

Empirical Assessment of the Effects of Fiscal-Monetary Policy on the Growth of the Nigerian

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Article DOI: 10.48028/iiprds/ijasepsm.v9.i2.06

Abstract

The study is an empirical assessment of the effects of fiscal-monetary policy on the growth of the Nigerian Economy using content analytical technique. Data are obtained from secondary sources, and evaluated to underscores the importance of fiscal-monetary policy on the growth of the Nigerian Economy. The Keynesian theory of inflation was adopted to examine the concerns of the study. The foregoing analyses demonstrate the coordination of monetary and fiscal policy is weak and is yet to ensure the realization of non-inflationary growth in the Nigerian economy. Again, the importance of fiscal-monetary coordination is influenced by the fact that monetary and fiscal policy can determine many different economic values such as the level and structure of savings, investment, production, employment, and the balance of payments in the Nigerian economy. At the policy level, the policy advocates for an effective sectoral and structural monetary and fiscal policies in achieving sustainable economic growth while maintaining price stability in Nigeria.

Keywords: *Fiscal and monetary policy, Keynesian, Economic growth, price stability*

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Background to the Study

The importance of coordination is influenced by the fact that monetary and fiscal policy can determine many different economic values such as the level and structure of savings, investment, production, employment, and the balance of payments. The amount of taxes, the tax system type, the size and structure of public expenditure policies, budget surplus or deficit, as well as its financing on the one hand. And on the other hand, a change in the quantity of money in circulation, the level and structure of credit and cost of credit, represent a significant determinant of not only the level of prices and the exchange rate, but also the structure of production and employment in an economy. Hanif and Farooq (2008), classify the basic reasons that explain the need for coordination between monetary and fiscal policy as follows: establishment of internally consistent and mutually aligned goals of monetary and fiscal policy measures towards non-inflationary stable growth; facilitate the effective implementation of previous decisions made in order to achieve the set objectives of monetary and fiscal policy through the exchange of information and conducting consultations aimed in that direction; and influencing the monetary and fiscal policy to adopt sustainable policies.

Taking this approach into account, it can be concluded that coordination should be established at two levels in the short and long term. When it comes to short term, coordination is carried out in order to create conditions for achieving price stability, where the emphasis is on the proper management of monetary policy and public debt, which largely determine the previously mentioned requirement. Equally, in the long term, it is necessary to set appropriate policy-mix, which should be a precondition for a quality approaching equilibrium level of the economy as well as the basis for a stable and sustainable economic growth. This will certainly be previously established, if the level of the fiscal deficit in that period of time needs to be challenged for its monetization by the central bank and unsustainable increase in internal or external public debt. Areas, where functional and institutional interdependence between the policies is especially expressed, are the question of financing the budget deficit, the manner of use of assets arising from the budget surplus and management of public debt.

However, despite the existence of a consensus on the need for synchronized use of instruments available to the holders of these policies, the problem arises when you need to answer which instruments have priority when it comes to solving individual problems. Coordination of monetary and fiscal policy, otherwise designed by different government bodies that have their own goals, strengths and weaknesses, and limitations and resources, can be based on permanent contacts between holders of the two policies directed towards making joint decisions about strategies, effects and measures of these policy instruments. If the fiscal authorities are aware of the function of the monetary policy and its formal and informal analytical model, they will be able to anticipate the response of monetary policy in each fiscal action and to adapt to future action. In this sense, the effect of the mentioned interaction must result in the monetary authorities` anticipating each new fiscal initiative and responding to each fiscal impulse or incorporating fiscal plans in their estimates of future interest rate movements directed towards achieving the above mentioned goals. Also, fiscal authorities would have to take into serious consideration the response of monetary policy, prior to making final decisions, possibly combined with initiatives that are planned in the future.

In addition, coordination may be based on the previously adopted series of policies and procedures that the decision makers will have to comply with, reducing the need for frequent interaction between them, resulting in the same effect as in the previous case. In any case, the way in which the coordination will be established depends primarily on a number of specific factors typical for each country, and the level of their institutional development. The aim of the study is to assess the fiscal policy coordination on the performance of the Nigerian economy. The study adopts an ex post facto design to evaluate existing literature and establish valid conclusions through content analysis of literature, which aids in the development of policy suggestions.

Literature

Fiscal policy deals with the government policy concerning the use of government revenue collection (mainly taxes) and expenditure (spending) 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 often used to stabilize the economy over the course of the business cycle (Simonsen, 1964). Changes in the level and composition of taxation and government spending can affect the following macroeconomic variables, amongst others: aggregate demand and the level of economic activity; saving and investment, and income distribution.

Fiscal policy is a result of several component policies or mix of policy instruments. These include policy on taxation, subsidy and welfare expenditure among others; investment or disinvestment strategies; and debt or surplus management. Fiscal policy is an important constituent of the overall economic framework of a country and is therefore intimately linked with its general economic policy strategy.

There are various types of fiscal policy. These include,

(a) Neutral fiscal policy: This implies a balanced budget where government spending equals tax revenue. It further means that government spending is fully funded by tax revenue and overall the budget outcome has a neutral effect on the level of economic activity. This policy is usually undertaken when an economy is in neither a recession nor in a boom. The amount of government deficit spending (the excess not financed by tax revenue) is roughly the same as it has been on average over time, so no changes to it are occurring that would have an effect on the level of economic activity.

(b) Contractionary (restrictive) fiscal policy: This policy involves raising taxes or cutting government spending, so that government spending is less than tax revenue. The action cuts up on the aggregate demand (thus, economic growth) and to reduce the inflationary pressures in the economy.

© Expansionary Fiscal Policy: It is generally used for giving stimulus to the economy, i.e., to speed up the rate of GDP growth or during a recession when growth in national income is not sufficient enough to maintain the present standards of living. A tax cut and/or an increase in government spending would be implemented to stimulate economic growth and lower unemployment rates. This is not a sustainable policy, as it leads to budget deficits and thus, should be used with caution.

Fiscal policy is based on the thesis that it can influence the total level of aggregate spending through changes in the level of individual and corporate incomes. The tools of fiscal policy are taxes, expenditure, public debt and a nation's budget among others. They consist of government revenues or rates or the tax structure in such a way as to encourage or restrict private expenditures on consumptions or investment. They also include government expenditures comprising normal government expenditures, capital expenditures on public works, relief expenditures, and subsidies of various types, transfer payments and social security benefits. It will be seen that government expenditures are income creating while taxes are primarily income reducing. Management of public debt or national debt in most countries has become an important tool of fiscal policy. It aims at influencing aggregate spending through changes in the liquid asset position. Thus, it may be said that the instruments of fiscal policy not only include the multitude of different kinds of taxes that are or that can be levied as well as the detailed features of these taxes, but also include government spending including grant of subsidies, price support programmes, civil and military expenditures and expenditures on public works as well as relief programmes (Agarwal, 2016).

Fiscal and Monetary Policy Coordination

The primary objective of monetary and fiscal policies is to achieve sustainable economic growth while maintaining price stability. According to the classical theory of Tinbergen (1952), the attainment of the two policy goals requires more than one policy instrument. Hence, depending on whether monetary or fiscal policy is insufficient to attain the targeted combination of economic growth and stable prices. This has led to the emergence of a new policy environment under which the sole dependence on either fiscal or monetary policy is inadequate to achieve macroeconomic targets.

Since the early 2000s, there has been an increasing worldwide trend to guarantee independence to central banks with price stability being its main target. In addition, financial market development has enabled fiscal policy to focus on cost minimization through public debt management. The need for effective coordination between policies has become pressing with the independence of both authorities to implement their objectives. In recent years, the need for coordination of policies has been increasingly reinforced in the face of global financial and economic crises. Coordination is defined as the necessary arrangements that assure that the decisions taken by both authorities are not contradictory. In other words, a policy decision will not cause undesirable indirect effects and spillovers to the other policy with the aim of harmonizing the macroeconomic policy mix (Begg, Hodson and Maher, 2003; Kamal (2010).

Successful coordination becomes particularly insistent when adopting structural reforms together with liberalizing the financial sector. That's because reform programs require appropriate and sustainable fiscal policy to enhance macroeconomic stability, proper taxing system and regulatory framework of the financial sector (World Development Report, 1989). Nonetheless, failure to coordinate policies properly has negative influences on the economy which could vary from financial instability resulting in high-interest rate, exchange rate pressures, high inflation rates to poor economic performance. According to Blinder (2000), the

lack of coordination could result from three main reasons: (i) different objectives of both fiscal and monetary authorities towards the economy; (ii) different opinions of both authorities about the possible effects of monetary and fiscal policy actions derived from different economic theories and (iii) different forecasts about the state of the economy made by the two authorities. A number of necessary conditions are required to maintain efficient coordination of policies. First, the sustainability of policies must be ensured such that each policy medium-term path is sustainable. Second, the credibility of both policies should be maintained through stabilizing the public's expectations. Third, the varying time frames of policies' adjustment operations must be taken into consideration. In other words, adjustment of fiscal stance takes a long time, whereas monetary stances could be frequently adjusted. Fourth, objectives and policies of monetary and fiscal policies must be jointly determined. Indeed, coordination of policies is necessary in any economy regardless of its phase of development. Nevertheless, it differs with different circumstances that characterize each economy such as development of financial markets, exchange rate regimes and other institutional arrangements (Laurens and De la Piedra, 1998). Moreover, coordination guarantees the commitment of policymakers to agree-upon objectives, thereby eliminating the time inconsistency problem. In this context, authorities may coordinate through regular meetings to design different policies and their implementations. Otherwise, coordination may be enhanced by setting a number of rules and actions.

Importance of Monetary and Fiscal Policy Coordination

Taking into account the fact that an economy is a complex dynamic system that is influenced by a multitude of factors whose number is constantly increasing, which makes it unstable, the coordination of macroeconomic policies, especially monetary and fiscal policy is a necessity of modern developments. This is especially important in the light of the fact that the abandoned Keynesian–monetarist controversy based on the affirmation of one instrument of economic policy at the expense of another. Thus, generating a need for permanent checking and analysis of the mechanism of combined application of instruments and measures of monetary and fiscal policy. This is premised on the fact that no proper interaction between them exists, we can hardly talk about any purposeful and effective economic policy. The problem becomes more evident in the light of the fact that monetary and fiscal policy, while conducted by separate and relatively independent institutions, so related to one another becomes difficult to distinguish between them. Additionally, with complete precision to answer to what extent it is an effect of the one policy, and where the effect of the other begins poses further difficulty. However, it should be noted that it is certain that based on its interconnectedness the interdependence between them is evident.

Monetary policy impacts on interest rates and their term structure, inflation and inflation expectations have significant fiscal consequences. The level of interest rates, in addition to its numerous implications in an economy, reflects its direct impact on fiscal policy through the cost of servicing the public debt affecting the calculation of its sustainability in the country. On the other hand, the volatility of interest rates may be one of the factors that can affect the fluctuation of the required level of surplus that would be sufficient to stabilize the relation between debt and output. Finally, high inflation is another factor that causes many

implications on the public finances of economy, starting from an increase in the actual tax burden, stimulating the occurrence of Olivera-Tanzi effect which is reflected in deterioration of taxes and expressed tendency to defer the payment of taxes, the creating of pressure on the expenditure side of the budget due to increased transfer of public expenditures, and generally prevents the making of any accurate fiscal projection for the future.

On the other hand, fiscal policy affects monetary policy through a variety of direct and indirect channels. The most important is certainly the fact that expansionary fiscal policy can result in large fiscal deficits, which may present a challenge for the government to put pressure on the monetary authorities to monetize the deficit, promoting an expansive monetary policy, rising inflation expectations, disrupting the exchange rate, causing a problem with payment balance, and finally with the ability to influence the formation of a currency or financial crisis. In this regard it is important to note that there are no relevant studies in the literature to confirm a strong empirical (cross-country) correlation between a high debt and high inflation. It is also useful to emphasize that the fiscal theory of the price level (Leeper, 1991), (Simms, 1994, 1999), (Woodford, 1995, 1997, 1998), (Cochrane, 2001) shows that the public sector budget constraints imposed several restrictions on monetary and fiscal variables. According to this theory, the present value of budget constraint determines the equilibrium price level in a way that if the expected discounted net down surplus or deficit of the state is not identical to the unpaid claim, the price level must be changed so as to establish the mentioned equality (Chadha and Nolan, 2003).

If, however, the fiscal deficit is not covered by its own monetization but is financed in the market, it may also cause concern for monetary authorities because of the crowding-out effect that can ultimately undermine economic growth and development. Conversely, external financing of domestic deficit caused by expansionary monetary policy could cause problems with the exchange rate and the balance of payments, which is also one of the problems that the monetary authorities may face. The more direct channel through which fiscal policy can affect the monetary policy is the effect of indirect taxes impacting the price level, causing a potential spiralling of wages and prices, and ultimately influencing the rate of inflation. Not to mention the fact that the unsustainably high public spending, enormously generous transfers and inefficient tax system could be a factor that could not only affect the potential output but also cause a more restrictive monetary policy as the monetary response to the above-mentioned situation.

Changes in fiscal policy also affect monetary policy through a direct impact on aggregate demand. Changes in tax levels affect company profits and their disposable income, and therefore their consumption and investment decisions, which could have repercussions on inflation. Another way in which fiscal policy can affect inflation is the impact of the fiscal effect on potential output in a way that lower-income taxes can be one of the factors that will affect the creation of new companies, which ultimately may increase the potential output (Binay 2003). In addition to these direct channels, fiscal policy makes an impact on monetary policy and the indirect channel, which is manifested through perception and expectations. This is the way that expectations of large budget deficits and significant borrowing to cover it

can undermine confidence in the prospects of an economy, which will on the other hand cause an increased risk in financial markets and thereby act as a destabilizing factor in the foreign exchange market, achieving the final pressure on the very monetary policy order that is in place. Another indirect channel through which they can make an impact on fiscal monetary policy can be the phenomenon known in the literature as the Ricardian equivalence where the financial behaviour of economic agents depends on the perception of a country's fiscal sustainability, which ultimately may affect the monetary disturbance and other projections. In addition, the financial markets may also be an important area for coordination between monetary and fiscal policies, because the link between monetary and fiscal policy can largely depend on the level of development of financial markets.

The interaction of these policies is particularly obvious when one wants to make an impact on the economic cycle in order to achieve macroeconomic stability and desired economic growth. Coordination in the field of economic growth is encouraged by regulating demand and eliminating instabilities occurring in the system, with the aim of achieving price stability as well as internal and external balance. Also, one of the important aspects of the interaction between monetary and fiscal policy is the need for a high degree of coordination in response to the financial crisis, which has recently been challenged by the events that occurred especially starting since 2007.

Empirical analysis of Monetary-Fiscal Policy Coordination and Price Stability

In an empirical analysis of monetary and fiscal policy interaction in India, Janak, Khundrakpam and Dipika (2011) used quarterly data from the second quarter of 2002 through the first quarter of 2010. With the aid of VAR estimation technique, the study demonstrated that fiscal policy keeps influencing the conduct of monetary policy significantly despite the reform of 1997 and 2006 on monetization of fiscal deficit purchasing of government securities in the primary market, respectively. Particularly, the study noted that monetary policy responds counter-cyclically, while, fiscal policy reacts pro-cyclically. Further, the study suggested that the effect of expansionary fiscal policy on output is a short term phenomenon and the effect in the long and medium-term is substantially negative. Bobeica (2007) analyzed the interactions between monetary and fiscal policies in the context of Romania. Using VAR estimation technique, the study employed output and inflation as a measure of fiscal stance and the short term interest rate. The outcome of the study portends that while the monetary policy reacts quickly to inflation, the government conducts a pro-cyclical fiscal policy. Dumitrescu (2016) also evaluated policy coordination in Romania in addition to their consequence on the economic cycle between 2004 and 2014. Adopting a descriptive approach, the study established weak policy coordination in the economy in line with the findings of Bobeica (2007). According to the study, fiscal policy acts pro-cyclically, while, monetary policy acts partly counter-cyclically (mainly concerned with the realization of price stability).

Lambertini and Rovelli (2003) also investigated the relationship between monetary and fiscal policy in the process of macroeconomic stabilization within a Stackelberg equilibrium framework in the European Monetary Union. They identified three cases each assigning the initiative to treasury, government and central bank respectively in the conduct of policy measures. The study concluded that the preferable and probable outcome is the one in which the fiscal authority appears as the leader in the macroeconomic policy game.

Muscattelli, Ropele and Tirelli (2002) estimated the complementarity of monetary and fiscal policy using VAR models with both constant and time varying parameters for G7 countries. They found that monetary and fiscal policies were used as strategic complements. Their results indicate that the form of interdependence between fiscal and monetary policies was asymmetric across countries. Monetary policy was found to act in response of fiscal expansion in the US and the UK but no evidence of the same kind was found for France, Italy, and Germany. Agha and Khan (2006) also concluded that inflation in Pakistan is a fiscal phenomenon, showing that fiscal policy significantly influences monetary policy conduct, and for better performance of the economy there is need to be coordination in policymaking. In a related study, Nasir, Ahmad and Rahman (2010), using VAR model for the period 1975 to 2006 in Pakistan, also found weak coordination among the two policies.

Kappel and Januk (2014) examined the integration of monetary and fiscal policy of the countries of the Visegrad group comprising of Poland, Hungary, Czech Republic and Slovakia. Employing game theory approach, the study revealed a distantly stabilizing role of monetary policy as well as relatively problematic stabilizing role of fiscal policy within the studied economies. Statistically, the study confirmed the dominant role of monetary policy in Hungary and Czech Republic. Damir (2013) also employed theoretical argument to establish the importance of policy coordination as a prerequisite for economic stabilization in their study, a general aspect of monetary and fiscal policy coordination. Thus, Damir(2013) suggested the establishment of institutional and operational arrangements so as to circumvent the occurrence of macroeconomic instability that is propelled by insufficient policy coordination.

In the study of Hounaida (2015), the coordination of monetary and fiscal policies in France was empirically investigated between 1980 and 2014. Public debt, budget deficit, output gap, interest and inflation rates were the variables of interest. Granger's technique was adopted in the estimation process. Results obtained indicated weak policy coordination and the domination of monetary policy in influencing economic activity in France. Pasquale (2018) explored theoretical literature approach in examining monetary and fiscal policies interaction in monetary unions. Pasquale (2018) upheld the importance of policy coordination for economic stabilization in monetary unions. The study also suggested the establishment of fiscal unions in the European Monetary Union (EMU) in order to increase fiscal coordination. The suggestion of Pasquale (2018) is in line with the view of Schalck (2012) in the study, coordination of fiscal policies as a required step to a fiscal union. Schalck used a descriptive as well as theoretical analysis and attributed the recent global economic and financial crisis to weak European governance and weak fiscal union.

Fiscal-Monetary and the Growth of the Nigerian Economy: An Empirical Assessment

Oboh (2015) explored the set theoretical approach to investigate monetary and fiscal policy coordination in Nigeria from 1981 through 2015. The study discovered weak policy coordination estimated at 17 per cent. When the study disaggregated the model, 36.4 per cent level of coordination in a period of low growth and high inflation was established. But, in the period of high growth, no indication of coordination was established. Thus, the study suggests the stimulation of policy coordination by monetary and fiscal authorities in order to improve macroeconomic stability.

Goshoit and Landi (2014) investigated the coordination between monetary and fiscal policy in terms of interaction and limitations in Nigeria using a theoretical approach. The study uncovers the importance of policy coordination in attaining macroeconomic stability. It, therefore, advocated that effective coordination of monetary and fiscal policies with no loss of autonomy for policy formulators will stimulate the general performance of the policies in the economy.

On the effect of fiscal and monetary policies on the growth of Nigeria's economy, Chigbu and Njoku (2013), employed time-series data between 1990 and 2010 to examine the impact of monetary and fiscal policies on Nigeria's economic growth. Using VAR estimation technique, the study adopted its explanatory variables as minimum rediscount rate, interest rate, lending rate, corporate income tax and federal budget. The explanatory variables were regressed on gross domestic product (GDP). The outcome of the study revealed that the combination of monetary and fiscal policies impact substantially on economic growth level of the nation. But, it noted that the effect of fiscal policy on economic growth is more than monetary policy. This finding contradicts the findings of Ajayi and Aluko (2017).

Keynesian Theory of Inflation

As a contrasting option to monetary inflation model, Keynes (1940), established an alternate demand-side inflation model. According to Keynes along with his supporters, an expansion in total demand is the basis of demand-pull inflation. As stated by Jhingan (2005), there might be over a single basis of demand, buyers need more goods and services for consumption reasons; businessmen needs it for the purpose of investment; while as the government demands to satisfy civil as well as military needs of the nation. In this way, according to Keynes, total demand includes consumption, investment along with government spending. Thus, when the estimation of total demand surpasses the estimation of total supply at the full employment point, the inflationary crevice emerges. The more substantial the space between total demand and total supply the faster the inflation.

The Keynesian hypothesis depends on a short-run study where prices are assumed to be constant and are established by non-monetary factors (Jhingan, 2005). Conversely, output is viewed to be more-factor that is caused to a great extent by adjustments in investment expenses. The Keynesian transmission mechanism connecting adjustments in nominal money earnings with prices is a circuitous one via the rate of premium. At the point when the amount of cash expanded, its first impact is on the rate of interest which is likely to decline. As interest rate plummets, the pace of investment will enhance and eventually, total demand. A boost in total demand will have initial impact on productivity instead of price provided few resources are not employed. Be that as it may, an unexpected expansive increment in the total demand would experience bottle necks when assets are yet not employed. This would prompt increment in marginal cost and, thus, in prices.

A few criticisms of the Keynes' hypothesis have been recorded. For example, Keynesians expect costs as given, in that the impact of money is seen with regards to output instead of their normal costs. Keynesian additionally assumes that monetary adjustments are to a great extent

absorbed by adjustments money demand. However, they neglect to recognize the exact quality of money, hence, expect that money may perhaps be traded for just bonds (Mordi, *et al.*, 2007).

Fiscal Policy in Nigeria before SAP

At the emergence of the 3rd phase of the National Development Plan (NDP) (1975-1980), revenue of the government was at its zenith. The era was marked with intensified local earnings as well as foreign exchange proceeds with subsequent escalation of total earnings and spending. Reducing the burden of inflation became the target of the fiscal policy. Liberalization of imports, relaxation of every administrative control, removing every nontariff trade restriction in addition to plummeting import and export charges that were high (Gbosi, 2015). During the fourth NDP (1980-1985), the major objective of fiscal policy was aimed at stimulating domestic production.

To achieve this policy goal, several fiscal measures were adopted by the Federal Government. For example, the Income Tax Management Act of 1981 and the Companies Tax Act of 1979 were amended by the finance Miscellaneous Taxation Provisional Decree of 1985. Several fiscal measures were introduced in 1985, for example, deductions which varied from two to five per cent from all incomes including rent, dividends as well as salaries and wages of employees in government along with private sectors were made. The decree also banned the importation of rice and wheat. The policy option subsequently prompted an extensive surge in the price of rice, exactly what the Nigerian economy is experiencing now. Even after the economic recovery period, there had not been any fall in the price of rice and other basic agricultural commodities in Nigeria. Rather, there was a sharp increase in the prices of goods and services (inflation). Apart from rising inflationary pressure, mass unemployment, external sector instability, and other macroeconomic problems persisted during the period, 1980-1985 (Gbosi, 2015).

Fiscal Policy in Nigeria after 1986

Before SAP, Nigeria's key macroeconomic difficulties were surging unemployment level, inflation, colossal public debt along with BOP misalignment. Thus, fiscal policy was aimed at substantially plummeting budget deficits, ensure enhanced revenue in addition to improving operational control and proficiency in government's fiscal activity. Within 1988, a number of actions were implemented so as to strengthen the economy. The establishment of N250 million in addition to N600 million for inflationary package and built in deficit, correspondingly, were amongst the actions taken within the fiscal year. There was sustenance of some 1988 fiscal actions embraced in 1989.

There were stipulations of specific broad ideologies for the purpose of improving the effectuality of government expenditure in 1990 through 1993. Most fiscal strategies of 1994 geared towards tackling the plummeting output of the manufacturing sector, controlling inflationary pressure in addition to correcting BOP misalignment. Because these fiscal measures did not achieve the set targets, guided deregulation was introduced in 1995. The primary aim of the strategy was to deliberately improve as well as stimulate naira in addition to ensuring its eventual convertibility. 1996 through 1998 the aim of fiscal policy was

characterized by the sustenance of optimality between income and expenditure along with encouraging growth within every sector in the economy. Consequent to increasing demand for increased government expenditures, there were attempts to improve tax collection efficiency. Revenue mobilizing strategies comprised of tax modifications to recoup tax management and proficiency in tax collection. Numerous fiscal processes were established to moderate government expenditures as a means of attaining operational resource mobilization for the recovery of the economy. The stance of fiscal policy since 1999 had been restrictive in nature. Majority of the strategies explored in 1999 were maintained in 2000 and 2001 respectively. However, since 2005, the major objective of fiscal policy thrust of 2005 was consistent with the provisions of the National Economic Empowerment and Development Strategy (NEEDS), (CBN, 2005).

The fiscal policy thrust in 2007 was focused on strengthening growth induced development strategy. As outlined under the NEEDS which was formed within the context of the Medium-Term Expenditure Framework (MTEF). The strategy was directed towards eliminating infrastructural deficiencies. The fiscal measures adopted in 2007 were retained in 2008 and 2009 respectively. But the fiscal thrust of the 2010 budget was designed to encourage economic growth from the undesirable consequences of the worldwide economic and financial crunch (CBN, 2010). In 2016, the federal government released fiscal policy measures (FPM). The policy measures highlighted by the FPM contained an import adjustment tax (IAT) list that included one hundred and seventy-three items. The IAT list indicated the reduction of tariff of twenty six items, while increasing the tariff of four item (Deloitte Trade Newsletter, 2017). The 2016 budget according to the federal government was centered on 34 specific areas which were grouped into four major objectives. The first was policy, governance and security, second diversification of the economy, the third is creating support for the poor and the vulnerable and the fourth is reflecting our economy through investment.

The 34 priority projects were approved for implementation by FEC, while the Ministry of Budget and National Planning was been given the responsibility to track and report to the council on the performance of the key priority areas on quarterly basis. Noting that the projects were categorized into six thematic areas, the Minister of State for Budget and National noted that; the existence of policy, governance and security and one item from that was to achieve and maintain a capital spending minimum of 30 per cent in an annual basis starting from 2016. The objective of doing that was to reflect the economy and enhance employment generation capacity for the productive sector (Deloitte Trade Newsletter, 2017). Another area was to achieve an appropriate exchange regime, the Central Bank of Nigeria (CBN) championed this particular action. The objective is to achieve a predictable exchange rate by the end of 2016. There was also a target to increase low interest lending to the real sector. The focus was to achieve an interest rate that is a single digit, maybe nine percent with the aim of increasing output and growth. Again the Ministry of Industry, Trade and Investment along with CBN were in charge of the action. Additionally, the budget had a target to maintain a stable debt management strategy so as to optimize the existing local and foreign debts. As proposed, the Ministry of Finance and the Debt Management Office were to act on that.

On the thematic era of diversifying the economy, the budget outlined the implementation of measures aimed at achieving self-sufficiency and becoming a net export of a certain number of agricultural produce, the first one being rice. It targeted that the nation would attain self-sufficiency in rice production by 2018, in tomato paste 2016 and also increase local production of maize, soya beans, poultry and livestock (Daniel, 2016). The Federal Government of Nigeria's (FGN) 2016 revenue was 50 per cent below target at 6M FY16. Only 20 per cent of capex was executed as at November, 2016, equivalent to the foreign borrowing share-secured thus far. Debt-servicing amounts to two-thirds of FGN revenue. The budget deficit stood at 3.2 per cent of GDP vs the target of 2.2 per cent, largely due to softer nominal GDP growth. Oil accounts for less than 50 per cent of federally-collected revenue (allocated to the federal, state and local governments) fall in 2Q16, for the eighth consecutive quarter, by 18 per cent YoY to NGN1.1trn. This decline was led by oil revenue, which fell by one-third to NGN398bn. Oil's contribution to revenue dropped to 46 per cent in 2Q16 vs this decade's peak of 78 per cent. The FGN's plan was to spend NGN6.1trn in FY16, of which it planned to source NGN3.86trn from revenue collections, and the remaining NGN2.22trn from debt. At the first half of the year, the FGs retained revenue amounted to NGN952bn, which was half of the pro-rata target of NGN1.9trn. The FG's below-target revenue collections were largely due to non-oil revenue, which came in 56 per cent below target, at NGN324bn. Conversely, the FN's oil revenue was 13 per cent above target at NGN406bn. A fall in non-oil revenue reflects malaise in the economy (Nairametrics, 2016).

Company income tax (CIT) was the largest source of non-oil revenue for the FGN. In 2016 financial year, the FG planned for 60 per cent of its non-oil revenue to come from CIT. At the end of the first half of the year, CIT amounted to NGN324bn, which was only one-third of the pro-rata target. Customs revenue which accounts for 20 per cent of the FG's targeted non-oil revenue, amounted to NGN163bn at the first half of 2016, which is only two-thirds of the pro-rata target. VAT accounted for almost 15 per cent of planned non-oil revenue and amounted to NGN162bn, this was half of the pro-rata target. The poor showing from CIT, VAT and customs revenues, are assumed as contributory factors to the economic recession suffered by the country in 2016. Capex is 75 per cent below target

At the first half of 2016, the FG had spent NGN2.5trn, which was 80 per cent of target. The under-execution of the budget for the financial year was entirely due to capex. Only 20 per cent of the capex target, of NGN794bn, was spent in the first half. This reflects the late passage and signing of the budget by the Senate and President, respectively, as well as the delay in raising NGN1.0trn in foreign loans for the budget. Conversely, recurrent expenditure (non-debt) was 12 per cent ahead of target. Notably, spending on personnel costs was on target (Nairametrics, 2016). Debt servicing amounts to two-thirds of FG revenue. Nigeria's debt stock was perhaps low, at 14 per cent of GDP, however, it was the country's high debt-servicing costs, relative to total spend and revenue that will constrain how much additional debt the FGN can take up. In the first half of 2016, debt servicing amounted to 25 per cent and 64 per cent of total expenditure and total revenue, respectively. That implied that debt servicing was crowding out other expenditures, not least capex (Nairametrics, 2016).

Trend in Monetary-Fiscal and Macroeconomic Performance in Nigeria

Figure 1 shows the relationship between monetary and fiscal policy in relation to indicators of non-inflationary growth (economic growth and price level) in Nigeria between 1981 and 2016. The figure indicates that with 29.46 per cent money supply and a budget surplus of 0.97 per cent, Nigeria had a negative growth rate of (-13.13) and inflation rate of 20.81 per cent in 1981. From 1982, the nation ran a deficit budget of (1.63) per cent through 1985. In order to finance the deficit, the volume of money supply was increased and amounted to an average of 32.12 per cent within the same period. The nation was left with an average of (1.2) and 14.02 per cent economic growth and inflation rates, respectively. With the emergence of the Structural Adjustment Programme (SAP) in 1986, the nation had a budget surplus of 1.71 per cent, and a slight reduction in money supply which was recorded at 31.51 per cent for the year. Given the recorded fiscal surplus and the reduced quantum of money in circulation, inflation rate plummeted to 5.72 per cent in 1986, however, economic growth maintained a negative rate of (-8.75).

Within the SAP period, i.e. 1982-1992, Nigeria had an average of 0.55 per cent budget surplus with money supply averaging 24.28 per cent. Accordingly, within the SAP era, the economic growth rate averaged 1.02 per cent, while, the rate of inflation was 26.70 on the average, but, it peaked at 54.51 per cent in 1988. In 1996 (deregulation policy era), a budget surplus of 32.05 per cent was reported, while, the money supply contracted to 13.23 per cent, but inflation and economic growth rates 29.27 and 4.99 per cent, respectively. On average, between 1994 and 1998 which marked the deregulation period, whereas money supply was 18.15, fiscal surplus was 1.65 per cent. Inflation rate was as high as 35.53 per cent, while, GDP growth rate was 2.23 per cent. Though inflation rate was relatively high at the beginning of the period, it slowed down towards the end of the period as the inflation rate of 8.53 and 10 per cent were recorded in 1997 and 98, respectively. On the other hand, economic growth that improved from (0.31) to 4.99 per cent in 1995 and 1996, correspondingly, fell to 2.8 and 2.72 per cent in 1997 and 98, individually. This portended that the achievement of non-inflationary growth using monetary and fiscal policy within the periods already discussed was unsuccessful.

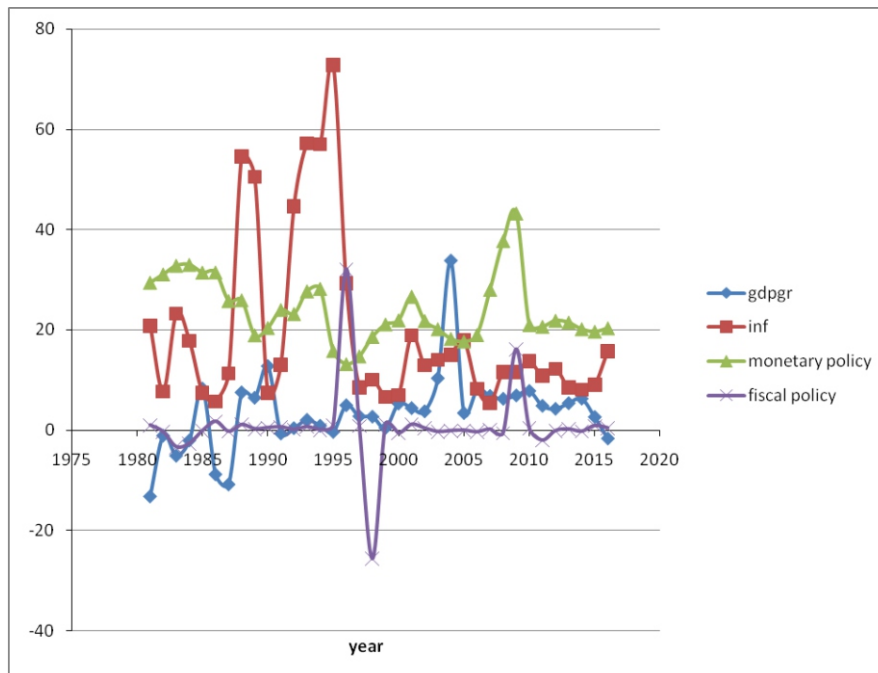


Fig. 1: Trends in monetary/fiscal policies and macroeconomic performance in Nigeria

In 2000, following the introduction of the universal banking policy, an expansionary monetary policy was adopted. This gave rise to the expansion of money supply from 13.23 in 1997 to 21.96 per cent in 2000. Equally, the surplus of 32.05 per cent recorded by the fiscal authority in 1996 plummeted to (0.63) in 2000. Nonetheless, the economy recorded a growth of 5.32 from 4.99 per cent it had in 1996, inflation rate also declined to a single digit of 6.63 per cent in 2000. However, the interim success recorded within this period was unsustainable. Though the nation had a surplus budget of 1.12 per cent, money supply increased to 26.67 per cent as inflation rate escalated to 18.87 per cent and GDP growth rate decreased to 4.41 per cent in 2001. As at 2004, when the bank consolidation policy was introduced, there was a fiscal deficit of (0.14) and monetary policy adopted a restrictive approach which reduced money supply to 18.26 per cent in that year. Consequently, inflation rate reduced to 15 per cent, while, GDP growth rate intensified to 33.74 per cent in 2004. In 2009, Nigeria recorded an expansionary monetary policy with about 43.27 per cent as available money in circulation. An increase in revenue was also experienced as a surplus of 16.09 per cent was recorded in the budget. The expansion of money supply and surplus budget recorded may not be unconnected with the democratic process the nation underwent in that year.

From 2010 to 2016, the economy had three and four years of fiscal deficit and surplus, respectively. Similarly, monetary policy within this period has been contractionary and discretionary. While a deficit budget of (0.15) per cent was presented in 2012, money supply was increased 21.89 from 20.68 percent of 2011. As a result, inflation rate rose to 12.22 per cent and GDP growth rate plunged to 4.28 in 2012. In 2016, Nigeria slumped into economic recession with the GDP growth rate of (1.62) and inflation rate of 15.7 per cent despite rising money supply and existing fiscal deficit.

Conclusion and Policy Suggestion

The study attempts an empirical assessment of fiscal-monetary policy and its effect on the growth of the Nigerian Economy using content analytical technique. The foregoing analyses demonstrate the coordination of monetary and fiscal policy is weak and is yet to ensure the realization of non-inflationary growth in the Nigerian economy. Again, the importance of fiscal–monetary coordination is influenced by the fact that monetary and fiscal policy can determine many different economic values such as the level and structure of savings, investment, production, employment, and the balance of payments in the Nigerian economy. At the policy level, the policy advocates for effective sectoral and structural; savings, investment, production, employment, and the balance of payments monetary and fiscal policies in achieving sustainable economic growth while maintaining price stability in Nigeria.

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