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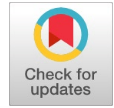
Impact of Fiscal and Monetary Policy on the Economic Development of Nigeria: Empirical Review



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***Abstract:** This study seeks to investigate the impact of fiscal and monetary policy on economic growth in Nigeria: Empirical Review from 1991 to 2021. An economy must therefore improve its economic growth and development with the end objective in mind, which is to lower its debt level and maintain price stability. Good political and economic conditions can dictate good government management and monetary authority. Numerous research found that the employment of money supply and tax tools during specific time periods had a negative influence on output, indicating that the tools utilized in the studies reduced the effectiveness and efficiency of the policies. Other analyses came to the conclusion that these measures are not very effective since even though interest rates have dropped significantly between 1991 and 2021, investment and economic growth rates are still increasing slowly. As a result, it's essential to improve the effectiveness of fiscal and monetary policy by opening up transmission channels including the banking system, financial sector, and capital market. This study suggests, among other things, that in terms of fiscal policy, The government may pursue economic expansion by growing spending (without matching increases in taxes) - such as building more federal roads - which could surge employment, thereby pushing up demand and growth - while the central bank can implement a tight monetary policy by raising interest rates and withdrawing money from circulation.*

***Keywords:** Fiscal Policy, Monetary Policy, Economic Growth*

I. INTRODUCTION

According to contemporary economic theory, fiscal and monetary policies are important instruments for expressing the government's views and direction for economic progress. The two major mechanisms used to implement fiscal policy are taxes and government spending. In the meantime, monetary policy is carried out through the government's control over the money supply and even the adjusting of the foreign exchange rate. The vitality of fiscal policy, monetary policy, and trade policy in any open economy, particularly in relations of economic management, cannot be understated. Efforts to achieve and sustain macroeconomic goals, in specific, assist to understand the serious roles played by fiscal, monetary, and trade policies in both recognized and developing countries, including Nigeria.

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According to Adeeb, any decent government should strive to raise the living standards of its citizens by main economic policy, whether through fiscal, monetary, or trade policy (2013). Once again, the primary purpose of these economic measures is to stabilize and encourage economic growth, particularly during times of economic crisis. Fiscal policy methods, for instance, are used by governments in numerous economies to manage economic disparities by changing public spending to moderate taxation, which is a critical way to decrease aggregate demand, financial insecurity, and economic inefficiencies. In order to create a stable framework to achieve full employment, Keynes argued that this approach should be used, particularly during economic recessions; as a result, this theoretical model has been used nearly as a policy lead to endure economic happenings over time (Idris, Bakar & Ahmad, 2018). The classicalists, on the other hand, promoted an efficient price mechanism that would allow for the proper allocation of resources to provide economic freedom without the need for government action to address economic crisis (Idris & Bakar, 2017). The Apex Bank of each economy, on the other hand, implements monetary policy to increase overall demand through adjustable adjustments to the money supply and interest rate. Governments employ monetary and fiscal measures to tame business cycle swings during economic downturns. Similar to this, the government implemented a trade policy to enhance trade relations and create the required safety net against external shocks through a stabilized currency rate. Large monetary, trade, and fiscal deficits have over time become a problem for many developing economies, namely Nigeria. The quantity and quality of public goods like infrastructure and utility services are significantly influenced by the pace of government expenditure, which in turn impacts the nature and health of the macroeconomic system and the financial viability of any tiny open economy. Nigeria's fiscal, monetary, and trade policies, all of which are categorized by wastefulness and a fragile financial system, pose a danger to macroeconomic stability (Idris & Bakar, 2017).

However, historically, Nigeria's economy has not benefited greatly from the anticipated gains from trade policies, which can be attributed to the country's mono-economy, where the government regularly depend on on oil money. In order to stabilize the overall economic outlook, policymakers must adopt appropriate fiscal and monetary approach as a result of the ongoing rise in the budget deficit in current years.

Notably, the slow rate of economic growth in Nigeria may have been influenced by continued increases in military spending to combat terrorism and other pointless expenditures. Idris and Ahmad (2017) suggest that Nigeria's ongoing fiscal deficit may be related to the country's excessive reliance on oil profits in combination with external factors. Therefore, improving fiscal measures would have a considerable impact on aggregate growth, which might reduce the persistence of unsuccessful monetary and fiscal strategies. It is important to concur with Khattry and Rao's (2002) assertion that trade policy strengthens fiscal equilibriums through increasing tax collection. And it is anticipated that this will enhance the amount of government revenue that might be used to fund numerous productive industries through infrastructure spending.

In contrast to the narrative provided above regarding the relationship among fiscal policy and economic development or the relationship amongst monetary policy (MP) and economic development, studies have shown that improvements in government expenditure, trade openness, and interest rates have not translated to better economic growth in Nigeria. It's interesting to note that additional research in this area has also produced contradictory results. Amasoma, Keji, and Emma-Ebere (2018), for instance, made it clear that MP is a crucial tool that may be utilized to maintain price stability and, as a result, support both private and foreign investment that ensures economic success over the long run. Idris, Bakar, and Ahmad's (2017) proposal that robust and efficient fiscal operations safeguard economic expansion bolsters the epistemology procedure of neo-classical theory, which posits development effects on the overall economic performance due to fiscal deficit. This is because they argue that any slight alteration in fiscal operation in the shape of a deficit tends to bring detrimental consequences on growth rate. With this story, it is also apparent that studies on the topic in Nigeria have produced a variety of conclusions, but the majority of these earlier works do not instead of attempting to comprehensively link monetary policy, fiscal policy, and economic growth, the majority of these publications either attempted to link MP with or tie fiscal policy to economic growth. Intriguing to consider that by conducting an empirical analysis of the connection between fiscal policy, monetary policy, and economic growth in Nigeria, this study seeks to close the gap identified from earlier studies. In the future, a number of problems will arise, which this study aims to answer monetary policies issues on economic growth? What is the link between fiscal and monetary policies and economic growth in Nigeria?

The purpose of this study is to empirically examine the relationships between the important variables, and the findings will help guide policymakers and the government in addressing Nigeria's ongoing economic slump.

The studied literature demonstrates unequivocally that little is known about how Nigeria's fiscal and monetary policies interact to affect economic growth. Additionally, the Nigerian government keeps enacting new policies meant to promote stability and economic progress, but the national bureau of statistics indicates that the economy is still growing at a modest rate.. By analyzing the effect of fiscal and monetary policies on economic growth in Nigeria, this study seeks to contribute to the body of knowledge and make a novel contribution to it in order to make useful recommendations to the Nigerian government. The introduction, literature review, methodology, conclusion, and recommendation are the four sections that make up this essay.

II. LITERATURE REVIEW

The literature for the topic of this study is now composed of a number of empirical studies that have been carried out in the past. Earlier research that are similar to this one examined and grouped based on the current literature's descriptions of how each variable affects economic growth in Nigeria. For example, Agu, Okwo, Ugwunta, and Idike (2015) assessed how fiscal policy influences the expansion of Nigeria's economy with an attention on the various components of public spending using the OLS estimate method. They discovered that as government revenue increased, so did government spending. The study came to the deduction that there is a robust and favorable link between government spending and economic growth. The influence of fiscal policy on Nigeria's economic growth from 1977 to 2009 was examined by Babalola and Aminu (2011). The study found that productive expenditure has a beneficial impact on the nation's economic expansion. Onwe (2014) looked into how the components of fiscal policy affected the growth of the Nigerian economy. The study found that federal spending on administration and community and social services had a beneficial effect on economic growth. However, it also noted the negative effect that federal spending on economic services and transfer payments had on the expansion of Nigeria's economy. The report proposed that the federal government provide administrative, community services and social, a specific emphasis in its fiscal policies because these fiscal elements might contribute to the growth of the Nigerian economy. Using a baseline regression model, Mobolaji, Ehigiamusoe, and Lean (2015) investigated the connection between fiscal policy and inclusive growth in Nigeria. They discovered that fiscal policy in Nigeria strongly supports inclusive growth. Additionally, the analysis found a one-way causal link between fiscal policy and inclusive growth in Nigeria. It suggested that in order to hasten inclusive growth, government spending should be focused on infrastructure improvement and economic investments.

Ayomitunde, Olaniyi, Zannu, and Stephen (2018) employed an ARDL Bound estimation technique to examine the effects of MP on Nigerian economic growth from 1990 to 2017. The results demonstrated that while monetary policy rate considerably accelerates economic growth of Nigeria's economy in the short term, inflation rate favorably effects both the short and long term growth of Nigeria's economy. Economic growth and inflation rate are significantly positively correlated. Using the OLS estimating technique, Onyeiwu (2012) investigated how monetary policy impacts economic growth in Nigeria. The results demonstrated that while monetary policy has a positive impact on the balance of payments and gross domestic product, inflation rate is negatively impacted.

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It was advised that MP be used to foster an environment that is favorable to investments and that the money market work to produce financial instruments that satisfy the requirements of an expanding number of players. Sulaiman and Migiro (2014) looked into the connection between monetary policy and economic growth and discovered that the method for communicating monetary policy positively impacts the productivity of the Nigerian economy and boosts economic growth. The report advocated strengthening the financial sector's regulatory framework in order to improve the effectiveness of the government's monetary policies. Using the conventional least squares method, Adigwe, Echekoba, and Onyeagba (2015) found that while inflation rate has a negative impact on monetary policy, it positively influences economic growth. The study suggested employing monetary policy, including suitable interest rates, exchange rates and liquidity management, to create an environment that encourages investment. Using the error correction model technique, In, Fasanya, Onakoya, and Agboluaje(2013) in their paper found that although Nigeria's money supply is unconnected to economic growth, monetary policy tools including inflation, the currency rate, and foreign reserves, in line with theoretical predictions, encourage economic growth in Nigeria. The report suggested the establishment of primary and secondary government bond markets in order to increase the effectiveness of monetary policy and decrease the government's dependance on the central bank for direct financing. Other studies also studied the combined consequence of Nigeria's monetary and fiscal policies on economic expansion. In order to establish which of the fiscal and monetary policies has been more successful in promoting growth in Nigeria, Bodunrin (2016), for example, employed the vector error correction model technique to assess how these actions impact Nigerian economic growth. The analysis found that while MP had no impact on gross domestic product, fiscal policy distorted economic growth in the near run. The study concluded that when using policy alternatives, fiscal policy should take center stage. Using the OLS estimation technique, Ajayi and Aluko (2017) assessed the efficiency of the monetary and fiscal policies in Nigeria. The study found that increasing exports and the money supply meaningfully boosted economic growth while government expenditure had no influence. The study also discovered that monetary policy had a greater growth-stimulating effect than fiscal policy. The report suggested that the Nigerian government adopt monetary policy rather than fiscal policy as a means of stabilizing the economy. Ishola and Titiloye (2020) used the ARDL technique to evaluate how fiscal and monetary policy affected economic growth in Nigeria. According to the report, government spending and revenue combined with money supply encourage economic growth in Nigeria. According to the report, in order to stabilize economic development, the government must permit expansionary monetary policy. Using a period 1985 to 2020, Adegboyo, Keji, and Fasina (2021) conducted a study.The endogenous growth model (AK model) was used in this investigation as its theoretical framework. They claim that the impact of monetary policies shows that the money supply restrains Nigeria's economic growth while the interest rate promotes it. As a result of these conclusion.

III. METHODOLOGY

The research methodology, research design, sample design, and data collection method employed in this study are all shown in the reviewed studies. The research is based on a descriptive research design which was applied in picking the literatures reviewed on fiscal and monetary policies on economic growth. The target population is based on all research studies conducted all across the globe on the subject matter. The sample is on the subject matter conducted majorly on Nigeria. The review of literature for this study was conducted between 1991 and 2021. The time period is chosen for the sake of convenience sampling. Secondary data was employed as a source of information. Consequently, the literature review was compiled from a variety of research publications available on multiple platforms such as JSTOR, the National Digital Library, Google scholar, research gate, Academia and others.

IV. CONCLUSION AND RECOMMENDATION

This study's primary goal is to assess the effect of fiscal and monetary policies on Nigeria's economic development: an empirical review from 1991 to 2021. The analysis concludes that, if government expenditure is seen as the functional fiscal policy tool rather than government revenue, fiscal policy has had a major positive impact on economic development. This suggests that the government of Nigeria should change its public spending priorities in order to invest more in human capital. Giving the active unemployed population essential skills that the labor market needs for quick employment is one way to invest in human capital. Therefore, tax collection would likely result in an increase in government revenue, which might be a key factor in lowering budget deficits.

The analysis also demonstrates that, as inferred from the estimated indicators found in the literatures evaluated, monetary policy has favorably benefited economic development in Nigeria. This suggests that real interest rates and the official exchange rate influenced Nigeria's economy's economic development negatively. Therefore, CBN can increase the effectiveness of monetary policy by utilizing it to lower interest rates, thereby lowering consumer borrowing costs and lowering individual cost of investment. As a result, the overall demand will rise, which will cause inventories to decline. As a result, businesses will boost their output, which will raise the level of income. This suggests that in order to improve the effectiveness of monetary policy, transmission channels like the bank network, financial market, and capital market must be opened up. In this sense, it is important to avoid implementing policies that could raise living standards and have a good impact on the economy of Nigeria. Additionally, a clear medium- and long-term direction for the administration of policy must be established. It should be mentioned that in order to effectively promote the policies, long-term consistency must be ensured.

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