Effect of Monetary and Fiscal Policy on Nigeria's Economic Growth

Umar Lawal Aliyu

Dr. Umar Lawal Aliyu
Faculty of Management, Department of Business Administration
LIGS University Hawaii, USA

Abstract: This study examined and assessed the empirical link on the effect of fiscal and monetary policy on the Economic Growth of Nigeria. Establishing financial stability and economic growth entails conscious actions by regulatory agencies to stem wide fluctuations in the key macroeconomic indicators. The high point of economic growth of any country include, strengthening the Financial Stability Committee within its financial institutions, establishment of macro-prudential rules, developing capital markets, development of directional economic policy and of course most importantly the monetary and fiscal policies. The objectives were to determine factors of fiscal and monetary policy that contributed to the growth of Nigeria economy. It made use of data from Central Bank of Nigeria (CBN) Bulletin, journals and employed the ordinary least squares method of statistical analysis. In the research work we have understood that monetary policy is implemented primarily by the monetary authorities, particularly the central bank, while fiscal policy is implemented by the fiscal authorities, particularly the Ministry of Finance or Treasury. Although monetary and fiscal policies pursue the same ultimate objective, i.e. the attainment of high, stable and sustainable economic growth, they employ different instruments. The research study has noticed that the objectives of monetary policy are ultimately similar to the objectives of fiscal policy and they play crucial role in providing sustainable and credible economic stability in a country, thus creating the environment fast economic growth. The research recommends that policy makers should pay attention to monetary and fiscal variables in their attempt to maintain fiscal stability.

Keywords: Central Bank, Development, Economic Growth, Fiscal Policy, Monetary Policy.

1. INTRODUCTION
1.1 Background of the Study

Governments all over the world formulate and implement policies for taxation and public spending. These policies can have major impacts on economic growth, income distribution, and poverty, and thus they tend to be at the centre of economic growth and development. Essentially, monetary policy refers to the combination of discretionary measures designed to regulate and control the money supply in an economy by the monetary authorities with a view of achieving stated or desired
macro-economic goals. Another point of view posits that monetary policy refers to any conscious action undertaken by the monetary authorities to change or regulate the availability, quantity, cost or direction of credit in any economy, in order to attain stated economic objectives (Nwankwo, 2000). Fiscal Policy is the process by which Government uses public expenditure, debt, taxation and other revenues to influence economic activities with a view to achieving the set macroeconomic objectives of full employment, favourable balance of payment, price stability and output growth among others. Okunrounmu (2003) described fiscal policy as the deliberate changes in the levels of government expenditure, taxes and other revenue as well as borrowing with a view to achieving national goals or objectives such as price stability, full employment, economic growth and balance of payments equilibrium.

Macroeconomic policy plays crucial role in providing sustainable and credible economic stability in a country, thus creating the environment for fast economic growth. This task is primarily achieved through monetary and fiscal policies as its fundamental components. However, the necessary precondition for the successful functioning of an economy is the existence of coordinated activities of monetary and fiscal policies, since the absence of this coordination leads to a poor overall economic performance. Monetary policy constitutes the major policy thrust of the government in the realization of various macro-economic objectives because monetary policy is designed to influence the behaviour of the monetary sector and this is because changes in the behaviour of the monetary sector influence various monetary variables or aggregates.

Hence, governments are often wary of using monetary policy and fiscal policy as the necessary panacea for the attainment of overall economic growth in the economy. Invariably, the adoption of either monetary or fiscal policies may portend far-reaching implications on the overall attainment of the perceived macroeconomic objectives and achieving economic growth and development of the country.

1.2 Statement of the Research Problem

The relationship between Monetary and Fiscal policy and economic growth has been discussed extensively in the literature using empirical analysis. There have been macroeconomic imbalances of varying degrees in Nigeria. Inappropriate public expenditure and large deficit in the public sector have been identified by experts as responsible for the macroeconomic disequilibrium in Nigeria, (Ajisafe and Folorunso, 2002).

Nigeria has experienced high volatility in inflation rates. An adequate and effective macroeconomic policy is critical to any successful development process aimed at achieving high employment, sustainable economic growth, price stability, long-viability of the balance of payments and external equilibrium. Agiobenebo (2003), Gbosi (2002) and Okona (1997) indicate that the economy is still facing problem of chronic unemployment, rising rate of inflation, dependence on foreign technology, monoculture foreign exchange earnings from crude oil, and more.

One of the major objectives of monetary policy in Nigeria is price stability. But despite the various monetary regimes that have been adopted by the central Bank of Nigeria over the years inflation still remains a major threat to Nigeria’s economic growth. Thus, Nigeria’s potentiality for growth and poverty reduction far from being realized. A key constraint has been the recent conduct of macroeconomics, particularly fiscal and monetary policies. This has led to rising inflation and decline in real incomes.

The main thrust of this study shall be on the impact of fiscal and monetary policy instruments on the economic growth of Nigeria. This would go a long way in assessing the extent to which the fiscal and monetary policies have affected the growth process of Nigeria using the major objectives of fiscal and monetary policies as yardstick.

1.3 Objectives of the Study

The broad objective of this study is to investigate effect of monetary and fiscal policy on the economic growth of Nigeria. Specifically, the study seeks to;

a. Examine effect of monetary and fiscal policy on the economic growth of Nigeria
b. Determine whether monetary and fiscal policy have a negative or positive effect on the economic growth of Nigeria.
2. LITERATURE REVIEW

2.1 Theoretical Framework

Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the per cent rate of increase in real gross domestic product, or real GDP, (Joseph Schumpeter). While economic development is the growth of the standard of living of a nation’s people from a low-income (poor) economy to a high-income (rich) economy. When the local quality of life is improved, there is more economic development. When social scientists study economic development, they look at many things. As observed by Akpakpan (1999), economic development is used to describe the process of improvement in the various aspects of the economy and the society it supports. The improvement is usually shown in the kinds of desirable changes such as reduction in the level of unemployment, degree of personal and regional inequalities, level of absolute poverty and increase in the real output of goods and services. Others areas of desirable changes include improvement in literacy, housing, health services and in the production capacity. The primary reason for desiring economic development or growth is to raise the general standard of living within the economy. Thus, Economic growth has received much attention among scholars.

Economic growth has long been considered an important goal of economic policy with a substantial body of research dedicated to explaining how this goal can be achieved. Historically, there has been a wide divergence of opinions about the effect of monetary and fiscal policies on the economy. These theories were developed on observed economic trend in both developed and developing countries. The role of economic policy in the achievement of macroeconomic objectives has been extensively dealt with in Keynesian analysis of an activist macroeconomic policy. An activist macroeconomic policy involves setting monetary and fiscal variables in each time at the values, which are thought necessary to achieve the government’s objectives. In order to avoid major economic shocks, government make adjustments through policy changes, which they hope, will succeed in stabilizing the economy. They believe that the success of these adjustments is necessary to maintain stability and continued growth. This economic management is achieved through two types of strategies, namely, Fiscal and Monetary Policies. At the most aggregate level, macroeconomic policy consists of the triad of monetary fiscal and exchange rate policy. New directions in any one of these areas have to be conceived and carried out in full coordination with the other two areas Sheffrin (2003).

2.2 Monetary and Fiscal policy

Monetary and Fiscal policies are the two major strategies of managing resources and demand pressures in the economy. Monetary policy concerns the use of monetary instruments such as credit, money supply and interest rates to influence overall demand in the economy, while fiscal policy is the use of government taxes and expenditure, including debt to control aggregate demand in the economy. Monetary policy rests on the relationship between the rates of interest in an economy and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchanges rates with other currencies and unemployment. Primarily the monetary authorities implement monetary policy, particularly the central bank, while the fiscal authorities, particularly the Ministry of Finance or Treasury, implement fiscal policy. Although monetary and fiscal policies pursue the same ultimate objective, i.e. the attainment of high, stable and sustainable economic growth, they employ different instruments. Monetary policy is referred to as either being on expansionary policy or a contractionary policy. Expansionary policies increase the size of the money supply, or decrease the interest rate. A policy is referred to as contractionary if it reduces the size of the money supply or raises the interest rate. Furthermore, monetary policies are described as follows; accommodative, if the interest rate set by the Central monetary authority is intended to create economic growth, neutral, if it is intended neither to create growth nor combat inflation; or tight, if intended to reduce inflation Orphanides (2008). Fiscal policy actions could affect the effectiveness of monetary policy in various ways: via its impact on the general price level which cast doubts on the efficacy of monetary policy, via short-run effects on aggregate demand and by modifying the long-term conditions for economic growth and inflation.
Monetary and fiscal policies play a key role in the promotion of the main government objective of promoting the welfare of its citizens. Many writers argued that before monetary policy could produce desired result as maintained by the classical economist, highly integrated and monetized economy and regular information network system are indispensable.

2.2.1 Monetary policy

Monetary Policy is the deliberate use of monetary instruments (direct and indirect) at the disposal of monetary authorities such as central bank in order to achieve macroeconomic stability. Monetary policy is the process by which the monetary authority of a country, typically the central bank or currency board, controls either the cost of very short-term borrowing or the monetary base, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency. Monetary policy are measures taken by the monetary authorities aimed at enhancing economic growth and stability by adjusting the cost and level of money supply, to achieve broad macroeconomics objectives of price stability, output growth and full employment. Monetary policy is essentially a programme of action undertaken by the monetary authorities generally the central bank, to control and regulate the supply of money with the public and the flow of credit with a view to achieving predetermined macroeconomic goals (Dwivedi, 2005).

Mordi (2009) describes monetary policy as a blend of measures or set of instruments designed by the Central Bank to regulate the value, supply and cost of money consistent with the absorptive capacity of the economy or the expected level of economic activity, without necessarily generating undue pressure on domestic prices and exchange rates.

However, the objectives of monetary policy are:

a. Price Stability: Price stability is the stable level of prices in the economy, which avoids long periods of inflation or deflation and sustains the value of money over time. Price level stability is important for savers. However, this is the most important objective of monetary policy in Nigeria. All economies suffer from inflation and deflation from time to time. Both are harmful to the economy. Monetary policy, having an objective of price stability, tries to keep the value of money stable such that when the economy suffers from recession, it tends to be accommodating and when there is inflationary situation, monetary policy tends to be restrictive.

b. Sustainable Economic Growth: Monetary policy can influence economic growth by controlling real interest rate and its resultant impact on investment. If the CBN opts for credit easing by reducing interest rates, investment in the economy can be encouraged. This increased investment can speed up economic growth.

c. Exchange Rate Stability: Exchange rate is the price of a home currency expressed in terms of any foreign currency. Exchange rates express the value of one country's currency in relation to the value of another country's currency. The rates play an important part in economics, affecting the balance of trade between nations and influencing investment strategies. Thus if the exchange rate is volatile, the international community might lose confidence in the economy. Therefore, monetary policy aims at maintaining relative stability in the exchange rate by altering the foreign exchange reserves, tries to influence the demand for foreign exchange.

d. Favourable Balance of Payments (BOP): Imbalance in a nation’s balance of payment occurs when payments made by a country are less than payments received. The CBN, through its monetary policy, tries to maintain equilibrium in the balance of payments. BOP Surplus is considered favourable because more currency is flowing into the country than is flowing out. Such an unequal flow of currency will expand the supply of money in the nation and subsequently cause a decrease in the exchange rate relative to the currencies of other nations. This then has implications for inflation, unemployment, production, and other sectors of the domestic economy. BOP Deficit on the other hand, stands for stringency of foreign inflow and high outflow of foreign currency. If monetary policy succeeds in maintaining monetary balance, then BOP equilibrium is said to have been achieved.

e. Full Employment: Virtually all who are able and willing to work are employed in the condition. The concept of full employment was much discussed after Keynes's publication of the “General Theory” in 1936. It refers to the absence of involuntary unemployment. In simple words, 'Full
Employment' stands for a situation in which everybody who wants job gets one. Full employment means that everyone who wants a job can have work hours they need on "fair wages".

f. Equitable Income Distribution: This refers to the manner in which income is divided among members of the society. An equal income distribution would mean everyone in the country has exactly the same income.

The Instruments of Monetary Policy are broadly divided into two categories. The instrument of monetary policy is tools or devise which the monetary authority uses in order to attain some predetermined objectives. There are two types of instruments of the monetary policy as shown below:

a. Quantitative Instruments or General Tools: The Quantitative Instruments are also known as the General Tools of monetary policy. These tools are related to the Quantity or Volume of the money. The Quantitative Tools of credit control are also called as General Tools for credit control. They are designed to regulate or control the total volume of bank credit in the economy. These tools are indirect in nature and are employed for influencing the quantity of credit in the country. The general tool of credit control comprises of following instruments.

1) Bank Rate Policy (BRP): The bank rate refers to rate at which the central bank (i.e RBI) rediscounts bills and prepares of commercial banks or provides advance to commercial banks against approved securities. It is "the standard rate at which the bank is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the RBI Act".

2) Open market operations (OMO): Refer to the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Securities' purchases inject money into the banking system and stimulate growth, while sales of securities do the opposite and contract the economy. The open market operation refers to the purchase and/or sale of short term and long term securities by the RBI in the open market. This is a very effective and popular instrument of the monetary policy. The OMO is used to wipe out shortage of money in the money market, to influence the term and structure of the interest rate and to stabilize the market for government securities, etc. It is important to understand the working of the OMO. If the RBI sells securities in an open market, commercial banks and private individuals buy it. This reduces the existing money supply as money gets transferred from commercial banks to the RBI. Contrary to this when the RBI buys the securities from commercial banks in the open market, commercial banks sell it and get back the money they had invested in them. Obviously, the stock of money in the economy increases.

3) Variation in the Reserve Ratios (VRR): Variation in the Reserve Ratios (VRR) The Commercial Banks have to keep a certain proportion of their total assets in the form of Cash Reserves. These reserve ratios are named as Cash Reserve Ratio (CRR) and a Statutory Liquidity Ratio (SLR).

b. Qualitative Instruments or Selective Tools: The Qualitative Instruments are also known as the Selective Tools of monetary policy. These tools are not directed towards the quality of credit or the use of the credit. They are used for discriminating between different uses of credit. It can be discrimination favouring export over import or essential over non-essential credit supply. This method can have influence over the lender and borrower of the credit. The Selective Tools of credit control comprises of following instruments.

1) Fixing Margin Requirements, The margin refers to the "proportion of the loan amount which is not financed by the bank". In other words, it is that part of a loan, which a borrower has to raise in order to get finance for his purpose. A change in a margin implies a change in the loan size. This method is used to encourage credit supply for the needy sector and discourage it for other non-necessary sectors. This can be done by increasing margin for the non-necessary sectors and by reducing it for other needy sectors. Example:- If the RBI feels that more credit supply should be allocated to agriculture sector, then it will reduce the margin and even 85-90% loan can be given.

2) Consumer Credit Regulation; under this method, consumer credit supply is regulated through hire purchase and instalment sale of consumer goods. Under this method the down payment,
installment amount, loan duration, etc. is fixed in advance. This can help in checking the credit use and then inflation in a country.

3) Publicity; this is yet another method of selective credit control. Through it Central Bank (RBI) publishes various reports stating what is good and what is bad in the system. This published information can help commercial banks to direct credit supply in the desired sectors. Through its weekly and monthly bulletins, the information is made public and banks can use it for attaining goals of monetary policy.

4) Credit Rationing; Central Bank fixes credit amount to be granted. Credit is rationed by limiting the amount available for each commercial bank. This method controls even bill rediscounting. Purpose, upper limit of credit can be fixed and banks are told to stick to this limit. This can help in lowering banks credit exposure to unwanted sectors.

5) Moral Suasion; It implies to pressure exerted by the RBI on the Indian banking system without any strict action for compliance of the rules. It is a suggestion to banks. It helps in restraining credit during inflationary periods. Commercial banks are informed about the expectations of the central bank through a monetary policy. Under moral suasion, central banks can issue directives, guidelines and suggestions for commercial banks regarding reducing credit supply for speculative purposes.

6) Control Through Directives; under this method the central bank issue frequent directives to commercial banks. These directives guide commercial banks in framing their lending policy. Through a directive the central bank can influence credit structures, supply of credit to certain limit for a specific purpose. The RBI issues directives to commercial banks for not lending loans to speculative sector such as securities, etc. beyond a certain limit.

7) Direct Action; under this method, the RBI can impose an action against a bank. If certain banks are not adhering to the RBI's directives, the RBI may refuse to rediscount their bills and securities. Secondly, RBI may refuse credit supply to those banks whose borrowings are in excess to their capital. Central bank can penalize a bank by changing some rates. At last it can even put a ban on a particular bank if it does not follow its directives and work against the objectives of the monetary policy.

These are various selective instruments of the monetary policy. However, the success of these tools is limited by the availability of alternative sources of credit in economy, working of the Non-Banking Financial Institutions (NBFIs), profit motive of commercial banks and undemocratic nature off these tools. However, a right mix of both the general and selective tools of monetary policy can give the desired results.

2.2.2 Fiscal policy

Fiscal policy is the use of government revenue collection and expenditure to influence the economy. According to Keynesian economics, when the government changes the levels of taxation and government spending, it influences aggregate demand and the level of economic activity. Fiscal Policy is the process by which Government uses public expenditure, debt, taxation and other revenues to influence economic activities with a view to achieving the set macroeconomic objectives of full employment, favourable balance of payment, price stability and output growth among others.

Fiscal policy is how Congress and other elected officials influence the economy using spending and taxation. It is used in conjunction with the monetary policy implemented by central banks. It influences the economy using the money supply and interest rates. Fiscal Policy could be neutral, expansionary or contractionary. Fiscal policy is considered neutral when government spending is equal to its revenue. This is also known as balanced budget. When government expenditure is fully financed by tax proceeds, the budget has a neutral consequence on economic activities in the country. A government is said to be operating an expansionary fiscal policy when it has a deficit budget. In such a situation, the public expenditure is higher than the tax revenue. This is an advisable policy stance during a period of recession.

Fiscal policy is designed to achieve certain objectives. However, the objectives of fiscal policy are:

a. Healthy Economic Growth and Development: The principal objective of fiscal policy is to ensure rapid economic growth and development. Ideally, the economy should grow between 2 to 3% a year.
b. Efficient Allocation of Financial Resources; The Federal and State governments have made considerable efforts at achieving efficient allocation of financial resources for developmental activities, which include expenditure on education, health and infrastructure. Therefore, fiscal policy should be designed in such a manner as to encourage production of desirable goods and discourage those goods, which are socially undesirable.

c. Reduction in Wealth and Income inequalities; Fiscal policies are also designed to achieve equitable distribution of income and resources among different sections of the society.

d. Reducing the Deficit in the Balance of Payment; Fiscal policy attempts to encourage more exports by way of fiscal measures such as tax exemptions on export earnings. Foreign exchange could also be conserved by providing fiscal benefits to import-substitution industries, imposing tariff and other duties on imports, etc.

e. Development of Infrastructure; Fiscal policy measures are often designed by government for the purposes of investment in strategic national assets.

f. Employment Generation; The government makes efforts to increase employment in the country through effective fiscal policy measures. Unemployment will be at its natural rate of between 4.7 and 5.8%.

g. Reducing inflation rate; Inflation will be at its target rate of 2%.

Instruments of Fiscal Policy: The tools of fiscal policy are taxes, expenditure, public debt and a nation's budget. They consist of changes in government revenues or rates of the tax structure to encourage or restrict private expenditures on consumption and investment.

2.3 Concept of Economic Growth

Economic growth can be defined as an increase in a nation’s output, which is most commonly measured by the gross domestic product (GDP). The benefits stemming from economic growth are wide ranging. (Harper, 2011). Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP.

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. It can be measured in nominal or real terms, the latter of which is adjusted for inflation. Traditionally, aggregate economic growth is measured in terms of gross national product (GNP) or gross domestic product (GDP), although alternative metrics are sometimes used. “Economic growth means the annual increase in real per capita income of a country over the long period. Thus, Professor Arthur Lewis says, “economic growth means the growth of output per head of population.” Since the main aim of economic growth is to raise the standards of living of the people. Economic growth remains one of the macroeconomic goals of every government and there are several studies on the subject. Harper (2011) however suggests that to achieve economic growth, that two options are available.

a. Using resources ‘extensively’ (that is producing more by using more of the available resources).

b. Using resources ‘intensively’ (that is producing more while using the same amount of available resources). However, the key to sustainable economic growth is to use resources ‘intensively’ that are to realize productivity gains (Harper, 2011:89).

2.4 Monetary and fiscal policy and Economic Growth

Fiscal policy is the use of taxation and government spending to influence the economy. This may work via changing tax rates or the rules about liability to tax or via changes in government spending on real goods and services or transfer payments. Macroeconomic policies are meant to achieve non-inflationary growth. This ordinarily means the deliberate manipulation of policy instruments to achieve acceptable level of employment, production and prices and the attainment of growth in real output.

Fiscal policy has two (2) possible roles. The first is to remove any severe deflationary or inflationary gaps. Secondly, fiscal policy could also be used to prevent rampant inflation. Monetary policy is the process by which monetary authority of a country controls the money supply, interest rates, lending rates and other monetary rates in order to ensure price stability, contribute to economic
growth, lower employment, maintain predictable exchange rates and ensure general trust in the currency.

In Nigeria, monetary instruments are employed by the central bank while the Ministry of Finance employs fiscal instruments. The objectives and implications of policy measures of these two institutions often conflict. Hence, it is important to have a mechanism of coordination between the two authorities for better functioning of the overall economy.

3. RESEARCH METHODOLOGY
3.1 Methodology

Several methods are available for use in collecting data in a research work. Some of these methods are so linked that a full study or research cannot be carried out using only one method. There must then be a blending of with available facts.

This research work is specifically designed to study the Effect of Monetary and Fiscal Policy on Nigeria's Economic Growth. The research design is meant to guide the researcher in the use of the best method of collecting data in the course of the study. The research design used in this study is the simple method and approach. The researcher is only interested in knowing the Impact of Monetary and Fiscal Policy on Nigeria's Economic Growth

4. DATA PRESENTATION AND ANALYSIS
4.1 Data presentation

This section attempt to provide clear analysis and interpretation of all data collected. The data collected are presented in this chapter for easy comprehension. The analyses are computed which forms the basis of analysis and conclusion drawn there from.

4.2 Justification

Both monetary and fiscal policies are twin tools used by government to regulate the performance of an economy. While monetary policy refers to a combination of measures designed to regulate the value, supply and cost of money in an economy; fiscal policy is associated with the use of taxation, borrowing and public expenditure to influence the level of economic activities. It has been argued that the objectives of monetary policy include pursuit of price stability, maintenance of balance of payments equilibrium, promotion of employment and output growth, and sustainable development. These objectives are necessary for the attainment of internal and external balance, and the promotion of long-run economic growth of an economy. Fiscal policy is a deliberate action of government aimed at ultimately achieving similar objectives.

The success of monetary policy often depends on the operating economic environment, the institutional framework adopted, and the choice and mix of the instruments used. In Nigeria, the design and implementation of monetary policy is the responsibility of the Central Bank of Nigeria (CBN). The mandates of the CBN as stated in the CBN Act of 1958 as amended include; issuing of legal tender currency, maintaining external reserves to safeguard the international value of the national currency, promoting monetary stability and a sound financial system and acting as banker and financial adviser to the Federal Government.

In addition, fiscal policy aims at stabilizing the economy. Increases in government spending or a reduction in taxes tend to pull the economy out of a recession; while reduced spending or increased taxes slows down a boom. Fiscal policy entails government’s management of the economy through the manipulation of its revenues and expenditures to achieve certain desired levels of macroeconomic performance. Furthermore, the implementation of fiscal policy is essentially routed through government’s budget while trying to promote economic conditions conducive to business growth and consistent with economic stability.

4.3 Data analysis

The effect of monetary policy on output growth has an edge over fiscal policy variable as a measure of output stabilization. Therefore, fiscal policy efforts of the Federal Government of Nigeria are not positive in stimulating output growth. Monetary and fiscal policies are inextricably tied,
suggesting that a sustainable fiscal policy and pragmatic monetary management are important to the realization of the objectives of growth and development of an economy. Both policies are essential components of overall macroeconomic policies and they usually shares similar goal of macroeconomic stability, low inflation and reduced unemployment. Not all these objectives, however, may be achievable without trade-offs and requiring a lot of coordination for policy effectiveness.

Below is analysis of oil price, inflation rate economic growth etc. as indicators for effects of usage of monetary and fiscal policy in Nigeria.

The Central Bank of Nigeria kept its benchmark interest rate on hold at 14 percent on September 25th 2018, as widely expected. The last time policymakers changed rates was in July 2016, when they lifted the monetary rate by 200 bps. The Committee noted inflationary pressures rebuilding, as the annual inflation rate increased for the first time since January last year to 11.23 percent in August from 11.14 percent in July, mainly due to higher cost of food. Interest Rate in Nigeria averaged 10.86 percent from 2007 until 2018, reaching an all-time high of 14 percent in July of 2016 and a record low of 6 percent in July of 2009.

The Central Bank of Nigeria kept its benchmark interest rate on hold at 14 percent on September 25th 2018, as widely expected. The last time policymakers changed rates was in July 2016, when they lifted the monetary rate by 200 bps. The Committee noted inflationary pressures rebuilding, as the annual inflation rate increased for the first time since January last year to 11.23 percent in August from 11.14 percent in July, mainly due to higher cost of food.

The Committee noted the uneven expansion in global output amidst growing trade tension, rising oil prices and debt levels as well as currency depreciation in most of the notable emerging markets and developing economies. These developments notwithstanding, there was evidence of resilient financial markets and output growth in the advanced economies led by the United States, which experienced sharp improvements in output growth. In the Euro area, United Kingdom and Japan, the pace of growth was moderate but steady, while in the Emerging Markets and Developing Economies (EMDEs), growth was sluggish and relatively uneven.

The MPC observed that despite the under-performance of key monetary aggregates, headline inflation (year-on-year) inched up to 11.23 per cent in August 2018, from 11.14 per cent in July 2018. The rise in headline inflation was from food, while core inflation declined, indicating that supply side factors were driving the price increase. The near-term upside risks to inflation remained the dissipation of the base effect, expected 2019 election-related spending, continued herdsman attack on farmers and the current episodes of flooding which has destroyed crops and would affect food supply and prices. Available data and forecast of key macroeconomic indicators show a positive outlook for the economy in the third quarter of 2018. The Committee expects that sustained implementation of the 2018 budget, improvements in the security situation and sustained stability in the foreign exchange market will stabilize prices and strengthen economic growth. The Committee, however, identified the downside risks to the outlook to include: the impact of increased monetary policy normalization in the advanced economies and the strengthening US dollar.

In light of the above, the MPC decided by a vote of seven (7) members to retain the MPR at 14 per cent. However, three (3) out of these seven (7) members voted to raise the Cash Reserve Requirement (CRR) by 150 basis points, an indication that left to them, we should have tightened. The other three (3) members voted to tighten by raising the MPR by 25 basis points. In summary, the MPC voted to: I. Retain the MPR at 14 per cent; II. Retain the asymmetric corridor of +200/-500 basis points around the MPR; III. Retain the CRR at 22.5 per cent; and IV. Retain the Liquidity Ratio at 30 percent.

Below are key decisions of CBN:
a. Key Decisions of the Central Bank of Nigeria Monetary Policy Committee 23rd and 24th November, 2015. The Committee decided as follows:
   1) Reduce the CRR from 25.0 per cent to 20.0 per cent;
   2) Reduce the MPR from 13.0 per cent to 11.0 per cent;
   3) Change the symmetric corridor of 200 basis points around the MPR to an asymmetric corridor of +200 basis points and - 700 basis points, around the MPR.

b. Key Decisions of the Central Bank of Nigeria Monetary Policy Committee November 21 and 22, 2016. The Committee decided as follows:
   1) Retain the MPR at 14 per cent;
   2) Retain the CRR at 22.5 per cent;
   3) Retain the Liquidity Ratio at 30.00 per cent; and
   4) Retain the Asymmetric Window at +200 and -500 basis points around the MPR

c. Key Decisions of the Central Bank of Nigeria Monetary Policy Committee November 20 and 21, 2017. The Committee decided as follows:
   1) Retain the MPR at 14 per cent;
   2) Retain the CRR at 22.5 per cent;
   3) Retain the Liquidity Ratio at 30.00 per cent; and
   4) Retain the Asymmetric Window at +200 and -500 basis points around the MPR

d. Key Decisions of the Central Bank of Nigeria Monetary Policy Committee July 23 and 24, 2018. The Committee decided as follows:
   1) Retain the MPR at 14 per cent;
   2) Retain the CRR at 22.5 per cent;
   3) Retain the Liquidity Ratio at 30.00 per cent; and
   4) Retain the Asymmetric Window at +200 and -500 basis points around the MPR

The entire above are intended and aims at stabilizing the economy with the aid of monetary and fiscal policy and other micro economic effective measures.

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of findings

This study was meant to find out the Effect of Monetary and Fiscal Policy on Nigeria's Economic Growth. From the research study, it has been proven that Monetary and Fiscal policy plays a very important and vital role in Nigeria economic growth and development.

The paper has examined the various ways in which government monetary and fiscal policy has constrained monetary management in Nigeria. It established the fact that huge public spending by the government, over the years, had hampered monetary management resulting in the missing of monetary targets by wide margins, while induced serious pressure on the general price level. The paper also discussed the various fiscal reforms and examined the aftermath of the reform initiatives.

The study examined the empirical link on the effect of fiscal and monetary policy on the Economic Growth of Nigeria. The objectives were to determine factors of fiscal and monetary policy that contributed to the growth of Nigeria economy. It made use of secondary data, from Central Bank of Nigeria statistical Bulletin and employed the ordinary least squares method of statistical analysis.

Evidently, the achievement of sustainable economic growth through fiscal policy in Nigeria has remained a mirage. Despite the substantial increases in government expenditure over the years, the rate of economic growth has been very low and sluggish. The poor performance of fiscal policy has been ostensibly blamed on the problems of policy inconsistencies, high level of corruption, wasteful spending, poor policy implementation and lack of feedback mechanism for implemented policies (Omitogun and Ayinla, 2007). This study revealed that the effect of monetary policy on economic growth in Nigeria is much stronger than that of fiscal policy. This study therefore, recommends monetary policy for the purpose of economic stabilization.
5.2 Conclusion

Monetary policy is primarily concerned with the management of interest rates and the total supply of money in circulation and is generally carried out by central banks such as the U.S. Federal Reserve. Fiscal policy is the collective term for the taxing and spending actions of governments.

The paper examined the relative effectiveness of fiscal and monetary policy instruments on economic growth sustainability in Nigeria in order to determine the appropriate mix of both policies. The effectiveness of monetary policy in achieving its target objectives, therefore, depends strongly on the operating economic environment, the institutional framework adopted, and the choice and mix of the instruments used. Fiscal policy, on the other hand, involves the use of parameters such as taxation, budget and quotas that will influence government revenue and expenditure with a view to achieving macroeconomic objectives which monetary policy also stands to achieve.

Evidence has, also shown support for both monetary and fiscal policy in promoting economic growth in Nigeria. It is also evident from some studies that monetary rather than fiscal policy affected a strong and significant influence on the growth of the Nigerian economy.

Both monetary and fiscal policies are twin tools used by government to regulate the performance of an economy. While monetary policy refers to a combination of measures designed to regulate the value, supply and cost of money in an economy; fiscal policy is associated with the use of taxation, borrowing and public expenditure to influence the level of economic activities. It has been argued that the objectives of monetary policy include pursuit of price stability, maintenance of balance of payments equilibrium, promotion of employment and output growth, and sustainable development. These objectives are necessary for the attainment of internal and external balance, and the promotion of long-run economic growth of an economy. Fiscal policy is a deliberate action of government aimed at ultimately achieving similar objectives.

Finally, the paper revealed that both monetary and fiscal policy has always had significant positive impact on Nigeria’s economic growth and development.

6. BIBLIOGRAPHY

1. Analysis Of The Impact Of Fiscal Policy On Investment In Nigeria by Ejuvbekpokpo Stephen Akpo
15. Technology And Economic Development: The Case Of The Nigerian Economy by Mr. Enohong E. Nwiden
17. The Relationship Between Fiscal Deficit And Macroeconomic Performance In Nigeria Femi Okurounmu 2003

© Copyright 2018 International Journal of Zambrut | Scientific Researcher Group

Zambrut Access
https://zambrut.com
https://zambrut.com/monetary-fiscal/