The Imperatives for Monetary-Fiscal Alignment in Nigeria and Pathways to Improved Policy Coordination

Dr. Babatunde Omotosho, NESG Non-Resident Senior Fellow

November 2023

Abstract

The macroeconomic policy environment in Nigeria has been complicated by myriads of external and domestic shocks that have confronted the economy over the years. Other legacy structural bottlenecks have also constrained the economy from reaching its full potential and limited the effectiveness of policy measures. This Brief highlights the role of monetary–fiscal coordination in promoting sustainable economic growth and addressing the challenges of macroeconomic instabilities in Nigeria. It suggests pathways to improving policy coordination in an environment characterised by resource dependence, inefficient fiscal spending, and institutional constraints. The suggested pathways include improved communication and transparency around monetary and fiscal policies, improved data sharing and analysis, the establishment of a fiscal council, adherence to fiscal rules, alignment of objectives and policy frameworks, the establishment of a monetary policy framework agreement, revamping the Monetary Policy Forum, diversification of the economy, and strengthening of the country's Sovereign Wealth Fund. If carefully implemented, these measures will help overcome macroeconomic policy coordination challenges and ensure that monetary and fiscal policies are complementary. These measures will also help ensure that monetary and fiscal policies are effectively and efficiently implemented to achieve the country's macroeconomic objectives.

Introduction

Like many other resource-rich emerging countries, Nigeria has experienced a series of economic shocks over the years. The Nigerian economy relies heavily on oil exports, which account for a significant share of total export earnings and government revenue. This dependency on oil exposes the Nigerian economy to volatility in global oil prices, which has severe implications for the conduct of macroeconomic policies. For instance, Nigeria's most recent economic crisis was triggered by the sharp fall in oil prices in 2014, which led to a significant decline in government revenue, the devaluation of the naira, inflationary pressures, and an economic recession in 2016. Responding to this sort of economic crisis while promoting sustainable economic growth requires a careful combination of macroeconomic policies. There is a consensus in the literature that monetary and fiscal policies play important roles in driving an economy towards achieving a pre-defined set of macroeconomic objectives (Davig & Leeper, 2011; Omotosho, 2022).

Fiscal policy involves using government spending and taxation to manage the economy. It is a useful tool for stimulating demand, supporting businesses and households, and shortening the span of economic recessions. For instance, during the oil price shock of the 1970s, the Nigerian government used fiscal policy to boost domestic demand and promote import substitution. Also, during the global financial crisis of 2008 and 09, a fiscal stimulus package was implemented to support the economy and prevent a recession. On the other hand, excessive government spending can lead to inflation and a decline in the value of the domestic currency. Also, high taxes can discourage investment and reduce economic growth. Therefore, fiscal policy must be carefully calibrated to support sustainable growth and avoid macroeconomic instabilities.

Monetary policy entails managing the money supply and the interest rates to stabilise prices. It is also a potent tool for achieving economic stabilisation, especially during times of economic crisis. In Nigeria, the Central Bank of Nigeria (CBN) is responsible for implementing monetary policy, and its primary objective is to maintain price stability while promoting sustainable economic growth. However, during an economic crisis, the role of monetary policy often expands to include measures to support the financial system, alleviate credit constraints, and stimulate economic activity.

For instance, during an economic crisis, the CBN can use interest rate cuts to encourage borrowing and investment to stimulate economic activity. However, such interest rate cuts must be carefully balanced with the need to maintain price stability and avoid price volatility.

In addition to interest rate management and financial system support, monetary policy can address credit constraints.
During an economic crisis, credit may become scarce, especially for small and medium-sized enterprises (SMEs). The CBN can use measures such as targeted lending and credit guarantees to help alleviate credit constraints and stimulate economic activity. Neither monetary nor fiscal policy can achieve a country's desired macroeconomic objectives alone (Leeper, 1991). This is because changes in monetary policy can affect fiscal policy and vice versa.
For instance, an increase in interest rates may reduce consumption and investment, reducing tax revenue. Also, an increase in government spending can lead to inflation, which can influence monetary policy decisions. In this sense, effective fiscal and monetary policy coordination has been seen as critical for achieving economic stability and growth. Monetary-fiscal coordination refers to the alignment of monetary and fiscal policies to achieve the common goal of stabilizing the economy. Such coordination entails effective cooperation between the central bank, which is responsible for monetary policy, and the government, responsible for fiscal policy. It aims to ensure that both policies work in harmony to achieve the same economic objectives, such as price stability, full employment, and economic growth.

However, these policies have different objectives, tools, and authorities. In Nigeria, the CBN Act of 2007, among other mandates, charges the CBN with the responsibility of ensuring monetary and price stability, while the Finance Act of 1958 empowers the Federal Ministry of Finance to administer and control the finances of the Federal Government of Nigeria. Effective coordination between fiscal and monetary policy is required for macroeconomic stabilization in Nigeria as it helps ensure that policy measures are consistent and complementary and are aimed at achieving shared objectives.

Coordinating fiscal and monetary policy in Nigeria, as in many other small, open, resource-rich emerging economies, can be challenging. This is due to policy complications arising from vulnerabilities to commodity price shocks, institutional weaknesses, political interference, limited policy instruments, underdeveloped financial markets, and a lack of effective communication channels. Therefore, It is important that the Nigerian economy's unique characteristics are considered in developing appropriate macroeconomic policy coordination mechanisms for the country.

A key objective of this Brief is to provide insights into how fiscal and monetary policies can be better coordinated to achieve macroeconomic stability and sustainable economic growth in Nigeria. It presents some stylized facts necessary for understanding Nigeria's macroeconomic policy environment, reviews country experiences, and offers pathways to sustainable and effective monetary-fiscal alignment in Nigeria, bearing in mind the idiosyncrasies of the economy.

Nigeria’s Macroeconomic Policy Landscape (2000-2022)

The Nigerian macroeconomic policy environment has been characterised by overdependence on oil revenues, volatility of government revenue, weak fiscal institutions, inefficient public spending, limited diversification of the economy, high import dependence, infrastructural constraints, structural rigidities, and capital flow volatility, among others.

These have led to macroeconomic instability, characterised by high inflation, high unemployment, and low economic growth.

Table 1. Oil and the Nigerian Economy

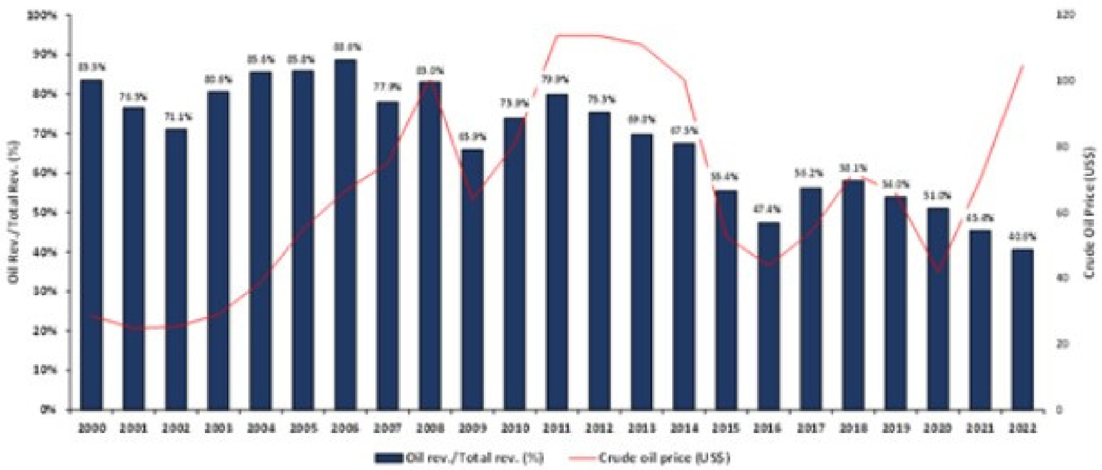
Indicator (%)	1980 - 1989	1990 - 1999	2000 - 2009	2010 - 2019	2020 - 2022
Share of oil in GDP	31.2	32.0	24.1	11.2	6.1
Share of oil in govt. revenue	70.2	77.1	79.9	63.7	45.7
Share of oil in total exports	95.1	97.4	97.0	92.1	87.9
Share of fuel in total imports	8.4	20.1	21.3	23.7	26.2
Oil refining capacity utilisation	-	40.8	28.7	16.0	-

Source: Central Bank of Nigeria

As shown in Table 1, the share of oil in the country's GDP was 31.2 percent during the 1980 – 1989 period. It, however, declined steadily to 11.2 percent during the 2010 – 2019 period, reflecting the growing importance of non-oil sectors, such as services and agriculture. Whereas oil has continued to play a less prominent role in its contribution to GDP, its contributions to government revenue and exports have remained quite sizable. During the 2010 – 2019 period, the contribution of oil to government revenue was 63.7 percent, while the share of oil in total exports was 92.1 percent.

Ironically, the share of fuel in total imports increased from 20.1 percent from 1990 – 1999 to about 26.2 percent during 2020 – 2022, reflecting the country's low oil refining capacity utilisation (Table 1). These developments point to the fact that the Nigerian economy is vulnerable to fluctuations in the international price of crude oil.

Figure 1. Government Revenue and Crude Oil Price, 2000 – 2022



Source: Central Bank of Nigeria

As shown in Figure 1, the oil price increases of 2000 – 2007 boosted the country's oil earnings, causing the share of oil revenue in total government revenue to average about 81.2 percent during the period. However, following the oil price declines associated with the 2008/09 global financial crisis, the share of oil revenue in total government revenue declined to 65.9 percent in 2009.

The concentration of government revenue on oil earnings has non-trivial implications for fiscal policy conduct and monetary policy's complementing roles. n terms of the response of monetary and fiscal authorities to macroeconomic developments in the country, the Monetary Policy Rate (MPR) was lowered steadily from an average of about 16.0 percent in 2000 to 6.0 percent in 2010.

Figure 2. Debt-to-GDP ratio and Monetary Policy Rate, 2000 – 2022

The systematic decline in the policy rate during 2003-2007 was in response to the deflationary trend experienced during the period. However, the expansionary policy pursued during the period was met with a restrictive fiscal policy as the debt-to-GDP ratio declined from 12.6 per cent in 2000 to 6.5 per cent in 2009. In the post-global financial crisis period (2010 – 2022), the debt-to-GDP ratio increased in response to the need to address the devasting effects of the crisis and COVID-19 pandemic on the economy.

However, this period of expansionary fiscal policy was associated with a contractionary monetary policy as the MPR increased steadily from an average of 6.1 per cent in 2010 to 13.7 in 2022 in response to growing inflationary pressures.

Monetary-Fiscal Alignment in Nigeria: Imperatives and Challenges

Nigeria, as an oil-producing country, has faced unique economic challenges due to its dependence on oil revenues and the existence of a fuel subsidy regime. Fluctuations in oil prices have significantly impacted the Nigerian economy, leading to volatility in government revenues and increased risks to economic stability. Therefore, effective coordination between monetary and fiscal policies in the country is important not only for the achievement of economic stability but also for reducing the economy's vulnerability to oil price shocks. Thus, the reasons why coordination between monetary and fiscal policies is essential in Nigeria include enhanced macroeconomic stability, improved policy effectiveness, more efficient resource allocation, improved communication between monetary and fiscal authorities; improved investor confidence, sustained economic growth, increased policy transparency, improved fiscal discipline, improved policy credibility, and reduction in the likelihood of financial instability, amongst others.

Despite the benefits of monetary-fiscal alignment, several challenges must be addressed to achieve effective coordination between the two policies. One of the main challenges in Nigeria has been the lack of complementarity between monetary and fiscal policies. For instance, the effectiveness of a tightening monetary policy implemented by the CBN may be weakened if not supported by fiscal policies that address structural economic issues, such as weak infrastructure and low productivity. This development has led to a misalignment between monetary and fiscal policies in Nigeria, thus undermining the effectiveness of both policies. Other challenges to monetary-fiscal alignment in Nigeria include oil price volatility, inefficient fiscal spending, differences in goals and objectives between monetary and fiscal authorities, institutional constraints, inflationary pressures, exchange market pressure arising from import dependency, political interferences, differences in policy transmission mechanisms, growing debts, and information asymmetry.

Nigeria's Framework for Policy Coordination

Monetary and fiscal policies are two important tools for achieving macroeconomic objectives in Nigeria. The Central Bank of Nigeria (CBN) oversees monetary policy, while the Federal Ministry of Finance (FMF) is responsible for fiscal policy. While these two agencies are independent of each other in their policies, specific committees exist at the CBN and the FMF whose purpose is to facilitate collaboration between the duo towards achieving desired macroeconomic objectives. The composition and objectives of some of those committees are discussed in this section.

Monetary and Fiscal Policy Coordinating Committee: The Monetary and Fiscal Policy Coordinating Committee (MFPCC) was constituted in 2012 by the Debt Management Office (DMO) to provide a forum for effective coordination and harmonisation of monetary, fiscal and debt management policies in Nigeria. The members of MFPCC are drawn from DMO, CBN, FMF, Budget Office of the Federation (BOF), Office of the Accountant General of the Federation (OAGF), Securities and Exchange Commission (SEC), Nigerian Stock Exchange (NSE), Pension Commission (PENCOM), Federal Inland Revenue Service (FIRS), National Insurance Commission (NAICOM), National Bureau of Statistics (NBS), and National Planning Commission (NPC).

The MFPCC's scope of work includes, among others, harmonising the objectives of monetary, fiscal, and debt policies towards achieving macro-economic stability as well as identifying the activities and responsibilities required for meeting those objectives, ensuring that the strategies for achieving fiscal, monetary and debt policies are properly synchronised so that they are complementary rather than conflicting; ensure that government debt securities are priced at the lowest cost and a tolerable risk level; ensure that macro-economic indices such as interest rate, inflation and exchange rate are within targets as defined by the CBN; and communicate monetary and fiscal policy decisions and debt strategies effectively to members.

Cash Management Committee: The Cash Management Committee (CMC) was set up by the FMF to monitor and project federal government revenues and expenditures. The membership of the CMC is drawn from the OAGF, BOF, CBN, FIRS, Nigerian Customs Service (NCS), and all other revenue-generating agencies of the government. The key functions of the committee, which meets monthly, include regularly reviewing budget performance, identifying potential sources of revenue for funding the budget, making necessary projections required for the execution of the budget, and proposing borrowing options for funding budget deficits.

Fiscal Liquidity Assessment Committee*:* The Fiscal Liquidity Assessment Committee (FLAC) is an inter-agency committee created by the CBN to provide a forum for effective interaction between the monetary and fiscal authorities. The FLAC draws its membership from the DMO, BOF, FMF, FIRS, Nigerian National Petroleum Corporation (NNPC), Department of Petroleum Resources (DPR), NCS, and the OAGF. The Committee meets regularly to collect data with respect to liquidity, supply information that has liquidity implications, conduct fiscal liquidity forecasts and determine the net fiscal liquidity in the system.

The FLAC provides information on the operations of the Treasury to the Liquidity Assessment Group (LAG) for forecasting the level of liquidity in the economy; provides policy advice on fiscal issues to the Management of the CBN; and generates a robust database on the operations of the Treasury that have implications on domestic liquidity.

Monetary Policy Committee: The Monetary Policy Committee (MPC) is a statutory Committee of the CBN that is saddled with the responsibility of formulating monetary and credit policies of the CBN. The MPC is the highest authority on monetary policy issues at the CBN, and it determines the appropriate policy rate consistent with the CBN's price stability objective. The committee comprises the CBN Governor, four deputies, two external board members, and the Permanent Secretary of the Federal Ministry of Finance, Budget, and National Planning. The CBN enjoys autonomy in terms of its policy choices and deployment of instruments. This implies that MPC decisions are not required to be approved by a higher authority. The MPC meets every other month and has a calendar of meetings.

The experiences of the countries reviewed highlight the importance of monetary-fiscal coordination in the achievement of economic stability and growth. It demonstrates that countries that have implemented effective monetary-fiscal coordination have been able to stabilize their economies during periods of uncertainty and promote long-term economic growth. However, achieving coordination requires a commitment to long-term economic stability, cooperation between central banks and governments, and an understanding of the possible political and economic challenges.

- **United States:** The Federal Reserve is responsible for monetary policy, while the U.S. Congress and the White House are responsible for fiscal policy. Over the years, there have been several instances of coordination between these policies. For instance, during the 2008 global financial crisis, the U.S. government and the Federal Reserve worked together to implement expansionary fiscal and monetary policies to stimulate the economy.

The FLAC provides information on the operations of the Treasury to the Liquidity Assessment Group (LAG) for forecasting the level of liquidity in the economy; provides policy advice on fiscal issues to the Management of the CBN; and generates a robust database on the operations of the Treasury that have implications on domestic liquidity.

Monetary Policy Committee: The Monetary Policy Committee (MPC) is a statutory Committee of the CBN that is saddled with the responsibility of formulating monetary and credit policies of the CBN. The MPC is the highest authority on monetary policy issues at the CBN, and it determines the appropriate policy rate consistent with the CBN's price stability objective. The committee comprises the CBN Governor, four deputies, two external board members, and the Permanent Secretary of the Federal Ministry of Finance, Budget, and National Planning. The CBN enjoys autonomy in terms of its policy choices and deployment of instruments. This implies that MPC decisions are not required to be approved by a higher authority. The MPC meets every other month and has a calendar of meetings.

- **Brazil:** The Brazilian experience during the Global Financial Crisis provides a story of successful coordination between monetary and fiscal policies. During the crisis period, the government implemented fiscal policies, such as tax cuts and infrastructure spending, while the Central Bank of Brazil implemented monetary policies to stimulate the economy. This coordination helped Brazil to avoid a recession during the period of global economic uncertainty.

- **India:** The Reserve Bank of India (RBI) conducts monetary policy, while the Ministry of Finance is responsible for fiscal policy. Historically, India has faced challenges in achieving monetary–fiscal coordination due to differences in policy objectives between the RBI and the government. However, there has been a concerted effort to improve coordination between the two entities in recent years. One area where coordination has been particularly challenging is inflation management. The RBI controls inflation through monetary policy, while the Ministry of Finance focuses on social welfare programs and infrastructure development through fiscal policy. However, there have been instances where the government's spending has fueled inflation, making it difficult for the RBI to control inflation through monetary policy alone. To improve coordination, the RBI and the government established a Monetary Policy Framework Agreement in 2015, which formalized the objective of inflation targeting and set a target of 4% with a +/- 2% tolerance range. This framework helped to align the objectives of the RBI and the government and led to a more coordinated approach to inflation management. Government debt management is another area where monetary policy coordination has been improved in India. Historically, the RBI has been responsible for managing government debt through open market operations and other tools, while the government has been responsible for issuing debt to finance its fiscal deficits. However, in recent years, there has been a move towards greater coordination, with the RBI and the government working together to manage government debt and ensure that borrowing costs are kept under control (Jha & Jha, 2020).

- **Eurozone:** The European Union has faced challenges coordinating monetary and fiscal policies, particularly during the Eurozone crisis. The European Central Bank (ECB) is responsible for monetary policy across the Eurozone, while fiscal policy is the responsibility of individual member states. This arrangement makes it difficult to coordinate policies, particularly during crisis periods (Afonso et al., 2019). The Eurozone sovereign debt crisis and the COVID-19 pandemic highlight the coordination challenges within the zone. For instance, during the Eurozone crisis, the ECB implemented an expansionary monetary policy, lowering interest rates and providing liquidity to the financial system.

However, fiscal policy was constrained by the Stability and Growth Pact, which placed limits on government debt and deficits. This constraint limited the ability of individual member states to implement expansionary fiscal policy and support economic growth, leading to concerns about the counteracting effects of fiscal policy on the expansionary monetary policy of the ECB. To address these challenges, the European Union took steps to improve coordination between monetary and fiscal policies. These included the introduction of the European Stability Mechanism and the establishment of closer cooperation between the ECB and national governments to promote coordination and achieve the desired economic outcomes.

Pathways to Monetary-Fiscal Alignment in Nigeria

Monetary fiscal alignment is an essential prerequisite for achieving macroeconomic stability, improving policy transmission, and achieving sustainable economic growth in Nigeria. Achieving such policy alignment requires a concerted effort from the government, the Central Bank of Nigeria, and other relevant stakeholders. This section of the *Brief* proffers some measures for improving monetary-fiscal coordination in Nigeria.

Improved communication and transparency: Effective communication and transparency between monetary and fiscal authorities are essential for improving coordination. Regular communication can help to align goals and objectives, identify areas of potential conflict, and ensure that policy actions are complementary. This will help to ensure that both parties have a clear understanding of each other's policies and objectives and can work together to achieve the common goals. It will help to avoid confusion and ensure that both policies are working towards the same objectives. Improved transparency will also help to build trust between the two authorities and promote accountability to the public.

For instance, by providing more information about government spending and revenue, the CBN can make more informed decisions about monetary policy, and the government can better align fiscal policies with macroeconomic objectives. It is therefore recommended that a joint press briefing be conducted by the CBN and the fiscal authority twice a year to discuss how monetary and fiscal policies are working in alignment for the achievement of the country's macroeconomic objectives.

Improved data sharing and analysis: Access to accurate and timely data is essential for effective monetary – fiscal alignment in Nigeria. Improved data sharing practices and more robust analysis can help both the CBN and the Federal Ministry of Finance, Budget and National Planning to make informed policy decisions and identify potential areas of coordination or conflict. Both the monetary and fiscal authorities should work together to enhance data collection and analysis through the development of data sharing portals that are equipped with data analytics capabilities. This will help to ensure that both institutions have access to the same information and can make informed policy decisions.

Establishment of a fiscal council: With increasing global uncertainties and shocks to commodity prices, there is need for responsible fiscal management, especially in commodity exporting countries such as Nigeria. The establishment of a Fiscal Council, comprising representatives from both the CBN and the Federal Ministry of Finance, Budget and Planning as well as independent experts represents a valuable tool for improving fiscal discipline in Nigeria; and it will help to promote greater coordination between monetary and fiscal policies. As is the practice in other countries with similar Fiscal Councils, the proposed Fiscal Council will be an independent advisory body that promotes fiscal transparency and accountability; long term fiscal planning; independent economic forecasts; and long-term economic stability. In addition, it will safeguard against political pressures in the management of fiscal policy. The Council will also be responsible for monitoring fiscal policy and ensuring that it is consistent with macroeconomic stability.

Adherence to fiscal rules: Fiscal rules ensure governments do not overspend or accumulate too much debt. However, these rules need to be compatible with monetary policy objectives. If fiscal rules are too strict, they may limit the ability of the central bank to implement monetary policy effectively. Therefore, fiscal rules must be flexible and allow adjustments consistent with monetary policy objectives. For instance, fiscal rules that limit government borrowing or deficits can help ensure fiscal policy is consistent with the goal of price stability. Therefore, to promote fiscal discipline and reduce the risks associated with excessive government spending, the government needs to comply with the provisions of the Fiscal Responsibility Act (FRA), which requires the government to maintain a balanced budget, limit the size of the budget deficit, and manage public debt. This will help prevent conflicts between monetary and fiscal policies and ensure that both policies work towards a common set of objectives.

Alignment of objectives and policy frameworks: Another measure to improve monetary-fiscal coordination is the alignment of objectives and policy frameworks to ensure that the policies do not work against each other. This involves ensuring that monetary and fiscal policies aim to achieve the same macroeconomic objectives and that their policy frameworks are mutually reinforcing. This entails coordinated policy actions, which involve using policy instruments in a complementary way to achieve the desired economic outcomes. For example, if monetary policy aims to achieve price stability, fiscal policy should also promote fiscal discipline and reduce inflationary pressures. Also, fiscal policy can support monetary policy objectives by providing additional stimulus to the economy, especially during periods of economic crisis. This helps to achieve efficiency in policy implementation. Monetary – fiscal coordination should also focus on long-term goals such as economic growth, full employment, and stable prices, while short-term objectives such as electoral gains should not be allowed to interfere with the effectiveness of policies.

Establishment of a Monetary Policy Framework Agreement: The agreement, which the CBN and the Federal Government will sign, will provide a platform for agreeing on and setting quantifiable targets for monetary policy in Nigeria. As has been practised in India, the main goal of the monetary policy framework agreement will be to achieve price stability while also promoting sustainable economic growth. The agreement will entail the monetary authority disseminating useful information regarding the sources and forecasts of inflation at regular intervals in a manner consistent with practices under an inflation-targeting framework. In cases where the set targets are missed, the monetary authority will be required to produce a report highlighting the reasons for such. Establishing the Monetary Policy Framework Agreement is believed to facilitate the adoption of rule-based monetary policy and improve coordination between monetary and fiscal policies in the country. icts between monetary and fiscal policies and ensure that both policies work towards a common set of objectives.

Revamping the Monetary Policy Forum: The CBN created the Monetary Policy Forum (MPF) in 2000 to provide enlightenment about monetary policy and allow for cross-fertilization of ideas between the CBN and relevant stakeholders. The forum provides an opportunity for the CBN to be more transparent in the conduct of monetary policy. This Brief recommends revamping the MPF by incorporating representatives of the Federal Ministry of Finance, Budget and Planning, academics, and private sector experts. Additionally, the MPF should be reconfigured to hold annual conferences that will bring together policymakers and leading scholars to discuss contemporary economic issues and articulate policy options.

Diversification of the economy: One of the main challenges facing the Nigerian economy is its dependence on oil revenues. This makes the economy vulnerable to fluctuations in oil prices and complicates the policy environment. To reduce this vulnerability, the government must intensify efforts to diversify the economy. Therefore, the current effort by the CBN towards boosting credit to the non-oil sectors of the economy should be sustained. This will help to reduce the reliance on oil revenues and provide a more stable source of revenue for the government.

Stregthening of the Soverign Wealth Fund: In countries such as Norway, Sovereign Wealth Funds have been used to manage oil revenues and reduce the impact of fluctuations in oil prices on government revenues. Thus, to mitigate the impact of fluctuations in oil prices on government revenues, the stabilization role of Nigeria's Sovereign Wealth Fund should be enhanced. The Fund should also be utilized effectively to finance public investments that can help to diversify the economy. This Brief calls for sustained political commitment towards a continuous increase in the Fund. It also calls for a more transparent management of the Fund to make it more effective and impactful.

Conclusion

Effective monetary-fiscal coordination is essential for achieving better policy transmission, macroeconomic stability, and sustainable economic growth. However, the achievement of monetary–fiscal alignment requires not only a coordinated effort between the monetary and fiscal authorities but also the implementation of complementary policy tools. To improve monetary–fiscal coordination in Nigeria, this Brief recommends improved communication and transparency around monetary and fiscal policies, improved data sharing and analysis, the establishment of a fiscal council, adherence to fiscal rules, alignment of objectives and policy frameworks, the establishment of a monetary policy framework agreement, revamping the Monetary Policy Forum, diversification of the economy, and strengthening of the country's Sovereign Wealth Fund.

It is believed that these measures will help overcome coordination challenges and ensure that monetary and fiscal policies are complementary and consistent with the broader set of economic objectives. These measures will also help ensure that policies are effectively and efficiently implemented, minimizing possible distrust among the relevant government agencies.

References

Afonso, A., Alves, J., & Balhote, R. (2019). Interactions between monetary and fiscal policies. Journal of Applied Economics, 22(1), 132-151.

Chen, X., Leeper, E. M., & Leith, C. (2022). Strategic interactions in US monetary and fiscal policies. Quantitative Economics, 13(2), 593-628.

Davig, T., & Leeper, E. M. (2011). Monetary–fiscal policy interactions and fiscal stimulus. European Economic Review, 55(2), 211-227.

Jha, A. K., & Jha, R. (2020). India's response to COVID-19 crisis. The Indian Economic Journal, 68(3), 341-351.

Leeper, E. M. (1991). Equilibria under 'active'and 'passive'monetary and fiscal policies. Journal of monetary Economics, 27(1), 129-147

Omotosho, B. S. (2022). Monetary and fiscal policy interactions in resource-rich emerging economies. Macroeconomics and Finance in Emerging Market Economies, 1-22

Wang, L. (2018). Monetary-fiscal policy interactions under asset purchase programs: Some comparative evidence. Economic Modelling, 73, 208-221.

Acknowledgement

The author would like to thank Dr. Afolabi Olowookere, NESG NRFP Non-Resident Faculty and Senior Fellow, for his helpful comments.

The author acknowledges the financial support of the NESG.

About the NESG

The NESG is an independent, non-partisan, non-sectarian organisation, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

About the NRFP

The NESG Non-Residential Fellowship Programme (NRFP) is a knowledge hub that bridges the gap between socio-economic research and public policy and promotes evidence-based policymaking in Nigeria. The programme brings together outstanding high-level intellectuals in academia, research-based institutions, the public sector and the private sector to collaborate, share ideas and ensure that findings from its research are applied in practice.

THE SUMMIT HOUSE
6, Oba Elegushi Street,
off Oba Adeyinka Oyekan Avenue,
Ikoyi, Lagos.
P.M.B 71347, Victoria Island, Lagos

ABUJA LIAISON OFFICE
4th Floor, Unity Bank Tower,
Beside Reinsurance Building
Plot 785, Herbert Macaulay Way,
Central Business District, Abuja.

www.nesgroup.org
research@nesgroup.org
+234-01-295 2849

officialNESG

NESG