

The Impact of Monetary and Fiscal Policies on Nigerian Economic Growth: 1990-2010.

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Abstract

Monetary and fiscal policies have been established by several scholars to have contributed to economic growth of any nation. This paper focused on the identifying policy that contributed effectively to the level of economic growth in Nigeria. Data were collected from the CBN statistical bulletin covering the period of 21 years. Unit root test, co integration, VAR model and graph were some of the econometrics techniques used for data estimation. Phillip-perron test statistic revealed that the time series properties of the variables attained stationarity at first order. The variables were co integrated at at most 1 with at least 2 co integrating equations. The individual variable: Minimum Rediscount Rate (LNMR), Interest Rate (LNIR), Liquidity Rate (LNLR), Cooperate Income Tax (CIT) and Federal budget were not statistically significant to Gross Domestic Product (LNGDP) in the previous and current year. However, interest rate and liquidity rate impacted negatively on the GDP but minimum rediscount rate cooperate income tax and federal budget affect the GDP positively. Monetary and fiscal policies measures are jointly statistically significant to level of economic growth in Nigeria. The reaction of money and fiscal policies measure on the level of economic growth in Nigeria was found to be unstable over the years of study which indicated no long run relationship. However, the study further revealed that fiscal policy measures are more effective in gearing economic growth in Nigeria. The study recommended that there should be effective strategic policies that enhance better fiscal policy implementation in Nigeria that will in the long run contribute to the national economic growth and also more robust and viable monetary policy measures should be made to achieve sound economic growth.

Keywords: Monetary Policy, Fiscal Policy, Economic Growth, Co-integration, VAR model.

1. Introduction

Central to the role of different economies of the world is the need to regulate and stabilize the system in order to achieve macroeconomic objectives. According to Festus (2004), these objectives include economic development and growth, full

employment of labour, price stability, equilibrium balance of payment and equitable distribution of income, among others. A set of policy measures adopted invariably by the government to regulate the economy for the attainment of the macroeconomic objectives include monetary and fiscal policies. While monetary policy focuses on the control of availability, volume, flow, direction and cost of credits within the economy, fiscal policy rather concerns with the control of taxes and government expenditures.

Invariably, the adoption of either monetary or fiscal policies may portend far-reaching implications on the overall attainment of the perceived macroeconomic objectives. Hence, governments are often wary over whether to go for more of monetary policies or lean more on the fiscal policies as the necessary panacea for the attainment of overall economic growth in the economy. On this premise therefore, some of the pertinent questions to be addressed by the study are stated thus; i. What is the relationship between monetary/fiscal policies and economic growth in Nigeria? ; ii. To what extent has such monetary policies as the minimum rediscount rate, interest rate and liquidity ratio affected economic growth in Nigeria?; iii. What is the influence of such fiscal policy measures as corporate tax and government budget on the level of economic growth in Nigeria? Consequently, the direction of this study is to empirically determine the efficacy of both the monetary and fiscal policy measures as a way to achieving economic growth in Nigeria.

2. Literature Review

As observed by Akpakpan (1999), economic development is used to describe the process of improvement in the various aspects of the economy and the society it supports. The improvement is usually shown in the kinds of desirable changes such as reduction in the level of unemployment, degree of personal and regional inequalities, level of absolute poverty and increase in the real output of goods and services. Others areas of desirable changes include improvement in literacy, housing, health services and in the production capacity. The primary reason for desiring economic development or growth is to raise the general standard of living within the economy.

The quest for and the challenges of economic development across the world increase on daily basis. In many countries of the world, the level of income disparity, inflation, unemployment and poverty is astronomically high such that the standard of living of an average person remains completely low. The situation state above is more popular in developing and less developed countries of the world. Governments and policy makers in these nations seek policies and strategies to “push” their economies out of the low socioeconomic ebb Robbins (2006).

As noted above, countries seek ways and means of advancing themselves technologically, industrially and economically in order to minimize the level of inequality, illiteracy and poverty. One of the basic measures used is the formulation and implementation of macroeconomic policies such as monetary and fiscal policies Ekpo (2004).

2.1 The Monetarist View

The monetarists are of the opinion that the free-market economy has strong self-regulating tendencies; if a satisfactory general climate is maintained the economy will tend naturally toward full employment and a relatively stable price level (Lipsey and Steiner, 1981:706). At the same time, private initiative, spurred by the profit motive, will yield a satisfactory growth of real national income.

In this view, governments’ attempts to stabilize the economy will usually be perverse. They will cause larger recessions on the downward side and bigger inflations on the upside, than would have occurred had government policy been passive. Instead of trying to stabilize the economy, government policy should take a very passive stance. The fiscal stance should be one of low and stable government expenditure and a budget that is balanced cyclically if not annually. The monetary stance should be one of a three percent increase in money supply, year in and year out, to accommodate the increased demand for money associated with a growth of wealth and full employment income. Against this stable back-drop, the natural corrective forces of the economy can be

relied on to prevent the extremes of serious recession and serious inflation.

2.2 The Keynesians View

Keynesians are of the view that free enterprise economy has weak self regulatory powers and may readily settle into prolonged periods of heavy unemployment. As a result of restrictive practices of monopolies and the tendency of large corporations to avoid risks and adopt safe and cautious policies, the income growth rate will be low. Furthermore the enormous power of large unions and corporations may cause wage cost-push inflations that cannot be blamed on monetary mismanagement.

In this view, active government intervention is vital. Without such efforts, the economy will sometimes undergo wide cyclical fluctuations with alternating bouts of inflation and unemployment; at other times it will settle into prolonged stable period of heavy unemployment. To avoid these situations, government must use its instruments of fiscal policy supplemented by monetary policy Lipsey and Steiner (1981). A fundamental issue in the monetarists and Keynesian views discussed above is the fact that both fiscal and monetary policies are applied by the government in regulating and stimulating the economy to achieve a desired level of inflation and unemployment.

The only major difference in the two is the level of involvement of the government. While the monetarists focus on a passive role of the government, the Keynesians look into a more active role. With this, the theoretical setting of the work is established. This gives the direction of further discussions with focus on economic development.

2.3 Concept and Nature of Economic Development

Economic development and growth is one of the major macroeconomic objectives of government anywhere in the world. According to Akpakpan (1999) economic development describes the process of improvement in the various aspects of the economy and the society it supports. Such improvements are usually shown in the kind of desirable changes including reduction in the level of unemployment, reduction in the degree of personal and regional inequalities, reduction in the level of absolute poverty as well as increase in real output of goods and services. Others include improvement in literacy, housing and health services and improvement in the production capacity.

As observed by Perkins, et al (2001), a number of changes in the environment account for the difference in the future level of economic development and that of the past. For instance, enhanced communication around the world as represented by the internet has sped up the flow of ideas across oceans and borders to an unprecedented degree and has made it possible for many kinds of services to be located far from the location where those services ultimately are used. Some of the changes have both positive and negative effects on economic development. We need to appreciate these changes and their implications on economic development mainly in the areas of inflation, national productivity, unemployment, capacity utilization and poverty level.

The variables listed above are the key measures or indicators of economic development. In Nigeria, the level of economic development has been very low even with the abundant human and natural resources. And expansive view of economic development objective makes the situation in Nigeria more worrisome. Such perspective of economic development recognize broad based progress in human development including low infant mortality, high life expectancy, improvement in literacy levels, gender empowerment among others as the key elements. These objectives have increasingly become the focus of interventions across the world, reinforced by the Millennium Declaration in 2000 with clear targets to achieve the Millennium Development Goals (MDGs) in 2015 (Jesse, 2005).

Many scholars and researchers including Nwezeaku & Akujuobi (2010), Adeoye (2007), Nnanna (2004) and Ubom (2006) have researched and written extensively on the impact of monetary and fiscal policies on economic development in Nigeria. For instance Adeoye (2007) observed that the primary goals of monetary and fiscal policies is to maintain domestic price and exchange rate stability as a critical condition for the attainment of sustainable economic development and growth. Nnanna (2004) is of the view that changes in macroeconomic policies typically impact on the structure and development of the financial

sector. The linkage between macroeconomic/structural policies, financial and economic development therefore becomes an issue of significant importance. As analyzed further, the expert points out that loose fiscal policy stance will tend to put pressure on the exchange rate and the balance of payment while monetary shocks will tend to put pressure on the price level and bank's balance sheet. These exert negative impact on economic development.

While these scholars have spent a lot of time and energy to carefully analyze, research and write on the impact of ineffective and inefficient monetary and fiscal policies administration on the economy of Nigeria as highlighted above, they have failed to pinpoint the key approaches to formulating and implementing the macroeconomic policies with minimal distortions and enhanced level of economic development. This research is therefore a bold attempt to fill that gap. In the section that follows, an overview of macroeconomic policies is made.

2.4 Overview of Macroeconomic Policies

In order to avoid major economic shocks, government make adjustments through policy changes which they hope will succeed in stabilizing the economy. They believe that the success of these adjustments is necessary to maintain stability and continued growth. This economic management is achieved through two types of strategies, namely, Fiscal and Monetary Policies. At the most aggregate level, macroeconomic policy consists of the triad of monetary fiscal and exchange rate policy. New directions in any one of these areas have to be conceived and carried out in full coordination with the other two areas Sheffrin (2003).

2.4.1 Fiscal Policy

In economics, fiscal policy is the use of government spending and revenue collection to influence the economy. It refers to the overall effect of the budget outcome on economic activity. Fiscal policy can be contrasted with the monetary policy, which attempts to stabilize the economy by controlling interest rates and the supply of money. The two main instruments of fiscal policy are government spending and taxation. Changes in the level and composition of taxation and government spending can impact on the following variables in the economy.

- a) Aggregate demand and the level of economic activity.
- b) The pattern of resource allocation
- c) The distribution of income (Sanusi, 2001)

The three possible stances of fiscal policy are neutral, expansionary and contractionary.

- i. Neutral: - A neutral stance of fiscal policy implies a balanced budget where government spending is equal to tax revenue ($G=T$). Government spending is fully funded by tax revenue and the overall budget outcome has a neutral effect on the level of economic activity.
- ii. An expansionary stance of fiscal policy involves a net income in government spending ($G>T$) through rises in government spending or a fall in taxation revenue or a combination of the two. This will lead to a larger budget deficit or a smaller budget surplus than the government previously had, or a deficit if the government previously had a balanced budget. Expansionary fiscal policy is usually associated with a budget deficit.
- iii. A contractionary fiscal policy ($G<T$) occurs when net government spending is reduced either through higher taxation revenue or reduced government spending or a combination of the two. This would lead to a lower budget deficit or a larger surplus than the government previously had a balanced budget. Contractionary fiscal policy is usually associated with a surplus Federal Reserve Board (2006).

2.4.1.1 Economic Effects of Fiscal Policy

Fiscal policy is used by governments to influence the level of aggregate demand in the economy in an effort to achieve

economic objectives of price stability, full employment and economic development and growth Heyne, et al, (2002). Keynesian economics suggests that adjusting government spending and tax rates are the best ways to stimulate aggregate demand. This can be used in times of recession or low economic activity as an essential tool in providing the framework for strong economic growth and working toward full employment. The government can implement these deficit spending policies due to its size and prestige and stimulate trade. In theory, these deficits would be paid for by an expanded economy during the boom that would follow. During periods of high economic growth, a budget surplus can be used to decrease activity in the economy. A budget surplus will be implemented in the economy if inflation is high in order to achieve the objective of price stability Nelson (2007).

The removal of funds from the economy will (by Keynesian theory) reduce levels of aggregate demand in the economy and contract it, bringing about price stability. Some economists argue that fiscal policy can have no stimulus effect. This is known as the treasury view and is categorically rejected by Keynesian economics. The Treasury View refers to the theoretical positions of classical economists in the British Treasury who opposed Keynes call for fiscal stimulus in the 1930s. The same general argument has been repeated by neoclassical economists up to the present day. From their point of view, when a government runs a budget deficit, funds will need to come from public borrowing (the issue of government bonds), overseas borrowing or the printing of new money. When a government funds a deficit with a release of government bonds, an increase in interest rates across the market can occur. This is because government borrowing creates higher demand for credit in the financial markets, causing a lower aggregate demand, contrary to the objective of a budget deficit. This concept is called Crowding out.

Other possible problems with fiscal stimulus include the time lag between the implementation of the policy and detectable effects in the economy and inflationary effects driven by increased demand. In theory, fiscal stimulus does not cause inflation when it uses resources that would have otherwise been idle. For instance, if a fiscal stimulus employs a worker who otherwise would have been unemployed, there is no inflationary effect. However, if the stimulus employs a worker who otherwise would have had a job, the stimulus is increasing demand while labour supply remains fixed, leading to inflation.

2.4.2 Monetary Policy

Monetary policy is the process by which the government, through the Central Bank or monetary authority of a country, controls the supply of money, availability of money and cost of money or rate of interest, in order to attain a set of objectives oriented towards the growth and stability of the economy. Monetary policy rests on the relationship between the rates of interest in an economy and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchanges rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a Central Bank, the monetary authority and this influence the interest rate, in order to achieve policy goals.

Monetary policy is referred to as either being on expansionary policy or a contractionary policy. Expansionary policies increase the size of the money supply, or decrease the interest rate. A policy is referred to as contractionary if it reduces the size of the money supply or raises the interest rate. Furthermore, monetary policies are described as follows; accommodative, if the interest rate set by the Central monetary authority is intended to create economic growth, neutral, if it is intended neither to create growth nor combat inflation; or tight, if intended to reduce inflation Orphanides (2008).

It is important for policymakers to make credible announcements and degrade interest rates as they are non-important and irrelevant with regards to monetary policies. If consumers and firms believe that policymakers are committed to lowering inflation; they will anticipate future prices to be lower than otherwise. If an employee expects prices to be high in the future, he will draw up a wage contract with a high wage to match these prices. Hence, the expectation of lower wages is reflected in wage-setting behaviour between employees and employers and since wages are in fact lower, there is no demand pull inflation because employers are paying out less in wages.

In order to achieve this low level of inflation, policymakers must have credible announcements, that is, private agents must believe that these announcements will reflect actual future policy. If an announcement about low-level inflation targets is made but not believed by private agents, wage-setting will anticipate high-level inflation and so wages will be higher and inflation will rise. A high wage will increase a consumer's demand (demand pull inflation) and a firm's costs (cost push inflation), so inflation rises. Hence, if a policymaker's announcements regarding monetary policy are not credible, policy will not have the desired effect (Federal Reserve Board, 2006)

If policymakers believe that private agents (consumers and firms) anticipate low inflation, they have an incentive to adopt an expansionary monetary policy, where the marginal benefit of increasing economic output outweighs the marginal cost of inflation. However, assuming private agents have rational expectation, they know that policymakers have this incentive. Hence private agents know that if they anticipate low inflation, an expansionist's policy will be adopted, that causes a rise in inflation. Consequently unless policymakers can make their announcement of low inflation credible, private agents expect high inflation. This anticipation is fulfilled through adaptive expectations (Wage-setting behaviour) and so, there is higher inflation (without the benefit of increased output). Hence, unless credible announcements can be made, expansionary monetary policy will fail.

Announcements can be made credible in various ways. One is to establish an independent Central Bank with low inflation targets, but no output targets. Hence, private agents know that inflation will be low because it is set by an independent body. Central Banks can be given incentives to meet their targets, for example larger budgets, a wage bonus for the head of the bank, in order to increase their reputation and signal a strong commitment to a policy goal.

Reputation is an important element in monetary policy implementation. But the idea of reputation should not be confused with commitment. While a central bank, might not have chosen any particular form of commitment (such as targeting a certain range for inflation). Reputation plays a crucial role in determining how much markets would believe the announcement of a particular commitment to a policy goal but both concepts should not be assimilated. Also, note that under the rational expectations, it is not necessary for the policy-makers to have established its reputation through past policy actions. For example, the reputation of the head of the central bank might be derived entirely from his ideology, professional background and public statements. It has been argued that the head of a central bank should have a larger distaste for inflation than the rest of the economy on average. Hence, the reputation of a particular central bank is not necessarily tied to past performance, but rather to particular institutional arrangements that the markets can use to form inflation expectations (Federal Reserve Board, 2006).

3.0 Research Methodology

3.1 Introduction

This section focuses on the methodology to determine the influence of monetary and fiscal policy on economic growth of Nigeria, covering the period, 1990-2010. Therefore, it involves the research design of the study which involves the tools and strategies of the research.

3.2 Data Source and Model Specification

The data for this work were predominantly secondary data. These data were obtained from text books, journal and Central Bank of Nigeria (CBN) publications, magazines, bulletin and annual reports and other existing documents. In collecting the data, the focus was mainly on the key variables identified to include minimum rediscount rate (MRR), interest rate (IR), liquidity ratio (LR), corporate income tax (CIT) and federal budget (FB). The above-named explanatory variables were regressed against the gross domestic product (GDP), as a dependent variable with the intention of testing the lead hypothesis thus; Ho: There is no significant relationship between monetary and fiscal policies and the level of economic development in Nigeria.

Model

$$GDP = (CORTAX, FEDGET, INTRATE, LIQRAT, MRR) \quad 1$$

$$GDP = \alpha_0 + \alpha_1 ACORTAX + \alpha_2 FEDGET + \alpha_3 TINTRATE + \alpha_4 LIQRAT + \alpha_5 MRR + \varepsilon \quad 2$$

Where:

GDP = Gross Domestic Product (i.e. dependent variable)

β_0 = constant value

β_1 β_5 = coefficients and expectation $\beta_1, \beta_2 < 0, \beta_3, \beta_5 > 0$

The coefficient (β) shows the effects on the dependent variable of a unit change in any of the independent variables. These coefficients are called the coefficients of Partial regression because the independent variables are usually correlated with the other independent variables.

For actual test of hypothesis, the Coefficient of multiple regression (R^2) F – statistic were used. The R^2 indicate the degree or strength of association or correlation between the dependent and independent variables. The F-Statistic is used to test the statistical significance of R^2 . It aims at finding out whether the explanatory variables actually have any significant impact on the dependent variable. For instance, if $F^* > F_1$, the overall relationship is significant.

4.0 Data Estimation

The study adopts various econometrics tools such as Phillips-Perron for unit root test of the time series properties of variables to test for stationarity, Co integration and VAR model are used to test for presence of co integration and VAR model is apply to estimate model relationship. F-statistics and t-statistics are adopted to accept or reject the above hypotheses based on the decision rule criteria of the value of t-ratio and F-stat. If the value are greater than 2.0 rule of thumb, we accept H1 that there is significant relationship but if the values is less than 2.0, it is not statistically significant.

4.0 Empirical Analysis and Discussion of Results of Model 2

4.1 Unit Root Test

The result of the unit root test at 5% critical value using Phillips-Perron Test is shown in the table below:

Table 1: Summary of Result of Unit Root Test using Phillips-Perron Test (PPtest) for the Explanatory Variables

Variables	PP Test	5% Critical Value	Decision	Conclusion
D(LNGDP) I(1)	-5.7792	-3.0239*	No Unit Root	It is Stationary
D(LNMRR) I(1)	-53431	-3.0239*	No Unit Root	It is Stationary
D(LNIR) I(1)	-6.2919	-3.0239*	No Unit Root	It is Stationary
D(LNLR) I(1)	-5.0448	-3.0239*	No Unit Root	It is Stationary
D(LNCIT) I(1)	-3.2197	-3.0239*	No Unit Root	It is Stationary
D(LNFB) I(1)	-5.3508	-3.0239*	No Unit Root	It is Stationary

**significant at 5% level, PP test > Critical value, then the variable is stationary*

Source: E-views 7.0.

Table 1 above shows that there is no unit root among the time series properties when subjected to Phillips-Perron test of lag 2. The time series properties of the variables possess stationarity at first difference I(1) as the calculated PP test values are greater than the critical value at 5% irrespective of sign difference. The result further informs co integration and possible VAR for model estimation to establish relationship.

4.2 Johansen Co integration Result

Table 2

Date: 01/07/13 Time: 18:18

Sample: 1990 2010

Included observations: 20

Series: LNGDP LNMRR LNIR LNLR LNCIT LNFB

Lags interval: No lags

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.964844	137.7601	94.15	103.18	None **
0.726990	70.80097	68.52	76.07	At most 1 *
0.601082	44.83601	47.21	54.46	At most 2
0.558273	26.45601	29.68	35.65	At most 3
0.395542	10.11475	15.41	20.04	At most 4
0.002312	0.046286	3.76	6.65	At most 5

*(**) denotes rejection of the hypothesis at 5 % (1%) significance level

L.R. test indicates 1co integrating equation(s) at 1% significance level

From Table 2 above the likelihood function values are greater than the critical value at 5%. This reveals that there is co integration at most 1 with an implication of at least 2 co integrating equations among the variables. We rejected Ho in favour of the alternative hypotheses at 5 percent critical level. This is because their values exceed the critical values at the 0.05 level which implies that a long-run relationship exists among the variables (LNGDP, LNMRR, LNIR, LNLR, LNNCIT and LNFB). The Johansen co integration shows that there is no presence of full rank given that subtraction of the number of co integrating equations and the variables under study do not equal to zero, therefore implying that the model is good and in functional form.

4.3 VAR Result

Table 3

Date: 01/07/13 Time: 18:23

Sample(adjusted): 1992 2010

Included observations: 19 after

adjusting endpoints

Standard errors & t-statistics in parentheses

	LNGDP
LNGDP(-1)	0.588440 (0.29912) (1.96724)
LNGDP(-2)	0.143450 (0.22815) (0.62876)
LNMR	0.008602 (0.00969) (0.88738)
LNIR	-0.021088 (0.01961) (-1.07556)
LNLR	-0.037679 (0.02200) (-1.71237)
LNCIT	0.007011 (0.00739) (0.94873)
LNFB	0.010773 (0.03026) (0.35601)
R-squared	0.985351
Adj. R-squared	0.976029
Sum sq. resids	4.12E-05
S.E. equation	0.001934
F-statistic	105.7006

Log likelihood	96.94479
Akaike AIC	-9.362610
Schwarz SC	-8.964951
Mean dependent	0.149656
S.D. dependent	0.012493

VAR Model - Substituted Coefficients:

$$\text{LNGDP} = 0.5884396215 \cdot \text{LNGDP}(-1) + 0.1434497181 \cdot \text{LNGDP}(-2) + 0.06054733868 + 0.008601826941 \cdot \text{LNMRR} - 0.02108757363 \cdot \text{LNIR} - 0.03767895717 \cdot \text{LNLR} + 0.007010841161 \cdot \text{LNCIT} + 0.01077265804 \cdot \text{LNFB}$$

Source: E-views 7.0.

4.4 Discussion of Results

Econometric result of the model adopted is presented in table 3. The vector autoregressive model shows that LNGDP is not statistically significant in the current year (-1) and previous year (-2) as the probability of the t-ratios (1.9672) and (0.6288) is less than the critical value of 5%. Estimate of LNMRR is 0.008. This implies a direct relationship between minimum rediscount rate (LNMRR) and LNGDP. A unit change in minimum rediscount rate will result in about 0.008 increase in LNGDP. Estimate of interest rate is -0.021. This implies an inverse relationship between LNIR and LNGDP. A unit change in interest rate will result in about 0.021 decrease in LNGDP. The estimate of liquidity ratio is -0.037. This implies that there is an inverse relationship between (LNLR) and LNGDP. This means that a unit change in Liquidity ratio (LNLR) will bring about 0.037 decreases in growth rate (LNGDP).

The estimated value of corporate income tax is 0.007. This shows a direct relationship between corporate income tax (LNCIT) and LNGDP. That is, a relative change in corporate income tax (LNCIT) results in about 0.007 increase in gross domestic product (LNGDP). The estimate of federal budget is 0.01. This implies correspondent direct relationship between federal budget (LNFB) and gross domestic product (LNGDP). This further implies that a relative change in federal budget (LNFB) will account for 0.01 increase in (LNGDP).

Results of the empirical study for the test of significance are discussed as follows:

Investigating the overall significance of the model, the value of F-statistics is 105.70 which is greater than 2.0 rule of thumb. This means that there exists statistical significance between fiscal, money policy measures and GDP. R-square is 0.98 implying that the coefficient of determination (R^2) is statistically significant at 98%.

To test for the significance of the individual parameter, we check the value of t-ratio for the coefficient of the VAR model estimate. Minimum Rediscount Rate (LNMRR), Interest Rate (LNIR), Liquidity Rate (LNLR), Cooperate Income Tax (CIT) and Federal budget are not statistically significant to the Gross Domestic Product (LNGDP) in the previous and current year because the t-ratio values are less than 2.0 rule of thumb. Hence, there is no long run relationship between monetary, fiscal policy

measures and economic growth in Nigeria.

4.5 Graph of the Residual of GDP

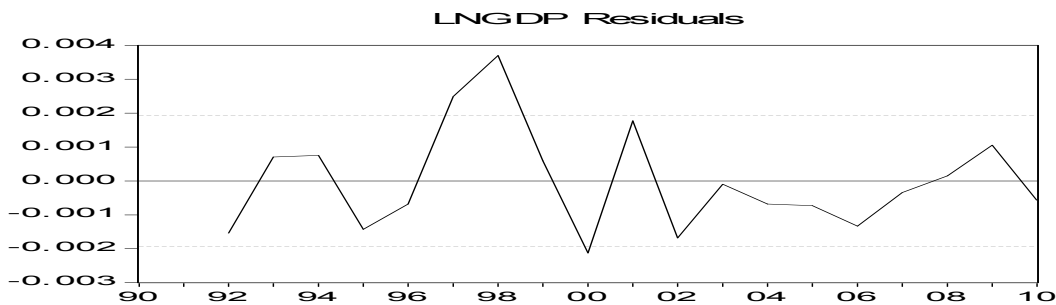


Fig. 1

The residual pattern analysis of LNGDP based on the money and fiscal policies measures in fig. 1 above reveals that LNGDP attains growth rate in 1992 to 1994 but steadily rise in 1993 to 1994. From 1995 to 1996 LNGDP was negative but being to rise from last 1996 to 1997 where it attained the highest pick of growth rate and drop from 1998 to 2000. The shock of money and fiscal policies measure on the level of economic growth in Nigeria was found to be unstable within the years of study.

6. Conclusion and Recommendation

The findings confirm that fiscal policy measures exert greater effect than monetary policy measures on the level of economic development in Nigeria. In addition, interest rate and liquidity rate impacted negatively on the GDP but minimum rediscount rate, cooperate income tax and federal budget affect the GDP positively. Monetary and fiscal policies measures are jointly statistically significant to level of economic growth in Nigeria. The adjusted R-squared value of 0.97 reveals that variation in GDP can be explained by 98% variation in money and fiscal policies. Therefore should be effective strategic policies that enhance better fiscal policy implementation in Nigeria that will in the long run contribute to the national economic growth and also more robust and viable monetary policy measure should be made to achieve sound economic growth.

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