AN OVERVIEW OF MONETARY AND FISCAL POLICIES AND ITS IMPLICATIONS ON THE NIGERIAN ECONOMY

OluwasanyaAdewale Tony*

Ayodeji Titilayo,Olamide**

Abstract:

All economic stakeholders, be it governments, manufacturers, consumers, exporters, importers, financial institutions, etc. therefore pay rapt attention to papers on monetary and fiscal policies because they are at the heart of the economy. The objective of this paper is to highlight the need to evolve mechanisms that will coordinate the formulation, implementation and harmonization of both monetary and fiscal policies so as to reap the maximum benefits and minimize lags in the impact of these polices.

* Director, Center for Manpower Development and Entrepreneurship& HOD Business Administration and Management, DSAdegbenro ICT Polytechnic, Eruku, Itori-Ewekoro, Ogun State, Nigeria.

** Lecturer, Business Administration and Management Dept., DSAdegbenro ICT Polytechnic, Eruku, Itori-Ewekoro, Ogun State, Nigeria.

INTRODUCTION

The focus of any economic development programme is always on the economic welfare of the citizenry of a country. In broad perspective, the core value of economic development are life sustenance, self-esteem and freedom from servitude. These are basic issues that any economic programme in the developing countries would seek to address all the time.

However, economic development flows from economic growth. This is because an autonomous level of growth in national income is required to translate to economic development. Economic development therefore represents growth accompanied by an acceptable level of fair and equitable distribution of the national income and benefits of growth.

In a developing countries like Nigeria, development problems are so monumental and addressing them could lead to conflict in policy applications. In a lecture delivered at this Institute on October 31, 2001, on ''Africa, the Greatest Development Challenge in the 21st Century''. Professor Eddy C. Ndekwu succinctly summarized the developmental problems of African countries, which aptly describe the Nigerian situation. According to him, which I share, the development problems facing us include:

- Rapid population growth reduction
- Poverty reduction or eradication
- Diseases and ignorance eradication
- Low output and productivity elimination
- Enhancing literacy and education
- External debt elimination
- Crushing the scourge of under development

These are issues that engage the attention of our policy makers. However, some of these issues are so conflicting that addressing one may imply aggravating another. For instance, how do we simultaneously address the issues of inflation and unemployment? More often than not, they border on addressing stagflation which direct monetary or fiscal policy may not have answers for. Yet monetary and fiscal policies are useless as long as they fail to address these fundamental development issues.

Objectives and instruments of Monetary and Fiscal Policies

The term monetary policy refers to the combination of measures or actions designed to regulate the value, supply and the cost of money in an economy, in consonance with the expected level of economic activity. It is thus applied in order to limit the money supply growth to a level that is consistent with the absorptive capacity of the economy.

Monetary policy is the use of the instruments at the disposal of the monetary authorities to influence the availability and cost of credit/money with the ultimate objective of achieving price stability. Depending on the mandate of the monetary authorities, the objectives of monetary policy may well go beyond price stability. More often than not, monetary authorities particularly in developing countries are saddled with a dual mandate price stability and sustainable growth. In such a situation, monetary policy lends itself to use for the attainment of both objectives. Monetary policy influences the level of money stock and/or interest rate, i.e. availability, value and cost of credit in consonance with the level of economic activity.

Embedded in these objectives are tow separate but highly related roles: A

developmental role and financial surveillance (stability) role. The roles demand, among others, that the CBN focuses both price stability and growth; in order to ensure the realization of the goals of price stability and economic growth, the CBN deploys its monetary policy instruments in such a way as to ensure optimality in inflation and growth outcomes; it follows therefore efficient conduct of monetary policy is a major responsibility of the Central Bank of Nigeria.

The conduct of monetary policy in Nigeria has several phases. Three of the phases are easily identified- the era of application of direct control; the era of application of market instruments for indirect control and the era of intense reform of strategy and institutions. The major objectives of policy have however remained unchanged that is, price stability and sustainable growth of the economy. Monetary management is an integral part of macroeconomic management. The task of monetary is usually performed by the monetary authority (or central bank) on behalf of the government. The tool for monetary management is monetary policy, which is the use of some combinations of an instrument by the central bank to influence the availability and cost of and/or money in the domestic economy with a view to achieving microeconomic balance. Price stability is usually the primary focus of monetary policy include attainment of high and sustainable

economic growth, low unemployment and viable external sector. Many central banks have tended to focus more on the attainment of price stability which is critical to the attainment of others micro economic policy objectives. In some countries, the law setting up the central bank explicitly mandates it to pursue the objectives of price stability primarily; while in other (particularly developing countries) the central bank is expected to pursue a dual mandate. In designing monetary policy, therefore the central bank is guided by their mandate. In performing task of monetary management, monetary authorities apply their discretionary powers of influencing the money stock and interest rate to make money either more expensive or cheaper. It is a deliberate exercise in controlling money supply and credit conditions. The central bank of Nigeria (CBN) is the sole monetary authorities in Nigeria. The 2007 CBN act enumerates the Bank's specific functions as follows.

I. Ensure monetary and price stability;
II. Issue legal tender currency in Nigeria;
III. Maintain external reserves to safeguard the international value of the legal currency;
IV. Promote a sound financial system in Nigeria;
V. Act as banker and provide economic and financial advice to the federal Government.

Embedded in these objectives are two separate but highly related roles. A developmental role and financial stability role. Apparently the law imposes a dual mandate on the Bank price stability and sustainable output and employment necessitating the formulation of monetary policy that attempt to strike a balance between the two goals.

The main goals of monetary policy are to maintain low rates of inflation and suitable levels of economic activity through adequate real interest rates. The institutional framework for the execution of monetary policy is the Central Bank of Nigeria and the financial institutions, especially the commercial banks that have capacity for the instrumentality of money creation. Monetary policy is executed traditionally through the following techniques:

- Discount Window Operations
- Reserve Requirements
- Liquidity Ratios
- Selective Credit Controls

- Moral Suasion

Although these techniques work with varying effects, their operational impact is exerted on commercial banks' willingness and ability to lend and the central bank's ability to control the supply of money in circulation.

Fiscal Policy focuses on government expenditures, taxes and borrowing in order to achieve some economic goals. The crux of a good and effective fiscal policy hinges on the fact that all necessary ingredients like expenditures, tax revenues, loans, debt management, etc. are kept in a proper balance to achieve the best possible results in terms of desired economic objectives. Thus, fiscal policy consists of government decisions to vary certain fiscal aggregates such as total government spending and total tax revenues as opposed to some other aspects of public finance, which are primarily concerned with the effects of specific government expenditures and taxes.

Fiscal policies are employed to achieve varieties of economic policy objectives including full employment, price stability, external equilibrium, income distribution and general economic growth and development. Essentially, therefore, fiscal policy exerts its impact on the economy through its influence on aggregate demand.

The uses of fiscal policies as instruments of growth and development in developing countries have particularly been made imperative because of their underdeveloped nature. The lack of basic and necessary facilities for the operation of a fully effective monetary policy has reduced the reliance on it as a tool of economic management.

A key challenge in monetary management is how to deal with uncertainty. Monetary policy must be forward looking and thus, rely heavily on the outlook for key macroeconomics variable. The future is generally uncertain. To that extent, the environment of monetary policy is always uncertain. From a practical stand point, however, the monetary policy maker must identify the specific risk monetary policy faces within the context of the economy In order to deal with those correctly. For most developing countries, the key risk is the same due to the similarity of economic and social condition. In Nigeria monetary management confronts three kinds of uncertainties principally.

These are:

1. Uncertainty about the transmission mechanism of monetary policy;
2. Uncertainty about monetary and other data; and
3. Uncertainty about the fiscal policy outlook.

How the CBN deals with these issues in the conduct of monetary management is discussed in section 4 of this paper

2. Monetary management process

Monetary management is the aspect of macroeconomic management which is undertaken on behalf of government by the CBN. The tool for carrying out the task of monetary management which is one of the core functions of the bank is monetary policy. The monetary policy making process to analogous to a circular string of activities, in the case, including policy formulating, policy implementation and policy evaluation. The process is fairly complex involving quite a number of activities in each of the compartments. These activities include:

- Deciding primary focus of monetary policy;
- Deciding on a monetary policy strategy or framework/policy objectives;
- Choosing a normal anchor;
- Setting relevant targets;
- Programming/modeling;
- Deciding policy instruments; and
- Day-to-day conduct of monetary policy(routine activities including communication and evaluation of outcomes)

These activities are in practice, intertwined and not necessarily sequenced as presented.

LITERATURE REVIEW

Macroeconomic aggregates such as output, employment and prices are, in turn, affected by the stance of monetary policy through a number of ways including interest rate or money; credit; wealth or portfolio; and exchange rate channels (Akhtar, 1997; Pass et al, 1991; CBN, 1995). The monetary authorities apply their discretionary power of influencing the money stock and interest rate to make money either more expensive or cheaper depending on the prevailing economic conditions and policy stance, in order to achieve price stability. This is why Wrightsman (1976), concludes that monetary policy is noting but a deliberate attempt to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives. In general, most monetary authorities or central banks have been saddled with controlling inflation, maintaining a healthy balance of payments position to safeguard the external value of the domestic currency and promoting economic growth.

In Nigeria, the Central Bank of Nigeria (CBN) is the sole monetary authority. Its core mandate is to promote monetary stability and evolve an efficient and reliable financial system through the application of appropriate monetary policy instruments and systemic surveillance. The 1958 Act establishing the Central Bank of Nigeria gives it the following specific functions (which have endured the 2007 CBN Act):

- Issuance of legal tender currency notes and coins in Nigeria
- Maintenance of Nigeria's external reserves
- Safeguarding the international value of the currency
- Promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria

Acting as banker and financial adviser to the Federal Government.

MONETARY AND FISCAL POLICIES IMPLEMENTATION IN NIGERIA

Over the years, both monetary and fiscal policies have been used as major instruments of economic growth and development. The policy stance has always been revealed through annual

CBN monetary circulars, and government budget pronouncement. An analysis of government monetary policies have shown that the policy objectives have always been:

- Stimulation of financial savings and capital formation
- Price stability and control of inflation
- Maintenance of confidence in the Nigerian currency through stabilizing measures on domestic wages and prices.
- Effective arrangements for supplementing current government revenues.

The implementation of monetary and fiscal policies in Nigeria is replete with contradictions and inconsistencies. This is not uncommon in developing economic problems calling for attention.

The approach to monetary policy in Nigeria has revolved consisting of direct and indirect controls. I need to quickly mention that the appropriate institutional framework for operating monetary policy did not exist until the establishment of a Central Bank in 1959. Between then and the early 1980's there was absolute reliance on direct controls. Selective credit controls, rediscount rate and moral suasion were therefore the pronounced techniques in use to achieve the maximum result given the numerous constraints then. The attack on inflation and the need to achieve stable price level have always been in focus. The monetary authorities directly managed interest rates until August 1987 when they were regulated and were not deregulated until mid 1990s. Hitherto, the government set the deposit and lending rates of the financial intermediaries, which to all intents and purposes were respected only on paper. Furthermore, the instruments of monetary policy have grown both in number and sophistication. There has been gradual movement towards indirect controls and market-determined mechanisms. Hence, there has been the introduction of Treasury Bills and Certificates, Government development Stocks and lately national savings Certificate and Private Treasury Bills. These instruments have been successful in the control of money creation by the banking system. However, their overall effectiveness in achieving the principal monetary policy objectives have been punctuated by inappropriate and simultaneous execution of fiscal policies. Consequently the problems of inflation, price stability and weak currency reared their ugly heads and they remain unsolved till now. In summary, monetary policy has contributed a great deal to the achievement of the economic development objectives as its main objectives were the realization of price stability and a healthy balance of payments position in order to ensure an adequate level of foreign exchange reserves. However,

up to the 1970's, monetary policy had to operate within the context of a some what destabilizing fiscal policy because of the objectives of meeting the financial needs of prosecuting the civil war and the post war reconstruction. From the late 1980's to date, there have been tremendous improvements in the use of market-based mechanisms in the application of monetary policy. This phenomenon was accentuated by rapid development of financial infrastructure, which greatly assisted financial deepening. However, this s not to say that these policies were able to achieve the intended results; far from it. It is apparent that the ineffectiveness of monetary policy instruments is not because of lack of appropriate instruments, it is because there had never been political discipline to pursue stated fiscal policies. This situation began when Nigeria had to prosecute the civil war in 1966-1970 and reached its peak during the era of military rule, especially with the introduction of the Structural Adjustment Programme (SAP) in 1986.

- The fiscal policy objectives have always usually been on
- Raising additional revenue
- Minimizing irregularities and inequalities in wealth
- Lessening the continues heavy reliance of the nation on the oil sector as the main source of revenue and foreign exchange earnings
- Correcting the distorted patterns of both domestic production and consumption
- Reducing the heavy burden of both external and internal debts

The main fiscal policy instruments in Nigeria principally changes in taxation rates, government expenditure and public debts. An interesting aspect of fiscal policy in Nigeria is that being a federation, fiscal jurisdictions of the various levels of government in Nigeria are constitutionally defined. For example, with respect to taxation, the country's laws specifically assigns particular taxes to particular levels of government. However, only the Federal Government is constitutionally empowered and most suitably placed to conduct fiscal policy.

Over the years, there has been tremendous growth in the public expenditures of all successive Nigerian governments. Another feature observed is the complete change in the share of non-tax sources of revenue, due mainly to increased income from oil rents and royalties concomitant with increased oil production. We also observed that over the years too, there was gradual reversal of the composition of direct and indirect taxes such that direct taxes represent the chunk

of revenue from taxation today, due also to the impact of oil activities and industrialization policy of government.

A current look at government fiscal policy shows substantial growth in government expenditure and revenue over the years. During the 1970s, the observed patter of growth in total expenditure was a reflection of the abundance in financial resources resulting mainly from the monetization of the foreign exchange earnings from crude oil. However, between 1980-1987, there were decline in expenditure levels which ultimately resulted in overall budget deficits. The oil boom led to increase in wages (Udoji salary arrears of the mid 1970's) and similar wage increases have continued since then. The oil boom also led to uncontrollable government expenditure especially on non-productive, white 'elephant projects'. There was complete monetization of the economy thereby fuelling inflation. Eventually government resorted to both domestic and foreign borrowings due to unexpected decline in oil revenues. The debt overhang reached the climax in the twilight days of the military. External debt alone grew from #489million in 1970 to about #3.1trillion in 2000, a period of 30 years. The import of the above paraphrase of monetary and fiscal issues is to show that there was no attempt in reality to synchronize the two policies. Each of them has consisted of sound mechanisms but they were not aligned. The implication became grievous from the fiscal perspective as successive governments present their budgets at the beginning of every year and ended up doing something else in the course of the year. Practically, the fiscal policy operations always let loose what the monetary policy operators hoped they have put in chains. We have therefore always found ourselves in a situation where we want to use monetary policy to correct problems caused and engendered through fiscal policies. For illustration, during the military regimes, especially between 1986 and 1997, there was massive cash injection into the economy through borrowings from the Central Bank. Thus 'Way and Means' method of raising funds simply heated the economy and led to serious inflationary spiral. Hence, Nigeria has experienced high volatility in inflation rates. Since the early 1970s, there have been four major episodes of high inflation in excess of 30% as reported by CBN. However, most of them did not exhibit any systematic pattern with the changes in real income. These periods were in 1975, 1985, 1989, and 1993. The general trend that was observed for all of them was expansionary fiscal policy and growth in money supply. Between 1972 and 1976, there was drought in Northern Nigeria, which destroyed agricultural production and pushed up the cost of food items. In addition, during this period, there was excessive monetization of oil export

revenue, which gave inflation a monetary character. Inflation peaked in 1985 when there was relatively little economic growth. The episode was driven by expectations emanating from the gap between the parallel market and official exchange rates, which more than tripled. The expectation and rumor of devaluation fuelled inflation as prices adjusted to the parallel market exchange rate. The 1989 high inflation episode was fuelled by the fiscal expansion that accompanied the 1988 budget. Inflation rate reached 57.2% in 1993 and 72.8% by the end of 1995, the highest rate since the eighties. The sources of this inflation was the expansionary fiscal policy and money supply growth while the declining growth resulted from inefficient utilization of resource endowment. Another relevant example was the persistent use of dual foreign exchange rates for a long time until few years ago when it was abolished. That policy in no small measure contributed to the running of the economy. Its impact became of the focal directions of CBN by constant harassment of banks that were randomly being accused of round tripping and disloyalty. To curb these fiscal excesses of government and put the economy on the path of growth and development, the monetary authorities have always resorted to all forms of mechanisms to control money supply, most of them arbitrary and conflicting. The concept of stabilization securities came into being and the mechanism of open market operations became a secondary tool. Another relevant example is the persistent use of dual foreign exchange rates for a long time until few years ago when it was abolished. Furthermore, while the government embarked on unproductive projects and release of oil windfalls to all tiers of government, the monetary authorities resorted to increasing cash reserve requirements and minimum rediscount rates thereby trying to use monetary instruments to correct problems emanating from fiscal policies. As at today, the MRR is 20.5%, yet government has as its objectives for this fiscal year containment of inflation and boosting the productive sectors of the economy.

THE IMPERATIVES OF THE HARMONISATION OF MONETARY AND FISCAL POLICIES

Monetary and fiscal policies represent two out of the array of policy menus available to government to regulate and stabilize the economy. Economic literature is replete with arguments about which of the two is superior, more potent and more effective. This the course of the famous ‘Monetarists-Keynesians’ arguments. The fiscalists or the Keynesians proposed that it is fiscal policy that matters and that the instruments of government spending and taxation could be

optimally used to stabilize the economy. However, the Monetarists argued that this position might only be true in the short run. To them, government spending will 'crowd out' in the long run and that government expenditure can increase aggregate demand permanently only it is financed by a continual creation of money stock. When analyzing monetary or fiscal policy, it is important to keep in mind that these policies may not be independent of each other. A change in one may influence the other.

Furthermore, a through analysis of both the monetary and fiscal policies may prove that one is much more potent and impactful than the other. Fiscal policy can be made or used to leverage on the limitations of monetary policies, for example, it has been generally acknowledged that monetary policy can play only limited roles in the developing economies including Nigeria for a number of plausible reasons. Firstly, there is the requirement of an efficient, fully monetized economy which is lacking. Secondly, it has also been observed that money and capital markets in Nigeria lack sufficient depth. Tradable financial stocks and assets are also limited. Furthermore, there is a vast existence of non-bank financial institution like mortgage and financial houses of rending banking services and consulting serious leakage to the effectiveness of monetary policy.

On the other hand, there are also a number of limitations in the application of fiscal policies. Faced with rising prices inflation and unemployment, a situation which contradict the traditional macro-economic theoretical and, in fact, deficit government financing. This further accelerates inflationary trends. Furthermore, the size of government debts continues to be on the increase. We are further confronted with inefficient tax collection and administration resulting in massive tax evasion and fraudulent activities in tax management.

In addition, tax collection efforts have been disproportionately focused on wage earners and the formal sector. There have been little progress to address tax issues on the informal sector and non-wage earners who constitute a large chunk of the economy. The fact of the matter is that our economy is riddled with a lot of limitations and inconsistencies. It is there fore apparent that the application of a straight jacketed monetary or fiscal policies would produce unintended results. It is also clear that because of the intricate web of 'causes' and 'effects' nature of most of the problems and policies. It has become critical to live with the fact that policy responses must also, of necessity, be inter-related. A major policy summersault stems from the fact that the CBN is supposed to be the custodian of monetary policies while the Ministry of Finance and the

executive arm of government have responsibility for fiscal policies. On a number of times, both act at cross purposes and in apparent conflict to each other. Fore example, it has been discovered that when the CBN is pursuing tight monetary policy and excess liquidity mop up, the federal government is at the same time injecting additional funds through allocation releases to this agencies and projects. This makes the CBN monetary policy ineffectual. So, government policies, whether monetary fiscal or otherwise become useless as long as they are unable to address the fundamental issues of our economy in a way that would as to better the lives of the ordinary people. This is because at the end of the day, the barometer for measuring the effectiveness of these policies would always be to what extent it has improved the living conditions of the people. Consequently, I believe the time has come for policy makers to look to their job from this perspective. The persistent apparent phenomenon whereby aggressive government fiscal operations continue to create liquidity and inflationary concern for the Central Bank could be most frustrating for monetary authorities. A much more fundamental reason why there is the need for harmonization is the fact that the agents of implementation ordinarily have different objectives. While the agents of fiscal instruments, which are basically government organs, are under the direction and control of government and would therefore necessarily share this concern of government on the policy objectives, this is unlikely to be the situation for monetary policy. Financial institutions are the primary routes for implementing monetary policy and because they are privately owned, they are largely driven by profit motives and would look at the implementation of monetary policy with implications for their bottom line. Consequently, the phenomenon that lends itself for execution is that rather than work cooperatively together, they work at cross purposes. At the end of the day, the economy is the victim as the variable targets will remain unattained. All these therefore make it imperative to devise means of ensuring the harmonization of the policies.

RECOMMENDATION AND CONCLUDING REMARKS.

This paper presents an overview of monetary policy in Nigeria. It has attempted to review developments in the past as well current and future concerns. In spite of the success of monetary policy in recent times, it is recognized that challenges still exist. These include:

a) Monetary policy must be tailored to promote real sector lending and real sector investment finance. The recently concluded bank consolidation and the large capital base

available for banks' disposal, it is envisaged that the required capacity would be available to finance long-term investment in the real sector.

b) Recent monetary policy initiatives like transparency requirements on DMBs, stoppage of payment of interest on DBMs deposits, etc should be sustained.

c) Liquidity sufficiency: This has been one of the major challenges of monetary policy in Nigeria making maintenance of price and exchange rate stability elusive, especially given the cash-based nature of the economy. More so, the expansionary profile of fiscal policy has continued to constrain the impact of monetary policy.

d) The spread between savings and lending rates remains a challenge for monetary policy and should be narrowed downwards. There has some improvements following recent reforms, but there is still room for improvement, and this should be a key concern of policy in the years ahead.

. From the above, there are series of issues that are involved in the management of monetary and fiscal policies in Nigeria. But as have been rightly identified by some people, it is not so much with soundness or correctness of policies. It has really been the ability to blend the policies and their instruments together that is important. Also, a lot depends on our ability to come up the desired discipline especially at the fiscal level. The ineffectiveness of monetary policies in recent time has been due to the lingering problem of excess liquidity in the banking system. This in itself has been induced by rapid monetization of the oil earnings. This promotes rapid monetary expansions that greatly exceeded the targets thereby creating pressure on the domestic price and exchange rates. For instance in 2001, there was excess growth in M2 (Money Supply = Currency Outside Banks + Deposits). Money supply rose to 28% more than the target of 12.2% for the year. Inflation shot up to 16.6% way from the target position of 9.0%. to address these, the cast reserve ratio was moved up from 10% to 12.5% and liquidity ratio from 35% to 40%. On the fiscal side, sound management requires consistency of expenditure with realistic revenue forecast. Also, frequent delays and the uncoordinated manners of their releases need to be watched. As a first step, there is the need to review the mechanism for the release of cash to fund capital budget. It should no longer be arbitrary or erratic, it should be orderly and based on needs. It should also be after analyzing the implication for monetary and other policies. Furthermore, there is the need to embark on the effective controls of financial resources especially leakages outside the country that have implications for importation and balance of

payments. Effective control is also desirable in government expenditures from all tiers of government. Without this, any monetary policy aimed at controlling the excesses of fiscal operations would always fail. It is also required that there should be more openness and transparency in government spending. There is the need for a continuous review of government spending by the agencies charged to do such. To reduce the incidence of conflict in monetary and fiscal policies, it is suggested that an inter-governmental agency should be set up. Part of their responsibilities will include the harmonization of policies and policy instruments as well as monitoring policy targets and lags.

Furthermore, it is important that there should be conscious approach to the timing of the deployment of monetary and fiscal instruments to attain a predetermined objective. More often that not, instruments that are meant to be jointly or simultaneously released to address an issue are not released on time. where there are time lags such instruments may not meet their targets, consequently, the objectives are not usually realized. I am of the opinion that the inter-governmental agency proposed earlier in this paper would assist in addressing this. The institutions for efficacy of fiscal policy need to be overhauled. There is the need to review tax management and administration institutions to eliminate bottlenecks and minimize frauds. There is also the need to widen the scope of collections to mitigate tax evasion. Agriculture and small business are dominant in Nigeria and yet they remain the two sectors where tax evasion is highest. A comprehensive development of tax laws, administration and incentives can lead to a more vibrant fiscal policy that enhances domestic revenue generation other than from oil and also reduce borrowings. In all of the cases, it will promote sound monetary and fiscal policies. However, this has to be done not to hurt production. By and large, the efficacy of harmonization lies in the commitment of government. It is imperative for political leaders to exercise discipline, enthrone prudence and avoid financial profligacy. Oftentimes, we also think that the objectives of those in government align with the governed. This may not be so and as such there is the need for the populace to be on guard at all times. This is so, because in Nigeria like other developing economies, governments must bear a greater responsibility for the future well-being of their countries that do those in the developed countries. And this has to be done in the face of so many imperfections and inadequacies.

Monetary and fiscal policies have the potential to make significant contribution to growth and development. Yet we have so far failed to exploit this potential. We have had series of sound monetary and fiscal policies, each being good and pragmatic on their own. However, when developed in the face of multi-dimensional developmental problems of our country, they aggravate rather than improve the conditions. As long as they remain the main instrument of macro-economic policies, it will remain imperative for us to find means of coordinating them in a way that will strengthen their effectiveness and minimize their contradictions and thus conflicts.

CONCLUSION

Critical as these policies are to our economic life, there is still lack of coordination in their formulation and implementation. This, expectedly, calls for concern.

The monetary policy of a country is an important aspect of its overall economic policy, this can be evidence from our discussion in the previous chapter. The use of appropriate monetary policy instrument contribute a great deal to the growth of the economic in Nigeria for example, it has achieve economic growth, in some sector such as the manufacturing sector, for monetary policy instrument to achieve growth the monetary supply must be adjusted to needs of the growth by directing the flow of funds in the required channels and by providing institutional facilities of credit in scientific field of economic activities.

RECOMMENDATION

For an effective and efficient supervision of monetary policy in Nigeria to achieve its desired goals and objectives the CBN should take the following measures:

i. To eliminate all forms of Lagos i.e. either inside or outside lag, that is when we the CBN recognize the need to establish certain policy elevate a particular problem, it should waste no time in enacting such policy and also quicker action make the impact of such policy to be immediate rather than where the action to be taken after the particular problem has been complicated by other factors.

ii. Penalties for defaulter of its regulation should be graded according to the degree of the offence not to make banker to gain from the contravention of its regulation. In essence what I

suggest is that CBN should not make it penalty fixed at the same rate for all defaulter but rather it should be graded according to the degree of the offences, the effect of this is that no one take profit or gains out of defaulting central bank of Nigeria (CBN).

iii. The issue of the issuance companies should be solved by other meanings, other than that of a fine N100,000 for each day of default and a minimum of N200.00 per day if the default persists, if the account is not made known to CBN after 28days, but really a realistic measure of eliminating this problem completely is for the government to bring insurance companies under the supervision of CBN rather than hinder the supervision of the ministry of trade (which insurance companies operates under).

iv. Central bank of Nigeria may even resort in tossing fiscal policy through income and taxation to solve some of our economic problem.

When reviewed from both internal and global perspective we have come a long way significant achievements have been made but the unfinished agenda and the list of concern are fordable consequently, the following are called for:

a. Ministering federal government defuit financing

b. Co-ordination and harmonization of monetary and fiscal policies

c. Improved monitoring of banks to ensure improved banks compliance with monetary guidelines.

d. Restricting of insolvent banks

e. Promotion and development of money market

f. More robust external debt management to secure more favorable terms, debts and debts service reduction.

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