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Monetary and Fiscal Policy Interactions and Limitations: The Need for Policy Coordination for Macroeconomic Outcomes in Nigeria

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ABSTRACT

Monetary authorities have increasingly focused on implementing policies to ensure price stability and strengthen central bank independence in both developed and developing economies. However, in developing countries (Nigeria inclusive), monetary `policy alone is ineffective in directing the economy towards the stated macroeconomic objectives of domestic output growth, price stability, high employment level, sustainable balance of payments equilibrium, equitable income distribution and poverty reduction. On the other hand, in the area of fiscal, market development has allowed public debt managers to focus more on cost minimization. This 'divorce' of monetary and debt management functions calls for the need for effective coordination of monetary and fiscal policy if overall economic performance is to be optimized and maintained in the long term. Therefore an appropriate combination of monetary and fiscal policy mix is crucial for macroeconomic management. This paper employs theoretical technique to analyze monetary and fiscal policy interactions in Nigeria. The paper also surveyed the limitations of both monetary and fiscal policies in a developing economy especially in Nigeria. It analyses the interaction between monetary and fiscal policies, stressing the need for policy coordination in the economy. The paper opines that effective coordination of monetary and fiscal policies without any loss of independence for the policy makers enhances the overall macroeconomic performance of monetary and fiscal policies in the economy.

Keywords: Monetary policy, Fiscal policy, Interaction, Limitation, Coordination

INTRODUCTION

Economic stability is a necessary condition for both developed and developing economies to achieve their desired macroeconomic goals. These goals may include achieving reasonable economic growth, low rate of inflation, decreasing unemployment rate, sustainable balance of payments equilibrium, maintaining the equality of development and increasing society's welfare. That is why economists globally have continued to canvass for a balance between monetary and fiscal policies. Many developing countries in their desire to achieve accelerated economic growth and sustainable development, adopt monetary and fiscal policies in order to regulate and modify the economic affairs of their countries to achieve some specified objectives. Nigeria since independence in 1960 has adopted a mix of both monetary and fiscal policies in order to regulate the economy. Since the adoption of the structural adjustment programme in 1986, monetary and fiscal policies have been accorded prominent role in the pursuit of macroeconomic stabilization in Nigeria. However the achievement of the set objectives, have been of mixed grill. The economy witnessed high price instability (high inflation rate) over the past decade and unemployment surged up with its attendant high level of poverty (Goshit, 2014). High balance of payments deficit was also recorded in the economy with a volatile exchange rate which characterizes the naira exchange rate over the past three decades. The employment of these policies in Nigeria over the time has not significantly improved the performance of the banking and financial sectors of the economy either. The unstable and stunted growth of the banking and financial sectors is adduced to be responsible for the unimpressive performance of both monetary and fiscal policies in Nigeria (Goshit, 2014). However, many economists and policy makers have devoted a lot of time in trying to find out whether monetary or fiscal policy is more appropriate or effective in economic stabilization. This has made both academicians and policy makers to pitch camps either with the Keynesians or the Monetarists on this subject to prove that monetary or fiscal policy is more effective in influencing economic activities in a particular economy. These investigations have yielded different results at different times depending on the various instruments of monetary and fiscal policy used, and the method employed in the analysis.

However, irrespective of the findings of these various investigations, one striking outcome that is common to all is that whether monetary or fiscal policy is more effective in a particular economy at a time, each of these policies has its own limitations and there is always need for the employment

of appropriate combination or mix of these policies to be more effective in achieving the macroeconomic objectives of an economy. The issues of monetary and fiscal policy interaction and coordination have not been given adequate attention by researchers and policy makers in Nigeria.

Therefore, the motivation of this study is derived from various studies on the Nigerian economy that have found diverse and, at times, contradictory empirical evidence on which direction should policy makers take and magnitude of the effects of some variables on inflation and aggregate output. These findings have, at times, led to conflicting discussions on the direction of economic policy, which creates difficulties for policy makers in choosing an appropriate policy mix that will enable faster growth of output in the economy and lower inflation. Harmony between monetary and fiscal policy variables is necessary so they do not contradict one another.

Therefore, an examination of the monetary and fiscal policy interactions is essential for a country like Nigeria, where governments' fiscal deficits as a ratio of GDP have largely been significant averaging around 3.89% and government's debt as a proportion of GDP has fluctuated between 9% and 41% from 1970 to 2008 (Chuku 2010). Hence, the thesis of this paper is that coordination of the monetary and fiscal policies in the economy would enhance the achievement of macroeconomic goals of price stability, output growth, high level of employment and a sustainable balance of payment equilibrium in Nigeria. Therefore, the major objectives of this paper are to:

i. Examine theoretically the nature of interaction between monetary and fiscal policy in Nigeria
ii. Examine the limitations of both monetary and fiscal policies in Nigeria; and
iii. Provide the need for policy coordination for macroeconomic outcome in Nigeria.

To achieve these objectives, this paper has been structured into six sections with the introduction as section. Section two is the literature review which deals with theoretical and conceptual issues in monetary and fiscal policies in Nigeria. Section three examines monetary and fiscal policy interactions in Nigeria. Section four surveys the limitations of both monetary and fiscal policies in Nigeria. Section five discusses the need to coordinate monetary and fiscal policies to achieve maximum policy outcomes in Nigeria. Section six concludes the paper.

Theoretical and Conceptual Issues in Monetary and Fiscal Policies in Nigeria

Monetary policy can be defined as that part of economic policy which regulates the level of money or liquidity in the economy in order to achieve some desired policy objectives, such as the control of inflation. It involves measures to regulate and control the volume, cost, availability and direction of money and credit to achieve some specified macroeconomic policy objectives (Goshit, 2014). It uses specific instruments like the open market operation (OMO), interest rate, special Bank Reserve Ratios, special Directive and Moral suasion. Basically monetary policy works on two principal economic variables: the aggregate supply of money in circulation and the level of interest rates (Todaro and Smith, 2011). The ability of developed economies to expand and contract their money supply and raise and lower the costs of borrowing in the private sector (through direct and indirect manipulation of interest rate) is made possible by the existence of highly organized economically interdependent, and efficiently functioning money and credit markets (Goshit, 2014).

The instruments of monetary policy are classified into Quantitative or indirect and Qualitative or direct instruments. They affect the level of aggregate demand through money supply, cost of credit and availability of credit. Of the two types, the first includes bank rate variations, open market operations (OMO) and changing reserve requirements. These regulate the overall level of credit controls aimed at controlling specific types of credit. When there is inflationary pressure in the economy, the Central Bank of Nigeria raises the bank rate and borrowing through the CBN becomes costly. Banks react by raising their own lending rates. The business community also borrows less. This leads to contraction of credits and this checks inflationary pressure. If there is depressional pressure, the CBN reduces the bank lending rate and this stimulates the borrowing rate in the economy and increases aggregate demand.

OMO works through the sale and purchase of securities in the open market by the monetary authority (the CBN). When prices are rising, to control prices, CBN sells securities and this curtails the amount of money in circulation and vice versa. The monetary authority also uses reserve ratios to control the economy and the business activities. When there is inflationary pressure, the CBN raises the reserve ratio and this reduces the rate at which money is given out as credit.

The monetary authority also uses selective credit control to control the economy. This restricts credits to productive activities and reduces credits

available for speculative activities. This may involves raising the proportion of loans for productive activities and reducing the proportion of loans for less productive activities.

However, in the developing countries monetary policy alone is ineffective in directing the economy towards the stated national objectives; fiscal policy can be used to supplement in accelerating the rate of capital formation and Promote economic stability in the face of international instability. Fiscal policy refers to that part of government policy concerning the raising of revenue through taxation and other means and deciding on the level of and pattern of expenditure for the purpose of influencing economic activities or attaining some desirable macroeconomic goals (Chukuka, 2013). It refers to the deliberate use of government spending (Expenditure) and taxes (revenue) to achieve macroeconomic growth. Put in another way, it describes the combinations of measures in government revenue and expenditure to achieve overall economic objectives of a nation. Fiscal policy works through both aggregate demand and aggregate supply channels using the instrument of revenue and expenditure, deficit financing and determining fiscal transfers from higher to lower levels of government.

Hughes (2008) identifies the instruments of fiscal policy as variation in government expenditure and taxation. He posits that government raises its expenditure if the economy is undergoing a depression and reduces its taxation to stimulate the level of aggregate demand. All these have the tendency to stimulate demand and counteract depressionary pressure in the economy. If the economy is experiencing inflationary pressure, the government reduces expenditure and or increases taxes. These have the effect of reducing the level of aggregate demand. The impact of all these is to curtail inflation on the economy and stabilize prices and the level of economic activities.

Hughes (2008) posits that fiscal policy plays a leading role in the development process of a developing country. It plays a significant role in capital formation of a developing country. Per capita income and saving are extremely low in developing countries. The few rich people are indulged in conspicuous consumption and a considerable amount of saving is dissipated in unproductive demand (in real estates, Jewellery, gold, speculation, hoarding, etc). Fiscal policy should help in diverting all these unproductive demands into productive activity. Jinghan (2006) also argued that fiscal policy can also ensure socially optimal investment. This optimal investment relates to investment in social and economic overheads. Investment in transport, communication, river and power development and soil conservation are regarded as economic overheads while investment in

education, public health and technical development come under social overheads. The investment in these two categories of investment tends to widen the market, improve productivity of capital and encourages private investment. Social overheads expenditure raises the productivity of capital and encourages private investment. Private investments are important in the course of economic growth.

Fiscal policy plays a crucial role in maintaining economic stability in the face of external and internal forces. In order to minimize the effects of international cyclical fluctuations during a boom, exports and import duties should be levied. Export duties can siphoned off the windfall gains arising from boom. Heavy import duties on consumer goods and luxury import restriction are essential to curb the use of additional purchasing power. Fiscal policy can be used to reduce inflationary in a developing economy. In developing countries, there is always an imbalance between the supply and demand for real resources. While there is always increasing injection of purchasing power in the economy, the demand rises but supply remain relatively inelastic due to structural rigidities, market imperfection and bottlenecks which impede the supply of essential goods.

An empirical review of Monetary and Fiscal Policy Interactions

Literature abounds on the relative effectiveness of monetary and fiscal policies in developed and developing countries of the world. The relative impact of monetary and fiscal has been studied extensively in many literatures. Friedman and Meiselman (1963), Ansari (1996), Reynolds (2000), Chari et al (1991), Schmitt-Grohe and Uribe (2001), Shapiro and Watson (1988), Clarida and Gali (1994), Chari and Kehoe (1998), Chowdhury (1998), Weeks (199), Howdhury et al (1986), Feldstein (2002) and Cardia (1991) have examined the impact of fiscal and monetary policies on various aggregates.

However, the bulk of theoretical and empirical research has not reached a conclusion concerning the relative power of fiscal and monetary policy to affect economic growth. Some research have found for the monetarist view, which suggests that monetary policy generally has a greater impact on economic growth and dominates fiscal policy in terms of its impact on investment and growth (Ajayi, 1974; Elliot, 1975; Batten and Haifer, 1983), while others argued that fiscal policy stimulant are crucial for economic growth (Chowdhury, et al, 1986; Olaloye and Ikhide, 1995). However, Cardia (1991) found that monetary and fiscal policy plays only a small role in varying investment, consumption and output.

Anderson and Jordan (1968) tested empirically the relationships between the measures of fiscal and monetary actions and found out that the influence of fiscal action on economic activity occurred faster than that of monetary action. Ajayi (1974) emphasized that in developing economy in which Nigeria is a typical example, the emphases is always on fiscal policy rather than monetary policy. In his work, he found that monetary policy influences are much larger and more predictable than fiscal influences. In essence, he advocated that greater reliance should be placed on monetary actions. Chowdury (1986) in his study of monetary and fiscal impacts on economic activity of Bangladesh was also of the opinion that fiscal rather than monetary action had greater influence on economic activity. Chuku (2010) in his study of monetary and fiscal policy interaction in Nigeria observed the existence of fiscal dominance in the interaction between monetary and fiscal policy in Nigeria. The response of central banks and governments around the globe has focused the interest of researchers on the topic of the mutual interactions between monetary and fiscal policy and the impact on the economy. The goods/money markets (IS/LM model) is one of the models used to depict the effect of policy interactions on aggregate output and interest rates. The fiscal policy has a direct impact on the goods market and the monetary policy has a direct impact on the asset markets; since the two markets are connected to each other via the two macrovariables output and interest rates, the policies interact while influencing output and interest rates. For instance, expansionary monetary policy implies buying securities through the open market, lowering the bank reserve, the liquidity ratio and interest rates which will enhance productivity in the economy. So also, for fiscal policy to enhance productivity, in the same economy, fiscal policy must take the tune of expansionary measures too. But this will be through increase in government spending and tax cuts. This therefore implies that expansionary monetary policy goes with expansionary fiscal policy (increase in government spending and tax cuts) in an economy to achieve increase in output while restrictive monetary measure works with restrictive fiscal policy (reduction in government spending and increase in taxes) to reduce inflation rate in the economy. In this sense, the policies are said to be complementary (Goshit, 2014).

Many economists of recent have been concerned about the interaction between monetary and fiscal policies and understanding how their dependence, independence and interdependencies could lead the economy closer or further away from set goals and targets. The sphere of interaction between monetary and fiscal policies relates to the financing of the budget deficit and monetary management. Government can finance

budget deficit through borrowing and monetary authorities uses monetary measures to influence the cost of borrowing (increase or reduce the cost of borrowing) in the economy. That is, it is through monetary policy management that budget deficits are financed. Therefore debt servicing is influenced by monetary policy in the economy. In this sense, monetary policy is used as a substitute for fiscal policy in the economy. The particular stance of monetary policy affects the capacity of the government to finance the budget deficit by changing the cost of debt service by limiting the available sources of financing. At the same time, the financing needs of the government and its funding strategy will place constraints on the operational independence of the monetary authority.

Monetary and fiscal policy interactions are just one example of where the interactions between the impacts of policies can change the outcomes from what one might expect from an analysis of the individual policies one by one. There is controversy regarding whether these two policies are complementary or act as substitutes to each other for achieving macroeconomic goals. Policy makers are viewed to interact as strategic substitutes when one policy maker's expansionary (contractionary) policies are countered by another policy maker's contractionary (expansionary) policies. For example: if the fiscal authority raises taxes or cuts spending, then the monetary authority reacts to it by lowering the policy rates and vice versa. If they behave as strategic complements,then an expansionary (contractionary) policy of one authority is met by expansionary (contractionary) policies of other. The issue of interaction and the policies being complement or substitute to each other arises only when the authorities are independent of each other. But when, the goals of one authority is made subservient to that of others, then the dominant authority solely dominates the policy making and no interaction worthy of analysis would arise. Also, it is worthy to note that fiscal and monetary policies interact only to the extent of influencing the final objective. So long as the objective of one policy is not influenced by the other, there is no direct interaction between them.

A Survey of the Limitations of Monetary and Fiscal Policies in Nigeria

Every policy, like every medicine, has its own limitation, so also does monetary and fiscal policies. A number of factors have been identified as constituting clogs in the efficacy of monetary policy in Nigeria. These factors include:

Non-monetized rural sector

There is a large non-monetized sector which hinders the success of monetary policy in the less developed Countries like Nigeria. The existence of large non-monetized sector of the economy which holds significant amount of money outside the banking system limits the effectiveness of monetary policy implementation in Nigeria. Most people live in rural areas where there are no banks. Consequently monetary policy fails to influence this kind of people.

Underdeveloped capital and money markets

The undeveloped nature of the money and capital markets, such that the ratio of population per bank is very high and the capital market is too thin, or in some cases non-existence to provide avenue for investment is a major constraint to the monetary policy implementation in Nigeria. The money market in Nigeria lacks bills, stocks and share capitals. The market is still narrow in its depth and breadth of financial investments. All these limit the implementation of monetary policy.

Over dominance of foreign banks

The over dominance of foreign banks also limits the effectiveness of implementation of monetary policy. Existence of large number of foreign own commercial banks which can receive funds from abroad and thus frustrate restrictive monetary policy purses a serious challenge to the implementation of monetary policy in Nigeria. A good number of banks are dominated by foreign participation. Thus when the monetary authority is pursuing restrictive monetary policy, they import their cash and use them in the country. This also has the impact of reducing the effectiveness of monetary policy.

Large quantity of money outside the banking system

Currency constitutes a large proportion of the money supply in the economy, because most transactions are carried out on cash-and-carry basis. The money owned by banks collectively constitutes a small percentage of cash in circulation. Since this cash funds are small in relationship to the total cash available in the economy, this limits the effectiveness of monetary policy.

The presence of new financial intermediaries which are outside the control of the Central Bank of Nigeria

Monetary management is effectively and efficiently carried out through the banking institutions with the central banks as the apex bank. The

effectiveness of the policy instruments also depends on the level of control the central bank has over other banks in the economy. However, the establishment of a lot of financial houses that are outside the control of the Central Bank of Nigeria have posed a lot of challenges to the effectiveness of monetary policy in Nigeria. The so called "wander banks" in Nigeria possesses some large amounts at their disposal that the CBN has no control over. This limits the effectiveness of monetary policy in the system.

Poor banking habits in the Country

Most of the people in Nigeria are poor and do not have savings. They live from hand to mouth. The rich people in Nigeria do not deposit money in banks but in buying jewelleries, gold, real estate, speculation, in conspicuous consumption, etc. Such activities contribute to inflationary pressure and are outside the control of the monetary authority. The large quantity of money outside the control of the monetary authorities limits to a large extent, the effectiveness of monetary policy in Nigeria.

The limitation of monetary policy has been attributed to fiscal dominance and Oligopolistic Banking system in Nigeria. The fiscal expansion and concomitant large fiscal deficits have militated against the efficacy of monetary policy. The lack of fiscal control at the different tiers of government inhibits effective monetary policy. The accommodation of the financial requests of government is a major problem. Besides, few banks control the liquidity of the banking system. These banks have influence as they dictate the rate of interest in the market regardless of the CBN's policy (Ajayi and Ojo, 2006).

The existence of large informal sector has great implication for the transmission mechanism of monetary policy in Nigeria also. Insufficient payment system is another source of limitation of the monetary policy in Nigeria. The payment system is the link between the financial and real sector. The preferred method of payment in Nigeria is cash. In Nigeria the payment system is weak and this affects the transmission mechanism of monetary policy. On the other hand, fiscal policy can be a powerful tool for influencing the economy, but it is limited by some factors in Nigeria. The limitations of the fiscal policy in Nigeria are identified and discussed as follows:

Time Lag

Lag time is the time it takes to implement fiscal policy. For example, governments around the world announced several fiscal and monetary policy initiatives to deal with the 2008 financial crisis. Central banks, including the CBN, implemented the monetary policies very quickly, including cutting

interest rates and increasing the money supply. Monetary policy changes affect the economy faster because financial institutions generally match CBN Reserve rate cuts immediately. However, fiscal policy measures, such as income tax cuts and stimulus spending, usually require changes to existing legislation or the creation of new legislation. Economic circumstances might be quite different by the time legislation goes through the committee process and enacted into law. If the government plans to increase spending, this can take a long time to filter into the economy and it may be too late. Spending plans are only set once a year. There is also a delay in implementing any changes to spending patterns.

Limited Discretion

Fiscal policy makers often have limited discretion because a significant portion of the budget is reserved for non-discretionary spending, such as Social Security and Medicare. This limitation becomes more severe when governments run large budgetary deficits and the resulting debt servicing costs limit policy-making flexibility. Deficit spending also worsens the long-time fiscal position because rising interest rates increase debt servicing costs and put pressure on lawmakers to reduce rather than increase spending. Electoral realities may also limit budgetary discretion because short-term spending measures to improve electoral prospects take precedence over prudent long-term fiscal planning.

Poor Information

Fiscal policy will suffer if the government has poor information. E.g. If the government believes there is going to be a recession, they will increase aggregate demand, however if this forecast was wrong and the economy grew too fast, the government action would cause inflation. Policy makers also require accurate forecasts of the impact of various fiscal policy alternatives. However, economic forecasting is not an exact science, which makes long-range budgetary projections inherently unreliable.

Crowding-Out Effect

Fiscal policy could have a crowding-out effect. This occurs when government borrowing hampers private sector borrowing. Investors are more likely to buy low-risk government bonds than riskier corporate bonds. This makes it more difficult and potentially more expensive in the form of higher interest rates for the private sector to raise funds for business expansion and job creation. Crowding out occurs when increased government spending results in decreasing the size of the private sector. For example if

the government increase spending it will have to increase taxes or sell bonds and borrow money, both method reduce private consumption or investment. If this occurs aggregate demand will not increase or increase only very slowly.

The need to coordinate Monetary and Fiscal Policies in Nigeria

In a poorly coordinated macroeconomic environment, fiscal policies might affect the chances of success of monetary policy in various ways, such as: its eroding impact on the general confidence and efficacy of monetary policy, through its short run effects on aggregate demand, and by long term conditions for economic growth and low inflation. On the other hand, monetary policy may be accommodative or counteractive to fiscal policies, depending on the prevailing political and economic paradigms. Therefore there is the need to properly coordinate monetary and fiscal policies in Nigeria to be able to achieve stated macroeconomic objectives in the economy. This section of the paper provides the argument for the need for policy coordination in Nigeria. The arguments for the need for monetary and fiscal policies coordination in Nigeria are provided as follows:

Achievement of stated macroeconomic objectives in an efficient manner

The effective implementation of monetary and fiscal policies thus requires extensive coordination between the respective authorities. Effective coordination makes it easier for policy makers to achieve their stated policy objective in an efficient manner. It also ensures the commitment of decision makers responsible for these two policy areas to mutually agreed objectives, thus helping to eliminate the problem of time inconsistency in the design of monetary policy. Within this general framework, coordination can take the form of ongoing contacts between the monetary and fiscal authorities to decide jointly on aspects relating to policy design and implementation, or alternatively, coordination could be based on a set of rules and procedures which minimizes the need for frequent interaction, the particular characteristics of any given country and its degree of institutional development will determine the most efficient choice.

Minimizes inferior overall economic Performance

Lack of coordination between the monetary and fiscal authorities will result in inferior overall economic performance. The consequence of poor

coordination of monetary and fiscal policies will be increased instability and inferior performance as each policy maker struggles to overcome the spillovers from deviations made by others while trying to get the best for his own targets within the given period. The result is larger deviations from targets, more time spent away from target and slower return to target. A weak policy stance in one policy area burdens the other area and is unsustainable in the long term. For example, lax fiscal policy will put pressure to tighten monetary policy, even if the latter cannot fully compensate for fiscal imbalances. Moreover, the lack of credibility of the overall policy framework caused by the long term inconsistency of such a policy mix will diminish the effectiveness of monetary policy.

Policy Sustainability

Efficient coordination of monetary and fiscal policies needs to take into account at the outset need for policy sustainability. A necessary condition for the efficient coordination of monetary and fiscal policies that each policy be on a sustainable course. Even if decision makers closely coordinate their policies, coordination cannot succeed if the intended medium course of one or both policies is unsustainable.

Establishment and development of a Domestic Capital Market

The establishment and development of the domestic capital market require an even greater degree of monetary and fiscal policy coordination. The domestic financial market provides the least distortionary source of financing for the fiscal deficit, while the need to pay market-determined debt service costs acts as a deterrent to large fiscal deficits. At the same time, these markets allow the central bank to conduct monetary policy more efficiently through the use of indirect (market-based) policy instruments. Finally, domestic financial markets imposed discipline on the monetary and fiscal authorities given their responsibilities in ensuring a stable financial environment that would be conducive to maintaining orderly and efficient conditions in such markets.

Enhances success in structural and liberalization of financial sector

The need for policy coordination also arises in the case of structural reform and liberalization of the financial sector. Such reform can only proceed within the framework of a supportive fiscal policy that provides macroeconomic stability, fiscal discipline, and avoidance of taxes that

discriminate against financial activity. If high fiscal deficit persist while the authorities are undertaking the reform of the financial sector, interest rates could reach very high levels or, if interest rates are kept at artificially low levels, either inflation would surge or the demand for credit and distortions in resource allocation would grow significantly. In either case, the financial reform programme more than likely will be unsuccessful. The presence of government payment arrears and the way they are dealt with also will impact strongly on the chances for success of financial sector reform.

Policy coordination needs to be undertaken at two different levels. First, there is a need to address the constraints that arise in the short term regarding the operating procedures of monetary and fiscal policies. Second, policy coordination also has to deal with the long term macroeconomic effects that could arise from an unbalance policy mix. In the short term, policy coordination is meant to ensure the attainment of orderly financial conditions including price stability. The main areas where attention should be focus are monetary policy and public debt management in the long term, the policy coordination problem rest on how to design a balance monetary and fiscal policy mix that is conducive to maintaining the economy on its equilibrium growth path – controlling inflation and promoting financial conditions for sustainable growth. This implies limiting the fiscal deficit to a level that can be financed through the operation of the capital market without creating distortions in the allocation of resources in the economy, without having recourse to direct monetary financing from the central bank, and without relying on an excessive level of external borrowing.

The joint determination of objectives and policies by the monetary and fiscal authorities is a fundamental requirement for efficient policy coordination. A situation where the different policies are made consistent with each other by the passive reaction in one policy area to the commanding position in the other policy area would not achieve the objective of maximizing the effect of policies. For example, setting a very restrictive monetary policy to offset a lax fiscal policy may crowd out private investment and significantly increase the borrowing cost for the government.

CONCLUSION

Monetary and fiscal policies are two major economic policies that Nigeria has kept using since independence and either of these policies has proved to be adequate and sufficient in achieving macroeconomic goals of price

stability, output growth, full employment, balance of payment equilibrium, poverty reduction and equality in income distribution. By implication both monetary and fiscal policies have their limitations in the Nigeria's economy. There is controversy regarding whether these two policies are complementary or act as substitutes to each other for achieving macroeconomic goals. However, whether they are complementary or substitutes, there is need for effective coordination of the policies to achieve these macroeconomic goals in Nigeria.

Consequently, economic stability is a necessary condition for any sustainable growth and development of an economy, which is the main reason behind most economists, world over demanding for a greater coordination and balance between monetary and fiscal policies. It is absolutely necessary to foster a close degree of coordination of objectives and goals among decision makers in the area of monetary and fiscal policies. Considering the experience of Fiscal dominance in developing countries in Africa, and Nigeria in particular, coordination among decision makers of the federal, state and local government levels is imperative. The efficient pursuit of the objectives of the authorities' overall macroeconomic policy framework requires a close degree of coordination of financial policies.

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