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THE ACCOUNTING IMPLICATIONS OF FISCAL AND MONETARY POLICIES ON THE DEVELOPMENT OF THE NIGERIAN STOCK MARKET: 1992-2011

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Abstract
This research work is geared towards the investigation of the accounting implications of fiscal and monetary policies on the development of the Nigerian stock market. Government through various agencies issues fiscal and monetary policies which are assumed to be effective. However, it is the aim of this research to determine whether these policies have any significant impact on the Nigerian stock market. Descriptive analytical design compiled with the test of hypotheses was the method adopted by the researchers. Data were collected mainly from secondary records and using multiple regression analysis to analyze the data collected. However, from the analysis of data it was discovered that only a mixture of monetary and fiscal policy exerted a significant impact on the development of Nigerian stock market, monetary policy analyzed was found to have no significant impact on the development of the Nigerian stock market, while fiscal policy has a significant impact on the development of the Nigerian stock market. considering the period of 1992-2011. Since fiscal and monetary policy mix have significant impact on the development of the Nigerian stock market, government should endeavor to implement policies aimed at attracting more funds accessible to investors and market operators, so that the market expected role of funds channeling can be realized.

Keywords: Efficient *Market Hypothesis, Fiscal Policy, Minimum rediscounting rate, Monetary Policy, Stock Market*

1.0 Introduction

The role of the Central Bank in ensuring macro economic stability is tied to the objectives of achieving monetary stability. The bank could only achieve its objectives if the fiscal, income and other policies of government are supportive. Therefore, with the enhanced operational autonomy, the bank would be expected to ensure coordination and cooperation with other agencies of government including the Nigeria stock market in order to achieve macro economic stability. In fact, fiscal and monetary policies are traditional instrument of stabilization policy. While fiscal policies on the other hand, refers to the whole range of government revenue (taxes) and spending decisions. a prudent and sustainable fiscal posture promotes non inflationary economic growth and thereby influences a circular floe of income. Monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the expected level of income activity.

Also the combination of fiscal and monetary policies are inextricably connected in macro- economic management because development in one invariably affect the other. Fiscal policy is fundamental to the health of any economy since governments power to tax and spend has bearing on the disposable income of citizens and corporate bodies. According to Spark (2005), fiscal policy describes two governmental action by the government. The first is taxation, by levying taxes, the government receives revenue from the populace. Taxes come in many varieties and serve different specific purposes but the key concept of taxation is a transfer of assets from the people to the government. The second action is government spending, this may take the form of wages on government employees, social security benefit (although in the case of weaponry, it's not always so obvious that the population holds the assets). Since taxation and government spending represent reversed asset flows, we can think of them as opposite policies. The above assertion explains what fiscal policy is all about and how its impact in one way or the other affects the economy in general and the Nigerian stock market in particular.

After the great economic depression in the early 1930s John Maynard Keynes made popular the theory of fiscal policy as a means of controlling the economic trend of any nation. He argued that the invisible hand of market force earlier assumed by classical economists to possess the power of correcting an imbalance if the economic system fail.

In order to evaluate the impact of fiscal policy in the Nigerian economy properly and in the Nigerian stock market in particular, a brief knowledge of budget is required.

The budget is an important component of fiscal policy. Budgeting operation of the government influence aggregate demand with consequences of the domestic level and the balance of payments position which are important targets to monetary policy. In other word, a budget is a plan used in financial forecasting. It

is a detailed statement of estimation in numerical terms of scale of operations in some, phase of activities in some future period a budget is an instrument of fiscal policy in that all the revenues and expenditure of the government within a fiscal period must be contained in it. Samuelson (1980). And Nordhaus (1989) define a budget as a business statement showing government planned expenditure and avenue for some period.

However, a budget could be balance, deficit or surplus: According to Anyamwu (1993), the public budget is said to be balance when there is no differences between all government revenue and all government expenditure. There are three possibilities for the relations between these three flows; if the current revenue is equal to the current expenditure, the government has a balance budget, if revenue exceed expenditure, there is surplus budget, if the revenue falls short of expenditure, there is budget deficit.

When there are deficits and surplus, the budget is said to be unbalance.

Government expenditure is mainly financed through tax, profit from investment, royalties sales of assets, borrowing charges on the use of public facilities like swimming pool, tool gads, parks etc. among the various sources of government revenue, our area of interest is on taxation. Tax is a compulsory transfer of money from private individuals, institutions or groups to the government for which these is no direct return. It is compulsory, because once it is levied, the person institution concerned has to pay it although he may attempt to avoid it (tax evasion).

Taxes are levied by government in order to derive revenue to finance public expenditure, to discourage the consumption of goods and services considered to be socially undesirable to protect infant industries, to redistributed income, to discourage importers so as to improve on the country's balance of payment position and to stimulate or to promote economic growth and development.

Taxes are divided into two groups depending on weather person or things are taxed. Direct taxes are levied directly on person and vary with the status of the tax payer. Among the direct taxes are: personal income tax, capital gain tax, company income tax, poll tax, property tax and petroleum tax. While the indirect taxes are levied on things and is paid by an individual. By virtue of association with that thing, among the indirect taxes are: import and export tax duties, soles tax, value added tax (VAT), and excise duties. The bulk of the nations revenue is now being derived from tax, infact petroleum profit tax is the most important source of government revenue.

Monetary policy on the other hand, is a regulatory and together with. Fiscal policy controls the economy of the country. While contractionary measures have a tightening effect on the money available for spending in an economy, expansionary measures are the reverse. The important of monetary policy in any country cannot be over-emphasized for a number of obvious reasons. Hence, Okotie Eboh in Nwankwo (1979) described monetary policy thus:

The achievement and maintenance of the highest possible rate of increase in the standard of living and the creation of necessary condition of this end.

CBN Annual Report (2004) defined monetary policy as a measure introduce by the monetary authority on monetary targeting and the mopping up of excess liquidity, aimed at ensuring a non-inflationary macro-economic environment.

CBN Annual Report (1999) refers to it as the combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the expected level of economic activity. In a nutshell, the aims of monetary policy are basically to control inflation, maintain healthy balance of payments position in order to safe guard the external value of the national currency, and promote adequate and sustainable level of economic growth and development.

Monetary policy is therefore, defined by Anyanwn (1993), as a major stabilization weapon which involve measures designed to regulate and control the volume, cost, availability and direction of money and credit in an economy to achieve some specified macro-economic policy objectives. That is, it is a deliberate effort by the monetary authorities (the central bank) to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives (Wrightman 1976).

However, interest rate when it is low enhance investment, in this regard, there will be more investment in the economy in general and more investors will move the Nigerian stock market. The central bank of Nigeria carryout this policy through their instruments of monetary policy. In a typical developing country like Nigeria where the financial and the capital market are underdeveloped, monetary policy is adopted to accommodate governments financial needs for taking critical and urgent problems of economic growth and development.

According to Asogo (1996), the three key elements of monetary policy are reserve money, credit supply and interest rate, which jointly determine the liquidity in the economy. This is directly or indirectly related to economic activity. Such that the optimal injection of liquidity would induce a non-inflationary expansion of the economy, ensuring both internal and external balance.

Consequently, monetary policy requires establishment of a relationship between monetary instruments, which the authorities control and the key larges of policy or economic objectives enumerated earlier. However, it

is theoretically and practically more convenient to work out the relationship between the instruments or operating targets such as open market operation (OMO), interest rates and intermediate target such as money supply and aggregated credit to the economy.

There are many tools of monetary policy including bank credit, interest and discount rates, reserve requirements, credit ceiling, moral suasion and open market operation (OMO). The application of these tools are directed at influencing the size and behaviour of money supply which in turn affects output, income and prices as well as the balance of payments. Money supply is therefore the centre price of monetary tools and intermediate hanger of monetary policy. In theoretical economic parlance, it is denoted as money supply, M1 or M2, narrowly or broadly defined respectively.

Similarly, government expenditure can be financed from direct and indirect taxes, monetization of foreign exchange earning, domestic credit from the banking including ways and means of advance, by the central and borrowing from the non-bank public.

On the uses side, disbursement of these funds could be in form of current or capital expenditure, which are broken down further into smaller subheads.

The shrift for direct to indirect monetary and credit control in Nigeria should therefore be seen as a part of broader government policy of deregulation of the Nigerian economy, the placing of greater reliance on market forces and reduction in complete administration controls since the adoption of the structural adjustment programme (SAP) in 1986.

Efficient market hypothesis is also of great importance in this area of study, the efficient market hypothesis is contrary to the arguments of the technical and fundamental analysis about the price behaviour of stocks in the market upon which profit can be made.

The efficient market hypothesis states that, the price of a security is a reflection of all available information about it and thus represents its true value" It states also that, "the current price of a security is the most appropriate measures of future returns. The efficient market theory is concerned with returns on investment decision in the capital market, and it focuses attention on what would be the expected return on prices of securities supposing there is the existence of an efficient market. The weak, the semi strong and the strong form of efficient market hypothesis are three variants of the efficient market hypothesis.

1.1 Statement of the Problem

The government, through various agencies issues fiscal and monetary policies which are ideal for application in economic stabilization programme of the Nigeria economy at any given time. However, during the duration of these policies, the Nigerian stock market faced some impacts resulting from the effects of these polices of the economy.

Macro economic stability: Due to the poor investment climate in the country arising from persistent inflation and development of national currencies has force prospective investors to switch from investing in the capital market, to money market this is done in order to hedge against inflation while at the same time achieving capital appreciation.

Beside the problem of macro –economic instability, another problem faced by the Nigerian capital is the narrowness and the underdeveloped nature of the market which compared to the New York stock exchange, Germany stock exchange, traditionally, Nigeria stock exchange are suppose to play a key role in the transmission of fiscal and monetary policies.

1.2 Objective of the Study

This research work has its objectives from:

1. To determine the relationships that exist between the Nigerian stock market on monetary and fiscal polices in terms of minimum rediscount rate and company income tax.
2. To determine the impact of monetary policy on the Nigerian stock market.
3. To access the impact of fiscal policy on the Nigerian stock market.

1.3 Research Questions

This research is based on the impact of fiscal and monetary polices on the Nigerian stock market as a result, the following research questions are posited:

1. Is there any significant relationship existing between fiscal and monetary policies on the Nigerian stock market?
2. What is the relationship existing between monetary policy and the Nigerian stock market?
3. What impact do fiscal policies have on the activities of the Nigerian stock market?

1.4 Research Hypothesis

Arising from the research questionS, the following hypotheses were tested:

1. Ho: There is no significant relationship between fiscal and monetary policies on the Nigerian stock market.
2. Ho: There is no significant relationship between monetary policies on the Nigerian stock market.
3. Ho: There is no significant relationship fiscal policy on the Nigerian stock market.

1.5 Significance of the Study

This research study investigates theoretically the relative effectiveness of monetary and fiscal polices with respect to their influences on the Nigerian stock market. It is hoped that this study will form a basis for further research in this area.

2.0 REVIEW OF RELATED LITERATURE

2.1 Introduction

The essence of review of the literature on existing econometric models on the issues concerning the impact of monetary and fiscal polices on the Nigerian stock market, including such models on Nigerian economy is to adopt the salient features already established as well as identify and address any critical issues that have not been adequately or properly resolved so far especially in view of the crucial role money has been recognized to play in the growth and development process of developing economics like Nigeria. The acceleration of the apace of economic development normally leads to urgent and huge financial requirement of funds over and above revenue (budget deficit). Which is financed by borrowing from the financial system (bank and non bank) the privates sector and from abroad. Since the stock market is relatively underdeveloped, much of the borrowing is made form either the banks (central, commercial and lately merchant) and from abroad.

For all these cases, money supply would be affected by the implementation of budgetary decisions hence monetary and fiscal policies would be confounded and monetary fiscal policy mix would be prevalent. However, the relative importance of both instruments in the context of the above hypothesis cannot be over-emphasized.

However, this research shall be undertaken in the areas of introductory significance of the two policies to the study, their brief operation in Nigeria which is a developing economy, their objectives and needs.

The various instruments required to have, them achieved, and their impact on the economy in general and the Nigerian stock market in particular.

2.2 Fiscal Policy Framework

Fiscal policy means involves the management of parameters, which affect government revenue and expenditure. These parameters include taxation, government budget, quota etc. The management is carried out to either achieve a fiscal surplus, a fiscal balance or a fiscal deficit, even though the exact opposite of what is intended is sometimes attained.

When an economy is expanding all things being equal, tax revenue will increase, even if there is no change in policy. The higher tax revenue could increase government spending, thereby fuelling more expansion, if such spending are channeled into predictive ventures and provisions of basic infrastructures such as road, communication etc.

If the economy is in or recession, government in a bid of curtailing inflation may withdraw money from the economy through increase in tax or reduction in the level of government spending. Government can also use fiscal policy to relate the economy through reduction in taxes or increase in spending. When government also wants to stimulate the economy. It could tolerate inflation and release more money into the system. These kinds of trade offs in objectives sometimes lead to inconsistency in implementation.

2.2.1Nature of Fiscal

The government has control over both taxes and government spending. When the government uses fiscal policy to increase the amount of money available to the populace, this is called expansionary fiscal policy.

Example of this include lowering taxes and rising government spending when the government used fiscal policy to decrease the amount of money available to the populace, this is called contractionary fiscal policy. Examples of this include increase taxes and lowering government spending.

There is another way to interpret the terms expansionary and contractionary when discussing fiscal policy. If we look at the effects of fiscal policy on the economy as a whole rather than on the individual we see that expansionary fiscal policy increases the output, or national income while contractionary fiscal policy decreases the output, or national income. There are two basic classes of effects of fiscal policy, those that deal with the individual and those that deal with the economy at large.

Let us first work through how expansionary fiscal policy. When the government lowers taxes, consumers have more disposable income in terms of the economy as a whole, this is represented in the output equation Y= C (Y-

T) +1+G+Nx, where a decrease in T, given as table Y, leads to an increase in C, and ultimately to an increase in Y.

Rising government spending has similar effects when the government spends more on goods and services, the population, which provides these goods and services, receives more money. In terms of the economy as a whole, this is again represented by Y= C (Y-T) +I +G+Nx, where an increase in A leads to an increase in Y. thus, expansionary fiscal policy makes the populace wealthier and increases output or national income. Let us now work through how contractionary fiscal policy functions. Recall that rising taxes and lowering government spending are both forms of contractionary fiscal policy. When the government raises taxes, consumers are forced to put a larger portion of their income towards taxes, and thus, disposable income falls in terms of the economy as a whole, this is represented by Y= (Y-T) + I + G+ Nx where an increase in T results in a decrease in Y, holding all other variables fixed. When the government reduces government spending the recipients of government spending the populace have less disposable income. In terms of the economy as a whole, This is represented by Y=C (Y-T) + 1 + G + Nx where a decrease in G results in a decrease in Y. Contractionary fiscal policy makes the populace less wealthy and decrease output or national income.

Ayo (1988) has it that government is largely devoted to the objectives of satisfaction of collective needs. On the revenue sides, changes in individual taxes can obviously influence the distribution of income, the structure of private consumption or can be used to encourage investment to assist in bringing about expansion in the Keynesians but added that for effective planning of the economy, other policies must be taken into consideration.

But Shapiro (1982), while enumerating the history and need for a government involvement in management of the economy, said that, “the deliberate use of federal government spending and taxing as a possible means of attaining and maintaining full employment, a stable price level and a satisfactory rate of growth which dates back to fifty years”. Activics fiscal policy began during the 1930s largely as a result off three developments, the apparent ineffectiveness of monetary policy as a means of overcoming the severe unemployment of the great economic depression. The new economic advanced by Keynes with its emphasis on aggregate demand and the growing importance of government spending and taxation to the economy’s total income and output. However, a discussion on the nature of fiscal policy cannot be complete without mentioning the two essential elements of fiscal policy, which are discretionary and non- discretionary.

2.2.2 Discretionary Fiscal Policy

A discretionary or active fiscal policy measures refers to direct budgetary changes responding in ad-hoc fashion to a presently recognized macro- economic problem. That is, discretionary fiscal policy measures are those actions which have to be designed by a legislative or executive action in order to deal with the problem at hand. Their effectiveness is impaired by inaccurate economic forecast as well as lack of promptness on the part of the legislative to enact discretionary measures and the time lag it takes the executives to put them into effect thus, discretionary measures require speed of decisions and effect and can be successful if temporary and reversible fiscal changes for stabilization purposes are distinguish from permanent and structural changes. Discretionary fiscal policy includes deliberate changes in tax rate, tax bases and government spending.

2.2.3 Objectives of Fiscal Policy

The objectives of fiscal policy can only be understood if we remember that it is a policy instituted by the government to stabilize the economy or a bid to enhance the living standard of her citizens, this gives rise to a question. “Why is it that output sector is required” if we start with the premises, it is generally accepted in one society that,

(1) The composition of output should be in line with the preference of individual consumers and

(2) There is a preference for decentralized decision making, why is it that in supposedly private enterprise economy, a substantial part of the economy is subject to some form of government direction, rather than left to the invisible law of market forces.

A variety of reasons which form the objectives of fiscal policy or government involvement in the direction of economic affairs will now be enumerated.

(1) The claim that the market mechanism leads to efficient resources use (that it produces what consumer wants and does so in the cheapest way) is based on the condition of competitive factor and product markets, This means that there must be obstacles to free entry and that consumers and producers must have full market knowledge. Government regulations or other measures are needed to secure these conditions.

(2) Government involvement is also needed where due to its decreasing cost, competitive is inefficient

(3) More generally, the contractual arrangements and exchanges needed for market operation cannot exist without the protection and enforcement of a governmentally provided legal structures.

(4) Even if the legal structures were provided, and all barriers to competition were removed, the production or consumption characteristics of certain goods are such that these goods cannot be produced for through the market. Problems of externalities arise which leads to market failure and required solution through the public.

(5) Social values may require adjustments in the distribution of income and wealth which results from the market system and from the transmission of property rights through inheritance.

2.2.4 Functions of Fiscal Policy

Although particular tax or expenditure measures affects the economy in many ways, and may be designed to serve a variety of purposes, several more or less distinct policy objectives may be set forth which now ranks as the functions of the fiscal policy. The functions, allocation function, distribution function and stabilization function.

1. Allocation Function**:** Allocation functions refers to the provision of social goods or the process by which total resources used is divided between private and social goods and by which the mix of social goods is chosen.

A proposition that certain goods cannot be provide for through the market system that is by transaction between individual consumers and producers. This is does not mean that the market system is inefficient.

The basic reason for market failure in the provision of social goods is that the need for such goods is felt individually, while peoples references are influence by their social environment, in the last resort wants and preference are experienced by individual and not by society at large. The difference arises because the benefits which social goods give raise are not limited to one particular consumer who purchases the goods as in the case for private goods, but becomes available to others as well.

The situation with private goods that one man's consumption standard is at variance with other where as public goods or services such as reduction of air pollution; if a given air quality improvement is obtained, the resulting gain will be available to all who breathe. In other words, consumption of such products by various individuals is non rival in the sense that ones partaking of benefits does not reduce the benefits available to other putting it in a different way. The benefits derived by any one consuming a social goods are externalized in that they become available to others.

The market mechanism is well suited for the provision of private goods and it is based on exchange but exchange can occur only where there is an exclusive title to property which is to be exchanged. This does not voluntarily offer payments to the suppliers of social goods, no voluntary payment is made especially where many consumers are involved. The linkage therefore between producers and consumers is broken and the government must step in to provide for such goods this is where the political process enters the picture as a substitute for market mechanism.

2. Distribution Function: The distribution of income and wealth depends on the distribution of factor endowments.

The distribution of income based on this distribution of factor endowment is determined by the process of factor pricing which is competitive market, sets factor returns equal to the value of the marginal product. The distribution of income among individuals depends on their factors supplies and the prices which they fetch in the market. But even if all factor prices including wages and other returns to personal services were determine competitively, the resulting patterns of distribution might not be acceptable. It involves a substantial degree of inequality that requires an adjustment.

3. Stabilization Function: Having dealt with the bearing of budget policy on matters of allocation and distribution we must now examine it roles as an instrument of macro- economic policy. Fiscal policy must be designed to maintain or achieve the goals of high employment reasonably degree of price level stability soundness of foreign accounts an acceptable ratio of economic growth and development. Full employment and price stability do not come about automatically in a market economy but require public policy guidance.

The Musgraves (1980) argues that, to hold that public policy is needed to deal with these contingencies does not preclude the possibility that public policy if poorly conducted may itself be a stabilizer". The Musgraves statement above means that public policy must be effectively implemented after the formulation, for it have the desired impact it requires.

2.2.5 Instrument of Fiscal Policy

The various devices or techniques used by the government to pursue the fiscal policy are hereby referred to as instruments of fiscal policy. They are:

(1) Tax Transfer Scheme
(2) Tax on goods

(3) Budget
(4) Built – in- stabilizers and
(5) Agricultural policy

However, the above are based on distribution of redistribution and stabilization functions of the fiscal policy.

1. Tax Transfer Scheme: Lipsery (1980) believes that the higher national income the more most taxes tend to yield, sales and excise tax yields rise as total purchases and sale rise (and this happens as income rise). The same is true of taxes on wage payments such as national insurance payment.

Thus, with rate constant, the total tax yield and hence, the total of withdrawals from the circular flow of income rises and falls as national income rises and falls.

The effect is even more market with taxes that area progressive rather than proportional. Steeply progressive tax rate ensure that as income rises, tax receipt rise more than in proportion. This extra withdrawals exert a contractionary force on the economy conversely if income falls tax receipts fall sharply withdrawals are reduced and the concretionary pressures on the economy are to some extent alleviated.

On the other hand, subsidy to low income house-holds are in the areas of providing the basic needs such as water, house e.t.c at an affordable rates. This is achieved with the aid of the money collected from the rich house-holds as taxes hence, the name tax transfer scheme.

2. Taxes on Goods: This is another fiscal policy device use in redistributing income between the rich and the poor households. This is always in the form of value added tax (VAT).

Lipsey (1976) defines value added taxes as the difference between the value of factor services and materials that the firm purchases as inputs and the values of its output. It therefore presents the value that a firm adds by virtue of its own activities.

However, the tax collected will be used for the provision of production of public goods to increase the living standard of the economy.

3. Budget: A budget is simply a device for controlling operations by comparing what is being done with estimates of what should be done. Welsch (1957) defines it as “a plan covering all phases of operations for its definite period in the future. Budgeting is thus the formulation of plans for a given future period by translating organizational activity into expected results with naira and kobo as the common denominator.

Samuelson and Nordhaus (1989) has a shorter view off budget definition when they said that “a budget is a statement showing for the government in question its planned revenue and expenditure for some period”

As an instrument of fiscal policy, all the receipt to be received by the governments which are form of forecasts are all enumerated in monetary terms and also their expenditure. Governments use them to direct the affairs of the economy.

4. Built- In- Stabilizer

This is anything that tends to cause injection to increase or withdrawals to decrease as national income falls, and injections to decrease or withdrawals to increase as national income rises without the government having to make policy decisions to bring about these changes.

Lipsey (1980) believes that “many government expenditure tends to vary in a systematic way with national income. Government expenditures are automatically stabilizing to the extent that they rise during periods off recession and depression, and decline during periods of prosperity and boom.

5. Agricultural Policy: Lipsey (1980) contents that “when there is a slump in the economy there is a general decline in the demand for all goods, including agricultural product. The free- market price off agricultural goods tend to fall and government agricultural supports came into play. This ensures that government expenditure on this form of activity will rise as the level of national income falls. This is as true of EEC agricultural – support policies as it is most support policies in developed countries throughout the world”

2.3 Fiscal Policy in the Nigeria Economy

In the absence of a well organized and locally controlled money market, most developing nations, have to rely primarily on fiscal measures to mobilized domestic resources. The principal instruments of such public resources mobilization have been government tax policies.

According to Todaro (1982) typical direct taxes levied on individuals and corporation (income tax) and mainly on property very between 20 to 40 percent of total tax revenue for most less developed nations (LDNS) and range from between 2 and 5 percent of G.N.P. on the other hand in direct taxes import and export duties levied on foreign trade of different commodities like petrol, cigarettes, liquor, consumer durable etc. comprise the major source of fiscal revenue.

In developing countries, taxation has two purposes namely:

1. Tax Concession and Similar incentives have been thought of means of stimulating private enterprise such concession and incentives have typically been offered to foreign private investor to induce them to locate their enterprise in the developing country.

2. The mobilization of resources to finance public expenditure. Todaro (1982) agrees with the above sense when he said that whatever is the prevailing political or economic ideology of the less developed countries, its government ability to generate sufficient revenues to finance and expanding programmes of essential transports, non revenue yield public services such as health, education, communication and other components of the economic and social infrastructure.

But Umoh (1986) has contended that the Nigerian situation is likely to be different from other less developed economics, he said it could appear that the issue are dominate in the revenue structure. Nigeria for instance, direct tax account for 58% of government revenue in 1978 and rose to 61% in 1989. since directs taxes would have a greater contractionary impact than direct taxes.

Umoh contention negates Tadaro's analysis result of 20 and 40 percent of total revenue resulting from direct taxes. This is as a result of Umohs analytical result which showed that any reduction in taxes may not have a substantial impact on aggregate demand because:

i. Only a negligible proportion of Nigerians pay direct taxes (The very rich often practice taxes avoidance).

ii The proceeds of the cut would not necessarily be used for direct consumption. Despite the above analytical results by Tadaro and Umoh, third world government like Nigeria which is yet to develop area directly involved in the economic activities of their nations through their ownership and control of public corporations and state trading agencies.

The involvement of government in the stock market activities as with other agencies can no longer be stressed but are able to carry along with them the problems of the agencies even when the agencies run at loss.

Todaro (1982) has it on good authority that direct and indirect taxes levies enable the government to finance the capital and recurrent expenditure of these public enterprises. The study of fiscal policy in a developing country like Nigeria permanently developing shall be based on the assured elements of fiscal policy.

2.4 Fiscal Policy Problems in Nigeria

The main problems facing Nigeria in the successful application of fiscal policies includes:

1. The Timing problem

Correct timing of any government programme in Nigeria is very difficult to achieve, because there are many lags between making and implementing fiscal policy. Lipsey (1980) say that "long time lags in fiscal policy are undesirable both because they delay the possibility of destabilizing the economy since the situation the policy was designed to ameliorate may have altered substantially by the time the policy come into effect. Tax cuts have a substantial advantage over expenditure increase in respect to the execution lag for instance, that the execution lag can be extremely long for a new road building programme. The lag on however, be very short for changes in taxes and transfer payments.

2. The Irreversibility of the Policy

For any fiscal policy to be effective, such a policy must be reversible, excessive concentration on comparative static analysis can make one think in terms of policies to remove what would otherwise be permanent inflationary or deflationary gaps. The private sector of the economy undergoes continual oscillations in the expenditure.

3. Political Problem

Political considerations may distort a fiscal measure for instance, a politically powerful group may effectively oppose a decreased in expenditure designed to obtain contractionary fiscal effects.

Also, the political intention to adopt politically unpopular fiscal measures may be absent. A tax increase is always an unpopular measure, for instance, Umoh (1986) contends that the political tolerance to increase taxation is very low in Nigeria and other less developed nations, this leads to caution in the use of fiscal policy even for laudable economic objectives.

4. Structural Problem

There are many internal and external structural problems in Nigeria that work to undermine the effectiveness of fiscal policies. The internal problems include the shortage of skilled personnel to execute certain fiscal programmes and the inefficient civil service which tend to create bureaucratic bottlenecks for programmes executors.

The external problems include dependency on outsiders for capital goods and equipment needed in developments programs which creates delays in uncertainties and external disruption which make it impossible to pursue goals with a reasonable degree of inconsistency.

2.5 Monetary Policy Framework

Monetary policy, the word over encompasses action of monetary authorities which affect the availability, direction and cost of commercial and merchant banks credit.

These actions invariably structures the credit condition in an economy in order to achieves government objectives over the years and inconsonance with the thrust of macro -economic policies, the objectives of monetary policy in Nigeria have been designed to assist in:
a. Achieving domestic price stability
b. Reducing pressures on the external sector
c. Stabilizing the naira exchange rate
d. Inducing increased financial savings investment, economic growth and employment. However, it is important to point out that all these objectives cannot be achieved simultaneously. Hence, a system of prioritizing such that the most critical objectives in the light of prevailing economic situation has to be evolved and pursued as target goals of monetary policy.

Also, because each policy is the mixed lag of policies is always designed to achieve a particular objectives as distinct from other categories of policies, that is the need to co-ordinate these policies to achieve and maintain an in- built consistency that will produce and optimum performance in terms of effect on the real productive sector. In this regard, thee Central Bank of Nigeria (CBN) usually consults with such bodies as the national planning commission the federal ministry of finance, NNPC and banks to obtain information on their estimates and forecasts and their recommendations on macro- economic variables. This is done to prevent mis-alignment of policies. But again, it is not obligatory for the CBN to incorporate their recommendations when designing monetary policies.

2.5.1 Nature of Monetary Policy

Monetary policy formulation and execution is easily the most important activity of a central bank today, because of the considerable impact this activity has on economic development and welfare, in Nigeria, the Central Bank of Nigeria (CBN) is empowered to carry on this function in consultation with the federal ministry of finance.

Etuk (1995) agrees with the above when he said that:

"Monetary policy is any action taken jointly by the Central Bank of Nigeria and the federal ministry of finance to regulate and control the supply of money, the interest rate and the credit made available to investors by the commercial bank.

In the same vein, Johnson (1962) accepts that definition as being correct when he defined monetary policy as policy employing by the Central Bank's control of the money supply as an instrument for achieving the objectives of economic policy. Similarly, from a synthesis of most of the literature and in the context of the Nigerian situation, Ubagu (1985) defines monetary policy as an attempt by the monetary authorities to influence the level of aggregate economic activities by controlling the quantity and direction of money and credit availability.

Asogu (1986) beliefs that monetary policy is construed to be actions by the monetary authorities to influence the national economic objectives by controlling or influencing the quality and direction of money to support financial accommodation for growth and development programmes, on the one hand and, stabilizing various sectors of the economy for substantial growth and development, on the other hand.

According to CBN briefs (1999) monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the expected level of economic activity. An excess supply of money would result in an excess demand for goods and services which would cause rising prices and / or deterioration of the balance of payment position. On the other hand, an inadequate supply of money could induce stagnation in the economy thereby retarding growth and development. Consequently the monetary authority must attempt to keep their money supply growing at an appropriate rate to ensure sustainable economic growth and maintain internal and external stability.

This discretionary control of the money stock by the monetary authority thus involves the expansion or contraction of money influencing interest rates to make money cheaper or more expensive depending on the prevailing economic conditions and thrust of policy, in a nutshell, the aim of monetary policy are basically to control inflation, maintain a healthy balance of payments position in order to safeguard the external value of the national currency, and promote adequate and sustainable level of economic growth and development.

2.5.2 Objectives of Monetary Policy

The objectives of any policy are determined by the nature of the problems to be solved and by the environment in which those problems exist. Onoh (1982) has listed the main economic objectives in a free market economy to include:
a. High level of employment
b. Stable prices
c. Rapid growth of gross national products

d. Favourables Balance of payment positions
e. Promotion of a free market economy.
f. Satisfaction of collective demands
g. Equitable income redistribution.
h. Protection of infants industries and the encouragement of priority sectors.
i. Encouragement of balance population development
j. Promotion of labour and capital mobility.
However, only the first four objectives can be influenced to some extent through the application of monetary policy instrument alone. The rest of the objectives require the application of the instruments of fiscal policy or those of direct control.

According to CBN Briefs (1999) the aim of monetary policy are basically to:
a. Control inflation
b. Maintain a healthy balance of payments position in order to safeguard the external value of the national currency.
c. Promote adequate and sustainable level of economic growth and development.

Mbat (1999) summarized monetary policy objectives to include:

1. Maximum stability in the general level of prices.
2. To accelerate the space of economic growth and development and by implication increase employment of both human and material resources.
3. Satisfactory balance of international payment this can be achieved through the reduction of stock of money in circulation which will reduce the stock of money with investors or businessmen, as a result they will not be able to import.

However, the general objectives of monetary policy is to achieve growth and development in all sectors of the economy.

2.5.3 Function of Monetary Policy

Consider an expansionary policy through open market operations which begin with Central bank buying a quality of treasure securities from the commercial banks and other authorized dealers, these banks consequently acquire excess reserves an expand their lending and so the money supply expand to a modernist, the lending activity itself generates spending. The upward pressure on security prices provides capital gains to be spent or investment. Either way, a money supply increases income and output also increases in the fund analysis.

J.C Anyanwu (1993) has it that monetary policy was design to regulate and control the volume, cost, availability and direction of money, therefore, the function of monetary policy is therefore to provide a stable background from the operation of an economy and without monetary polices objectives of the central bank, monetary policy cannot be achieved in view of trying to meet with the developmental needs of the economy.

2.6 Monetary Policy Instruments

To achieve the economic objectives of full employment price stability and accelerated economic growth and development, a number of monetary policy instrument have to be engaged in addition to other complementary measures which may be fiscal or institutional in nature or involve direct economic intervention.

J.C. Ayanwu (1993) classified the instrument or tools of monetary policy into two:
(a) Quantitative instruments (traditional and non traditional).
(b) Quantitative or selective control instruments.
Quantitative Instrument

These are “impartial” or “impersonal” tools which operate primarily by influencing cost, volume and availability of bank’s reserves. This lead to the regulation of the supply of credit and cannot be used effectively to regulate the use of credit in particular areas or sectors of the market. Quantitative tools are further classified into traditional tools or indirect control of bank liquidity.
i. Traditional or Market Weapons

These are called market weapons because they rely on market forces to transmit their effects to the economy. Specifically, these tools include:

(1) Open market operation (OMO)
(2) Discount rate policy and
(3) Reserve requirement

(ii) Non Traditional Instruments or Direct Control of Bank Liquidity

These tools are non market tools that strike directly at banks liquidity. They include:

(1) Supplementary reserve requirements
(2) variable liquidity ratios

(b) Quantitative or selective control instrument these tools include:
(1) Moral suasion
(2) Selective credit control

2.7 Impact of Monetary Policy

According to a central bank publication in CBN annual report and statements of account of 1989, monetary policy has an impact on the stock market. The publication contends that, "the level of activity in the stock market raised supply in 2004 over the preceding year, in terms of both the volume and value of issue in particular and was due partly to the sharp rise in lending rate".

Lending rate depend a great ideal on the discount rate set by the monetary authorities and discount rate is an instrument or techniques of monetary control.

Another central bank publication, CBN BRIEFS OF (2004) agreed also that monetary policy has an impact on the stock market. According to the publication, open market operation (OMO) in Nigeria broadly seeks to control the base money by target bank reserves, since this is the variable which the C.B.N can influence most directly with instrument under it control. By targeting bank reserves (through OMO), the CBN expects to keep the base money and eventually broad money supply at levels adequate for non-inflationary economic activities.

Also as a result of the CBN's lifting of credit ceding on individual banks that met CBN specified criteria on selective basis on respect of statutory minimum paid-up capital adequacy ratio, cash guidelines, sectoral credit allocation and sound management.

Meanwhile, the use of stabilization securities for mopping excess reserves in banks was intensified and about three discount houses opened their doors for business from March, 1993, a fourth and fifth discount house commenced operation in 1995 and 1996 respectively. However, the above enumerated evidence clearly indicates that monetary policies have an impact on stock market development which is what this research study is set to confirm.

2.8 The Nigerian Capital Market

The Nigerian capital market is the second segment of the financial market which is responsible for mobilizing and channeling long term funds into productive investment such as fixed assets. The market in essence, brings together economic units desirous of time. Typically, long-term funds are held for a minimum of five years to perceptivity. However, corporate entities and governments, sometimes holds funds having maturity of more than one year but less than five years. These are usually regarded as medium term funds.

Adekanye (1986) defined capital market thus "as a market from which large companies and public enterprise attract long-term investment funds through a network of financial constitutions and stock markets licensed to perform capital market function.

He further explained that on acknowledgement of the funds mobilized by these institutions, bond, stocks, share and mortgages are issued and traded. Hence, it is the market for the buying and selling of shares in limited companies and other stock. The market actually performs the function of financial intermediation whereby the savings of some members of society are harnessed and made available to other members of society for productive investment.

Ekpenyong (1994) agreed with the above definition when he described capital market "as an arrangement through which buyers and sellers gets together to effect the exchange of capital funds of long-term nature". He therefore concluded that "a capital market encompasses any transaction involving long-term debt or equity obligations.

A central bank publication, CBN BRIEFS OF 1999 consider the capital market in terms of its performance in the economy development of the nation. According to the publication, the Nigerian capital market. Performs the traditional role of mobilizing medium to long term fund for development purposes. This relates to the issuance and marketing of shares, bonds and debentures using the services of brokers, dealers and under writers, the main institution in the market being the Securities and Exchange Commission (SEC) which is at the apex and serves as the regulatory authority of the market. The Nigeria stock exchange (NSE), the issuing houses and the Nigerian stock broker terms

Finally, Nwankwo (1979) adopted a rather brief definition of the capital market. He opined that Nigerian capital market is the long-term end of Nigerian financial system just as the money market is its short-term end.

2.8.1 Brief Developmental Background of the Nigerian Capital Market

The Nigerian stock exchange in December 1977 it became the Nigeria stock exchange, with branches established in some of the major commercial cities of the country. At presents, there are six branches of the Nigerian stock

exchange. Each branch has a trading floor. The branch in Lagos was opened in 1961, Kaduna, 1981, Port Harcourt, 1980, and Kano, 1989, Onisha, February 1990 and Ibadan, August 1996.
The exchange started operations in 1961 with 19 securities listed for trading. Today, there are 262 securities listed on the exchange made up of 19 government stocks and 188 equity /ordinary shares of companies all with total market capitalization of approximately N287. 0 billion as at August 31, 1999.
Most of the listed companies have foreign/multinational altercations and represent a cross section of the economy, ranging from agricultural through manufacturing to services (the Nigerian stock exchange pact book, 1999).
Nyong (1996) points out that in 1965, government promulgated the companies and allied matter Decree which compelled all foreign companies with branches operating in Nigerian to be incorporated. This was immediately followed in 1972 with, the promulgation of the Nigerian enterprises promotion Decree. The objectives of the decree was to nationalized the investment of those companies that were forced to incorporate in 1965.
The capital issues commission was created in 1993 to replace the capital issues committee that was established in 1962. The commission has the power to determine the price of listed securities, the mode and timing of shares issuers.

2.9 Capital Market Development

The performance of the capital market was impressive in 2004 as all the market indications trended upwards. The aggregate volume and values as well as the total number of transaction in the secondary market rose, while capitalization and the value index increased substantially. The market capitalization of the 276 securities listed on the Nigerian stock exchange appreciated by 36.7 percent from N1.3 trillion in 2003 to close at N1.9 trillion in 2004.
The growth reflected and listings, supplementary issues and price appreciation in the equities sector following the requirement for banks for re-capitalization.

2.10 The Nigerian Stock Exchange (NSE)

The level of activities on the Nigerian stock exchange (NSE) increased significantly in the year 2004 following positive development in the financial system. Also, the exchange implemented remote trading process- a multi pronged market development and automation of the bond market review it's regulatory and operational guideline, and initiated the process of e-bonus aimed at the de dematerialization of the bonus shares. These developments enhanced market liquidity, offered opportunities for price recovery improved market efficiency in services delivery, and resulted in unprecedented growth in both new issues and the secondary market during the year. Available date also indicated that the exchange witnessed transaction in foreign portfolio in excess of N1.5 billion.

2.10.1 The Secondary Market

Activities in the secondary market were vibrant during the year as the market witnessed substantial growth in turnover. This development followed the automation of processed and increased local and international awareness of opportunities of the Nigerian stock exchange. The volume of transaction increased by 44.4 percent from 13.3 billion shares, while the value stood at N225.8 billion up by 18.1 percent from N120.7 billion in 2003. The bulk of the transactions were in equities, which accounted N223.8 billion or 99.1 percent of the value. The federal government develop stock sub-sector recorded a turn-over of N300.0 million in three deals compared with N281.2 million in a single deal in 2003, while the state government bunds sub-sectors and the turn-over of N1.73 million and N1.75 million respectively.

Source; CBN annual report (2004)

Alekanye (1986) summarized the main functions of the Nigerian stock exchange as follows:

(a) To act as a central meeting place for members to buy and sell existing stock and shares and for granting quotations to new issued through the provision of new or fresh capital raised through the market
(b) To facilitate dealings in government securities
(c) To mobilize both private and public savings and making these available for productive investment
(d) To facilitate the purchase and sale of liquidity.
(e) The Nigerianization of the credit base
(f) To provide basis for operation and attention of foreign capital

(g)

composition of capital market

the nigerian capital market is divided into two separate but closely related segments known as the primary and secondary market.

the primary market

the primary market is also called the new issues market as it is concerned with the issue and sale of new securities. it provides the vehicle of government and corporate entities to raise fresh capital (cash) through the issuance of securities traded in this market, according to cbn brief (2004) special condition includes offer for subscription, rights issues, offer for sale and private placement.

the secondary market

the second segment of the capital market is known as the secondary market, so called because it enable investors to trade in securities which has been earlier issued in the primary market.

thus the market provides a mechanism which enables investors to buy and sell existing securities unlike primary issues which can be sold just ones. secondary securities do change hands, among investor several times. these markets are highly specialized and organized, and play a very important role in the development of a nation.

capital market instrument

financial instruments are the investment products created to ensure the smooth and early transfer of funds in the capital market. these instruments, generally known as securities are financial assets which represent either debt or ownership. the instrument have various features depending on their type.

nwankwo (1979) noted that basically two types of securities are dealt with on the nigerian stock exchange. one is the federal government of nigeria development bonds stock and other is industrial securities.

to akekanye (1986) instruments listed on the nigerian exchange include:

(a) federal government development stocks
(b) state government development stocks
(c) commercial and industrial loan stocks debenture
(d) company shares or stock

Operations in the Capital Market

to facilitate the saving and investment process in any economy, financial intermediate process in any economy, financial intermediaries/ intermediary is essentially a middleman who pools funds from savers and passes on such funds to those who need them.

An intermediary is a specialist (professional) in his line of business and thus heavily relied upon by his clients to make good investment judgment on their behalf or provide professional advisory services to them .

The capital market has wide array of intermediaries performing various intermediation functions they include: issuing house, stock brokers/ deals, investment advisers, portfolio manager, registrars investors, solicitor, auditors reporting accountants, receiving agents, receiving banker etc.

Adekanye (1986) considered the main participant in the market to include, stock brokers, insurance companies and pension fund managers looking for the investment avenues for their investment fund.

3.0 RESEARCH METHODOLOGY

This research is designed to examine the impact of fiscal and monetary polices on stock market development. By the nature of the research topic will bring to limelight and established certain facts relating to its subject matter using statistical inference to arrive at a decision. The manner in which the data to described and procedure followed for their analysis depends upon the decision-making goal and the nature of the data. This will resort it descriptive statistical methods in order to make intended purpose clear.

Data for this study were sourced from secondary sources. Such as the central Bank of Nigeria statistical Bulletins, CBN major economic indicators, Annual Reports and Accounts of the Nigerian Stock exchange. Annual Reports and Accounts of securities of Exchange commission published Article in specialized journals and textbooks.

3.1 Model Specification

In analyzing the model, the multiple regression technique is adopted which measure the relationship between fiscal and monetary policies and total market capitalization of the stock market. This model chosen because it is all encompassing which will involve all corporate firms listed on the stock market. This will cover the period from:

MKTCAP = F(MRR, CITR)

MKTCAP = $\infty + b_1$ MRR + b_2 CITR+U

Where:

MKTCAP = Total market capitalization of the stock market

MRR = Minimum rediscount rate

CITR = Company Income Tax rate

∞ = Is the interception in the regression equation, it 3 an exogenous variable

$b_1 - b_2$ = Are endogenous variables capitalization they provide Indication of changes in total monetary and fiscal policies.

U = Is the error term which absorbs the influence of omitted Variable in MKTCAP

Equity market capitalization is perhaps the most important criterion in assessing the size of the capital market. It is a function of prevailing market price of a listed equities and the size of the issued paid of capital of the affected firms and is derived for such quoted firms by multiplying the market price of an equity by the outstanding shares of the firm. The market capitalization for the entire market is thus obtained by the summing of the market capitalization. For individual quoted firms, the size of the market capitalization does fluctuate with movement in the market price of the firm's equity.

Similarly, an increase in the outstanding shares of the firm with market price either held constant or increased would enhance the market capitalization of the firm. However, an improvement may not necessarily be witnessed in market capitalization of outstanding shares increases. But the market price drops significantly. The impact of fiscal and monetary policies on stock market development could be assessed using market capitalization. The size of the stock market is not too small. The model involves multiple regression analysis. The study adopts the regression analysis of multiple regressions which measures the relationship between two or more variables. It can also analyze non-linear relationship thus:

MKTCAP = $\infty + b_1$ MRR + b_2 CITR + u

The R^2 Adjusted, t-value, f-ratio and Durbin Watson shall be used to evaluate the statistical reliability of the results estimated. The R^2 will be used to judge the explanatory power of the regression. It measures the goodness of the regression line.

4.0 Data Presentation, Analysis and Discussion of Findings

4.1 Data Presentation

TABLE 4.1

Macro Economic Variables of Fiscal and Monetary Policies on NSE Performance

Year	Market Capitalization N nb	Minimum Rediscount rate %	Company income tax rate %
1992	5.5	10	45
1993	6.4	10	45
1994	7.7	10	45
1995	8.9	12.75	40
1996	11.0	12.75	40
1997	12.0	18.50	40
1998	15.9	18.50	40
1999	26.9	14.50	40
2000	32.5	17.50	35
2001	46.9	26.00	35
2002	64.5	13.50	35
2003	171.1	13.50	35
2004	285.6	13.50	30
2005	292.0	13.50	30
2006	263.3	14.31	30
2007	199.9	18.00	30
2008	478.6	13.50	30
2009	662.6	14.31	30
2010	763.9	15.75	30
2011	1356.6	15.00	30

Source: CBN Statistical Bulletin, Vol. 15, Dec 2011/facts and Figures on the Nigerian Capital Market.

4.2 Data Analysis

Based on the result and data presented in this chapter, it becomes relevant to appraise these results in the context of the objectives of the study.

Also important is the fact that the Nigerian capital market must be tested for efficiency with respect of fiscal and monetary policy. As an emerging stock market, it becomes too necessary to carryout this test so that the path to development can be determined. This chapter then reflects the markets efficiency with respect to these policies.

Data on the market capitalization shows an ascending pattern since 1984 from 5.5 billion to 136.6 in 2003.

The minimum rediscount rate (MRR) shows a constant trend between 1984 and 1986, 1987 and 1988, 1989 and 1990 and then drops in 1991. It letter increased again in 1992 and 1993 where it later dropped in 2000 and 2001. It then rose between 2002 and 2003.

The company income tax rate (UTR) shows a more constant trend, though in descending order. It shows a constant trend between 1984 and 1986. It then dropped in 1987 where it remained constant till 1991.

There was a further decrease in 1992 and once again remained constant till 2003.

The coefficient of determination (R^2) shows that 58.7% of the variations in the dependent variable are explained by the variation in this variable.

Adjusted R^2 also indicates a very good fit with a high figure of 53.8 (see appendix).

The F-ratio also shows that R^2 is very good in indicating a good overall significance of the model.

The Durbin – Watson test shows that there is no auto-correlation among the independent variable entered in the regression. DW = 1.421.

5.0 RECOMMENDATIONS

Based on the findings of the study, the following are recommended

1. Development of the Securities Market

Narrowness and the underdeveloped nature of the Nigerian securities markets which by tradition are supposed to play a key role in the transmission of monetary policies has contributed in de-emphasizing the efforts and impact of monetary policies. This market lack in securities (shares, stocks, and bonds) which has been a limiting factor to the success of monetary policies. Hence, a variety of securities should be introduced into the market as well as better information transmission mechanisms.

2. Macro-Economic Policy Management: Means economic policy management especially fiscal policies in the country should be channeled in such a way as to complement the efforts of monetary policies and more importantly, there should be a well established effective control framework of the fiscal operations.

3. Adequate Regulatory Supervision: The government and securities and exchange commission (SEC) should adopt and implement appropriate policies aimed at attracting more funds accessible to investors so that the market expected role of funds channeling can be realized and also to enhance stock market growth and development.

4. Increase Reliance on the Open Market Operators: To ensure consistency in monetary management and policy strategy, the foundation laid for the market based approach i.e. OMO should be straightened.

More reliance should be placed on this instrument. Infact, by the next century, it should continue to be the major instrument of monetary policy. Instruments traded in the market should be broadened to include private securities in addition to government securities being presently traded in.

5. Supportive Fiscal Environment: A supportive fiscal monetary stance is a suie-qua-non in ensuring that benefits derived from monetary policies are consolidated upon.

The mandatory financing of fiscal deficits by the C.B.N should be drastically reduced or do away with completely. Care also should be taken by the government not to crowed out the private sector for resources to finance its deficit. It is also expected that benefits derived from improvement in harmonization of monetary and fiscal policies in resent years be consolidated upon and further strengthened. If there must be deficit financing. It should be at the on-going market rate. This will discourage frivolous spending by government.

6. Enhanced Central Bank with Autonomy in the Management of Monetary Policy: In recent years, there has been sustained global movement towards greater autonomy of Central Bank. To perform its core function of policy formulation and implementation, the Bank must be unhindered in its choice of monetary instruments once the goals of economic and monetary policies had been decided. To enhance effectiveness, in the twenty-first century, the relationship between the Federal Government and the CBN as its exists today need to be improved upon to allow for administrative and instrument autonomy for the C.B.N.

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