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Research Article

Impact of Fiscal and Monetary Policies to Mitigate the Effect of Inflation in Nigerian Economy

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Abstract

Inflation has become topical issues in Nigeria now. However, the Central Bank of Nigeria (CBN) has attempted to combat it through a variety of policy tools, including monetary policy. Therefore, the impact of monetary policy on Nigeria's inflation control is the main emphasis of this study. The investigation used the Error Correction model (ECM) estimation, Johansen's co-integration test, and the Augmented Dickey Fuller test. The exchange rate, inflation rate, money supply (as a percentage of GDP), Treasury bill rate, and monetary policy rate are among the factors. The study's conclusions demonstrated that monetary policy had no discernible short- or long-term effects on Nigeria's ability to manage inflation. In the short and long terms, Nigeria's money supply has a detrimental and negligible effect on the country's ability to control inflation. Once more, both in the short and long term, the exchange rate has a detrimental and negligible impact on Nigeria's ability to control inflation. In the near term, the Treasury bill rate has a negative but large impact on Nigeria's ability to manage inflation; in the long term, however, it has a positive but negligible impact. The study recommends that the government implement monetary policies that create a favorable environment through appropriate monetary policy rates and exchange rates. This approach aims to attract both domestic and foreign investment, thereby generating employment opportunities for the Nigerian population and facilitating industrial expansion in the country.

Keywords: *exchange rate, inflation rate, money supply, monetary policy rate.*

1. Introduction

Maintaining a stable level of domestic prices is unquestionably one of the macroeconomic objectives that the government works to accomplish (Sugema & Bakhtiar, 2010). In the event of price instability, this objective is sought in order to prevent the costs of inflation or deflation and the ensuing uncertainty (Salam et al., 2006). However, the failure of policymakers to identify the nature and predictors of inflation has prevented them from maintaining inflation at desirable rates in the majority of developing economies. Because the issue was misdiagnosed, policy prescriptions that were given as an antidote were unsuccessful as a result.

The collection of economic measures intended to control or manage the dynamic economic factors that influence shifts in the costs of goods and services and, consequently, the value of money is known as monetary policy. These dynamic economic variables, which are typically classified as short-term macroeconomic factors, include things like money supply and demand, interest and discount rates, loan volume, and the size of deposit money institutions' reserves. Because of their extreme volatility, these instruments' management and regulation directly affect macroeconomic authorities' objectives for price stability. Naturally, it's important to remember that prices typically include both foreign exchange and the values of products and services. Regulatory authorities have long been more concerned with inflation than deflation, despite the latter receiving little attention. In light of this, this study aims to determine whether there is a true connection between monetary policy and inflation, a much feared economic event (Okwu et al., 2011; Adesoye et al., 2012).

In order to achieve the intended goals which could include controlling inflation, creating jobs, adjusting the balance of payments, and encouraging savings governments implement monetary and fiscal policies, which use particular tools to stimulate, control, and restructure their economies. Others include higher production in the agricultural, industrial, and other economic sectors. The actions done by monetary and governmental authorities to regulate the money supply in order to accomplish specific goals are known as monetary policy, and they are related to the financial markets. It has to do with managing the cost and accessibility of borrowing. Higher output and employment levels can be achieved through the use of monetary policy as a tool. Conversely, fiscal policy k deals with taxes and government spending. By altering the amount and kind of taxes, government expenditures, and public debts, governments have employed fiscal policies to affect economic activity and spending. Therefore, whereas some parts of fiscal policy have an impact on government revenue, others are related to activities that affect government spending (Ezeugoh, 1987). When prices for products and services rise steadily, continuously, and persistently, more money is wanted during times when the value of money declines. This is known as inflation. The decline in purchasing power per unit of money, or a loss of actual value in the medium of exchange and unit of account within an economy, is the economic phenomenon that characterizes inflation.

Because of its unfavorable consequences, inflation is a monster that threatens all aspects of economics. Badreldin (2014) asserts that inflation is a reflection of a decline in the purchasing power per unit of money, or a loss of actual value in the economy's unit of account and medium of exchange. According to Rutasitara (2004), authorities must constantly monitor the various elements that could quickly lead to an increase in inflation, even when it appears to be low, since this could undermine investor confidence, trade flows, the value of money holdings, and other aspects of the economy. According to Omotosho and Doguwa (2013), inflation results in increased risk premia, hedging expenses, unanticipated wealth redistribution, and ultimately slower economic growth. According to Lipsey and Chrystal (1995), inflation is negative, especially when it happens suddenly, since it skews how the price system functions, causes arbitrary redistribution from debtors to creditors, and encourages speculation rather than profitable investment. Undoubtedly, the issue of inflation is not a recent one. Over the years, it has become a significant issue in emerging nations like Nigeria.

Nonetheless, policymakers have made an effort to implement suitable measures that can guarantee price stability and fight inflation (Adedeji & Nuhu, 2015). Generally speaking, two important variables that affect an economy's level of inflation are the amount of money in circulation and the stock of goods and services. Both become the main goals of strategies when inflation becomes persistent. Either an excess or a scarcity of money might lead to stagnation, which would impede economic growth and development, or excess aggregate demand, which would raise the rate of inflation. Monetary policy has been the main instrument frequently used by central banks to maintain price stability, even while fiscal policy helps to counteract inflationary pressure. Although it is undeniable that monetary authorities have developed a number of policy measures in an effort to reduce the threat of inflation, the success of these efforts is debatable because inflationary issues continue to plague the majority of economies, especially developing ones. Thus, the purpose of this study is to investigate how monetary policy affects Nigeria's efforts to control inflation.

The problem of price stability is the main goal of Nigerian monetary policy. However, inflation continues to pose a serious threat to Nigeria's economic expansion in spite of the different monetary regimes that the Central Bank of Nigeria has implemented over the years. Nigeria's inflation experience is nothing to brag about, despite the fact that the rate has been kept reasonably low in recent years. Inflation rates in Nigeria have fluctuated a lot. According to Oyakhilomen and Rekwot (2014), Nigeria's inflation history began in the 1960s when the government implemented a "cheap money policy" to spur post-independence prosperity. Four significant periods of high inflation above 30 percent have occurred since the early 1970s (CBN, 2009). Because money growth frequently exceeded real economic growth, there is a correlation between high inflation episodes and the expansion of the money supply. Nonetheless, a few indicators of the economy's fundamental features can be seen before the money supply expands. A few of these are supply shocks brought on by things like starvation, depreciation of the currency, and shifts in trade arrangements.

In the inflation spiral, structural issues have been shown to be significant. A supply shock caused by a decline in oil revenue resulted in a drop in real income, which had significant distributional ramifications. An inflationary spiral ensued as firms raised markups on expenses and workers demanded greater nominal salaries. The government also had a transfer issue in order to fulfill its debt obligations, on top of these other concerns.

Monetary policy changes and the threat of inflation, however, continue to be Nigerian concerns. Despite her long-term efforts at implementing different policies, inflation still surpasses per capita income. Nigeria continues to struggle with its goal of maximizing the happiness of its citizens, or utility maximization. Following its causation, it is still unclear to what degree monetary policy reform has suppressed inflation, according to Gbadebo and Mohammed (2015). Therefore, a manageable inflation rate is required to reflect the circumstances in Nigeria, where half of the population suffers from severe hunger, poverty, and unemployment. Gbadebo and Mohammed (2015) came to the conclusion that poverty is a result of inflation since few people who are employed at the going rate are able to save money for investments.

Additionally, the Nigerian economy had socioeconomic stagnations over time, especially in the 1970s, which were linked to an inflationary spiral (Onwachukwu, 2014). Inflation in late 1994 was 63.6%, according to an analysis of non-case inflation in the early 1990s. Although headline inflation slowed to a single digit in 1997, it increased quickly by 1995 to reach an all-time high of 72.8%. Similarly, core inflation, which started to slowly increase in early 1990, reached a peak of roughly 69.0% in mid-1995 before declining in 1997. Since then, between 1998 and 2001, inflation stayed in the single digits. The results of a thorough and steady economic reform program led to the restoration of macroeconomic stability in 2003. The reappearance of headline and care inflation surges between 2000 and 2001 made the low inflation rate regime short-lived. In the corresponding years, the headline inflation rates stayed at double 12.9%, 14%, 15%, and 17.9%. Though it slightly decreased to 11.8% and 12.3% in 2010 and 2013, it had a sharp decline to 8.24% and 5.38% in 2006 and 2007 before skyrocketing to 11.60% and 12.00% in 2008 and 2009, respectively. Later on, nevertheless, it increased to 12.7% in 2014, 16.8% in 2016, and 16.5% in 2017. This study's primary goal is to assess how the CBN's monetary policy has affected inflation control over time. This would be quite helpful in determining how successful the monetary policies have been.

The main objective of this study is to explore the impact of monetary policy on inflation control in Nigeria. However, the following specific objectives would also be achieved.

1. To establish the impact of monetary policy on inflation in Nigeria;
2. To examine the impact of money supply on inflation in Nigeria.

2. Literature Review

Conceptual Framework

Monetary Policy

According to Mordi (2008), the term monetary policy refers to a blend of measures designed by the central bank to regulate the value, supply and cost of money consistent with the absorptive capacity of the economy or the expected level of economic activity without necessarily generating undue pressure on domestic prices and exchange rates. The objectives of monetary policy can vary from one country to the other, but are generally of two variants. The first focuses on single objective of price stability, while the second perspective has multiple objectives of achieving not only price stability but other macroeconomic goals. The need to regulate money supply is based on the general consensus that the quantity of money supply and the general price level are highly related and if not regulated, could result in undesirable effects such as rising inflation.

In achieving monetary policy objectives, there are two types of monetary policy the central bank use, they are: the expansionary monetary policy and the contractionary monetary policy. Expansionary monetary policy is a set of action by the monetary authority to increase money supply in the economy. It is conventionally used to stimulate economic activity in a recession. Contractionary monetary policy on the other hand, seeks to reduce the level of money supply in the economy. It is conventionally used to reduce inflationary pressures in the economy.

Monetary policy also refers as the specific actions taken by the Central Bank to regulate the value, supply and cost of money in the economy with a view to achieving Government’s macroeconomic objectives. Some of the objectives include: economic growth, price stabilization, Balance of Payment Equilibrium, Employment generation, etc. (Adesoye, et al., 2012). However, Ackley (1978) notes that one of the objectives of the monetary policy, which is the attainment of a high rate of or full employment, does not mean zero unemployment since there is always a certain amount of frictional, voluntary or seasonal unemployment.

Fiscal Policy

Fiscal policy is the deliberate changes in the level of government expenditure, taxes and other revenue and borrowing in order to achieve such national goals or objective as price stability, full employment, economic growth and balance of payments equilibrium (Idowu, 2010). The stance of fiscal policy could be neutral, which implies a balanced budget where government spending is equal to tax revenue; expansionary where a government raises its spending or reduces taxation, or a combination of the two: or contractionary, when government spending is reduced either through higher taxation or reduced spending (Idowu, 2010).

During period of recession, government is supposed to carryout expansionary fiscal policy to take the economy out of recession and to put the economy on the part of growth and sustainable development. During the period of inflation, government is supposed to curtail its expenditure and taxes in order to check inflationary tendencies. This can control the economy trend and stabilizes the economy (Ackley, 2003).

Dwivedi (2006) identifies the following roles of fiscal policy as increasing the rate of investment. Fiscal policy is aimed at improving the rate of investment in both private and public sectors of the economy. Fiscal policy can be used to check actual consumption and raising savings ratio. It can also be used to discourage some investments while encouraging some that can stimulate the rate of growth.

Inflation

Owolabi and Arulogun (2014) defined inflation as a situation when money income is falling. Also, inflation refers to a continuing rise in prices as measured by an index such as consumer price index (CPI) or by the implicit deflation for gross national production. Some researchers advocated that inflation can lead to uncertainty about the future profitability investment project. Hence, this leads to more conservative investment strategies than would otherwise be the case ultimately leading to lower level of investment and economic growth. Khan (2002) concurs inflation may also reduce a country's international competitiveness, by making its exports relatively more expensive, thus, impacting negatively on the balance of payments. Inflation has unrelentingly been moving upward in Nigeria because of the years of neglects of the social infrastructures and general mismanagement of the economy.

According to Khan (2002), inflation is double-digit and surplus naira in circulation, scarcity of food, and fuel are part of the problems. Also, according to Folorunsho and Abiola (2000), they established from their study that inflation in Nigeria could be caused by the level of income, money supply, and public sector balance. The results also indicated that in the long-run, exchange rate, money supply, income and fiscal balance determine the inflation spiral in Nigeria. Their study therefore concludes that a reduction in fiscal deficits, an increase in domestic production and a stable exchange rate should be pursued as means of controlling inflation in Nigeria. Similarly, inflation refers to the continuous rise in the general price level of goods and services in an economy, manifesting in the form of a decline in the value of money. The effects of high inflation are generally considered to be harmful on the economy. That is why the achievement of price stability has always been one of the fundamental objectives of macroeconomic policy in both developed and less developed countries (Orubu, 1996). Inflation is a disease that must be eradicated if a country must experience growth. It arbitrarily redistributes income, wipes out saving, erodes the income of fixed income earners, leads to distortion of price and brings about misallocation of society economic resources.

Empirical Review

In the developed countries, various research work has been conducted to study the impact of monetary policy and fiscal policy in combating inflation such as Rukelj (2009) investigates the interactions of fiscal policy, monetary policy and economic activity in Croatia. His study shows that fiscal and monetary policies move in the opposite direction i.e. they have been used as substitutes: fiscal shocks have a predominantly negative impact on narrow money, while monetary shocks produce negative effects on government expenditure.

Serbanoiu (2012) shows that in Romania, positive government expenditure shocks lead to an increase in output, decline in private consumption and investment (Crowding-out effect), initial rise in inflation and temporary decline in interest rate.

Jane, Gordan and Dragan (2013) investigated the macroeconomic effects of monetary and fiscal policies in three (3) south eastern economies; Croatia, Macedonia and Bulgaria. They employed recursive vector Auto regressions in order to study the inter linkages among fiscal policy, monetary policy and economic activity based on quarterly data. They obtained that fiscal policy exerts limited influence on inflation and monetary policy effects on inflation are rather modest.

In the developing countries, several studies have been carried out. AkinniFesi (1984) showed that government deficit expenditure among other factors had a strong influence in explaining inflation in the country. He established that increase in government expenditure financed by monetization of oil revenue and credit from the banking system was responsible for expansion of money supply which in turn, with a lag in-effect contributed immensely to inflationary tendencies.

Ajisafe and Folorunsho (2002) in their study found out that monetary policy rather than fiscal policy exerts a great influence on economic activity in Nigeria. They therefore observed that the emphasis of government fiscal actions on the economy has led to a greater distortion of the Nigerian economy.

According to Ndiyo and Udah (2003), they found out that government policy requires a mixture of both fiscal and monetary policy instruments to stabilize an economy because none of these single instruments can cure all the problems in an economy.

Theoretical Review

Monetarist Theory

This school began in 1940s with Milton Friedman. Instead of rejecting macro-measurements and macro-models of the economy, the monetarist school embraced the techniques of treating the entire economy as having supply and demand equilibrium. However, because of Irving Fisher's equation of exchange, they regarded inflation as solely being due to the variations in the money supply, rather than as being a consequence of aggregate demand. They argued that the "crowding out" effects discussed by the monetarist would hobble or deprive fiscal policy of its positive effect. Instead, the focus should be on monetary policy, which was considered ineffective by early Keynesians.

Monetarism had an ideological as well as practical appeal: monetary policy does not at least on the surface, imply as much government intervention in the economy as other measures. According to Iyaji, Success and Success (2012), the monetarist or Neo-Fisherian approach to inflation, they seek to ascribe observed rates of inflation in different countries to the respective growth rates of money supply per unit of the national product. This school of thought believes that inflation is mainly a monetary phenomenon. However, this may not be totally true of the Nigerian situation as there are other factors responsible for inflation in the country. The economic and financial review of the CBN (2011) argued that inflation in Nigeria moves with a lag with fluctuation in money supply. Thus, between 1970 and 1981, peaks in growth of broad money were associated with double digits inflation and that since 1984 to date (2020), the rate of inflation has grown faster than that of growth in money supply. This trend suggests that although growth in money supply may be significant in explaining inflation in Nigeria, it is not the only factor. Additionally, the monetarists argument was advanced by Friedman. He stated that changes in money supply have been seen to cause changes in price. It follows therefore, that an increase in money supply is likely to cause an increase in prices and hence, inflation (Friedman, 1971).

Keynesian

Keynesian economics also called Keynesianism and Keynesian theory is a macroeconomic theory based on the ideas of 20th century British economist John Maynard Keynes. Keynesian economics argued that private sector decisions sometimes lead to insufficient macroeconomics outcomes and therefore advocates active policy responses by the public sector, including monetary policy actions by the Central Bank and Fiscal policy actions by the government to stabilize output over the business cycles. Keynes argued that the solution to the Great Depression was to stimulate the economy through some combination of two approaches: a reduction in interest rates and government investment in infrastructure. Investment by government injects income, which results in more spending in the general economy, which in turn stimulates more production and investment involving still more income and spending.

Keynes theory suggested that active government policy could be effective in managing the economy. Rather than seeing unbalanced government budgets as wrong, Keynes advocated what has been called counter cyclical fiscal policies, that is policies which acted against the tide of the business cycle, deficit spending when a nation's economy suffers from recession or when recovery is long-delayed and unemployment is persistently high and the suppression of inflation in boom times by either increasing taxes or cutting back on government outlays. They argued that governments should solve problems in the short run rather than waiting for market forces to do it in the long run.

Keynesianism does not consist solely of deficit spending. Keynesianism recommends countercyclical policies to smooth out fluctuation in the business cycle. An example of a countercyclical policy is raising taxes to cool the economy and to prevent inflation when there is abundant demand-side growth, and engaging in deficit spending on labour-intensiveinfrastructure projects to stimulate employment and stabilize wages during economic downturns.

Classical Theory of Demand

According to classical view on monetary policy, money is a veil. It is neutral in its effect in the economic growth. Its imply affects the price level. An increase in the supply of money leads to an increase in the price level, but the real level income, the rate of interest and the level of real economic activity remains unaffected. In terms of quantity theory of money, the main function of money in classical system is that money is to act as a medium of exchange. It also helps to determine the general price level at which goods and services will be exchanged.

Irving Fisher (1932) in his quantity theory of money opined that the short run monetary control was directed by interest rates which were regarded as a main channel of the firms operating cost. Also, the risk in commodity price would lead to an increase in the firm's profits followed by increase in business investment, demand deposit, loan demand and money stock which lead to greater increase in community prices, investment and profit (Anochie& Erasmus, 2015).

The relationship between money and price level can be explained algebraically as:

MV = PT

Where:

M	-	exogenous variable (the supply of money)
V	-	Velocity of circulation
P	-	Level of prices
T	-	The volume of transactions

T is believed to measure output and as such, is often substituted for Y (national income). The above equation must hold (MV=PY), that is, the rate of expenditure must equal the value of output. However, they argued that unwarranted increases in the money supply that manifests in inflation.

3. Methodology

Research design adopted for this study is *ex-post facto*. For the purpose of conducting this study, secondary data was used to explain impact of monetary and fiscal policies in combating inflation in Nigeria for the period 1984-2014.

Data were gathered from the statistical bulletin issued by the Central Bank of Nigeria for the period of the study. For the purpose of carrying out this study, data analysis used include econometrics analysis. Two main econometrics analysis used include Ordinary Least Square method to study the relationship between monetary policy, fiscal policy and inflation while Johanson Juselius Co-integration Test was used to study the long run equilibrium among the variables. However, it should be noted that when using time series data analysis, these data are subject to the problem of spurious regression if the data are non-stationery and this could lead to an unreliable result. In order to avoid spurious regression, unit root test (Augmented Dickey fuller test) will be conducted in order to determine if the time series data are stationary.

Model Specification

The model used for investigating the impact of monetary and fiscal policies in combating inflation in Nigeria in this study followed that of Isiaka, Abdulraheem and Mustapha (2011) on "the impact of monetary and fiscal policies on the level of economic activities in Nigeria". The variables used in this study are based on the variables used by the above authors which include:
Monetary policy rate- MPR

Liquidity Ratio- LT

Consumer Price Index-CPI

Econometric Model

$CPI=\beta0+\beta1MPRs+\beta2L+\mu$

Where:
The parameter estimates are β1, β2 while β0 is the parameter constant μ-Error term
The above model was used in analyzing the effectiveness of each policy in combating inflation.

4. Data Analysis, Results and Discussion of Findings

Unit Root Tests Results

Variable in the model were subjected to a stationary test as part of the necessary diagnostic check and pre-condition to run the vector error correction model to avoid spurious regression result. It is only when economic variables are either stationary or corrected and made stationary that they are suitable for economic analysis, forecasting and making policy decisions.

Table 1: Unit Root Test Result

Variables	Augmented Dickey Fuller		Equation specification	Order of Integration
	5% (ADF) statistics	ADF at first difference		
CPI	-3.400	0.030	Intercept	1(1)
MPR	-1.850	0.000	Intercept	1(1)
LR	-1.851	0.045	Intercept	1(1)

Source: Researcher's Computation, 2024.

The results of the unit root tests conducted using the ADF statistics shown above reveals that the variables: consumer price index, money supply, treasury bill, reserve requirement, tax and federal government expenditure were made stationary at their first difference. With their p-values all below 5% significant level.

Co-integration Test

The unit root test confirmed that the series are integrated thus satisfying the initial assumption for co-integration analysis. Lag length were selected to be three using information criteria and satisfied the mathematical stability condition. The results of the maximal Eigen value and trace test statistics for the two models are presented in table 2 and 3.

The p-values at 5% and 10% level of significant indicate that the hypothesis of no co-integration among the variables can be rejected for Nigeria. Both Trace test and Maximum Eigenvalue test found one co-integrating relationship at 5% significant level. Since the variables are co-integrated, it is concluded that there exists a long-run equilibrium relationship between the variables.

Table 2: Result of Johansen Co-integration Test Base on Trace Statistic

Hypothesized		**Trace**	**0.05**	
N0 of CE (s)	Eigen value	Statistic	Critical value	Profitability
None	0.920	184.860	95.750	0.000
At most 1	0.782	110.810	69.812	0.000
At most 2	0.690	65.631	47.850	0.001

Source: Researcher's Computation, using E-views, 2024.

Table 3: Result of the Co-Integration Test on Maximum Eigen

Hypothesized		**Max-Eigen**	**0.05**	
N0 of CE (s)	Eigen value	Statistic	Critical value	Profitability
None	0.920	74.047	40.070	0.000
At most 1	0.780	45.187	33.870	0.002
At most 2	0.687	33.683	27.580	0.007

Source: Researcher's Computation, using E-views, 2024.

Table 4: Summary Result (Monetary Policy) of the Ordinary Least Square Regression Model on Consumer Price Index

Variables	**Co-efficient**	**R-squared**	**T-statistics**	**Prob**	**AIC**
MPR	0.005	0.972	8.144**	0.000	7.054
LR	0.040	0.972	6.542**	0.000	7.054

Source: Researcher's Computation, 2024.

Where ** Represents Significance Level of 5%

The regression equation in table 4 shows that the explanatory variable MPR is positively related to the dependent variable which means an increase in the supply of money in the economy without a corresponding increase in the goods and services will in turn cause inflation in the economy. In summary, this means more money chasing fewer volume of goods and services. Treasury bills also have a positive relationship with inflation which is the dependent variable and this means that when government buys treasury bills from the public, they (government) pump money into the economy through purchase of securities which automatically increase the volume of money supply in the economy thereby causing inflation. This contractionary method is best used during boom. However, reserve requirement has a negative relationship with inflation. This when the CBN increase the percentage of the total holdings of the deposit money bank that must be kept with the CBN, which makes the deposit money bank have lesser amount to give to the public in terms of loans, overdrafts, this reduces the volume of money in circulation and this in turn reduces inflation in the economy and vice versa. That a 1% change in MPR and LR held constant will lead to 0.005 changes in CPI. Similarly, a 1% change In MPR and LR held constant will result to a 0.040 change in CPI.

Furthermore, the coefficient of correlation R-squared=0.970 shows that there is a high correlation between the explanatory variables and the dependent variables while the coefficient of determination Adjusted R-squared =0.960 shows that the explanatory variables MPR and LR have been able to explain 96.9%, variation in CPI. The other 4.0% in CPI is due to other factors not considered in the model, such as the propensity of the nationals to import, illegal activities like money Laundering to mention but a few. Therefore, from the above regression analysis money supply and Treasury bills has a positive statistically significant impact in combating inflation while reserve requirement has a negative statistically significant impact in combating inflation in Nigeria.

The Durbin-Watson value 0.490 shows that there are not serial correlations, though the coefficients of the explanatory variables are significantly small.

Conclusively, the probability of each variable shows that they are all statistically significant and which means monetary policy and fiscal policy are both effective in tackling inflation in Nigeria.

5. Conclusion and Recommendations

Conclusion

The main objective of this study is to establish the impact of fiscal and monetary policies in combating inflation in Nigeria. Ordinary Least Square method was used to establish a simple relationship between the variables under study. Based on this study, Money supply, Treasury Bills, Reserve requirement, Tax and Federal government capital

expenditure are the monetary and fiscal policy variables that can be appropriately manipulated to control inflation in Nigeria.

In the light of this, it is suggested that the Central Bank Nigeria's guidelines for banks should be strictly followed and the Central Bank should be given absolute control devoid of political interference so that the monetary policy can be well coordinated to achieve the desired macroeconomics objectives.

In conclusion, the probability of each variable shows that they are all statistically significant and which means monetary and fiscal policies are both effective in tackling inflation in Nigeria.

Recommendations

In the light of findings discussed above and the conclusion reached, the following recommendations are made:

1. The monetary and fiscal authorities should design monetary and fiscal policy instruments contingent to our sociopolitical environment, such as designing policies that will induce activities in the private sector which is in line with Obrimah (2015). His findings indicate that in spite of the observed dichotomies in the effects of activities within the private sector on inflation and exchange rates, it shows that activities within the private sector have induced lower inflation levels in Nigeria via price substitution strategies facilitated by import-related activities and not necessarily copied from other developed economy, hence, monetary authority is recognized to be potent tool in controlling inflation in Nigeria.
2. It is equally realized that effective and successful implementation of monetary and fiscal policies depend on the health of the banking institutions. For the above policy to work, there is a need for a sound banking system. This can only be achieved if the monetary and fiscal authorities provide adequate framework for banks to operate. This would in no small way enhance the efficiency of monetary and fiscal policies as it is through the banking system that monetary and fiscal policies work efficiently.

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