

## THE MONETARY & FISCAL POLICIES IN SUPPORT OF ECONOMIC TRANSFORMATION AND INCLUSIVE GROWTH IN NIGERIA

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### Abstracts

*There is a plethora of literature on Monetary/Fiscal Policies - economic development nexus. This has prompted interest in inclusive Growth. This probably explains why governments and policy makers are now tinkering with ways to situate and develop a permanent solution to the widened gap in broad range of financial services which of course are necessary for inclusive growth. Financial inclusion otherwise known as "inclusive growth" can be seen as the delivery of financial services at affordable costs to sections of and low-income groups. Due to incessant desire to incorporate disadvantaged segment of the society into financial net, both monetary and fiscal authorities have embarked upon a robust strategy toward addressing the gap. The former (monetary authority) had set out a visible road map necessary for direct effect on savings, investment, rate of interest, pension and general form of financial services, while the later (fiscal authority) have been making a remarkable effort toward achieving sustained economic growth especially in rural areas. These would translate accelerated and friendly society necessary for effective implementation of Financial Inclusion Strategy and thus would stimulate economic development generally, more new jobs would be created, and society would also be empowered to generate more wealth and making the economy competitive. Inclusive growth is thus arguably popular with most governments on the global priorities, and Nigeria is not left out of the milieu. This paper attempts to establish a synergy between monetary/fiscal policies and strategy for achieving inclusion in Nigeria. Hypothesis would be tested to determine the degree of effectiveness of the policies on financial inclusion. It is expected that the research's findings would show high degree of effectiveness on exclusion rate in the country. Nevertheless, Nigerian monetary and fiscal policy stance has been the attainment of price stability and sustainable economic*

*growth and thus, this would assist the actualization of inclusive growth in Nigeria. However, the financial inclusion strategy embarked on by government seems not to be yielding desired results; hence this study uses some selected case studies to find out what is wrong with the Nigeria's NFIS. It was found among others that: infrastructure deficit play the major role in discouraging the full implementation of the scheme. Moreover, insecurity in major commercially viable cities, especially in the northern region is also hindering the market potential of these locations to be recognized by potential investors to showcase their broad range of product and services there.*

**Keywords:** *Microfinance, Financial Inclusion, Financial Exclusion, Inclusive Growth, Monetary policy, Fiscal policy, Central Bank of Nigeria*

### **Background to the Study**

Monetary policies implemented in recent years in Nigeria have been aimed at fast tracking economic reform programmes with the objective of providing enabling financial system infrastructure and environment to support sustainable economic growth. The monetary authority(CBN) at different times has used direct and indirect approaches to address key problems of instability in interest rate regimes which are believed will have direct effects on money supply and inflationary trend as well as productivity in the short run, while in the long run will affect rate of economic growth. It must be noted that the effectiveness of a monetary institution like the CBN can only be measured from the perspective of stability in interest rate, exchange rate, money supply, inflation in the short term and rate of economic growth in the long run.

Ajie and Nanbee (2010) posit that monetary policy /the act of controlling the supply or price of money, may exert a great influence over the economy. So also Ajisafe and Folorunso (2002) believed that macroeconomic policies in developing countries, Nigeria inclusive, are designed to stabilize the economy, stimulate growth and reduce poverty. Monetary policy formulation is based on the duo of money supply and credit availability in the economy. In ensuring monetary stability, the CBN implements policies that guarantee the orderly development of the economy through appropriate changes in variables that influence money supply using such instruments as the cash reserve requirement, liquidity ratio, open market operations to influence credit operations of the banks and movement of reserves (Masha et al 2004)

One may be tempted to conclude that the use of monetary policy variables in Nigeria seems not to have led desired level of economic growth given the dismal performance of the economy in recent years. Paul (2013) insisted that the last two decades witnessed series of reforms aimed at the revitalization of the Nigerian economy owing to series of crises that had negative effects on the growth of the economy as a derivative of structural imbalances in the monetary system. Donli (2004) contends that these structural imbalances or defects consisted of undiversified monolithic and monoculture production based and public revenue sources (shift from agriculture as a sources of revenue to petroleum since 1973). These over reliance on external derivivers rather than internal one had putted the economy to undue advantage, owing to the fact that the population explosion has been the order of the day.

### **Literature Review and Theoretical Framework An Overview of Financial Inclusion in Nigeria**

The concept of Financial Inclusion has been increasingly attracting the global attention since the publication of the World Bank Policy Research Working Paper 6025 on Measuring Financial Inclusion in April 2012 (The Global Findex Database). Financial inclusion has been defined as: “the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society” (Wikipedia), These services include access to: Account at a Formal Financial Institution, Access to Formal Accounts, Use of Formal Accounts, Mobile Payments, Savings, Credit and Insurance. Since the early 2000s, the term "financial inclusion" has gained importance as a result of findings about financial exclusion and its direct correlation to poverty. The United Nations (UN) defines the goals of financial inclusion as: (1) access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance; (2) sound and safe institutions governed by clear regulation and industry performance standards; (3) financial and institutional sustainability, to ensure continuity and certainty of investment; and (4) Competition to ensure choice and affordability for clients.

Different views were expressed as to the relationship between the Financial Inclusion, poverty eradication and economic growth and development. According to the Deputy Governor (FSS) of Central Bank of Nigeria “The main reason for this is the promise which financial inclusion holds in addressing global poverty, income inequality, under development and welfare. It is believed that when everybody in the world has access to financial services, their joint contributions to the entire development process will create faster and more quantitative impact” (Moghalu 2013). While the former UN Secretary-General Kofi Annan, on 29 December 2003, said: “The stark reality is that most poor people in the world still lack access to

sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives". A survey conducted in Nigeria in 2008 by Enhancing Financial Innovation and Access (EFInA) revealed that about 53.0% of adults were excluded from financial services. The global pursuit of financial inclusion as a vehicle for economic development had a positive effect in Nigeria as the exclusion rate reduced from 53.0 % in 2008 to 46.3 % in 2010. Encouraged by the positive development, CBN in collaboration with stakeholders launched the National Financial Inclusion Strategy (NFIS) on 23rd October, 2012 aimed at further reducing the exclusion rate to 20% by 2020. Specifically, adult Nigerians with access to payment services is to increase from 21.6% in 2010 to 70% in 2020, while those with access to savings should increase from 24.0% to 60%; and Credit from 2% to 40%, Insurance from 1% to 40% and Pensions from 5% to 40%, within the same period.

To achieve these targets, Nigeria joined other 20 developing countries and made financial inclusion commitment referred to as the "MAYA DECLARATION", in Mexico. The number of countries increased to 35 in September 2012, which culminated into the Alliance for Financial Inclusion, Global Policy Forum in Cape Town, South Africa. Nigeria through CBN, targeted to increase Deposit Money Banks (DMBs) branches from 6.8 units per 100,000 adults in 2010 to 7.6 units per 100,000 adults in 2020, microfinance bank branches to increase from 2.9 units to 5.5 units; ATMs from 11.8 units to 203.6 units, POSs from 13.3 units to 850 units, Mobile agents from 0 to 62 units, all per 100,000 adults between 2010 and 2020.

### **Thoughts on Financial Inclusion, Growth and Monetary Policy Implementation**

There is limited literature investigating the specific relationships between financial inclusion and monetary policy transmission. Most studies have focused on the effect of financial inclusion on growth, income inequality, and poverty reduction. Cross-country evidence relates to the benefits of financial depth rather than to broad financial inclusion; whereas deep financial systems are not necessarily inclusive ones, especially when financial access is heavily skewed toward the wealthy (CGAP, 2012). Financial inclusion is generally defined as ensuring access to formal financial services at an affordable cost in a fair and transparent manner (FATF, 2011a, p. 12 in De koker and Jentzsch, 2013). In the past decade, the multilateral agencies have promoted financial sector deepening as a means to improve economic growth, reduce poverty, and promote social inclusion.

Perceived benefits of financial inclusion, preliminary data, and strong anecdotal evidence can be found in Demirgüç-Kunt et al. (2008) and De koker and Jentzsch (2013).

Maskin's Alternative Theory posited that globalization ensures “enhanced international production”. The theory was developed based on some assumptions that are ingredients for ensuring inclusive growth. It assumed four competing skills (A, B, C and D), A and B are found in rich country while C and D in emerging countries. Higher skills (A and B) earn more than lower skills (C and D). Raising the skill levels of (lower skill workers) can reduce inequality and this would in turn empower the lower skills to take advantage of financial services and convert their potentials to reality through access to credit. It should be noted that, inclusive finance enhances sound monetary policy formulation in any given country. More clarity can be obtained by painting a picture that takes into cognizance the nature of output and value addition. A bit of theory here – the Lewis 2-sector theory named after Arthur Lewis the first and only Blackman ever to win a Nobel Prize in Economics proposes that every economy is made up of two sectors initially. The first sector is a primary often agrarian labour intensive sector with the other being a capital intensive industrial one. Lewis left out the services sector as he felt distributive activities take prominence after a country attains a high economic growth. More clearly, after countries have attained high growth rates, their citizens become less interested in efficiency and more agitated about equitable distribution of growth. Furthermore, the services type economy requires a higher level of human capital than the previous types. This distribution of growth is achieved through equal participation by the citizen in economic activities of the state and this would eventually compel people to partake in financial services; at least savings.

Market imperfection has however been the setback to this theory. Market imperfections exist when buyers are uninformed, public goods exist, the number of firms is small, property rights are weak and thus would limit subsidy in Organization for Economic Co-operation and Development (OECD) countries benefits of globalization & inclusive growth in emerging countries. The “no free lunch” syndrome from advanced countries counters the realization of this theory where “free trade is not really free for developing countries” and the weight of Non-tariff barriers is another setback.

### **Current Position of Nigerian Economy**

External shocks remain a concern for the Nigerian economy. According to the IMF's World Economic Outlook, the global economy is expected to marginally slow by 0.1 percentage points (compared to the April 2012 forecast) to 3.5 percent. In the United States, GDP growth slowed by 0.5 percentage points from the first quarter of this

year to 1.5 percent in the second quarter. The Eurozone's economy contracted by 0.2 percent in the second quarter of this year, while oil prices (OPEC basket) have rebounded in the second half of the year, prices declined by 15 percent during the first half of the year. According to National Bureau of Statistics between 2004 and 2013, real GDP grew by an average of 7% per annum; this showed that Nigerian GDP is one of the fastest growing in the world, the Inflation declined from about 15% in 2004 to about 7.8% in June, 2014 (Inflation rate is declining at a very reasonable rate), naira to Dollar exchange rate rose from N132/\$ in 2004 to N156/\$ in 2013 showed exchange rate stability over long period, rising external reserve despite the economic shocks from US\$7.6 billion in 2003 to about US\$40 billion in 2013 and the Nigeria's GDP, about US\$510 billion, now largest in Africa (with rebased GDP)

Before turning to a discussion of Taylor rules, it will be useful to take up the more general question of how fiscal policy can affect the determination of the equilibrium price level. The role of fiscal developments as a source of disturbances to the price level can be seen most clearly in policy regimes sometimes said to involve fiscal dominance". These are policy regimes, often associated with the special fiscal pressures of war finance, in which other goals of central bank policy are subordinated to the goal of assisting in the financing of the government budget. However, it is important to note that this does not necessarily mean that fiscal developments affect the price level only because the central bank adjusts monetary policy in response to them. In economics, a Taylor rule is a monetary-policy rule that stipulates how much the central bank should change the nominal interest rate in response to changes in inflation, output, or other economic conditions.

### **Conclusion**

A challenge facing monetary and fiscal authority in Nigeria, which prevents the so called inclusive growth that we have been aspiring the apex bank occupies a vital position in the economy and must be subject to independent scrutiny efficiently. The modest achievements recorded so far have been largely due to greater collaboration and commitment of purpose among key stakeholders. Thus, the CBN in its efforts to develop a sound and vibrant banking system will strive to ensure that democratization of policy is sustained. It will also continue to ensure that an economic fundamental abides strictly with the code of corporate governance for efficient functioning of the economy.



## **Recommendations**

There are a number of challenges that have to be addressed for the successful actualization of inclusive growth in Nigeria. Some of these challenges are recommended

1. Dearth of knowledge, skills and technical capacity to effectively regulate, and supervise the entire economy.
2. The friction between monetary and fiscal authority: some times, in the process of addressing the transformation goals, fiscal authority tends to exact power over monetary authority, by virtue of the executive positions they occupies in governance which is very unhealthy to the economic fundamentals.

Conclusively, Nigeria has come a long way in its economic growth path; economic prosperity is ongoing but is yet to be all-inclusive. This is attributable to weak infrastructures, demographic peculiarities, and structural bottlenecks. Growth is on-going but not yet all-inclusive. Maskin's suggestion of raising the skill level in emerging economies (through education) is necessary for globalization to deliver its "reducing inequality" promise, beyond raising the skill level, structural transformation, improved macroeconomic fundamentals and an efficient tax administration in emerging economies must be set right. Significant achievements have been made through our fiscal consolidation and structural reform efforts such as: Structural Transformation, Macroeconomic fundamentals, and Better Tax Administration. We are mindful of and are optimistic that we are driving in the right direction Policies, Programmes and Outcomes are in course.

However, strong economic performance across various sectors is supposed to create jobs across the nation, but the amount of jobs created does not commensurate with the large number of job seekers (new entrants into the labour force). Thus, the policies is not doing enough in achieving the inclusive growth in Nigeria.

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