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# THE EFFECT OF FISCAL POLICY ON THE RELATIONSHIP BETWEEN MONETARY POLICY AND MACROECONOMIC VARIABLES IN NIGERIA

***Sule, G.[1], Lawong, D. B. [1]and Dahiru, S.[1]**
[1]Department of Economics Ahmadu Bello University, Zaria, Nigeria.
*Corresponding Author: Sule, G. Email: garbasule1@gmail.com. Tel: 08034640759

**ABSTRACT**

*This study examined the effect of fiscal policy on the relationship between monetary policy and macroeconomic variables in Nigeria: An Empirical Investigation. The study employed a two-stage least square technique as estimation technique, where in the first step; the empirical models of fiscal and monetary policies were separately estimated. In the second step, the dependencies of each policy on the other are then included, to capture the effects of each on the other. Annual time series on the various monetary policy and fiscal policy variables from 1981 to 2020 were obtained from the Central Bank of Nigeria statistical bulletin. Augmented Dickey Fuller (ADF) test was used to examine the stochastic properties of the series. The findings revealed that Gross Domestic Product (GDP), inflation, and money supply are negatively related to monetary policy rate in Nigeria. Also, government expenditure limits the effectiveness of monetary policy in the management of both economic growth and inflation in Nigeria as the effect on inflation reduces from 0.06 to 0.02 and the effect on GDP changes from negative to positive. The study recommended that there should be an establishment of better consultation between both policies in order to secure high and sustainable fiscal and monetary policy mix and hence economic growth with price stability.*

**Kewords**: Fiscal Policy; Monetary Policy; Relationship.

## Introduction

In order to achieve the core macroeconomic goals worldwide, fiscal and monetary policy are the ultimate fundamental strategies employed. These goals include equitable income distribution, full employment of labour, price stability, and economic growth and development among other things (Honohan, 2019). Because high levels of government expenditure raise interest rates, which in turn cause inflation and serious cyclical effects on the economy that jeopardize financial stability (Olaoye *et al*., 2024). Cohesive relationship of monetary and fiscal policy can help maintain stable economic growth in the face of low

unemployment, low inflation, and stable pricing (Diallo *et al*., 2024).

According to Babalola *et al*., (2020), monetary policy is a set of actions intended to regulate the availability of money and credit condition in an economy. Fiscal policy describes how the government uses tax and spending plans to affect macroeconomic and general economic conditions. These include: Employment, inflation, economic growth, and the overall demand for goods and services etc (Yunana, 2024).

Macroeconomic variables are economic indicators that are used to measure the performance of an economy over a period of time (Yue *et al*., 2024). These economic indicators include, price stability, economic growth and development, and full employment of labour among other things. The relationship of fiscal and monetary policies in Europe is such that there is different coordination mechanism because there is one union-wide monetary policy and different country-level fiscal policy, as a result of the European countries giving up their monetary independence to the European Central Bank (ECB) with the creation of EURO in 1998. Fiscal policy should be utilized to balance out these asymmetric effects on different nations because the single monetary policy promotes member countries in different ways. According to Erceg and Linde, (2013), fiscal policy in a union should primarily focus on stabilizing inflation and terms of trade, whereas monetary policy is focused with stabilizing the union`s overall economy.

In many African nations, monetary policy works in tandem with fiscal policy to achieve policy coordination. It is frequently necessary for central banks to finance public sectors deficits, particularly those brought on through quasi-fiscal operations. The Nigerian Central Bank has been legally operating monetary policy since 1958, with its primary duties being the promotion and maintenance of a sound financial system and monetary stability (Osagioduwa *et al*., 2022). This function has aided in long-term planning, supported the construction of infrastructural, attracted foreign investment, and promoted economic expansion (Sylvaire *et al*., 2022). Depending on the economy's ability to absorb new money at a given moment in time, central banks can change the level of money supply to lower the cost of money.

The achievement of macroeconomic goals may be harmed by a surplus or deficit in the

money supply that exceeds the optimal level, therefore striking a balance in the monetary policy is extremely important. Contrarily, fiscal policy is concerned with the method by which the government uses public spending, debt, taxation, and other revenues to affect economic activity with the aim of achieving the predetermined macroeconomic objectives of full employment, a favourable balance of payments, price stability, and output growth among others (IC and NIG, 2022). As a result, an economy in state of depression requires government stimulus in the form of more spending (Onifade *et al*., 2020). Through its impact regarding the overall pricing range, which raises questions about the effectiveness of monetary policy, through impacts on overall demand in the short-run, as well as by altering the long-run framework for inflation and economic growth, fiscal policy may influence the effectiveness of monetary policy in a variety of ways. For instance, excessive dependence on fiscal policy has occurred in Nigeria, which has increased economic distortion (Chelghoum *et al*., 2023).

Contrarily, monetary policy could be supportive of or antagonistic to fiscal policy. By hiking interest rates, the central bank may tighten monetary policy or limiting lending in the banking system to be able to counteract the consequences of an expansionary fiscal aggregate demand and economic activity. The ensuring high interest rate may reduce economic activity, draw short-term and readily reversible capital inflows, increase the pressure on the currency to appreciate and in the long run harm the macroeconomic and financial system.

In a similar line, the Central Bank's decision on interest rates affects how much and how expensively government can borrow money from the people. Therefore, thorough coordination between the relevant agencies may be needed in order to implement effective monetary and fiscal policy.

The expenditure of the government in the Nigerian economy (in terms of excessive payment of contracts, transfer payments, arrears payment to staff, and other payments) usually causes a rise in the amount of money in circulation over the economy's absorption capability. The cost of goods and services rises as a result. To be able to contain these puzzling circumstances posed by the fiscal action of the government, the monetary authority (CBN) is often faced with excessive cost through treasury bills, open market operations and monetary policy rate among

others. The objective of this study is to analyse the extent to which government expenditure influences the relationship between monetary policy and macroeconomic variables in Nigerian economy.

## Justification of the Study

The relevance of the correlation between monetary and fiscal policies to the real economy as a fundamental strategy used to obtain the basic objectives of macroeconomics was demonstrated by the global crisis such as the great moderation of 1990s, the financial crisis in 2008 and 2009 (Mihaljek, 2021). The need to evaluate this link in relation to the Nigerian economy motivates this study with some improvement on the efforts made by researchers in this area.

Due to the causal link between monetary and fiscal policy this study finds it necessary to use two stage least square technique over other techniques in the empirical study (Ashraf *et al*., 2024). The advantage of using two stage least square technique is that it addresses both endogeneity issues and potential unobserved effects, it can effortlessly integrate several instrumental factors (Fakhreddin, 2024). In addition, this study not only extends the data span relative to previous studies but also makes use of high-frequency monthly data which is more appropriate for time series modelling.

## Literature Review

Afonso *et al.* (2019) empirically examined the interaction between monetary and fiscal policies in the 28 EU Countries to evaluate how changes in economic and institutional conditions affected each authority's response mechanisms between 1970 and 2015. The study made use of Two Stage Least Square on panel data collection comprising the 28 EU Member States. The finding shows that monetary policy is significantly influenced by inflation, and the implementation of a unified currency made use of by 19 out of 28 EU nations has a structural impact on the reaction and interaction between the two policies. The study recommended that, in addition to the significant effects that the adoption of the Euro common currency had on the coordination and individual behavior of both fiscal and monetary authorities, the nature of the relationship each country adopts between its two authorities is of extreme importance for sustained economic performance.

Consequently, Ayobami and Olalekan (2020) conducted a study to empirically investigate the nature and impact of fiscal and monetary policy interactions on key macroeconomic indicators in a small open economy of Nigeria from 1981 to 2018. The study uses the generalized method of moments as its tool of analysis. Results of the study show that inflation and output are significantly influenced by interest rates and government spending.

Agbonkhese and Oligbi (2020) empirically examined the connection between Nigeria's economic stability and the combination of monetary and fiscal policy. The Johansen co-integration approach and VECM were both used to accomplish the study's goal. The study's findings showed that neither the expansion of the Nigerian economy nor its stabilization have been significantly impacted by monetary policy variables. As a result of the destabilizing impact of the government's fiscal actions due to its irresponsibility in Nigeria, the report suggested the establishment of fiscal discipline. Also, Fiedler *et al.* (2020) empirically investigated the blurred boundaries between fiscal and monetary policies in response to the E U's covid-19 epidemic from 2019-2020. The study made used of yield curve analysis of selected members states. The results reveal that monetary and fiscal policies work well together.

The relationship of China's fiscal and monetary policies from 1996Q1 to 2017Q1 was empirically studied by Luan *et al.* (2021). Chinese fiscal-monetary nexus was examined and divided into three periods using a model with time-varying parameters. According to the findings, China had a monetary dominant regime from1996Q to 2017Q because the CPI responded negatively to fiscal expansion in the short term and positively to monetary expansion in the long term, but neither had much of an impact on CPI. The study contends that differences in the characteristics of the fiscal authority should be primarily responsible for the relative shift in the function between the two programs.

Alege *et al.* (2021) conducted a study to empirically investigate the nexus between monetary and fiscal policies and unemployment in Nigeria from 1985 to 2016. The study discovers that government capital investment only helps to reduce unemployment in the long run using the Autoregressive Distributed Lag (ARDL)

estimate technique. The report suggests a mix of policies, suggesting that government spending be used sparingly and that the Central Bank of Nigeria (CBN) control the flow of money into the economy to prevent inflation and unemployment. With a focus on the Covid-19 crisis, Heimberger (2022) examines the cyclicality of fiscal policy (discretionary versus automatic) for 28 advanced nations over the period of 1995–2021. The study discovers that discretionary fiscal policy during the Covid-19 crisis (2020–2021) was substantially more countercyclical than it was previously, especially in the Eurozone, using panel regression analysis and the IV2SLS technique. The conclusion that discretionary fiscal policy responded more forcefully to stabilize the economy during the COVID-19 crisis is supported by the study's lack of analogous evidence for increased countercyclicality during the banking crisis or the Euro crisis. The results provide insight into the ways that fiscal policy's cyclical behavior differs over time and between nations.

Akpoghelie (2022) uses the ARDL Bounds Testing Approach to explicitly examine the distinct effects of fiscal and monetary policies as government stabilization measures on the performance of the Nigerian industrial sector as a real sector, from 1986 to 2021. The long-run relationship between all of the included variables was supported by the Johansen cointegration test, which was utilized to filter the data using the Augmented Dickey Fuller unit root test. The World Bank Indicators (several issues) and the Central Bank of Nigeria (CBN) Statistical Bulletin were the sources of annual data. It was found that government stabilization programs have a significant short- and long-term impact on Nigeria's industrial sector output. The research indicates that a suitable combination and adaptation of monetary and fiscal policies to correspond with the ever-changing economic landscape would foster and maintain Nigeria's industrial sector while simultaneously raising the country's citizens' standard of life.

Demirel and Wilson (2023) conducted research on how fiscal policy significantly aided economic development in 2020 and 2021 despite labor and product market disruptions, which increased inflationary pressures during the robust recovery from the pandemic-induced slump. With the aid of an estimated nonlinear Phillips curve—which shows that the degree of economic slack and supply disruptions have an impact on

inflation—the study examines the implications of supply disruptions and slack for the inflationary impacts of fiscal policy. According to the study, low economic slack, restricted supply, and the combination of low slack and restricted supply all increase the impact of expansionary fiscal policies on inflation.

A study conducted by Yemitope and Magaji (2023) investigated the impact of monetary policy on foreign trade in Nigeria. The World Development Indicator (WDI) 2021 and the Central Bank of Nigeria (CBN) are the data sources. Cointegration and error correction mechanisms were used in the study to analyze the data. The cointegration result demonstrates that Nigeria's monetary policy and foreign trade have a long-term link. In order to boost the nation's productivity and boost exports while also creating jobs, fiscal policy should be used in conjunction with the monetary agency, which is the CBN.

**Gap in the Literature**

The reviewed literatures suggest that there exist substantial studies on the developed countries on the impact of interactions between monetary and fiscal measures. However, research on the impacts of the interaction between monetary and fiscal policies regarding a growing economy, inflation and policy outcome are ongoing in developing countries such as Nigeria and other emerging countries. Nevertheless, no emphasis was given on the effect of the relationship between fiscal and monetary policies in Nigeria (to my knowledge). Therefore, this study intends to contribute in this area.

Studies like Afonso et al. (2019), Ayobami and Olalekan (2020) and Alege et al. (2021) have done well in examining the relationship between the mix of monetary and fiscal policies, by identifying the comparative possibilities of fiscal and monetary policy for reaching the output goal. According to their findings, fiscal and monetary policy relate as strategic alternatives, and interest rates and government spending both have a considerable impact on inflation and output. Therefore, this study expands on the work of Afonso et al. (2019) who used two stage least square technique on panel data, by deviating from using panel data. The two stage least square technique is preferable given that the monetary and fiscal policies are causally related, where fiscal policy (government expenditure) can influence monetary policy (interest rate) and vice versa. Unlike the work

of Afonso et al. (2019) which was based on data up to 2015, this study extends the data to 2020.

## Methodology

To empirically analyze the effect of fiscal policy on the relationship between monetary policy and macroeconomic variables, we follow Afonso *et al.* (2019) Two-Step Strategy. In the first step, the empirical models of monetary policy and macroeconomic variables was estimated. In the second step, the dependencies of each policy on the other are then included, to capture the impact of each on the other. Monetary policy will be considered having impact on fiscal policy (complementary) if the coefficient of fiscal (monetary) policies is found to be positive in the monetary (fiscal) policy equation. If it is negative, then, monetary policy does not affect fiscal policy (are not complementary) and may indicate substitution effect.

## The Model Specification

### Monetary Policy:

The study used interest rate as dependent variable for monetary policy, this is based on previous literature such as Afonso *et al.* (2019) that follow the Taylor rule: which approximates the nominal interest rate as established by the central bank in reduced form in response to changes in output, inflation or other economic conditions (Taylor, 1992). While the independent variables are: Inflation, exchange rate and money supply, but for better evaluation of monetary policy, the study included exogenous factors which include real effective exchange rate and current account balance as suggested in some research projects like Corsetti and Pesenti (2005), Leith and Lewis (2006). According to Afonso *et al.* (2019), a monetary policy rule of a given country is expressed as:

$$Interest_t = \beta_i+\delta intr_{t-1}+\phi infl_{t-1}+\varphi outputgap_{t-1}+\lambda m3_{t-1}+\eta current_{t-1}+\zeta reer_{t-1}+U_t \quad \ldots\ldots\ldots\ldots (2.1)$$

Where: infl denotes inflation, intr denotes nominal short-term interest rate, output gap stands for the output gap, current is the current account, reer is the real effective exchange rate, m3 is the monetary aggregate, $\beta_i$ denotes the estimated individual effects for each nation and the independent disturbance across countries is represented by $U_t$.

In order to investigate the link between an expansionary government spending and monetary policy in the Nigerian economy, this study adapted from the work of Afonso *et al.* (2019). The process of analysis is presented in three stages; using root-cause analysis for characteristics among the variables in order to ascertain their stationarity. The majority of time series in the literature are not stationary, hence, using non-stationary variables in the model may result in erroneous regressions (Granger, 1986). Most variables' first or second differenced term will be stationary (Ramanthan, 1992).

Therefore, all the variables were subjected to unit root utilizing the Augmented Dickey-Fuller (ADF) test at levels for stationarity and used 2SLS technique to address potential unobserved effects and endogeneity issues (Afonso *et al.* and Balhote, 1999). The 2SLS also allows for the introduction of instrumental factors, which are completely unrelated to the explanatory variables. Therefore, solving endogeneity problems will lead to a coherent valuation when some variables are excluded Cameron and Trived (2010) and Katchova (2013).

Regarding the monetary policy regression function for Nigeria, equation 2.1 above is modified as:

$$INTEREST_t = F(INTR, INF, GDP, MS, CAB, REER) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2.2)$$

Where:
INTR = Interest Rate
INF = Inflation Rate
GDP = Gross Domestic Product
MS (M2) = Money supply
CAB = Current Account Balance
REER = Real Effective Exchange Rate

The econometric model from equation 2.2 is presented as:

$$INT_t = \alpha + \beta_1 INT_{t-1} + \beta_2 INF_t + \beta_3 GDP_t + \beta_4 MS_t + \beta_5 CAB_t + \beta_6 REER_t + \mu_t \ldots\ldots (2.3)$$

Where: $\mu_t$ = error term $\alpha$ = intercept and $\beta_1, \beta_2, \beta_3 \ldots B_n$ = parameters to be estimated

**Fiscal Policy**

The study used government expenditure of Nigeria as a reliant variable. This conforms to the fiscal norm, which provides a long-term restriction on fiscal policy by imposing quantifiable ceilling on financial aggregates (IMF

2018). The explanatory variables include: debt and government spending based on previous literature such as: Bohn (1998), Gali and Perotti (2003), Afonso *et al.* (2019). In terms of the fiscal policy response function, we adhere to Afonso (2005) to express the government expenditure of Nigeria as a function of its lag, Nigeria primary balance and debt stock.

capbt = β + αcapbt-1 + σdebt-1 + Ut…… (2.4)

Regarding the fiscal policy regression function for Nigeria, equation 2.4 is modified as:

$GE\ t = F\ (GE_{t-1} + PBN_t, + GDP_t + DBT_t)$ ……. (2.5)

Where:

GE = Government Expenditure

PBN = Primary Balance of Nigeria

DBT = Debt

GDP = Gross Domestic Product

The econometric model from equation 2.5 is presented as:

$GE_t = \alpha + \beta 1\ GE_{t-1} + \beta 2PBN_t, + \beta 3GDP_t + \beta 4DBT_t + \mu_t$ ……. (2.6)

Where:
$\mu_t$ = error term
$\alpha$ = intercept
$\beta_1, \beta_2, \beta_3\ \beta_4$ = parameters to be estimated

**Relationship Between Monetary and fiscal Policy**

In order to identify the relationship between fiscal and monetary authorities, monetary/fiscal variables are included in fiscal/monetary regression model. This is in line with Afonso *et al.* (2019), this study expressed the fiscal and monetary policies as follows:

$Interest_t = \beta 1 + \delta intr_{t-1} + \phi infl_{t-1} + \varphi outputgap_{t-1} + \lambda m3_{t-1} + \theta \Delta capb_{t-1} + \eta current_{t-1} + \zeta reer_{t-1} + U_t$ ……..... (2.7)

In order to investigate the effect of fiscal policy on monetary policy in the Nigeria's economy, the study incorporated fiscal and monetary variables in the monetary /fiscal regression model to further clarify in various techniques the relationship of fiscal and monetary policies in Nigeria. To evaluate the response function of the monetary authority

(CBN) results, we assessed equation 2.3 by including a change in government expenditure in equation 2.6. Our econometric equation is presented as:

$INT_t = \alpha + \beta_1 INTR_{t-1} + \beta 2\ INF_t + \beta 3\ GDP_t + \beta 4\ M2_t + \beta 5\ CAB_t + \beta 6\ REER_t + \delta\ \beta 7\ GE_t + \mu_t$..... (2.8)

To evaluate the response function of the fiscal policy results, by including the first-differences of the short-term interest rate, we arrive to equation 2.6. This is also in line with Afonso *et al.* (2019). Therefore, the regression equation is presented as:

$GE_t = \alpha + \beta_1 GE_{t-1} + \beta_2\ \delta 1\ INT_t + \beta_3\ INF_t + \beta_4\ GDP_t + \beta_5\ DEBT + \mu t$ ..... (**2**.9)

**Analysis of Results**

**Table 1: Summarizes the Unit Root Test Results**

| Variables | Level | First Difference | Second Difference | Decision Rule |
|---|---|---|---|---|
| INFL | -4.06 | | | I (0) |
| INTR | -5.99 | | | I (0) |
| CAB | -1.77 | -5.95 | | I (1) |
| GE | 1.75 | -6.49 | | I (1) |
| NPB | -0.21 | -6.10 | | I (1) |
| REER | -2.03 | -4.28 | | I (1) |
| DEBT | 1.55 | -2.31 | -6.45 | I (2) |
| M2 | 3.62 | 0.06 | -6.57 | I (2) |
| GDP | -2.39 | -2.49 | -6.03 | I (2) |

*Note: imply statistical significance at 5%.*

Exogenous lags are based on Schwarz Information Criterion.

Author's computation via Eviews 10

As a precondition for most time-series analysis, it is expected that the variables

should be subjected to unit root test. Augmented Dickey-Fuller Test (ADF) was used in the investigation, for characteristics of variables in order to ascertain their stationarity. Table 1, presents the findings for respectable variables. Both the inflation rate (INFL) and interest rate (INTR) are stationary at level because they are I (0) at their current levels, but current account balance (CAB), government expenditure (GE), Nigeria primary balance (NPB) and the Nigerian exchange rate in real terms (REER) are stationary at first difference because they are I (1). Debt, money supply (M2) and gross domestic product (GDP) are stationary at second difference because they are I (2).

**Estimation of the Relationship between Monetary Policy and Macroeconomic Variables**

Table 2, below shows the relationship between monetary policy proxy by interest rate and key macroeconomic variables in Nigeria. To examine the relationship between monetary policy and macroeconomic condition in Nigeria, we used equation 2.7

**Table 2: The Relationship of Monetary Policy and Macroeconomic Variables**

| Variables | Coefficient | t - statistics | Prob. |
|---|---|---|---|
| Interest Rate | 1.11 | 15.08 | 0.00 |
| Inflation | -0.06 | -1.31 | 0.20 |
| GDP | -0.43 | -0.15 | 0.88 |
| Money Supply (M2) | -0.042 | -0.47 | 0.64 |
| CAB | 0.013 | 0.99 | 0.32 |
| REER | 0.0004 | 0.36 | 0.72 |
| R-Square | | 0.996 | |
| Adjusted R-Square | | 0.996 | |

Autor's compilation via Eviews 10

**Estimation of Monetary Policy and Key Macroeconomic Variables Given Government Expenditure**

Table 3, below shows the extent to which the relationship between monetary policy proxy by interest rate and key macroeconomic variables in Nigeria changes due to government expenditure. To analyse the extent to which government expenditure influences the relationship between monetary policy and macroeconomic variables in the Nigerian economy, we used equation 2.8.

**Table 3: The Influence of Government Expenditure on the Relationship between Monetary Policy and Macroeconomic Variables**

| Variables | Coefficient | t - statistics | Prob. |
|---|---|---|---|
| Interest Rate | 1.054 | 117.99 | 0.00 |
| Inflation | -0.015 | -1.93 | 0.06 |
| GDP | 1.454 | 0.83 | 0.41 |
| Money Supply | 0.595 | 0.83 | 0.42 |
| GE | -0.254 | -0.54 | 0.59 |
| CAB | 0.008 | 0.88 | 0.38 |
| REER | -0.003 | -1.91 | 0.06 |
| R-Square | | 0.99 | |
| Adjusted R-Square | | 0.99 | |

Autor's compilation via Eviews 10

**Discussion of Results**

The inverse relationship between policy rate and Gross Domestic Product, inflation as well as the positive relationship between policy rate and current account balance, real effective exchange rate is consistence with our prior expectation based on Tailor's rule, which state that a contractionary monetary policy (ie an increase in interest rate) influences the interest rate that the commercial banks lend out money to their customers. This will discourage investment, because people would be discouraged to borrow money at a corresponding high interest rate and when investment is discouraged, it will lead to decline in output.

In regards to inflation, economists hold the belief that reduced inflation is caused by high

interest rates. This viewpoint is justified by the idea that higher interest rates raise the cost of borrowing and reduce demand within the economy, leading to an excess supply and lower inflation. On the other hand, theoretical link shows that an increase in interest rate causes savings to rise, investment to fall, and the current account balance to improve. So also, a rise in the interest rate causes the real effective exchange rate to appreciate currently and depreciate overtime as expected.

This suggest that monetary policy ordinarily is effective in that regard. Also, the estimated results provided evidence that government expenditure limit the effectiveness of monetary policy in the management of both economic growth and inflation in Nigeria as the effect on inflation reduces from 0.06 to 0.02 and the effect on GDP changes from negative to positive. Consequently, the current account balance reduces from0.013 to 0.008, which suggest that Nigeria sends more money overseas than it receives from foreign sources, resulting into trade imbalance as a result of government expenditure. This demonstrates a misalignment between fiscal and monetary policy. While the former is under the central bank's control, the latter does not. As a result, the CBN's contractionary policy is frequently offset by the government's (deficit) fiscal spending, leading to the lack of relevance in the relationship between monetary policy and fiscal policy in the Nigerian economy. This is consistence with the work of Olalekan etal (2020), Agbonkhese and Oligbi (2020) who established similar findings in Nigeria.

## Conclusion

Based on the findings of the study, it can be argued convincingly that the relationship between fiscal and monetary policies in Nigeria during the period under consideration is not harmonious. This happened to be an eye opener due to the fact that over time, monetary management has been greatly handicapped by fiscal policy because of its unbridled fiscal expansions of government without pre- discussion of its impact with monetary authority. This forced the monetary authority to continue to make constant policy adjustments to offset the negative effect of the budgetary operation. Sadly, from the result of the major determinants of Nigeria's fiscal and monetary policies, one can draw conclusion that fiscal and monetary policies have typically moved in opposing directions, which highlights the need for a deeper comprehension of their relationships in order

to build effective policies. Therefore, Nigeria's fiscal profligacy and the necessity for good coordination of the relationship between the fiscal and monetary policies continue to be major obstacles to efficient monetary management and the achievement of macroeconomic objectives in Nigeria.

## Recommendations

The following recommendations are given in light of the findings:

i. There should be an establishment of better consultation (cohesive synchronization) between both policies in order to secure high and sustainable combination of fiscal and monetary policies and thus, economic growth with price stability.

ii. There should be reduction in fiscal dominance operation between monetary and fiscal operations and to assure autonomy of the CBN and ministry of finance in Nigeria.

iv. There should be an enormous effort at strengthening accountability and transparency in financial management which should be maintained to avert excessive constraints to economic policy.

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