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The Impact of Monetary and Fiscal Policies on Economic Growth in Nigeria

by

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Abstract

The fact that the major objectives of monetary and fiscal policies are stirred towards achievement and maintenance of sustainable growth and development is highly indisputable. In achieving this, capturing unemployment, price stability, favourable balance of payment, exchange rate stability and a boost in investment being the key macroeconomic variables remain imperative. Concealing this in mind, this study examines the effect of monetary and fiscal policies on economic growth in Nigeria. The study adopted correlation analysis, unit root (Augmented Dicker-Fuller), Ordinary Least Square (OLS) and Granger Causality tests on selected fiscal and monetary policies variables (money supply, interest rate, government revenue, government expenditure, etc). The study showed that money supply exerts greater impact on growth than government expenditure as the former is highly significant to growth. It was, therefore, recommended that monetary authority and the federal government should consider interest rate reduction and practical tax incentives as these will not only improve the level of investment but the immediate state of the economy.

Keywords: Fiscal and Monetary policies, Economic Growth, Ordinary Least-Square, Nigeria

1. Introduction

Monetary and Fiscal policies are the two major macroeconomic policies obtainable anywhere in the globe to achieve economic growth and sustainable development. Nigeria is not an exception of the countries whose major macroeconomic policies are monetary and Fiscal policy. One of the major objectives of monetary and fiscal policies in any economy is the achievement and maintenance of economic growth. The achievement of this is paramount not excluding achievement of other macroeconomic variables like; employment generation (full employment), price stability, attainment of economic development, equity in the system (income redistribution), achievement of balance of payment (BOP), exchange rate stability and increment in investment.

This is so because effective monetary and fiscal policy no doubt expands investment. Investment expansion leads to reduction in unemployment. This automatically exacts improvement in BOP and finally improves growth state of the economy within which other variables are captured. This in effect means that for any country to capture, maintain or build a sound economic structure must anchor on sound Fiscal and monetary policy. The word Fiscal refers to state treasury while fiscal policy refers to the use or management of the state treasury. (Dwivedi 2004:493). Some authors view Fiscal policy as that part of government policy concerning the raising of revenue through taxation and other means and deciding on the level and pattern of expenditure for the purpose of influencing economic activities. On the other arm, Monetary Policy (MP) refers to “a major economic stabilization weapon which involves measures designed to regulate and control the volume, cost and availability and direction of money and credit in an economy to achieve some specified macroeconomic policy objectives (Anyanwu 1993: 140).

The legal operation of MP in Nigeria dates as far back as 1958. This came up as a result of authority to formulate and implement monetary policy vested in the CBN outlined in the CBN Act of 1958 (and subsequent amendments). The CBN is noted to take the above responsibilities, based on the powers delegated on it by the Federal ministry of Finance (FMF) which represents the government.

Fiscal practices have been going on in one informal way or the other, until in 1930s, when it became imperative that the government must intervene into the management of the economy as a result of failure of the free market system. This evolved from Keynes following the advent of the great depression (1929-1933). Prior to the great depression, the classical economic thought that prevailed never advocated for government intervention but rather argued that the regulation of an economy should predominantly base on laissez-fair (Free market mechanism) and that the government intervention, if at all needed should be at the very minimum. However, the proposition of the classical economists was shattered by the great depression, as their theory could not proffer reasonable solution to the global recession. Due to the devastation and unprecedented nature of this problem, Keynes proposed that the government should be fully involved in the regulation of the economy if growth and stability must be achieved. In achieving and maintaining economic stability associated with fine-tuning the macroeconomic variables, some countries and some researchers adopt the principle of monetarist school of thought while some others adopt that of the Keynesians or the Fiscalist. However, experience has shown that none should achieve desirable result in isolation.

Despite the adoption of monetary and fiscal policies, sustainable economic growth and development associated with other macroeconomic trends of unemployment, inflation, system inequality, deficit Balance of Payment (BOP), low rate of investment, exchange rate instability still pose threat to the entire world especially in developing countries like Nigeria. It is therefore as a result of these problems that the researcher is prompted to carry out this empirical research to find out if the conduct of monetary and fiscal policies so far in Nigeria has been effective or not in stabilizing the economy of Nigeria. This however, means that the predominant focus here is how to attain sustainable growth and development with effective monetary and fiscal policies. We obviously know that with the effective management and application of monetary and fiscal tools, reasonable scenario could be overcome and effective results achieved. Therefore, overcoming the problem of macroeconomic instability thereby achieving sustainable growth through adoption of sound monetary and fiscal policies in Nigeria has been the

main aim of this study. The trends in the monetary and fiscal variables are reflected in figures 1 and 2 in the appendix.

2. Statement of the Problem

Some of the macroeconomic objectives of monetary and fiscal policies in Nigeria being channeled towards controlling price volatility, improving employment level, improvement in investment associate with achievement of sustainable growth, the monetary authority and the Federal government through the Federal ministry of Finance have made considerable efforts over the years to ensure that these objectives are achieved. But closely observing the economy of Nigeria, one could note that inflation for instance has been one of the major threats to the country's growth performances. In 1978 for instance, the rate of inflation in Nigeria as revealed in figure 1 at 0.70%. That notwithstanding, inflationary rate has not declined but rather increased to 10.42% in 1992, 16.80% in 1993 and increased to a high rate of 167.40% in 2007 (CBN 2010) which is so detrimental to the growth performances in the country. With respect to the constant increase in the rate of inflation in Nigeria therefore, increment in money supply as revealed by the same figure has been responsible while monetary authority and the federal government have been adjusting the rates of interest, revenue and expenditure as could be observed in figure 1 and 2.

In order to improve the level of employment and investment which lead to growth, the monetary authority has tried in various years to adjust interest rate. Figure 1 show that the rate of interest was as low as 5% for both 1978 and 1979. This only increased by 1percentage point and maintained 6% for both 1980 and 1981 (CBN, 2010). There was gradual upward movement until in 1990 when it became 18% and later declined to 14.29% in the following year. It got to its peak of 22.69% in 1996 which is considerably very aggressive to achieve improvement in investment and employment. At such, one can hardly guarantee sustainable growth performance of the economy though this eventually declined to, as low rate as 4% and 3% respectively, between 2000 and 2007.

The government on the other arm, have made reasonable effort to improve both employment and investment as the growth rate of tax as revealed in figure 2 which was at 48% in 1979 declined to 39.6% in 1980 to -12.7 and -14% in the consecutive two following years. The level of tax growth kept adjusting but maintained a stable rate of 6.7% in 2005, 2006 and 2007. The expenditure of the government which was formerly at -9.3% in 1978 improved to -7.4% in 1979, 102.1% in 1980 and maximum of 106% in 1993, thus declined to 22.2% between 2005 and 2007 (CBN 2010).

It was also observed that in order to achieve sustainable growth and development in Nigeria, both the monetary authority and the government have made stringent efforts through adjustment in money supply, interest rate, tax and expenditure but the threat of unemployment and declining rate of investment, price volatility, still weakens the growth rate in Nigeria. Observer shows that in 1978 GDP rate was 15.1%, this declined to 10.1% in 1979, though increased to 20.5% in 1980 following high rate increment in money supply but this declined to 3.6% in 2007 (CBN 201

3. Objective of the Study

The objectives of this study include:

- 1 To evaluate the effect of monetary and fiscal policies on economic growth in Nigeria.
- 2 To evaluate the degree of causal relation between the key monetary and fiscal variables and economic growth.

Research Questions

Based on the context of this study, the following research questions have been formulated:

- 1 Have monetary and fiscal policies affected positively on economic growth in Nigeria?
- 2 Is there any causal relationship between key monetary and fiscal variables and economic growth in Nigeria?

Research Hypothesis

$H_0 = 0$, Monetary and Fiscal policies have no positive effects on economic growth in Nigeria.

$H_1 \neq 0$, Monetary and Fiscal policies have positive effects on economic growth in Nigeria.

$H_{20} = 0$ There is no causal relation between monetary and fiscal variables.

$H_{21} \neq 0$ There is causal relation between monetary and fiscal variables.

4. Justification of the Study

The justification of this study is derived from problem statement and the objective and it boils down to identifying to what extent, monetary and fiscal policies have impacted economic growth in Nigeria. Another justification of this study is anchored on the fact that several carried studies carried out on the same subject matter yielded contradictory and inconclusive results. As such, policy makers could not efficiently use them as a tool for improving economic growth. Again, past studies on the effectiveness of fiscal and monetary policies in achieving economic growth in Nigeria from so many flaws including inconsistency in the data set, weak model adopted in the study.

5. Literature Review

Review of Theoretical Literature

This section discusses the various theories of monetary and fiscal policy as proposed by both the monetarists and fiscalists (Keynesian) after which the study looked at the nature and activities of monetary and fiscal policies during the pre SAP and post SAP periods which covered the periods of oil boom in Nigeria.

The Classical Theory of Money Demand and Supply

The classical economists otherwise known as the monetarists argue that it is only monetary policy that could be used to achieve sustainable growth. To support this, they went further introduce the quantity theory of money, an equation popularized by Irvin Fisher. The classical economists only recognized two motives for which money can be held as transactionary and precautionary. Hardly did they recognize that money could as

well be demanded for speculation. With respect to this where M = quantity of money in circulation; V is the velocity of money; P is the price; and T stands for the transaction over time.

Fisher developed this equation known as Fisherian equation of exchange, otherwise called quantity equation. This equation is thus $MV = PT$ (1) with a simplified version of which is $MV = \sum PQ$ (2). On the contrary $\sum PQ = P_1q_1 + P_2 + q_2 + \dots P_nq_n$ (3)

Where P_s and q_s are the multiple individual prices and output or commodities respectively summed together or simply understood as price and output in different times. The above price and output models have shown the lack of interest or better still the outright ignorance by the classical economists on the third motive of holding money.

However, the various schools of thought in economics agreed that interest rate is highly essential as an effective tool in the piloting of the economy but the classical argue that it is only monetary policy that the economy needs to succeed, the intervention of the government they say is unimportant.

The Keynesian Theory of Money

Here, the Keynesians argue that money is just a necessary instrument used to drive the economy as money is demanded and supplied. At such, the economy needs fiscal policy to succeed. To support this argument, he opined that the economy is made up of M_1 and M_2 being the economic notations of narrow and broad money. In explanation M_1 = currency in circulation (Currency outside Bank) and Demand deposits : $C + D$. Meanwhile, $M_2 = M_1 + \text{Time deposits} + \text{savings} (M_1 + T + S)$ (4)

Due to the fact that there is need to note the avenue through which money plays a good role in the manipulation of the economy, Keynes went ahead saying that money as an instrument is held for the following three motives (Transactionary motive, Precautionary motive and Speculative motive).

However, for equilibrium to be attained in the financial market, both money demand and money supply must be equal. That is $M_d = M_s$. Keynes further speculates on the issue of liquidity preference and he emphasizes that, liquidity preference is the a potential or functional tendency which fixes the quantity of money the public will hold when the interest rate is given. The relationship is specified as follows: $M = L(r)$ (5)

Where r stands for interest rate, M is the quantity of money and L a function of liquidity preference.

Theories of Fiscal Policy

The Keynesian theory came up arguing that the decision made by the private sector of the economy sometimes lead to certain macroeconomic inefficient outcomes (Keynes, 1936). Prior to this, the monetarists argued that supply creates its own demand, at such, the dominating machinery of the economy is the private sector.

Owing to the above argument, the Keynesians still argued that even though there is a commensurate demand which is promotional to supply, unemployment would be a natural consequence. Based on this, Keynes (1936) proposed that the mainstream inducement of the economy is not only reduction in interest rate but government infrastructural investment.

In compensating infrastructural investment, Keynesians equally argued that in order to achieve full employment or other circumstances, the government may channel its policy towards minimum wage legislation. In some cases, in advent of expenditure of the

government being ahead of revenue, in order to curb certain trends like inflation, the Fiscalists argue that there could be increment in tax.

Rawls (1971) opined that fiscal policy is ideal in redistributing income while attributing that one can involve into an activity because of affordability by certain class of people so also the government in quest to redistribute income can venture into certain services. These services could be building of hotels and resorts where the rich goes at outrageous conditions while the excess generated over time is used for the general welfare.

In solving the problem of balance of payment deficit the fiscalists advocate for expansionary fiscal policy. If in a given period of time, it is found that the investment level in a country is lower than the required level for a stipulated or targeted rate of growth of a country, expansionary monetary policy seconded by fall in interest rate are highly imperative. When these are done, the investors will not only have fund at their disposal but at cheaper rate.

Fleming-Mundell (1999) opined that Fiscal expansion expands investment and savings. On this view, even though fiscal expansion alone has the problem of not being able to restore the equilibrium of the economy back to its optimal position because it has upward effect on interest rate, the output (national income) improves. Theoretically, expansion in investment and savings which viz a viz improves the growth state of the economy proudly expands the employment level and unemployment reduced. Mankiw (1997:274) is rather indifferent on this theory.

Empirical Literature

This section deals with various views and findings as evidenced by other researchers who have carried out investigatory study on the same issue. Regarding this topic, there have been several argument by various scholars based on the various studies carried out at various locations of the world. This argument however emanated from the classical economist and ranges through the fiscalists school of thought (Keynesian). In this case, the classical economists have maintained that it is only monetary policy that can improve the growth rate of any economy while the fiscalist economist are of the view that fiscal policy is the prime mover of the economy. Based on this argument therefore, we have the following scholarly evidences:

Darat (1984), after testing monetary and fiscal variable in his study, forward out that fiscal policy rather than monetary policy is more viable for any reasonable amount of growth to take place in any country.

Ajayi (1974), after applying the method of OLS in studying monetary and fiscal variables, in which he used change in money supply and change in government expenditure on change in nominal GNP came up with the conclusion that monetary policy is more potent than fiscal policy in terms of moving the economy forward.

Elliot (1975), after examining the relative importance of changes in money supply and Government expenditure in order to compare fluctuations in nominal GNP, with the application of St. Louis equation, rather came up with the result that supports that money supply is more responsible for the change in nominal GNP than Government expenditure.

Another study carried out in other to find the relativeness of these two stabilization policies by Battern and Hafer (1983) found that monetary action has greater influence on the nominal GNP than fiscal action in Japan, Canada, Germany, France, and UK using St. Louis equation.

Andersen and Jordan (1986) after testing empirically the relationship between the measures of fiscal and monetary actions and spending for United States using quarterly data, by regressing change in GNP on money supply, budget surplus, government expenditure and government revenue, found out that the influence of fiscal action on economic activities occurred faster than that of monetary action. Therefore fiscal policy is found more influential to growth.

On the other arm, based on the study carried out in Bangladesh, use of OLS technique of St Luis equation on growth rate of nominal income, money supply, government expenditure and export, it was as well discovered that fiscal rather than monetary action had greater influence on economic activities (Chowdhury 1986).

On the same vein, Olaoye and Ikhide (1995) based on the result of their study, after using the technique of St. Louis equation on a depressed economy, had no other option than to conclude that fiscal policy especially in the period of depression more effective than monetary policy.

Aigbokhan (1985) opined that more emphasis should be laid on fiscal policy in less developed countries rather than on monetary policy for more effective economic performance.

However, Familoni (1989) argued that in order for monetary policy to achieve or produce its desired result in any economy, it must be integrated with appropriate fiscal measures. This means that both fiscal and monetary must complement each other in order to improve the state of the economy.

Asogu (1998), based on the result obtained after opting the method of modified version of St Luis equation, concluded that the coefficient of money supply were statistically significant while that of fiscal variables were not. This notwithstanding renders monetary policy more effective than fiscal policy.

Ajisafe and Folorunso (2002) after making use of GDP proxied, money supply, government revenue, expenditure and budget deficit, for co-integration an error correction found that monetary policy than fiscal policy exacts a greater impact on the economic growth of Nigeria. Despite this finding, they opined that great importance should be attached to both policies in order to achieve sustainable development.

Adefeso and Mobolaji (2010), in the study in which they proxied GDP on money supply and government expenditure in co-integration and error correction technique, concluded that the effect of monetary policy is much stronger on improvement of growth than fiscal policy, though they complement each other. Therefore we cannot say that monetary or fiscal policy should be single handedly applied but rather the two. The degree emphasis and direction of each strictly depends on the trend and objective in the economy at the time of commencement.

6. Materials and Method

Theoretical Underpinnings

In contrast, it is imperative to note that there is no way monetary and fiscal policy could be identified without the presence of money supply, inflation, interest rate, exchange rate, government revenue, government expenditure, domestic debt, external debt and balance of payment. This is because of no other reason than the fact that money supply for instance, theoretically and empirically is found to cause inflation. Therefore, money supply (MS) and inflation (inf) are positively related.

Conversely, interest rate undoubtedly has an inverse relationship with inflation. This means that the higher the rate of interest, the lower the rate of inflation, other things being equal.

Exchange rate on its own arm has a relationship with the growth of an economy. Thus it is significantly noted that lower or cheaper local currency against others increases inflation thus tending higher prices of goods and services with positive impact of improving the balance of payment which injects positive effect on the growth of the local economy. On the other arm, with appreciative value in the local currency, the economy compresses and inflationary rate curtailed.

However, government revenue is found to have inverse relationship with growth. This means that increase in government revenue as well leads to decrease in the growth rate of an economy though subject to reducing inflation. Since increase in government revenue leads to decrease in growth rate and inflation, therefore, increment in government revenue maintains inverse relationship with growth, inflation and balance of payment.

On the arm of the expenditure of the government, it maintains a positive relationship with growth, inflation and balance of payment. However, it is noted that increment in government expenditure leads to increment in growth, inflation and improvement in BOP other things being equal.

On the contrary increase in government expenditure can equally lead to increment in debt (domestically and externally) which depends on the government functions and objectives in a given time.

Having seen that monetary and fiscal policy variables are numerous, we therefore limit our independent variables to four in our model, holding Gross Domestic Product (GDP) constant. The dependent variable here being GDP, the other variables considered independent variable were money supply (MS), interest rate (R), government revenue (Rev) and government expenditure (Exp).

Model Specification

The model is specify to follow the functional relationship between monetary and fiscal policies variables thus,

$$Y_t = f(MP_t, FP_t) \tag{5}$$

Where Y_t stands for GDP, MP_t represents monetary policy variables and FP_t is for fiscal policy variables

The monetary and fiscal policy variables here were; Money Supply (MS), Interest Rate (R), Revenue (Rev) and Expenditure (Exp). Looking at a-priori expectation, MS and Exp are meant to be positively related to GDP while R and Rev are known to maintain negative relationship with GDP. Haven identified the variables to be used in evaluating monetary and Fiscal policies as GDP, MS, R, Rev and Exp, however, the growth rate of the economy was represented by GDP.

Decomposing MP and FP, equation (1) can be rewritten as follows:

$$GPD = f(Ms, R, Rev, Exp) \tag{2}$$

Given the above equation, the behavioural form is expressed as follows:

$$Y_t = \alpha_0 + \alpha_1MS_t + \alpha_2R_t + \alpha_3Rev_t + \alpha_4Exp_t + U_t \dots \dots \dots (6)$$

Where α_0 is constant intercept, $\alpha_1, \alpha_2, \alpha_3, \alpha_4$, are the slopes or parameters, U_t is the random error term which makes the equations stochastic function. However, in order to

standardize the value and allow for interpretation of the coefficients as elasticities, we then derive the log values or out rightly translate our equation into log form thus:

$$\text{LnY} = \alpha_0 + \alpha_1\text{LnMS} + \alpha_2\text{LnR} + \alpha_3\text{LnRev} + \alpha_4\text{Ln Exp} + U \dots\dots\dots(7)$$

Based on the condition that money supply, interest rate, government revenue, and government expenditure are the four variables strictly considered to be regressed (regressors) against the growth rate (regressand), the following are considered the basis of our analysis in our multiple regression.

Data Source

This study generated the necessary data from the Central Bank of Nigeria’s Statistical bulletin 2010 and World Development Indicators (WDI) database of the World Bank with specific reference to African Development Indicators (ADI). The necessary data for our study covered the period 1970 – 2013 for Nigeria only.

Method of Data Analysis

This study employed correlation analyses, unit root tests, ordinary least squares (OLS) as well as causality tests in analyzing various objectives and hypothesis testing. Details of the various techniques are presented thus:

Unit Root Tests (Stationarity Tests)

The use of time series data in econometric analysis poses several challenges to researchers. Stationarity of time series data is one of these problems, since a time series that is non-stationary is bound to yield spurious regression. A series is said to be stationary if its mean and variance are constant over time and the value of covariance between two time periods depends only on the distance or lag between the two time periods and not on the actual time at which one covariance is computed Gujarati (1995). Considering that most time series data are non-stationary and therefore produce spurious results, unit root tests should be conducted before testing for co-integration.

The study used the Augmented Dickey Fuller (ADF) test to determine the optimal length in the dependent variable. This was done to ensure that there was no serial correlation in the residuals. The ADF test addresses a shortcoming of the Dickey Fuller test of not considering the possibility of autocorrelation in the error term by adding a lagged difference term, and therefore corrects for high-order serial correlation. Even though the above mentioned tests were used to determine the optimal lag length, Brooks (2002) pointed out that using too few lag lengths will remove all of the autocorrelation and using too many will increase the coefficient standard errors, and will use up the degrees of freedom from the increase in the number of parameters. To address this problem, a number of Information Criteria (IC) such as the Akaike Information Criteria (AIC), Hannan Quinn (HQ), Schwartz's Bayesian Information Criterion (SIC), and the general to specific procedure as were adopted in this study and can be used to ensure that the residual of the ADF regression is white noise. The ADF model is given as follows:

$$\Delta X_t = \alpha + \beta_t + \delta X_{t-1} + \sum_{j=2}^q \delta \Delta X_{t-j+1} + \varepsilon_t$$

Where

Δ is the difference indicator

α is the constant term or the drift

β is the linear deterministic trend (or time trend)

ε is a white noise error term

As highlighted in Tshoele (2006: 88), when the difference term is not included, the ADF model reduces to a DF (Dickey Fuller) model.

Causality Test

Here the application of Granger causality test was obvious. The essence of this was to ascertain the compatibility of economic theories on the variables affected. The results on the application of this, however, tells us which variables causes which on which the judgment implicates the theoretical plausibility of such.

7. Data Analysis and Discussion of Results

Table 1: Results of Unit Root Test

Variables	ADF value	Level of difference or order of integration	Level of significance
LNGDP	-5.983231	1 ST	1%
LNMS	-2.729027	1 ST	10%
LNIR	-3.301229	1 ST	1%
LNRV	-4.840629	1 ST	1%
LNEX	-2.719249	1 ST	10%

Source: Author’s

Result of Multiple Regressions

$$\text{LNGDP} = 0.812 + 0.813 \text{LNMS} - 0.058\text{LNIR} - 0.047\text{LNRV} + 0.308\text{LNEX}$$

(0.991) (3.856) (0.325) (0.212) (1.086)

$R^2 = 0.96$; Adj. $R^2 = 0.957$; D W = 2.06

F (44, 39) = 162.97 (0.000)

Table2 : Causality Tests Results

Null Hypothesis:	Obs	F-Statistic	Probability
LNMS does not Granger Cause LNGDP	28	8.01598	0.00228
LNGDP does not Granger Cause LNMS		1.41194	0.26401
LNIR does not Granger Cause LNGDP	28	0.58427	0.56557
LNGDP does not Granger Cause LNIR		4.91824	0.01666
LNRV does not Granger Cause LNGDP	28	2.52103	0.10234
LNGDP does not Granger Cause LNRV		1.81084	0.18606
LNEX does not Granger Cause LNGDP	28	2.06846	0.14925
LNGDP does not Granger Cause LNEX		0.39311	0.67940
LNIR does not Granger Cause LNMS	28	0.14053	0.86964
LNMS does not Granger Cause LNIR		4.52725	0.02199
LNRV does not Granger Cause LNMS	28	1.09721	0.35065
LNMS does not Granger Cause LNRV		1.37570	0.27268
LNEX does not Granger Cause LNMS	28	0.30977	0.73663
LNMS does not Granger Cause LNEX		0.67275	0.52006
LNRV does not Granger Cause LNIR	28	5.97161	0.00815
LNIR does not Granger Cause LNRV		1.29212	0.29389
LNEX does not Granger Cause LNIR	28	5.52984	0.01094
LNIR does not Granger Cause LNEX		3.96745	0.03309

LNEX does not Granger Cause LNRV	28	3.99613	0.03239
LNRV does not Granger Cause LNEX		0.63357	0.53971

Source: Author's

The unit root test result suggested that all variables were stationary at their first level of difference with the level of significance of 1% and 10%. However, the time series characteristics did not bother about the Philip-Peron (PP) given the high degree of convergence with the Augmented Dickey-Fuller (ADF).

The regression result showed that money supply was positively related to the gross domestic product to the extent that a one percent increase in the money supply would propel the gross domestic by 8 points and this increase in GDP was remarkable given the level of significance of 1%. An inference from this result is that, in Nigeria, the more money is supplied into the economy the higher the growth rate of the economy. Going by the elasticity between the inflation rate and the gross domestic product, one may not be wrong by arguing inflationary trend in the country rather discourages growth but the effect is marginal. This is because the coefficient of elasticity between the two variables is about -0.006 and the magnitude is not significant even at 10%. The totally collected revenue of the federal government has a negative pressure on the gross domestic product, an evidence of inverse relationship between the two variables applying a simple mathematic on the interaction between government revenue and the GDP the result revealed that a 1% increase in the revenue will lead to a small in the gross domestic product to the turn of 0.05%. It was observed that a decrease in the GDP did not affect significantly the rate at which economy grows in Nigeria. The policy import of this behaviour is that government should be careful in the area where the revenue is being generated. However, the government expenditure coefficient indicated that the total government expenditure encouraged the growth process in Nigeria. With a value of about 0.31 and a weak statistical value, it was suggested that government should place emphasis on capital expenditure as this will enhance the domestic production and therefore the economic growth. The summary statistics revealed that the independent variables explained up to 96% thae variations in the gross domestic product, an indication that the model has been fairly predicted. The Durbin-Watson coefficient falls within the interval of confidence suggesting the absence of autocorrelation.

8. Summary of Findings

Summary of Findings

Haven gone through the effect of Monetary and Fiscal Policies on Economic Growth in Nigeria, we can neither say that the two policies have failed completely nor so favorable. However, the results of our unit root test show that, all the key monetary and fiscal policy variable including the dependent variable are all stationary at 1st order of integration at different levels of significance.

The results of the study were mix in the sense that both monetary and fiscal policies have positive and negative impact on growth in Nigeria. For example, the coefficient of money supply exerted positive pressure on the GDP, meanwhile interest which is a policy variable on the monetary arena was found to be inimical to the growth process. But, government should be conscious about the inflationary trend that may arise if uncontrollable amount of money is supplied into the economy. Other the hand ingredients of fiscal policy present mix results. Particularly, when the elasticity coefficient

between government revenue and the gross domestic product is negative but the government expenditure over the years studied is positively linked to the GDP. The policy import of this scenario is that, the federal government should focus on the fiscal and monetary policy variables that if adjusted will push up the gross domestic production. It is not a secret that high interest rather discourage private investors who participate actively in the growth of the economy. One way to encourage their contribution to the gross domestic production is to adjust the lending rate downward and this further encourage them to borrow for investment purposes. More significant on GDP of our economy at the level of 0.813106. This advocates for the claim that money supply so far has gone a long way in stimulating growth in Nigeria. Government expenditure on the same vein adheres to the postulation that it stimulates the level of economic performances of any country as the coefficient of this based on the Nigeria economy is 0.308565. These being the case, it was, therefore, summarized that Monetary and Fiscal policies in Nigeria though have impacted positively in Nigeria but not on equal basis, thus, the a priori criteria are met here. Looking at the degrees and nature of our causal relation among the key monetary and fiscal variable, we maintain that they are theoretically plausible.

9. Recommendation

It was recommended from the study that the monetary authority and especially the government should be more effective in operation and application of monetary and fiscal policies in order to reduce the trade-off of unemployment. It was further recommended from the study that the lending rate be reviewed downward in order to encourage investors as this process will increase tax revenue. In sum, Nigerian government should adhere to stringent fiscal discipline.

10. Conclusion

Considering the analysis of this study, we conclude that monetary and fiscal policies in Nigeria have effected positively to improve growth of the economy. In precision, it is discovered that the coefficient of money supply as revealed in our multiple regression is more significant than that of government expenditure. This, therefore, drags us to the conclusion that monetary policy has made more impact to improve the economy of Nigeria than fiscal policy though not as expected.

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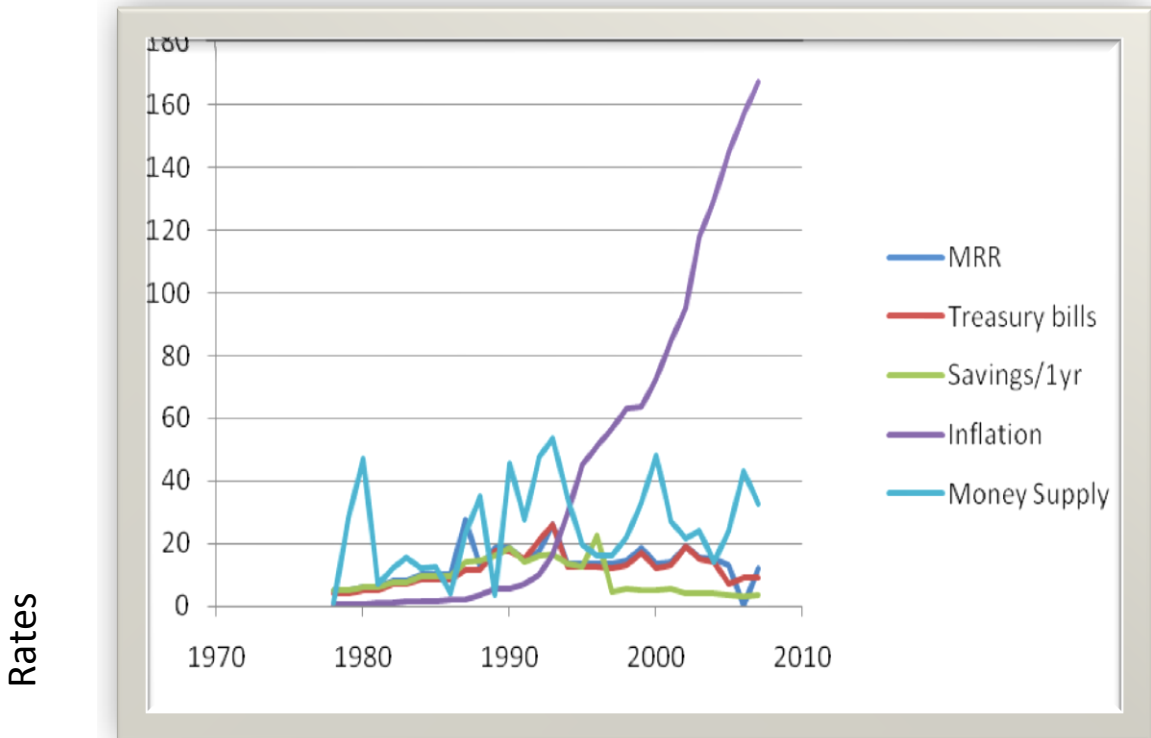
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ANNEX VII: DEFINITION OF TERMS

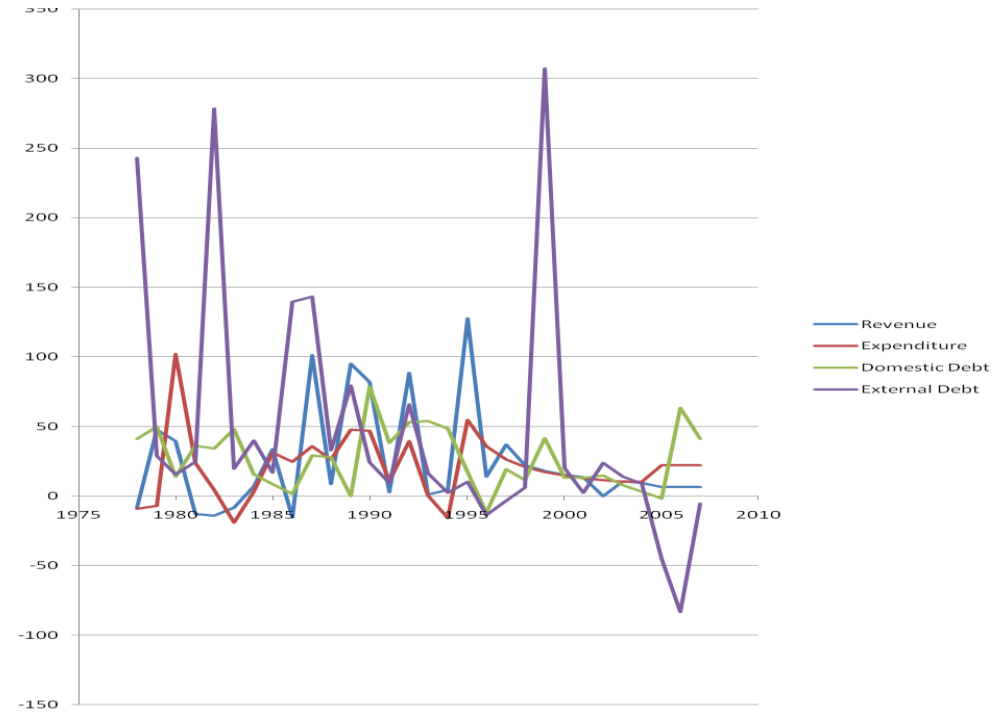
OMO:	Open market Operations
MS:	money Supply
MP:	Monetary Policy
FP:	Fiscal Policy
MRR:	Minimum Rediscount Rate
IR:	Interest Rate
CC:	Credit Ceiling
RR:	Reserve Requirement
CRR:	Cash Reserve Ratio
SS:	Stabilization Security
IDP:	Interest Draw Back Programme
BRB:	Bank Recapitalization Base
CBN:	Central Bank of Nigeria
GDP:	Gross Domestic Product
FMF:	Federal Ministry of Finance
BOP:	Balance of Payment
DR:	Discount ratio
BOFID:	Banks and Other Financial Institution Decree
NDIC:	Nigerian Deposit Insurance Company
FMM:	Free Market Mechanism
NACRDB:	Nigerian Agricultural Co-operative and Rural Development Banks
BOI:	Bank of Industries
ACGSF:	Agricultural Credit Guarantee Scheme Fund
SMEs:	Small and Medium Enterprises
CIRD:	Centres for Industrial Research and Development
CMD:	Centres for Management Development
PRODA:	Project Development Agency
FIIRO:	Federal Institute for Industrial Research Oshodi
RMRDC:	Raw Materials Research and Development Council
NX:	Net Export
TC:	Treasury Certificate

Figure 1: The Trend in Money Market Rates, Inflation, and Growth Rate of Money Supply.



Source: Central Bank of Nigeria (CBN) Statistical Bulletin (2010)

Figure 2: The Trend in Growth Rates of Government Revenue, Expenditure, Domestic Debt and External Debt.



Source: Central Bank of Nigeria (CBN) Statistical Bulletin (2010)

Rates