

Monetary Policy and Economic Growth of Nigeria

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Abstract

This paper examines the impact of monetary policy on the Nigerian economy. In doing this, the Ordinary Least Squares Method (OLS) is used to analyse data between 1981 and 2008. The result of the analysis shows that monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation.

The recommendations are that monetary policy should facilitate a favourable investment climate through appropriate interest rates, exchange rate and liquidity management mechanism and the money market should provide more financial instruments that satisfy the requirement of the ever-growing sophistication of operators.

Keywords: Monetary policy, economic growth, transmission mechanism and liquidity.

1. Introduction

Monetary policy as a technique of economic management to bring about Sustainable economic growth and development has been the pursuit of nations and formal articulation of how money affects economic aggregates dates back the time of Adams Smith and later championed by the monetary economists. Since the expositions of the role of monetary policy in influencing macroeconomic objectives like economic growth, price stability, equilibrium in balance of payments and host of other objectives, monetary authorities are saddled the responsibility of using monetary policy to grow their economies. In Nigeria, monetary policy has been used since the Central bank of Nigeria was saddled the responsibility of formulating and implementing monetary policy by Central bank Act of 1958. This role has facilitated the emergence of active money market where treasury bills, a financial instrument used for open market operations and raising debt for government has grown in volume and value becoming a prominent earning asset for investors and source of balancing liquidity in the market. There have been various regimes of monetary policy in Nigeria some times, monetary policy is tight and at other times it is loose mostly used to stabilize prices. The economy has also witnessed times of expansion and contraction but evidently, the reported growth has not been a sustainable one as there is evidence of growing poverty among the populace. The question is, could the period of growth be attributed to appropriate monetary policy? And could the periods of economic down turn be blamed on factors other than monetary policy ineffectiveness? What measures are to be considered if monetary policy would be effective in bringing about sustainable economic growth and development?. These are the Questions this study would attempt to answer.

The objective of this study therefore, is to assess the impact of monetary policy in Nigeria, specifically, if it has facilitate growth or not and examine the effect of other co-operant factors in bringing about the desired sustainable economic development in Nigeria. For this purpose, the paper is divided into four sections. The first section is the introduction, the second section is the theoretical framework and Literature Review, the third section is the methodology, the fourth section discusses the result of the study and the fifth section concludes the work.

2. Theoretical Framework And Literature Review

Monetary policy got its root from the works of Irving fisher (see Diamond, 2003. P. 49) who lay the foundation of the quantity theory of money through his equation of exchange. In his proposition money has no effect on economic aggregates but price. However, the role of money in an economy got further elucidation from (Keynes, 1930 P. 90) and other Cambridge economists who proposed that money has indirect effect on other economic variables by influencing the interest rate which affects investment and cash holding of economic agents. The position of Keynes is that unemployment arises from inadequate aggregate demand which can be increased by increase in money supply which generates increase spending, increase employment and economic growth. However, he recommends a proper blend of monetary and fiscal policies as at some occasions, monetary policy could fail to achieve its objective. The role of monetary policy which is of course influencing the volume, cost and direction of money supply was effectively conversed by (Friedman, 1968. P. 1-17), whose position is that inflation is always and everywhere a monetary phenomenon while recognising in the short run that increase in money supply can reduce unemployment but can also create inflation and so the monetary authorities should increase money supply with caution.

2.1 Monetary Policy Transition Mechanism

There are different transmission channels through which monetary policy affects economic activities and these channels of transmissions have been broadly examined under the monetarist and Keynesian schools of thought. The monetarist postulates that change in the money supply leads directly to a change in the real magnitude of money. Describing this transmission mechanism, (Friedman and Schwartz, 1963) say an expansive open market operations by the Central Bank, increases stock of money, which also leads to an increase in Commercial Bank reserves and ability to create credit and hence increase money supply through the multiplier effect. In order to reduce the quantity of money in their portfolios, the bank and non-bank organisations purchase securities with characteristics of the type sold by the Central Bank, thus stimulating activities in the real sector. This view is supported by (Tobin, 1978) who examines transmission effect in terms of assets portfolio choice in that monetary policy triggers asset switching between equity, bonds, commercial paper and bank deposits. He says that tight monetary policy affects liquidity and banks ability to lend which therefore restricts loan to prime borrowers and business firms to the exclusion of mortgages and consumption spending thereby contracting effective demand and investment.

Conversely, the Keynesians posit that change in money stock facilitates activities in the financial market affecting interest rate, investment, output and employment. (Modigliani, 1963) supports this view but introduced the concept of capital rationing and said willingness of banks to lend affects monetary policy transmission. In their analysis of use of bank and non bank funds in response to tight monetary policy (Oliner and Rudebusch, 1995) observe that there is no significant change in the use of either but rather larger firms crowd out small firms in such times and in like manner (Gertler and Gilchrist, 1991) supports the view that small businesses experience decline in loan facilities during tight monetary policy and they are affected more adversely by changes in bank related aggregates like broad money supply. Further investigation by (Borio, 1995) who investigated the structure of credit to non government borrowers in fourteen industrialised countries observe that it has been influenced by factors such as terms of loan as interest rates, collateral requirement and willingness to lend.

2.2 Nigeria's Experience

The primary goal of monetary policy in Nigeria has been the maintenance of domestic price and exchange rate stability since it is critical for the attainment of sustainable economic growth and external sector viability (Sanusi, 2002, P. 1)

(Adefeso and Mobolaji, 2010) employed Jahansen maximum likelihood co-integration procedure to show that there is a long run relationship between economic growth, degree of openness, government expenditure and M2. (Ajisafe and Folunso, 2002) observe that that monetary policy exerts significant impact on economic activity in Nigeria.

(Kogar 1995) examine the relationship between financial innovations and monetary control and concludes that in a changing financial structure, Central Banks cannot realize efficient monetary policy without setting new procedures and instruments in the long-run, because profit seeking financial institutions change or create new instruments in order to evade regulations or respond to the economic conditions in the economy. Examining the evolution of monetary policy in Nigeria in the past four decades, (Nnanna, 2001, P. 11) observe that though, the Monetary management in Nigeria has been relatively more successful during the period of financial sector reform which is characterized by the use of indirect rather than direct monetary policy tools yet, the effectiveness of monetary policy has been undermined by the effects of fiscal dominance, political interference and the legal environment in which the Central Bank operates. (Busari et-al 2002) state that monetary policy stabilizes the economy better under a flexible exchange rate system than a fixed exchange rate system and it stimulates growth better under a flexible rate regime but is accompanied by severe depreciation, which could destabilize the economy meaning that monetary policy would better stabilize the economy if it is used to target inflation directly than be used to directly stimulate growth. They advised that other policy measures and instruments are needed to complement monetary policy in macroeconomic stabilization. In the same stride, (Batini, 2004, P.32 and 35) stress that in the 1980s and 1990s monetary policy was often constrained by fiscal indiscipline. Monetary policies financed large fiscal deficit which averaged 5.6 percent of annual GDP and though the situation moderated in the later part of the 1990s it was short lived as Batini, described the monetary policy subsequently as too loose which resulted to poor inflation and exchange rates record. (Folawewo and Osinubi, 2006) investigates how monetary policy objective of controlling inflation rate and intervention in the financing of fiscal deficits affect the variability of inflation and real exchange rate. The analysis is done using a rational expectation framework that incorporates the fiscal role of exchange rate. The paper reflects that the effort of the monetary authority to influence the finance of government fiscal deficit through the determination of the inflation-tax rate affects both the rate of inflation and the real exchange rate, thereby causing volatility in their rates. The paper

reveals that inflation affects volatility of its own rate as well as the rate of real exchange. The policy implication of the paper is that monetary policy should be set in such a way that the objective it is to achieve is well defined. (Sanusi 2002, p. 18) says that the ability of the CBN to pursue an effective monetary policy in a globalised and rapidly integrated financial market environment depends on several factors which include, instituting appropriate legal framework, institutional structure and conducive political environment which allows the Bank to operate with reference to exercising its instrument and operational autonomy in decision- making, the degree of coordination between monetary and fiscal policies to ensure consistency and complementarity, the overall macroeconomic environment, including the stage of development, depth and stability of the financial markets as well as the efficiency of the payments and settlement systems, the level and adequacy of information and communication facilities and the availability of consistent, adequate, reliable, high quality and timely information to Central Bank of Nigeria.

3. Research Methodology

This research is designed to critically appraise the monetary policy in Nigeria in the light of macroeconomic performance of the country.

The Ordinary Least Square (OLS) i.e. regression analysis method is used to analyse the data that are collected from Central Bank of Nigeria and National Bureau of Statistics publications for various years covering 1981 to 2008.

In demonstrating the application of the Ordinary Least Square method, three multiple regression models is used with the liquidity ratio, money supply, cash ratio as the independent variables in all the models while gross domestic product, inflation rate and balance of payment would be the dependent variables in model one, model two and model three respectively.

3.1 Model Specification

The three models to capture the impact of monetary policy on Nigerian macroeconomic variables are stated below with the *independent* variables as liquidity ratio, money supply and cash ratio while the dependent variables will be gross domestic product, inflation rate and balance of payment total; so that:

Model I

$$\text{gdp} = a_0 + a_1 \text{lr} + a_2 M_2 + a_3 \text{Cr} + U_i \quad (1)$$

Where

- gdp - Gross Domestic Product
- Lr - Liquidity ratio
- M₂ - Broad Money Supply
- Cr - Cash ratio
- a₀, a₁, a₂ and a₃ - Parameters
- U_i - Error term

Model II

$$\text{inf} = b_0 + b_1 \text{lr} + b_2 M_2 + b_3 \text{Cr} + U_i \quad (2)$$

Where

- inf - Inflation rate
- Lr - Liquidity Ratio
- M₂ - Broad Money Supply
- Cr - Cash ratio
- b₀, b₁, b₂ and b₃ - Parameters
- U_i - Error term

Model III

$$\text{bop} = c_0 + c_1 \text{lr} + c_2 M_2 + c_3 \text{Cr} + U_i \quad (3)$$

Where

- bop - Balance of Payment
- lr - Liquidity Ratio
- M₂ - Broad Money Supply
- Cr - Cash ratio
- c₀, c₁, c₂ and c₃ - Parameters
- U_i - Error term

4. Empirical Result

This section presents results of empirical analyses of the study. Unit root is first conducted, then followed by regression, Johansen co-integration result and lastly vector error correction model (VECM). In this section, we present the empirical results on the effects of monetary policy on the Nigerian economy. In order to determine whether the macro variables are stationary or otherwise, unit root tests are conducted if non-stationary at levels, we then go ahead to determine the order of integration. Next a test of co-integration is carried out between economic growth (GDP), inflation rate (INFLR), balance of payment (BOP), and the other various subset of monetary policy variables. Test for the stationary of the variables are presented in table 1 below.

The test results suggest that the null hypothesis of unit root for the six time series namely, liquidity ratio (LR) cash ratio, (CASHR), money supply (MS₂), gross domestic product (GDP), inflation rate (INFLR) and balance of payment (BOP) cannot be rejected at levels. This prompted us to test the Augmented Dickey-Fuller (ADF) test at first levels. The result as shown in table 1 suggests that the null hypothesis of the variables can be rejected in the first difference. These shows that some of the variables are stationary at first difference and are integrated of order one or are I(1) series while some are stationary at order 2.

Table 1: Unit Root Result

Variable	DF	ADF Test critical value	ADF Test Statistics	P-values	Order of Integration	ADF lags
Δ GDP (c)	5%	-2.9850	3.622099	0.0015	I (1)	1
	10%	-2.6318				
ΔINFLR (c)	5%	-2.9798	-2.934405	0.0075	I (1)	1
	10%	-2.6290				
ΔBOP (c)	1%	-3.7343	-4.529425	0.0002	I (2)	1
	5%	-2.9907				
ΔLQR (I)	5%	-2.9850	-2.94227	0.0075	I (1)	1
	10%	-2.6318				
ΔCASHR (I)	5%	-3.6219	-4.252270	0.0004	I (1)	1
	10%	-3.2474				
Δ MS ₂ (I)	1%	-3.7497	-4.229205	0.0004	I (3)	1
	5%	-2.9969				

Source; Author's estimation using E-view 3.0

For the ADF statistics, the 99%, 95%, and 90% critical values are shown after each T-statistics at the left hand side of second column of table 1. The result in table 1 above shows that none of the variables were stationary at levels. This can be seen by comparing the observed values (in absolute terms) of the ADF test statistics at 1%, 5% and 10% levels of significance. The result provides some evidence that non- of the variables were stationary when differenced at levels, hence there is evidence of non-stationary. However, differencing once induced stationary in four (GDP, INFLR, CASHR and LQR) while balance of payment (BOP) and money supply (MS₂) were differenced twice to attain stationary. Therefore, the null hypothesis is accepted for non-stationary for the variables at levels and it is sufficient to conclude that there is a presence of unit root at levels. As a result all the variables were differenced and others were differenced twice and the ADF tests were conducted on them; the result is shown in table 1 above.

This reveals that some of the variables were stationary at first difference and some were at second difference. On these bases, the null hypothesis of non-stationary is rejected for all the variables and we therefore, conclude the variables are stationary. This further implies that the variables are integrated of order one, I (1) and two I (2).

Test Result for Co integration

After forming the stationary of the variables, we proceed to test for the co integration among the variables. When co integration is present, it means that economic growth, inflation rate, balance of payment and money supply share a common trend and long-run equilibrium as suggested in theory. We started the co integration analysis by employing the Johansen and Juselius multivariate co integration test. The maximum Eigen value statistics indicated (6) co integrating vectors at the 5 percent level of significance, suggesting that there is co integration relation between monetary police and the different measures of macro economic stability.

Table1c Co-Integration Test

Sample: 1981 2007

Included observations: 28

Test

assumption:

Linear

deterministic

trend in the data

Series: GDP INFLR BOP LQR CASHR MS

Lags interval: 1 to 1

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.935594	213.3558	94.15	103.18	None **
0.899440	144.7921	68.52	76.07	At most 1 **
0.836302	87.36713	47.21	54.46	At most 2 **

4.1 Presentation And interpretation Of Regression Result

In this study, mathematical relationships between the variables are established. Available data on liquidity ratio (LR), cash ratio (CASHR), money supply (MS₂), gross domestic product,(GDP), inflation rate (INFLR) and balance of payment (BOP) were collected and used for the purpose of this analysis. Three multiple regression models were formed to capture the assumed relationship between these variables.

Table2. Presentation of Model 1 Result (GDP)

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-105615.6	1116194.0	-0.094621	0.9254
LQR	471.2586	23756.76	0.019837	0.9843
CASHR	38075.83	66199.74	0.575166	0.5708
MS ₂	4.295952	0.157122	27.34147	0.0000

Source; Author's estimation using E-view 3.0

R² =0.971739 F (3, 27) = 263.6123 Adj.R² = 0.968053 DW=1.382416

Model Estimation

GDP = -105615.6 + 471.259 log (LQR) + 38075.8 log (CASHR) + 4.296 log (MS₂)

t = (-0.095) (0.020) (0.575) (27.34)

Where the variables remain as previously defined. The above table is the result of the static regression analysis where Gross Domestic (GDP) was regressed on liquidity ratio (LQR), Cash ratio (CASHR) and money supply (MS₂). The a priori expectation of the estimate co efficient is; $\alpha_0 > 0$, $\alpha_1 > 0$, $\alpha_2 > 0$, $\alpha_3 > 0$.

Analysis of Result 1

Considering the uncertain quality of data used in the study, the level of statistical significance chosen for testing the hypothesis is at 5% level. The regression result shows there is an existence of a linear and proportionate relationship between GDP and the explanatory variables. The explanatory variables identified are the monetary policy variables of liquidity ratio, cash reserve and broad money supply. The sign of the co-efficient estimates are rightly assigned, reflecting a positive relationship with economic growth and thus confirms to prior expectation. The statistical evidence emanating from the study of co-efficient of determination R^2 shows that the endogenous variables jointly explained over 97.2% of the total variation in the dependent variable (GDP). The value of the adjusted R^2 (0.96805) which is over 96.8 % re-affirms the goodness of fit and signifies that over 97.2% variations did not merely result from the use of multiple variables in the model. The F-statistics (263.6) of the model estimate is statistically satisfactory such that the hypothesis of the equation being equal to zero can be rejected. The joint influence of the explanatory variables was statistically significant at 5 percent level of significant. Durbin Watson test of autocorrelation (1.38) indicates the presence of positive autocorrelation. Specifically, at 5% level of significance liquidity ratio and cash reserve have direct and although insignificant positive impact on growth except for money supply which exerts a significant positive impact on growth. In other words liquidity ratio and cash reserve were statistically insignificant and thus have no significant impact on growth and development while money supply has a significant relation with economic growth in Nigeria. This confirms the hypothesis that monetary policy (money supply) has a significant impact on Nigeria economic growth within the period under review.

The empirical evidence emanating from the study reveals that money supply had a direct relationship with economic growth which suggests that it encourages investment and productivity in goods and services. Liquidity ratio and cash reserve had positive but insignificant relation with growth hence, little reliance can be built on the result. This can be viewed that the expected transformations of the economy through the monetary instrument of liquidity ratio and cash reserve policies for the periods covered are not being realized.

Table 3. Model II Result (Inflation)

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	5388053	18.24943	2.952450	0.0071
LQR	-0.561754	0.388416	-1.446270	0.1616
CASHR	-0.0000298	0.0000257	-1.159593	0.2581
MS ₂	0.357663	1.082345	-0.330451	0.7441

Source; Author's estimation using E-view 3.0

$R^2 = 0.17622$ F, (3, 27) = 1.646024 DW = 1.028958 Adj. $R^2 = 0.068770$

Model Estimation

INFRL = 53.88053 - 0.561754(LQR) - 0.357663 (CASHR) - 0.0000298 (MS₂)

t = (2.952) (-1.446270) (-0.330451) (-1.159593)

Where the variables remain as previously defined. The above table is the result of the static regression analysis where inflation rate (INFRL) was regressed on liquidity ratio (LQR), Cash ratio (CASHR) and money supply (MS₂). The a priori expectation of the estimate co efficient is; $\alpha_1 < 0$, $\alpha_2 < 0$, $\alpha_3 < 0$.

Analysis Of Result 2

The overall statistical significance of the estimated equation is non-satisfactory ($F^* = 1.65$), such that the joint influence of the endogenous variables were also low ($R^2 = 0.176$), meaning that over 17.6 % variations in inflation rate is being jointly explained by changes in monetary policy. This also reveals that monetary policy alone cannot effectively capture inflation control in Nigeria in the absence of other macro variables, such as investment and government expenditure. The result of the study further reveals the presence of positive autocorrelations.

The macro economic variable (inflation) had indirect relationship with monetary policy, thus conforms to a priori expectations. This suggest that monetary polices discourages inflation in the economy. The study further reveals that a unit increase in monetary policy regulation reduces inflation in Nigeria although not significant. For instance a unit increase in commercial banks liquidity ratio and cash reserve helps to reduce inflation by a corresponding unit of 1.44 and 0.357 respectively. The tendency of excess liquidity in circulation that encourages inflation in the macro economic environment is minimized. Also we could further adduce that stable macro economic environment is necessary for effective monetary policy and economic growth.

Table 4. Model III; (Balance of Payment)

Table 4. Presents the summary of the regression result of monetary policy and Balance of payment as the dependent variable

Table 4: Model III: Balance of payment

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-102969.6	637728.8	-0.161463	0.873
LQR	2257.852	13573.25	0.166346	0.8693
MS ₂	0.652736	0.089771	7.271160	0.0000
CASHR	-15777.85	37822.72	-0.417153	0.6804

Source; Author's estimation using E-view 3.0

$R^2 = 0.707681$ $F, (3, 27) = 18.56037$ $DW = 1.533354$ $Adj. R^2 = 0.669552$

Model Estimation

$BOP = -102969.6 + 2257.85 (LQR) + 0.652736 (MS_2) - 15777.85 (CASHR)$

$t = (-0.161) \quad (0.166346) \quad (7.271160) \quad (-0.417153)$

The table above is the result of the regression analysis where Balance of Payment (BOP) was regressed on liquidity ratio (LQR), Cash ratio (CASHR) and money supply (MS₂). The a priori expectation of the estimate coefficient is; $\alpha_1 > 0$, $\alpha_2 > 0$, $\alpha_3 > 0$.

Analysis of Result 3

Here the result of R^2 from the empirical study indicates that over 70.8 % the variation in balance of payment were jointly captured by the independent variables (monetary polices). This is also re-affirmed by the adjusted R^2 result (0.669), explaining over 66.9 % of the variations in balance of payment. The entire model is also statistically significant ($F^* = 18.56$) while the Durbin Watson statistics reveals little or no autocorrelation of the variables. Of the components of monetary policy entered, liquidity ratio and money supply show a direct relationship with balance of payment except for cash ratio. The empirical evidence from the study reveals that money supply is significantly and positively related to balance of payment. This therefore, suggests the vital importance of money supply in achieving a favorable balance of payment in foreign exchange transactions. The result further reveals an indirect relation of cash reserve and balance of payment. The suggested plausible reason for this observation could be the negative effect of tight monetary policy in resource mobilization, production and export, resulting to distortion in the balance of payment equilibrium. The direct but insignificant effect of liquidity ratio could be seen as its relative small contribution to balance of payment transactions and the economy in general. It also suggests an uncomplimentary monetary policy that is not trade enhancing.

5. Summary, Conclusions and Recommendations

Summary

this research work studied the effect of Central Bank of Nigeria's (CBN) monetary policies on selected macroeconomic variables – gross domestic product, inflation rate and balance of payment between 1981 and 2008.

An empirical investigation of the effectiveness of Central Bank of Nigeria's monetary policies was conducted and the major findings of the study are summarised below:

- i. It was found that overall, CBN's monetary policies play crucial role in influencing the level of productivity in the country. This result gives weight to the place of Central bank in the national development process of a nation;
- ii. The regression analysis also revealed that the adoption of various monetary policy measures by the Central Bank of Nigeria has no significant impact on the inflation rate in the country. This suggests that the problem of inflation in Nigeria is not a monetary phenomenon but is rather attributable to the structural rigidity in the country. This is understandably as Nigeria is operating far below full employment equilibrium and the increase in GDP does not translate to improved purchasing power because poverty index has continued to worsen over the years. A lot still needs to be done in the areas of creating public awareness, improving operations of the financial market, enhancing the depth and breadth of the market and building regulatory capacity so as to appropriately position the market to face the challenges ahead.
- iii The empirical analysis also reveal that liquidity and cash ratios do not have significant impact on the balance of payment position which means that the monetary policy has not supported healthy exchange rate system that would encourage export and discourage frivolous importation

5.2 Conclusion

The role of the Central bank in regulating the liquidity of the economy which affects some macroeconomic variables such as the output, employment and prices cannot be over-emphasised. The Central Bank of Nigeria over the years has adopted different monetary policy management techniques to keep the economy in a stable state. Before the structural adjustment of 1986 which ushered in a period of financial deregulation, it adopted a system of direct control through the issue of credit guidelines and interest rate fixation but from the later part of the 1980s, it adopted indirect control system of management by resorting to open market operations, adjustment of legal reserves requirement and the rediscount rate. But in all these, the attainment of the desired objectives of monetary policy has been affected by domestic and external environments which include fiscal dominance, underdeveloped nature of the financial markets, external debt overhang and volatility in oil price, Sanusi (2002)

5.3 Recommendations

Based on the findings made in the course of this study, particularly the results of the regression models, it is clear that the development of the Nigerian economy is highly dependent on the provision of the right environment for investment, which will in no doubt encourage economic growth and development. The following recommendations are hereby made:

(1) Monetary policies should be used to create a favourable investment climate by facilitating the emergency of market based interest rate and exchange rate regimes that attract both domestic and foreign investments, create jobs, promote non oil export and revive industries that are currently operation far below installed capacity. In order to strengthen the financial sector, the Central Bank has to encourage the introduction of more financial instruments that are flexible enough to meet the risk preferences and sophistication of operators in the financial sector.

(2) The government should also endeavour to make the financial sector less volatile and more viable as it is in developed countries. This will allow for smooth execution of the Central Bank monetary policies. Law relating to the operation of the financial institutions could be made a bit less stringent and more favourable for the operators to have room to operate more freely.

(3) The Central Bank should find a way of reducing the level of deficit financing, improve funding of the informal sector and the SMEs and promote their integration into the formal sector while at the same time working with government to improve the tax regime to make the tax capacity to approach the tax potential so as to reduce tax evasion to barest minimum and ensure that there is proper balancing between capital and recurrent expenditures of government.

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