MACROECONOMIC POLICY AND OUTPUT PERFORMANCE IN NIGERIA: A PANACEA FOR MACROECONOMIC STABILITY

[1]ADEBAYO .S. ADEDOKUN, [2]REGINALD EZEH

[1]Department of Economics, University of Lagos, Lagos,Nigeria.
[2]Data Scientist and Adjunct, Alfred Lerner School of Business and Economics,
University of Delaware, United States of America
Email: [1]brobayunilag@gmail.com, [2]reginaldezeh@msn.com

Abstract - Robust evidences exist that support the role of macroeconomic policy in stability of the economy. However, little known on the channels through which macroeconomic policy enhances output performance. This current study wasset to investigate the macroeconomic policy and output performance as a panacea for macroeconomic stability of Nigeria.The study identified three sub-divisions of macroeconomic policy; fiscal, monetary and trade policy and built an integrated model comprising of variables representing each of these classifications. The study relied on secondary data on GDP, inflation rate, exchange rate, government expenditure, trade openness and interest rate spanning between 1981 and 2016. The method of analysis involved the error correction technique. The results inter-alia,revealed thatmonetary policy, essentially the inflation rate, had a negative impact on Gross Domestic Product and thus, as inflation rate increased; the impact of it decimated the growth of output.The effect of interest rate also remained positive on output performance while spending were not directed at the productive sectors of the economy.

Keywords - Growth, Macroeconomic Policy, Nigeria, Output

I. INTRODUCTION

There are several unsettled questions about the effectiveness of macroeconomic policy in achieving macroeconomic objectives; particularly its role as a catalyst for output growth and performance. To this end,there exist scores of evidences that support the traditional function of macroeconomic policy in stabilizing the economy.However, little is known on the channel through which its influences the growth of output particularly in developing countries. The growth of output is important to the achievement of other macroeconomic objectives; high level of employment, stable prices and reduction in income polarization between the various income groups in the economy all depends on the performance of output in the economy. If the gap between a country's potential and actual output is insignificant, then these objectives can be achieved.

Macroeconomic policy can be divided into those, which affect the size and composition of aggregate demand (demand management policies) as well as aggregate supply (supply-side policies)[1].Therefore, these policies maybe viewed as instruments of short to medium term adjustment and stabilization, as well as instrument of long-term growth and development. The demand and supply side policies can be viewed from the lens of macroeconomic policy; fiscal policy which comprises taxation, government expenditure, borrowing and budgeting, monetary policy which is made up of money supply, domestic credit, interest rate policy, inflation rate policy and other monetary instruments and markets. The third component being the trade policy, includestariff policy, trade agreements; be it bilateral or multilateral, exchange rate policy, capital movement and external financial obligations, trade related intellectual property (TRIP

Monetary policy, though a fragmented part of macroeconomic policy, has been given a fair treatment in literature, particularly, tracing its transmission mechanism on output and macroeconomic prices [2]-[9].

II. LITERATURE REVIEW

2.1. Meaning of Macro-economic Policies

Macroeconomics has been definedas the "study of aggregates or averages covering the entire economy, such as total employment, unemployment, national income, national output, total investment, total consumption, total savings, aggregate supply, aggregate demand, and general price level, wage level, interest rates and cost structure" [10].

Macro-economic policies may also be construed to mean"those policies of Government aimed at the aggregate economy, usually, to promote the macro goals of full employment, stability, and growth."[11]

"The pursuit of an inappropriate domestic policy, such as excessive monetary or fiscal expansion will lead to downward pressure on the exchange rate, which will force intervention in the exchange market and a fall in the reserves."[12]

The monetary policy is the use of interest rate, money supply and exchange rates to influence the level of aggregate demand. In practice, the belief is that, "if the supply of money is increased faster than the growth of aggregate goods and services, inflationary pressure ensues"[13]-[14] As open market economic system has prevailed in virtually every economy as the result of globalization of trade,most developing countries considered 'transitory' between developing and developed country status. They partially shield

trade practices in order to protect their local industries. For instance, it has been observed that Emerging Market Economies (EMEs) like Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Hong Kong, Hungary, India, Indonesia, Israel, Malaysia, Pakistan, Peru, the Philippines, Poland, Russia, Singapore, South Africa, South Korea, Thailand, Turkey, and Venezuela partially support free trade policies [15]- [18].

2.2. MACRO-ECONOMIC POLICY: MONETARIST VERSUS KEYNESIAN VIEWS

The nature of relationships underlying aggregate economic activity in a market economy has provoked opposing viewpoints of the Keynesians against the Monetarists in the application macroeconomic policies and their effect on output performance. It has been argued by monetarists that macro policy should be primarily based on changes in the supply of money, which is monetary policy, while the Keynesians strongly support the use of fiscal policy to stabilize the economy [19].

In the Keynesian theory, employment depends upon effective demand, effective demand results in output, output creates income and income provides employment [20]. Thus, it may be assumedthat all these four quantities: effective demand, output, income and employment are equal to each other. Effective demand is determined by aggregate supply function and aggregate demand function.

The Keynesians believe in the efficacy of fiscal policy- in the power of the government to influence the level of national income by its own spending and taxing policies. The government spends more or induces private spending by taxing less and therefore, creates additional demand and private spending, creating even more income, which the adherents of Keynesianism refer to as the "income-expenditure chain". However, the monetarists claim that "income-expenditure chain" is too weak or unpredictable to be of much use for economic policy [21]. The hearts of the monetarist's view is the supply of and demand for money- a dramatic shift from the Keynesian's pivot point or emphasis on demand for goods. The monetarists express the view that money is extremely important in macroeconomics, in Friedman's own words, ".... money is all that matters for changes in nominal income and for short-run changes in real income" [22]. In the monetarist's view, supposed certain quantity of money is required to support any particular level of income; when national economic activity (as measured by income) rises, more money is required to carry on conveniently day-to-day transactions; when economic activity declines, households and businesses, realizing that they engage in fewer transactions, and thus, need less money. This is referred to as the "desired relative money balances."The key that allows the monetary policy to work is the constancy in the "desired relative money balances". In order to achieve equilibrium, annual national income will always adjust so that it is ten times the stock of money. If the stock of money could be controlled, it implies that the national income could also be controlled.

It's observable that pre and post independent economic management of Nigeria was based on Keynesian arguments, whichwere the active government involvement in the economy [23].It was further stressed that the incursion of the Keynesian economic thinking in the 1930s has caused many less developed countries including Nigeria to adopt the Keynesian's economic ideas of public sector involvement in economic growth programmes [24].
The model for the study stated in functional form as follows:

$$GDP = f(M2, Inf, Intrate_t, TO, GE, EXR) \ldots\ldots\ldots\ldots \quad eqn1$$

In equation form, the model becomes:

$$GDP = a_0 + a_1 M2 + a_2 Inf + a_3 Int + a_4 OP + a_5 GE + a_6 ExR + U_t \ldots\ldots \quad eqn2$$

Where:

GDP is the gross domestic product, a measure of output performance in the economy.

$M2$ is the Broad Money supply
Inf is the inflation rate
$Intrate$ is the interest rate
TO is trade openness
GE is government expenditure
EXR is exchange rate
U_t is the error term.

Eqn 2 is estimated in order to get the parameter estimates a_1 a$_1$to a_6, while a_0 is the intercept term of the regression equation.

The category of variables is the macroeconomic indicator, a measure of output performance, the gross domestic product; GDPused here to capture output performance in the economy. The data sourced from Central Bank of Nigeria (CBN) Statistical Bulletin (Various years) and the period of the study spans between 1981 and 2015.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004468	0.013561	0.329477	0.7445
Δ(LOG(GE)	-0.039123	0.027104	-1.443466	0.1613
Δ (INF)	-0.000939	0.000387	-2.429402	0.0226
Δ (INTRATE)	0.001743	0.001308	1.332692	0.1947
Δ (LOG(M2)	0.101297	0.054965	1.842957	0.0772
Δ (TO)	0.086139	0.152392	0.565247	0.5769
Δ (EXR)	7.49E-05	0.000316	0.236759	0.8148
Δ $(LOG(GDP)_{t-1}$	0.492778	0.128372	3.838678	0.0007
ECM_{t-1}	-0.350892	0.085465	-4.105681	0.0004

R-squared	0.632535
Adjusted R-squared	0.514947
F-statistic	5.379222
Prob(F-statistic)	0.000536
Durbin-Watson stat	2.084426

Table 4.1: Regression Result
Technique: Error Correction Model
Dependent Variable: Gross Domestic Product (GDP)

Source: Author's Estimation, 2018

Table 4.1 show that about 63.3% of variations in Gross Domestic Product is explained by government expenditure, inflation rate, interest rate, broad money supply, trade openness and exchange rate;also, the result shows that there is no presence of autocorrelation of first order as the Durbin-Watson statistic is approximately 2. The result further reveals that the explanatory variables well explain the dependent variable as the f-test is statistically significant.

The result shows that for monetary policy essentially the inflation rate has a negative impact on Gross Domestic Product and as such, as inflation rate increases, the impact of it decimate the growth of output, the effect of interest rate however remains positive on output performance. This position can be said of money supply, expansionary money supply through increase in M2 or arbitrary altering the position of M2 by increasing high power money promotes steady growth in output performance.

The effects of trade policy; exchange rate and trade openness is positive on output growth, the support extensive literature that acknowledge the positive effects of trade on economic growth, an effective trade regime will ensure stability in exchange rate and increase trade participation of a country through unilateral and multilateral trade agreements. we further examine the effect of fiscal policy on economic growth and we can conclude that government expenditure does not positively affect economic growth, this might largely due to the fact that a larger proportion of government spending are not directed to the productive sectors of the economy; a situation in which recurrent expenditure is higher than capital expenditure in most of the years of the study.

III. SUMMARY, CONCLUSION AND RECOMMENDATIONS

The importance of sound macroeconomic policy environment cannot be overemphasized. The results of this study lend credence to the fact that variations in the level of output is primarily explained by movements in the macroeconomic policy variable such as the broad money supply, Growth Expenditure, Interest rate and trade openness.

The study also show that inflations increase the general price level including the price offactors,since producers who may not have the strength and resilience to continue production may have to shut down their production facilities, thereby affecting output adversely.

Increase in interest rate promote output perfectly the of attracting more capital inflow. Into productive sector this attracts both green horn and brown FDI into various sectors of the economy thereby increasing the level of output in the economy. Macroeconomic policy therefore explains movement in output significantly.

The concluding remarks are as follows:
First, the potential explanatory part of Macroeconomic policy in explainin variations in level of output is not in doubt.

Second, monetary policy in particular, through the channels of monetization of the economy through expansion in broad money supply has been impactful following several reforms introduced by CBN in managing the health of money in the Nigerian economy.

Third, it is imperative to cringe trade expansion particularly in non-oil sector of the economy, there is need to increase Nigerian exportable products, this will increase the degree of openness and interfolded the benefits associated with trade. Exchange rate management should be tightened and better method of managing the exchange rate by reducing oil importation will give a better result than insensate foreignexchangeintervention, that come at a very high cost to the country. There is need to fix the refineries and refine crude oil locally to reduce Nigeria Import bills, save foreign exchange and invest the same to productive exportable commodities that will lead to exchange rate stability.

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