on Sub-Shahra Africa as well, from 1995 to 2015 employing the panel fixed and random technique. It was revealed that direct taxes and social spending significantly reduced inequality from their study. Their study emphasized that the weak tax collection capacity of many African governments constrained the redistributive potential of fiscal policy. Using the ARDL approach, Opayinka (2025) examined the effects of fiscal policy on the economic growth of Nigeria from 1980 to 2023. The study revealed that government spending exerted a short run significant positive relationship with growth but reversed in the long run. Alhassan, Halimatu and Matur (2025) used VECM technique on expansionary fiscal policy and inflation in Nigeria from 1994 to 2023. It was reported that expansionary policy on economic activity had a significant negative effect on inflation, showing that expenditure on productive and social activities can stabilize price but expenditure on recurrent aspect of fiscal policy had positive effect on inflation. Thus, administrative expenses of the government tend to increase economic instability. This has the tendency of increasing income disparities, as unguided expansionary fiscal policy can have adverse effect on low-income earners.

3. METHODOLOGY

3.1.THEORETICAL FRAMEWORK AND MODEL SPECIFICATION

The underpinning theory for this study is the Lorenz curve theory of income inequality gap. The adaptability of the Lorenz curve in analyzing fiscal policies such as progressive taxation or social transfers can be theoretically visualized as “flattening” the Lorenz Curve, thereby reducing inequality, thus showing a strong linkage between policy implementation and income inequality (Lustig, 2018). For instance, inflation resulting from loose monetary policy disproportionately affects lower-income households, shifting the Lorenz Curve further from equality. Conversely, targeted fiscal transfers theoretically compress the Lorenz Curve closer to the line of equality, demonstrating improved welfare distribution (World Bank, 2016).

Intuitively, from the underlining position, income inequality is modeled as a function of fiscal and monetary policy and macroeconomic variable. This is given as:

$$A_t = f(D, G) \dots \dots \dots (1)$$

Where:

A = endogenous (income inequality) variables at time t

D = vector of endogenous variables (individual policy tool, together with the combined policy-mix)

G = other determinant of income inequality

$$A_t = \delta_0 + \delta_1 D_t + \delta_2 G_t + \mu_t \dots \dots \dots (2)$$

Where:

δ_0 = Constant

δ_1 and δ_2 Parameters to be estimated

μ = Error term

The functional form of the model for this study is given, thus:

$$Ineq = f(Intr, Taxr, Pmix, Oilp) \dots \dots \dots (3)$$

And the linear/econometric ARDL model is given as:

$$Ineq_t = \beta_0 + \beta_1 Ineq_{t-1} + \beta_2 Intr_t + \beta_3 Taxr_t + \beta_4 Pmix_t + \beta_5 Oilp_t + e_t \dots \dots \dots (4)$$

Where: $Ineq_t$ = Income Inequality, $Taxr_t$ = Tax Revenue (% of GDP), $Intr_t$ = Lending Interest Rate, $Pmix_t$ = Interaction of policy variables ($Taxr_t * Intr_t$), $Oilp_t$ = Oil Price, e_t = Stochastic Error Term

The Short-Run Dynamic ARDL Econometric Model is given as:

$$\Delta Ineq_t = \delta_0 + \sum_{i=1}^r \delta_{1i} \Delta Ineq_{t-i} + \sum_{j=0}^{s_1} \delta_{2j} \Delta Intr_{t-j} + \sum_{k=0}^{s_2} \delta_{3k} \Delta Taxr_{t-k} + \sum_{l=0}^{s_3} \delta_{4l} \Delta Pmix_{t-l} + \sum_{m=0}^{s_4} \delta_{5m} \Delta Oilp_{t-m} + e_t \dots \dots \dots (5)$$

Table 1: *A priori expectations*

Variable	Expected Sign on INEQ	Rationale
Tax Revenue (TAXR)	-	Progressive taxation and redistributive taxes is expected to reduce income inequality gap
Lending Interest Rate (INTR)	+	Higher interest/lending rate may be advantageous to capital owners over labor, raising inequality.
PMIX (TAXR*INTR)	-	Proper coordination of both fiscal and monetary policies with the tools of TAXR and INTR is expected to reduce income gap
Oil Price (OILP)	Positive-Negative ($\pm$)	Higher oil prices can reduce income inequality if revenues are redistributed (-) or increase it if rents are captured by elite (+).

Source: Author's compilation (2026).

Estimation Technique

The bound test for co-integration and Auto-Regressive Distributed Lag (ARDL) model analytical tool was employed to examine and establish whether a short run and/or a long run relationship exists between the variables. Pesaran, Shin and Smith (2001) suggested that the cointegration bounds testing helps to establish

a robust inference without recourse to whether the concerned variables are integrated at the same levels or not. This study carried out some preliminary statistics; to check the statistical properties, and stationarity of the data set prior to the application of ARDL technique.

4. RESULTS AND DISCUSSION OF FINDINGS

Descriptive Statistics

Descriptive statistics was done for the purpose of analyzing the statistical properties of the variables used in this study

Table 2: *Descriptive Statistics*

	<i>INEQ</i>	<i>TAXR</i>	<i>LINT</i>	<i>OILP</i>
Mean	48.38286	9.697143	20.52857	53.01714
Median	48.70000	9.400000	18.00000	52.32000
Maximum	51.40000	15.00000	30.60000	111.6700
Minimum	45.00000	4.900000	13.50000	12.72000
Std. Dev.	1.714726	2.907747	4.584024	32.30432
Skewness	-0.327962	0.244807	4.584024	0.404741
Kurtosis	2.209526	1.963382	2.581452	1.836266
Jarque-Bera	1.538667	1.916687	4.619973	2.930575
Probability	0.463322	0.383528	0.099262	0.231012
Sum	1693.400	339.4000	718.5000	1855.600
Sum Sq. Dev.	99.96971	287.4697	714.4514	35481.36
Observations	35	35	35	

Source: Authors' computation using E-views 12: (2026)

Table 2 depicts the summary of the properties of the variables. Starting with INEQ, it showed a mean of 48.38 and a relatively low standard deviation of 1.71, suggesting that income inequality levels were stable. The distribution is slightly negatively skewed (-0.33) and has a kurtosis of 2.21, indicating mild clustering around higher inequality values. The Jarque-Bera probability (0.4633) exceeds 0.05, implying a normal distribution of the inequality series. The fiscal policy variable of (TAXR), with a mean of 9.70 and standard deviation of 2.91, indicates moderate fiscal policy variation. Its near-normal distribution (skewness = 0.24; kurtosis = 1.96) reflects the gradual implementation of Nigeria's tax reforms over the study period.

Correlation Test

Correlation analysis highlights the patterns and directional relationship among variables, potential multicollinearity concerns, and implications for the regression analysis.

Table 3: *Correlation Coefficient Matrix*

	INEQ	TAXR	INTR	OILP
INEQ	1.0000000			
TAXR	0.713637	1.0000000		
INTR	-0.782943	-0.607837	1.0000000	
OILP	0.762873	0.607026	-0.729083	1.0000000

Source: Author's Computation using Eviews 12 Output (2026).

It can be deduced from table 2 that TAXR, INTR, and OILP are highly correlated with income inequality (INEQ) with a positive relationship except for INTR that showed a negative relationship. Intuitively as INTR increases, Income inequality gap reduces. Moreso, the correlation results confirms that multicollinearity does not pose a serious challenge to the model.

Unit Root Test

In order to ascertain the stationarity of the variables, this study conducted the unit root test.

Table 4: Results of the Unit Root Test for Stationarity

Variable	ADF Test Statistics	5% Critical Value	p-value	Order of Integration	Decision (H ₀ : Unit Root)
INEQ	-3.645598	-3.557759	0.0415	I(0)	Reject H ₀
TAXR	-3.876458	-3.552973	0.0246	I(0)	Reject H ₀
INTR	-4.232129	-3.548490	0.0105	I(0)	Reject H ₀
OILP	-4.451173	-2.954021	0.0001	I(1)	Reject H ₀

Source: Author's Computation from Eviews 12 Output (2026).

Table 4 presents the results of the unit root tests based on the Augmented Dickey-Fuller (ADF) statistics. It can be inferred that all the variables except OILP were stationary at levels. OILP only became stationary after first difference. The ARDL methodology is particularly appropriate since it can accommodate regressors that are stationary at levels and first differences.

Bound Test for Co-integration.

Bound test for co-integration is used to check if there exist a long run relationship among variables.

Table 5: Bound Test for Co-integration

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	2.197336	10%	3.03	4.06
K	0	5%	3.47	4.57
		2.5%	3.89	5.07

Source: Author's Computation from Eviews 12 Output (2026).

The Bounds Cointegration Test displayed in table 5 yielded an F-statistic of 2.197336, which is lower than 3.47 of the I(0) and 4.57 of the I(1) at the 5% significance level. This confirms that there is no long-run cointegrating relationship among the variables. In other words, fiscal and monetary policy variables, both individually and jointly, do not exhibit a long-term equilibrium effect on income inequality in Nigeria during the period under review. Thus, absence of long-run cointegration in this model suggests that the effects of fiscal and monetary policies on income gap have been transient, influenced more by short-run policy fluctuations and external macroeconomic shocks rather than sustained structural transformation. Thus, this study's analyses and report were limited to the short run model, excluding the cointegrating relationship.

It is important to note here that the ARDL estimation of this model recommends an ARDL (2,2,2,2,2,) model. The short-run error correction estimation is presented in table 6.

Regression Results.

The ARDL analysis of the model of poverty in relation to both fiscal and monetary policies, as well as its mix, and oil price are presented as given below:

The Short Run Result

Table 6: Short Run Result

Dependent Variable Variable	Coefficient	INEQ Std. Error	t-Statistic	Prob.
D(INEQ(-1))	0.493083*	0.204582	2.410197	0.0367
D(INTR)	0.027212	0.014113	1.928203	0.0827
D(INTR(-1))	0.065482**	0.017868	3.664770	0.0044
D(TAXR)	0.131581	0.070226	1.873679	0.0905
D(TAXR(-1))	0.165405*	0.056173	2.944549	0.0147
D(PMIX)	-0.003596	0.001771	-2030148	0.0698
D(PMIX(-1))	0.007105**	0.002069	-3.434748	0.0064
D(OILP)	-0.001777*	0.000740	-2.401235	0.0372
D(OILP(-1))	-0.001392	0.000905	-1.537899	0.1551
R-squared	0.952955			
Adjusted R-squared	0.858864			
F-statistic	10.12802	Durbin-Watson stat		2.528014
Prob(F-statistic)	0.000322			

*Source: Authors computation using E-views 15: (2026), *, **, *** signifies statistical significance at 1%, 5% and 10%.*

Table 6 depicts the short run result of the model. The R-Squared is 0.95 with an adjusted R-Squared of 0.85 when adjustments were made for the degree of

freedom. This shows that the percentage variations in income gap were explained by all the explanatory variables (INT, TAXR, PMIX, OILP, as well as its lag value). The model was able to account for above 95 percent variations in income gap given the explanatory variables. The effects of the unexplained variations excluded in the model and measurement errors are captured by the stochastic error term. The F-statistics of overall significance of the model was 10.12802 with probability value of 0.000322. Accordingly, the F-statistic shows that the model is statistically significant at the 1% level of significance. This implies that the overall model is significant in explaining the variations.

Furthermore, the result showed that INEQ(-1) plays an important role in determining the current levels of income disparity in Nigeria. With a coefficient of 0.493083 and a p-value of 0.0367, it showed that a unit increase in previous level of income inequality increases the current level by approximately 0.493 units, all things been equal.

D(INTR) was positive but statistically insignificant at 5% level of significance. However, it became significant judging by its p-value of 0.0044, after a lagged period, while maintaining a positive directional effect on income inequality. This shows that monetary policy proxied by INTR only became effective on influencing income inequality gap in Nigeria after a lag period. Intuitively, a unit increase in previous period interest rate will cause income disparity to further increase by 0.065 units.

Fiscal policy proxied by D(TAXR) was not rightly signed and was also not statistically significant at 5% unlike its lag value (D(TAX)-1) that was statistically significant at 5% level of significance. This means that, current tax revenue collection does not have any discerning effect on income disparity until after a lagged period, that is, as government promotes progressive tax policy in Nigeria even at 5 percent level of increase, it will lead to higher income disparity given the coefficient of 0.131581 with a p-value of 0.0147, in the short run. This finding is in tandem with the submission of Lustig (2018) and Martinez et al (2019), who found that in developing economies, tax systems often exacerbate inequality due to their poor redistributive design.

In the same vein, policy mix /coordination with a coefficient and p-value of -0.003596 and 0.0698 respectively indicated that there is a negative and statistically insignificant effect on income inequality in the short run. Nevertheless, its lagged value was seen to exert a more meaningful influence on the current level of income inequality at 5% level of significance. This implies that fiscal and monetary policy mix only becomes an efficient policy tool combination in bridging income gap after a year, showing a delayed effect in controlling income disparity in Nigeria for the period reviewed. The oil price (OILP) variable was negative and statistically significant (-0.001777; $p = 0.0372$), implying that changes in global oil prices have huge effects on income inequality in Nigeria, possibly due to Nigeria's heavy

reliance on oil proceeds for financing policy implementations in the domestic economy.

Post-Diagnostics Test Results

After the ARDL estimation, the normality test, serial correlation, as well as test for absence of heteroscedasticity was carried out. This has become necessary so as to check the validity of the model estimated, and they are presented as follows.

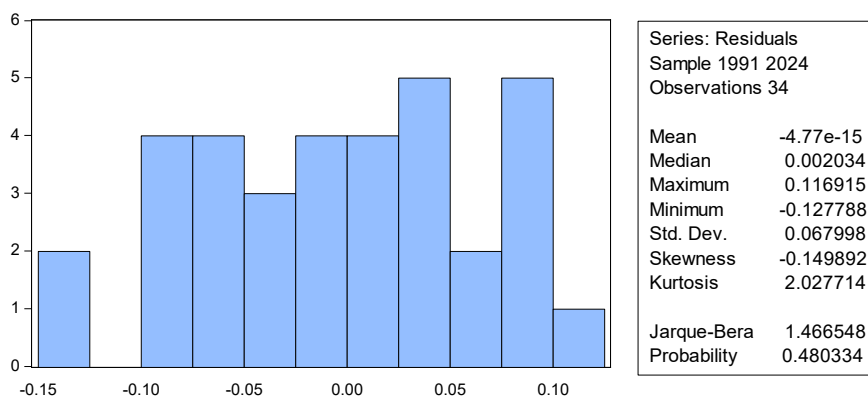


Figure 2: Normality Test

The normality test result presented in Figure 2 shows that the error term is normally distributed by the p-value, which is approximately 5%.

Table 7: Test for the presence of Serial Correlation

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.897972	Prob. F(2,24)	0.4448
Obs*R-squared	5.683398	Prob. Chi-Square(2)	0.0583

Source: Author's computation 2026

Judging by the p-values, we fail to reject the null hypothesis, thus there is no evidence of serial correlation in the residuals of the model at 5% significant level.

Table 8: Test for the presence of Heteroscedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.473146	Prob. F(9,24)	0.2140
Obs*R-squared	12.09885	Prob. Chi-Square(6)	0.2078
Scaled explained SS	3.097782	Prob. Chi-Square(6)	0.9603

Source: Author's computation 2026

From the test for heteroscedasticity with a null hypothesis that there is homoscedasticity, the result indicates that we accept the null hypothesis of no heteroscedasticity in the estimated model, giving the p-values which are largely greater than 5%.

As presented from the results of the different diagnostic tests in figure 2, and tables 7 and 8 above, the results indicate that the error term is normally distributed, not correlated and not also heteroscedastic as all p-values are largely higher than 5%.

Stability Test Result

Figure 3 presents the stability test result of the model by performing the cumulative sum of recursive residuals (CUSUM).

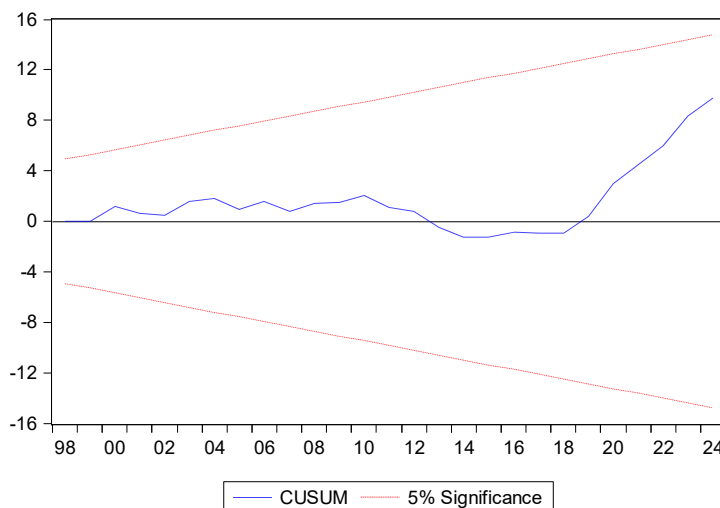


Figure 3: Stability Test

We observe the coefficients of the model are stable since the blue line lies between the 5% level. Hence our findings are good enough for inferences.

5. CONCLUSION

This study used secondary data sourced from statistical bulletin of Central Bank of Nigeria from 1990 to 2024 to examine how fiscal and monetary policy instruments, both individually and jointly, influences income inequality in Nigeria during the period. The ARDL bound test showed that only short run relationship exists in the estimated model, hence the study was analyzed based on the short run result. The results revealed that both fiscal policy of progressive tax revenue collection and monetary policy tool of interest rate, had no statistically significant influence in minimizing the disparity that exist in income levels in Nigeria, except for their lagged values. Also, coordination of both policies had no definite influence in combating income inequality gap in Nigeria, but for its lagged period as well. More importantly, it was observed that the independent variables except for oil price, exhibited delayed effects on current period income gap in Nigeria for the period under review, judging by their statistically significant levels of 5% level only after a lagged period.

The findings of this study suggest several important policy directions for mitigating income inequality outcomes in Nigeria. First, the effect of monetary policy indicates that higher lending rate further widens income inequality gap, because as cost of funds increases capital owners earn more while small businesses and low-income earners cut investments and thus, income is further reduced. Monetary policy alone is not sufficient for addressing welfare challenges such as income inequality in Nigeria. This implies that the Central Bank of Nigeria should design monetary policy frameworks that are supportive of inclusive growth, particularly by embarking on expansionary macroeconomic policies that encourages reduced rates on loans to spur more productive activity that have direct links to income generation.

Second, though government tax system remains a central component of Nigeria's welfare strategy, but it should be designed in ways to benefit the low income and underemployed class of the society so as to bridge the income gap. Policymakers in addition to prioritizing progressive income tax for income earners, other economic strategies should be employed to support tax revenue collection in minimizing the adverse effects of income gap on the economy.

Third, the result of the policy mix underscores the need for sustained effective macroeconomic policy coordination. Fiscal expansion without corresponding monetary accommodation may weaken welfare outcomes, just as tight monetary conditions may offset fiscal efforts. Consequently, greater alignment between fiscal authorities and the Central Bank of Nigeria is required to ensure policy consistency and maximize welfare gains.

Finally, the bound test of no long-run cointegrating relationship implies that income inequality in Nigeria is highly sensitive to short-run policy shocks. This places emphasis on timely, well-coordinated policy responses and continuity in macroeconomic management, particularly during periods of economic instability.

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