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## Trade Cycle Valuation of Growth Dynamics for Inflation and Recession Control: The Nigerian Experience

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### ABSTRACT

Heavy dependence on international financial market renders the developing economies susceptible to global recession. Nigeria is a typical case of a developing economy which is inextricably linked with the international financial system and has recently exited from recession. To prevent recurrence and avert a possible relapse into recession, study focused on a trade-cycle valuation of growth dynamics in Nigeria. Study spanned across 1970-2015. Data were sourced from CBN. Data were analyzed using time-series component of trend, seasonal variation and random factors. Findings indicate that: (1) Nigeria was an emerging large market (2) Nigerian economy was characterized by poor policy implementation (3) Trade openness subjected the Nigerian economy to the vagaries of international financial instability and global recession (4) Growth was not self sustaining (5) Reconfiguration of the Nigerian economy revolving around poverty and employment generation was an effective policy for economic recovery. Study concluded that poverty reduction and employment generation are sine qua non for the achievement of self-sustaining growth in developing countries. It was recommended, inter alia, that Nigeria and other African countries should forge trade relations into regional trading bloc to convert their competitive disadvantage into competing comparative advantage during trade negotiation in international market.

Key words: Business cycle, economic growth, stagflation, inflation control, recession control.

### 1. INTRODUCTION

Until recently, persistent problem of poor performance of the Nigerian economy has been attributed largely to structural imbalance resulting from poor management of oil revenues and oil price shocks, otherwise known as Dutch disease syndrome. The deplorable growth and development situation in Nigeria has often aroused the curiosity of scholars and statesmen who wonder why Nigeria with its huge oil wealth cannot ensure the economic well-being of its citizens. Along this line, Okonjo-Iweala and Kwaako (2007) had observed that Nigeria had gained a lot in oil revenue and wondered what the nation had got to show for this. They opined that Nigeria has an increased population of impoverished people and experienced continued stagnation of the economy. However, the anti-corruption crusade of the Buhari administration has yielded abundant evidences which abounds that corruption is the bane of sustainable economic growth and development in Nigeria. Indeed, no nation can ever hope to grow or develop with the massive looting of its treasury as has been the case with the immediate past administration which had opened the doors of its central bank and doled out bales of naira to political pundits to finance their electioneering campaign. Nigeria has always occupied top rank in the list of world's corrupt nations. The Transparency International had placed Nigeria in the 136<sup>th</sup> position on global corruption index in 2015. No surprise, therefore, that in spite of several federal government (FG) policies to achieve sustainable growth and development, the performance of the Nigerian economy falls short of expectation. Presently, the Nigerian economy is characterized by falling growth rates, falling saving rates, falling gross capital

formation (GCF) rates, rising unemployment rates, rising inflation rates, falling infant mortality rates, etc. Certainly, Nigeria is underdeveloped, as has been illustrated in Table 1.

Table 1. Selected Growth and Development Indicators in Nigeria (2006 - 2015)

Year	Economic Growth Rate	Saving Rate	GCF Rate (Investment Value Added)	Unemployment Rate	Inflation Rate	Infant Mortality Rate
2006	8.21	32.10	92.31	7.6	8.2	97.14
2007	6.83	54.83	25.16	7.6	5.4	95.52
2008	6.27	52.89	5.67	7.6	11.6	95.74
2009	6.93	39.95	48.78	7.6	11.5	94.35
2010	7.84	3.31	214.43	7.6	13.7	92.99
2011	4.89	9.70	7.40	7.6	10.8	91.54
2012	4.28	23.44	4.85	7.5	12.2	74.36
2013	5.39	7.36	12.03	7.5	8.5	72.97
2014	6.31	38.73	17.36	7.5	8.1	74.09
2015	2.65	-4.58	3.52	10.6	9.0	75.35

Source: Central Bank of Nigeria Statistical Bulletin and World Development Indicators

Table 1 shows that while growth rates, saving rates, GCF rates and infant mortality rates had downward sloping trends, unemployment rates and inflation rates had upward sloping trends. Thus, while growth rates, saving rates, GCF rates and infant mortality rates fell between 2006 and 2015, unemployment rates and inflation rates rose between 2006 and 2015. Falling growth rates are consistent with falling saving rates, falling GCF rates, rising unemployment rates and rising inflation rates but not with falling infant mortality rates. This has cast an aspersion on gross adequacy of the formal models governing the Nigerian economy and the processes determining the growth and development indicators.

Thus, in spite of the efforts of successive governments to revitalize the economy through the implementation of the Millennium Development Goals (MDGs), the performance of the Nigerian economy is unimpressive (Lawal, Obasaju & Rotimi, 2012). The continuing erosion of the country's productive capacity arising from international oil price shocks, infrastructural decay, policy inconsistencies and failures, etc., had resulted to relocation of several manufacturing firms to neighbouring countries. This has created a deplorable situation of stagflation which now poses a serious threat to the survival of the Nigerian economy. Lack of synergy between fiscal and monetary authorities in deciding which of the twin evils- inflation and recession should receive more urgent action has led to policy inconsistencies and failures. Therefore, there is a need to gain an insight into the working of the entire productive sector of the Nigerian economy. This would require a detailed analysis of the depth of the country's economic activities as measured by real gross domestic product in order to determine the emerging issues of growth and development which impede the performance of the productive sectors. Thus, business cycle (or trade cycle) approach to analyzing growth dynamics was considered most appropriate in the present situation where the formal models governing the economy are grossly inadequate and the processes determining the growth and development indicators non stochastic. Certainly, business cycle valuation of growth dynamics in an oil-dependent economy could yield evidences which are basic in the search for effective fiscal, monetary and macroeconomic policies which would ensure a steady growth in an economy which is highly susceptible to oil price volatility (Olomola, 2006; Aliyu, 2009).

The study was undertaken with broad objective of valuing growth dynamics in order to develop generalizations for predicting, preventing or possibly controlling inflation and recession. Specific objectives were to: (1) Determine the major characteristics of the Nigerian economy. (2) Determine the thrust of economic policies in Nigeria. (3) Determine the extent to which growth in Nigeria is susceptible

to contingencies. (4) Determine the extent to which growth in Nigeria is susceptible to fiscal, monetary and macroeconomic policy impulses.

The study revolved around the answering of the following research questions: (1) what are the major characteristics of the Nigerian economy? (2) What is the thrust of economic policies in Nigeria? (3) To what extent is economic growth in Nigeria susceptible to contingencies? (4) To what extent is growth in Nigeria susceptible to fiscal, monetary and macroeconomic policy impulses?

The findings of this study would be useful to governments and central banks of Nigeria and other developing economies for developing a two-pronged approach for combating inflation and recession.

## **2. LITERATURE REVIEW**

### **2.1 Theoretical Literature Review**

#### **2.1.1 Hawtrey's Pure Monetary Theory**

This theory was developed by R.G. Hawtrey. This theory postulates that business cycle occurs in a situation of unstable monetary and credit system. Hawtrey viewed business cycle as successive phases of inflation and recession in an economy. According to this theory, changes in the levels of economic activity are caused by changes in the volume of money supply in the economy. Thus, a positive change in money supply would impact positively on the level of output in the economy and vice-versa. The pure monetary theory has moored the expansionary phase of business cycle deeply in increase in bank credit which itself is a function of the existence of favourable lending condition. Rising bank credit results to increase in investment which in turn leads to increase in capital formation that ultimately culminates in widening and deepening of capital in the economy. However, banks limit of credit expansion possibilities coincides with the peak of the expansionary phase in an economy. On the contrary, contraction in bank credit marks the beginning of the recessionary phase of the business cycle.

This theory has been considered relevant to the present study which sought to value the expansions and contractions in volume of economic activities in Nigeria vis-a-vis oil price fluctuations.

#### **2.1.2 Keynes's MEC theory**

This theory attributes cyclical fluctuations largely to cyclical changes in marginal efficiency of capital (MEC). According to Keynes, increasing MEC relative to interest rate leads to an increase in the rate of investment in an economy. Increase in investment impacts positively on employment and income. The multiplier induces a multiple of changes in investment to bring about an increase in income. The interaction among MEC, investment, employment and income yields the expansionary phase of a business cycle in an environment where opportunities are conducive to investment. This expansionary phase continues up to its peak and then begins to decline due to the negative impact of certain economic forces which reduces the MEC. The fall of MEC below the interest rate marks the turning point on the business cycle which results to contracting phase on the cycle that continues to decline until the economy hits the trough.

The relevance of this theory for the present study is hinged on its recognition of the role of reinforcing the relationship between monetary and non-monetary variables which culminates into expansionary and contracting phase of business cycle. This study has recognized the practical utility of Keynes's MEC as it aimed at evaluating the fluctuation in the volume of economic activities in Nigeria for control of inflation and recession through a proper combination of fiscal and monetary policies. Besides, the treatment of MEC in Keynes's theory has rendered it very useful for analyzing fluctuations in volume of economic activity in Nigeria where government capital expenditure is considered grossly inadequate.

#### **2.1.3 Kaldor's theory of Business Cycle.**

Kaldor's theory of business cycle is based on Keynesian saving-investment model. This theory views business cycle as resulting from pressure which pushes an economy toward planned investment-planned saving equality. Thus, according to Kaldor, it is the difference between planned investments and planned

saving which causes business cycle. Kaldor's theory assumes non-linear investment and saving function. In the case of a non-linear investment function, as the economy moves into the expansion phase, the investment curve is almost flat, implying thereby, that there is excess capacity at a low level of income and that the net investment is zero. But as expansion continues, it sets into motion the negative effect of accumulating capital which stems the tide of rising output and profit. On the contrary, as the economy enters the contraction phase, the investment curve is flat and the net investment negligible due to rising cost of construction, increasing costs and increasing difficulty of borrowing which naturally inhibit expansion and induce contraction. Similarly, at very low level of income saving is drastically reduced and may even be equal to zero so that during the expansion phase the MPS is large. At normal levels of income saving will increase at a smaller rate while at very high income levels, savings will be absolutely large. Cycle becomes obvious when non-linear saving and investment curves are brought together. Two situations are easily identified- a situation where  $MPI > MPS$ , i.e., expansion phase and a situation where  $MPI < MPS$ , i.e., contraction phase.

Kaldor's model has been found very useful in the study of growth in Nigeria where saving and investment of public and private sectors play crucial role in income and employment generation. Increasing use of multiple taxes and public borrowing in Nigeria are likely to affect saving and investment to a large extent.

## **2.2 Empirical Literature Review**

Recent studies on impact of oil price volatility, fiscal policy and monetary policy on economic growth have been reviewed to gain an insight into the extent to which these variables could account for variance in economic growth. Knowledge of insight of oil price variation, changes in interest rate and MEC was required for establishing the status of price, interest rate and MEC in this analysis.

### **2.2.1 Oil Price Volatility and Economic Growth**

Sauter and Awerbud (2003) carried out a meta-analysis of studies in the area of oil price volatility and its effects on economic and financial performance in IEA countries. Findings indicate that: (1) There was an inverse relationship between oil price volatility and economic performance (2) Rise in oil price eroded the consumers' income and assets thereby reducing their purchasing power and aggregate demand for goods and services. It was concluded that the precarious situation in international fossil oil pricing system had given rise to risks and uncertainty in international fossil oil transaction which undermine economic growth in IEA countries. Policy implication of findings is the need for governments to estimate accurately fossil based electricity cost while deciding on alternative sources of energy. This study was considered relevant to the present study as it has provided a prior justification for the study of expansions and contractions in volumes of economic activities on the basis of oil price volatility.

Bouزيد (2012) studied the relationship between oil prices and economic growth in Tunisia. Study covered the period, 1960-2009. Data were analyzed using ADF, OLS, Granger causality, Johansen cointegration and error correction model. Study revealed that: (1) There was a long-run relationship between energy prices and economic growth in Tunisia (2) There was a unidirectional causality relationship from real GDP to oil price. A drawback of this study is the multiplicity of economic tools which failed to yield concrete results on the extent of contribution of oil prices to variance in Tunisia's GDP. Nonetheless, the findings have policy implication for OPEC to strive towards diversifying their economies in order to reduce overdependence on oil. The relevance of this study derives from its finding which supports the business cycle analysis of Nigeria's real GDP on the basis of oil price shocks.

Jawad (2013) studied the impact of oil price volatility on growth in Pakistan. Study spanned across 1973-2011. Data were analyzed with OLS involving multiple regression technique. Results indicate that: (1) Balance of trade and private sector investments had significant impact on GDP and public sector investment (2) Oil price volatility had nonsignificant impact on GDP. Policy implication of findings to the Pakistani government is the need to adopt strategic plan and procedure to adapt supply and demand

for petroleum product to the country's pace of economic growth. A major limitation of this study is the ambiguity in the method of data analysis which leaves the reader wondering what particular technique was employed. Notwithstanding, the study was found useful for determining the relative impact of oil price volatility in Nigeria and Pakistan.

Oriakhi and Iyoha (2013) explored the consequences of oil price volatility on economic growth in Nigeria. Study spanned across 1970-2010. Study employed VAR technique. Results indicate that: (1) Oil price volatility impacted directly on real government expenditure, real exchange rate and real import (2) Oil price volatility impacted indirectly on real GDP, real money supply and inflation through other variables including real government expenditure. The study recommended measures such as fiscal prudence reform in budgetary operations, export diversification, revival of non-oil sector of the economy, accountability and corporate governance. One limitation of the study is that this recommendation was not based on the findings of the study. However, the findings have policy implication for the federal government to embark on diversification of the economy in order to increase the contributions of the non-oil sector. The study was considered relevant because it revealed that the knowledge of fluctuations of growth is crucial to the understanding of the impact of oil price volatility in an economy within OPEC.

Kentschler (2013) embarked on a study titled, 'Oil price volatility, economic growth and the hedging role of renewable energy'. Study covered the period, 1983-2011. Data were collected from a sample of developed/developing, oil importing/exporting and service/industry based economies including USA, Japan, Germany, India, South Korea and Malaysia. Data were analyzed using ADF, VAR and Granger causality test. Results indicate that: (1) Oil price volatility has more adverse effects in all sample countries than oil price shocks alone can explain (2) Sensitivity to oil price volatility varies widely across countries (3) Sectoral composition and energy mix were some of the factors which affected the level of sensitivity to oil price volatility. These findings have policy implication for governments to expand renewable energy in order to reduce an economy's vulnerability to oil price volatility. The weakness of this study is lack of clarity of its findings. Nevertheless, it was found useful for yielding evidences which were applied for identifying factors responsible for long-term and short-term movements in Nigeria's GDP.

Emmanuel (2015) carried out a study to determine the extent to which oil price volatility impacts on economic growth in Nigeria. Study covered the period, 1970-2014. Study employed Engel-Granger cointegration and Granger representation theorem for the analysis of data. Findings indicate that: (1) Oil price volatility had negative impact on economic in Nigeria (2) Crude oil price, oil revenue and oil reserve had positive impact on the Nigerian economy. It was recommended, inter alia, that the country should diversify its exports revenue base as a means of minimizing reliance on crude oil outputs. A drawback of this study is that recommendation to the government to adopt prudent fiscal measure was not based on findings of the study. Nevertheless, the findings have policy implication to the government to diversify the revenue base of the country in order to reduce overdependence on oil. The relevance of this study to the present study is that it has justified business cycle analysis of real GDP which was observed to be susceptible to oil price volatility.

.Etoruam (2015) studied the impact of oil price shocks on the macro-economy of Ghana. Study spanned across 1972-2012. Data were analyzed using restricted VAR model and Johansen cointegration test. Results indicate that: (1) Oil price shocks had significant negative impact on output and economic activities in Ghana (2) Negative oil price shocks impacted negatively on growth while positive oil price shocks induced growth and increased output. Policy implication of findings to the government is the need to search for alternative sources of fuel such as bio-fuel in order to reduce high dependence on fossil oil. The strength of this study lies in its search for alternative sources of energy. The study has its relevance in providing a prior justification for the study of expansions and contractions of Nigeria's economic activities in terms of oil price volatility.

Idrisov, Kazakora and Polbin (2015) carried out a study on impact of oil prices on economic growth on contemporary Russia. Study carried out a detailed qualitative analysis of global oil price impact on economic output in Russia via classical theoretical perspective of the positive correlation between output of Russian economy and global oil prices. Study concluded that based on classical models, a constant increase in oil prices cannot affect the long-term economic growth rate and that only predetermined short-term transitional trends from one long-term equilibrium to another exist. A major weakness of this study is the researchers' inability to delimit the study. However, findings have policy implication for OPEC to strive towards reducing overdependence on oil. Study has relevance for the present study which relies heavily on oil price variations for tracking contractions and expansions in Nigeria's real GDP.

Nwanna and Eyedayi (2016) studied the impact of crude oil price volatility on economic growth in Nigeria. Study spanned across 1980-2014. Data were analyzed using multiple regression technique. Study revealed that current negative global oil price shock had significant negative impact on economic growth in Nigeria. It was recommended that "the country should diversify its export revenue base as a means of minimizing reliance on crude oil and petroleum products." The limitation of this study is its failure to report the extent to which oil price contributed to the variance in GDP. However, the study has relevance for the present study as its finding has re-enforced the evidence that oil price volatility explains the contractions and expansions in Nigeria's business cycle.

### **2.2.2 Fiscal Policy and Economic Growth**

Giavazzi, Jappelli and Pagano (2000) explored the non-linear effects of fiscal policy in industrial and developing countries. Study employed two sets of data from samples of OECD countries and developing countries. OECD data from 18 industrial countries spanned across, 1970-1996 while a panel of national accounts of 101 developing countries, spanning across 1970-1994 was collected from World Bank. Study employed descriptive statistics and multiple regression technique for the analysis of data. Three major findings among other include the following: (1) For OECD samples, the non linearity of the response was stronger for fiscal contractions than for expansions (2) An increase in net taxes had no effect on national saving during large fiscal contractions while it had a positive effect in less pronounced contractions (3) For developing countries, non-linearity in the response of national saving to fiscal policy was not limited to large fiscal contractions, and also tended to occur in periods in which debt was accumulating rapidly, regardless of its initial level. Policy implication of findings is that only large and politically costly fiscal actions can signal a regime change, and thus have a non-linear impact on private sector expectations and behaviour. The study has relevance in tracking long-term and short-term movements in Nigeria's real GDP which constituted the times series data for the present study.

Tagakalakis (2004) studied the asymmetric effects of fiscal policy on private consumption over the business cycle. Study employed data from 19 OECD countries covering the period, 1970-2001. Study employed OLS technique for the analysis of data. Results indicate that: (1) Faced with liquidity constraints on households, fiscal policy was more effective for boosting private consumption during contractions than during expansions (2) The effect of fiscal policy during contractions and expansions were more pronounced in countries characterized by a less developed consumer credit market. Policy implication of findings is that governments should adopt discretionary fiscal policy actions as a means of mitigating economic slumps. This study was found useful for the conduct of the present study which relied heavily on its findings for evaluating the contractions and expansions in the volume of economic activities in Nigeria.

Ismal (2011) embarked on a study titled, 'Assessing economic growth and fiscal policy in Indonesia.' Study spanned across 1980-2008. Study employed econometric techniques of Auto Regressive Distributed Lag and Vector Auto Regressive model. Study revealed that: (1) "Both Wagner and Keynes

laws occur in the Indonesian economy, “and that economic growth is influenced by “government expenditures” including employment expenditures, “good expenditures” and non-tax income (2) Government expenditures were determined by export of oil, import and debt repayment. Policy implication of findings is the need for government to adopt export promotion and import substitution strategies in order to achieve growth-induced employment generation. The study has important limitation of illogical and incoherent use of concepts and misrepresentation of facts. Nevertheless, the study was considered useful as it has provided strong support for valuing trade cycle in terms of oil price volatility and fiscal policy shift.

Audu (2012) investigated the impact of fiscal policy on economic growth in Nigeria. Study covered the period, 1970-2010. Data were analyzed using Johansen cointegration test, error correction mechanism and a two-band recursive least square technique. Study revealed that “broad money supply, fiscal deficits, gross domestic products and exports contributed significantly to the variance in fiscal policies.” Policy implication of finding is the need for governments to adopt fiscal and monetary policies in a proper mix to achieve sustainable economic growth. The study has a serious setback which manifest in ambiguities in findings of the study due to obvious misinterpretation of results. Nonetheless, the relevance of the study has been established on the basis of its productive power.

Ahmad and Wajid (2013) embarked on a study to determine which of the two-fiscal policy or its composition matters for economic growth in Pakistan. Study covered the period, 1979-2009. Study adopted Autoregressive distributed lags (ARDL) model to analyze the data. Results indicate that: (1) Unproductive expenditures and non-distortionary taxation were neutral in their impact on growth in long- and short-run (2) Productive expenditures impacted positively on growth (3) Distortionary taxes impacted negatively on growth (4) Human capital had positive impact on per capita GDP. Labour did not impact significantly on growth. Policy implication of findings is that governments should invest only on projects with high rate of productive returns. One limitation of the study is that some recommendations were not based on the findings. Notwithstanding, the study supports Kaldor’s business cycle theory and therefore, was considered useful for a detailed analysis of trade cycle in Nigeria.

Ilegbinosa (2013) studied the implication of fiscal policy measures for economic growth in Nigeria. Study spanned across 1970-2009. Study employed multiple regression technique for analysis of data. Result indicates that there was a positive relationship between real GDP and government expenditure/tax. Policy implication of finding is the need for federal government to consider raising taxes as a last resort during the period of recession in Nigeria. A drawback of the study is its failure to report the extent to which fiscal policy measures contributed to the variance in real GDP. Howbeit, the relevance of this study for the present study derives from its conformity to the postulates of Kaldor’s business cycle model that business cycle results from planned saving-planned investments gaps.

Chibi, Benbouziane and Chekouri (2014) carried out a study to determine the impact of fiscal policy on output growth dynamics over business cycle in Algeria. Study covers the period, 1970-2011. Study employed Markov switching Vector Autoregressive technique for the analysis of data. Results indicate that : (1) Government spending and revenue multipliers had positive short-term effect on output growth during boom and recession in Algeria (2) Fiscal policy shocks had stronger impact during contraction phase than expansion phase (3) Government spending had greater impact than government revenue during recession. Policy implication of findings is the need for governments to understand the characteristics of their economies through business cycle valuation of their national income account and adopt only those polices that conform to the output growth dynamics. This study was considered useful for its research evidences which are appropriate for comparing with the findings of the present study.

Maku (2015) studied the impact of fiscal policy on economic in Nigeria. Study covered the period, 1970-2011. Data were analyzed using econometric techniques of Granger causality test and OLS. Study



revealed that fiscal policy impacted positively and significantly on economic growth in Nigeria. Policy implication of finding is the need to channel government spending to sectors which guarantee high rates of productive investment. The drawback of this study lies in the under-reporting of the entire research proceeding, i.e., doing too much and reporting too little. Nevertheless, the study has relevance for the present study as it has yielded evidences to support the Keynes's and Kaldor's model of business cycle adopted in the study.

### **2.2.3. Monetary Policy and Economic Growth**

Onyeiwu (2012) embarked on a study to determine the impact of monetary policy on economic growth in Nigeria. Study spanned across 1981-2008. Multiple regression technique, Johansen cointegration test and vector error correction model were used for the analysis of data. Study revealed that money supply impacted positively on GDP and balance of payment while impacting negatively on inflation rate. Finding has implication to the government for use of monetary policy to combat inflation and achieve sustainable growth. The limitation of the study is the use of multiple regression technique for analysis of data from a small sample. In spite of this weakness, the study was considered relevant for trade cycle analysis of growth dynamics in terms of monetary impulse.

Fasanya, Onakoya and Agboluaje (2013) embarked on a study to seek an answer to the question, "Does monetary policy influence economic growth in Nigeria." Study spanned across 1975-2010. Data were analyzed using ADF and Philip-Perron test, Johansen-Juselius cointegration test and Error Correction Model. Results indicate that: (1) There was a long-run relationship among interest rate, exchange rate, external reserve, monetary base and real GDP (2) Inflation rate, exchange rate and external reserve were significant monetary policy instruments that drive growth in Nigeria. Study concluded that monetary policy fail to achieve its objective in Nigeria due to the quality of the monetary policy instruments applied. Findings have policy implication for federal government to establish primary and secondary government bonds markets so as to reduce direct central bank financing and enhance the effectiveness of monetary policy. Ambiguity in result was found to be a major weakness of the study. Even then, this study has yielded evidences for discussing the findings of the present study.

Agbonlahor (2014) carried out a study on the impact of monetary policy in UK economy. Study spanned across 1970-2012. Data were analyzed using VAR, cointegration and vector error correction model. Results indicate that: (1) There was a long-run relationship between monetary variables and GDP (2) Inflation rate and money supply impacted positively and significantly on growth. Policy implication of findings is the need for UK monetary authorities to ensure that they always maintain a volume of money supply which is compatible with growth. The drawback of the study is its weak inference which has no direct application for achieving sustainable growth. Howbeit, it has created an insight into the direction of impact of UK monetary policy which could be applied in the present study for valuing the contractions and expansions in Nigeria's real GDP.

Chipote and Makhetha-Kosi (2014) studied the impact of monetary policy on economic growth using South Africa as a case study. Study spanned across 2000-2010. Study employed Johansen cointegration and error correction mechanism for the analysis of data. Results indicate that: (1) There was a long-run relationship among the variables (2) Inflation impacted positively and significantly on growth while money supply, repo rate and exchange rate did not impact significantly on growth. Policy implication of findings is that government should adapt the country's monetary policy to the country's business environment in order to achieve sustainable growth. Study has limitation in the discernable contradictions of its report. Still, the study was considered relevant as it facilitated an in-depth understanding of cyclical variation in the country's real GDP in terms of monetary impulse.

Baghebo and Stephen (2014) studied the impact of monetary policy on economic growth in Nigeria. Study spanned across 1980-2011. Study employed OLS technique, Johansen cointegration test and error correction model for the analysis of data. Study revealed that there were both short-run and long-run equilibrium relationship between the monetary variables and economic growth. This finding has policy implication for Central Bank of Nigeria to adapt monetary policy to growth dynamics in order to achieve sustainable economic growth. The limitation of the study is that recommendations were not based on the findings of the study. However, the study is relevant to the present study which sought to evaluate contraction and expansion in Nigeria's real GDP in terms of changes in monetary policy variables.

Udude (2014) studied the impact of monetary policy on economic growth in Nigeria. Study covered the period, 1981-2012. Data were analyzed using Johansen cointegration test and vector error correction model. Results indicate that: (1) There was a long-run relationship among the variables (2) Exchange rate impacted positively and significantly on economic growth while other variables did not. Study concluded that monetary policy did not impact significantly on economic growth in Nigeria. Policy implication of findings to the federal government is that it should persuade the monetary authorities to discontinue frequent application of monetary policy as a panacea for ills of the Nigerian economy. The drawback of the study is that its recommendations were not based on findings of the study. However, the study has found relevance in the present study which relies heavily on Hawtrey's pure monetary theory of business cycle for the analysis of Nigeria's real GDP.

Nwoko, Ihomeje and Anumadu (2016) investigated the impact of monetary policy on economic growth in Nigeria. Study covered the period, 1990-2011. Data were analyzed using multiple regression technique. Results indicate that: (1) Average price and labour force impacted positively and significantly on growth while money supply did not impact significantly on growth (2) Interest rate impacted negatively and significantly on growth. Policy implication of findings is the need for monetary authorities to adopt such monetary policies that would be conducive to Nigeria's business environment in order to achieve sustainable growth. The study has its major weakness in the use of multiple regression technique for the analysis of data from a small sample (n=22). Nevertheless, the study has its relevance in the use of its findings for evaluating the cyclical variations in Nigeria's real GDP.

Anowor and Okorie (2016), in their study reconsidered the impact of monetary policy on economic growth in Nigeria. Study covered the period, 1982-2013. Study employed multiple regression, Johansen cointegration test and error correction model for the analysis of the data. Findings indicate that: (1) Cash reserve ratio impacted positively and significantly on economic growth (2) Interest rate and monetary policy rate impacted negatively on economic growth (3) There was a long-run relationship among cash reserve ratio, interest rate, monetary policy rate and real GDP. Policy implication of findings is the need for Central Bank of Nigeria to give priority to cash reserve ratio while designing monetary policy for Nigeria. Discernable weakness of the study is glaring incoherence in the researchers' report of the findings of their study. Notwithstanding, the results of the study were considered useful evidences for reference in the present study.

#### **2.2.4. Summary of Review**

Theoretical literature review revealed unanimity among scholars in their agreement that volume of economic activities in countries depends to a large extent on fiscal and monetary policies. Therefore, the present study was predicated on the premise that growth dynamics in both developed and developing countries can be explicated in terms of cyclical changes in macroeconomic indicators, fiscal and monetary impulses.

On empirical side, review revealed growing interest among researchers to determine the asymmetric and non-linear effects of monetary policy on economic growth, several studies on impact of monetary policy on economic growth were reviewed. Evidences from such studies have provided a fertile soil for filling

this discernible gap by extending the study on asymmetric and non-linear effect of fiscal policy on growth to the impact of asymmetric and non-linear effect of monetary policy on growth. Certainly, the results of these studies would provide a useful guide for appraising the impact of oil price volatility, fiscal and monetary impulses on economic growth over a business cycle.

### 3. METHOD AND PROCEDURE

The method and procedure adopted for conduct and advancement of this study have been discussed hereunder.

#### 3.1 Nature of Data

Data on real gross domestic product (GDP) were obtained from Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS). Data used for the study are those available from 1970-2015. To determine the nature of data on GDP, test of normality was applied. The results of test were presented in Table 2

Table 2. Skewness(sk) and Kurtosis (ku) of GDP

Variable	Computed sk	Critical sk	Computed ku	Critical ku	Nature of distribution
GDP	.761	0	-.221	.263	Not normal

Table 2 shows that the computed sk and ku values are deviations from critical sk and ku values for normal distribution. These results suggest that GDP in Nigeria was not normally distributed and therefore, were considered to be time series data.

#### 3.2 Theoretical Framework

Bronfenbrenner, Sichel and Gardener's (1982), "A simple theory of cycles" provided the analytical framework for the present study. The cumulative phases of the business cycles are set in motion by changes in the amount of the planned expenditure. The changes usually occur in planned consumption, planned investment, government purchases or net export. An increase in planned spending induces the expansion phase while a reduction in planned spending triggers off the contraction phase. The higher income generated by increase in planned spending leads to higher increases in planned spending which, through the multiplier, lead to further increases in income to sustain the expansion phase. During contraction, the multiplier works in the opposite direction causing decreases in public spending which leads to further decreases in income to induce a self-perpetuating contraction phase. Thus, it is the multiplier that gives a cumulative character and a time dimension to both expansion and contraction phases of business cycles.

However, expansion and contraction do not continue endlessly. Expansion phase usually terminates at the upper turning point (peak) due to limits imposed by resource utilization at full employment. Similarly, contraction phase hits the trough due to resource availability and increasing resource utilization at less than full employment. Expansion phase could come to an end due to external events such as oil price shock, ending of war and business expectations. The broad objective of business cycle policy is to align the expansion rate with the trend of growth of the economy in order to ensure that expansion continues in the absence of external shocks.

#### 3.3 Method of Data Analysis

Data were analyzed using the time series components of trend, seasonal variation and random factors. Moving-averages method was used for computing the trend. Trend values were applied for tracking the trend line which represents the long-term growth path of the economy. Seasonal values depict the responsiveness of growth to fiscal, monetary and macroeconomic policy impulses. Random factors were computed to determine the extent to which growth was susceptible to contingencies. Finally histogram was employed to highlight growth dynamics in terms of oil price shock, fiscal and monetary impulses.

#### 4. RESULTS

The results in Tables 3, 4, 5, 6 and Figure 1 facilitated the discussion under the following sub-headings:-

- Features of the Nigerian economy
- Thrust of Economic Policies in Nigeria
- Responsiveness of Growth to Contingencies under Trade Paradigm Shift, Bank Reforms and SAP
- Susceptibility of Growth to Fiscal, Monetary and Trade Policies

##### 4.1 Features of the Nigerian Economy

To gain an insight into the size of productive activities and the degree of interconnectivity among productive forces in the Nigerian economy, effort in this section was focused on describing the major characteristics of the country's productive sector. Time series components of trend values, seasonal values and random values which were presented in Tables 3, 4, 5 and 6 respectively have facilitated the description of features of the Nigerian economy.

Table3. Incremental Rate of Nigeria's Real Gross Domestic Product (RGDP)

S/No.	Stage	Regime	Trend Values		Range	No. of Jumps	Incremental Rate(IR)
			Highest	Lowest			
1	Trade	Comparative(1970-1991)	19184.1	69.3	19114.8	20 - 1=19	1006.04
2	Trade	Competitive(1992-2015)	63392.2	19597.4	43794.8	22 - 1=21	2085.47
3	Bank Reform	Control(1960 -1985)	14632.0	69.3	14562.7	14 - 1=13	1120.21
4	Bank Reform	Decontrol(1986 -2004)	34670.4	15113.3	19557.1	19 - 1=18	1086.51
5	Bank Reform	Consolidation(2005 -2015)	63392.2	37451.7	25940.5	9 - 1 = 8	3242.56
6	SAP	Pre SAP (1970 -1985)	14632.0	69.3	14562.7	14 - 1=13	1120.21
7	SAP	Post SAP (1986 -2015)	63392.2	15113.3	48278.9	28 - 1=27	1788.11
Overall			63392.2	69.3	63322.9	42 - 1=41	1544.46

Table 3 shows that RGDP increased at a higher rate during the competitive advantage paradigm (IR=2085.47) than it did during the comparative advantage paradigm (IR=1006.04). This implies that Nigeria benefited more from trade in globalized economy. Also, the table shows that bank consolidation resulted to highest incremental rate in RGDP (IR=3242.56), followed by Control regime (IR=1120.21) and Decontrol (IR=1086.51). These results suggest that recapitalization of banks inherent in consolidation and restructuring reform enhanced the operational efficiency of the banking industry in Nigeria. Moreover, it is clearly evident from the table that RGDP increased at a higher rate during the Post SAP era (IR=1788.11) than during Pre SAP era (IR=1120.21). This is an indication that the Nigerian economy experienced a certain degree of diversification which was a cardinal objective of SAP introduced in 1986. Overall, RGDP increased at the rate of 1544.46 per annum between 1970 and 2015. Possible deduction from the global outlook depicted by these results is that under the prevailing trade, fiscal and monetary policies, Nigeria was a developing and an emerging large market.

##### 4.2 Thrust of Economic Policies in Nigeria

The thrust of the economic policies represented by seasonal values was traced along the four phases of policy implementation including the take-off phase, secondary transition phase, tertiary transition phase and the final phase. This has been presented in Table 4.

Table 4. Seasonal Values of RGDP for Policy Implementation Phases

S/No.	Moment	Policy Implementation Phase	Seasonal Values
1	1	Take-off phase	208.084
2	2	Secondary transition	-127.930
3	3	Tertiary transition	-191.220
4	4	Final phase	111.067

As can be seen in Table 4, take-off phase had seasonal value=208.084, secondary transition had seasonal value=-127.930, tertiary transition had seasonal value=-191.220 while the final phase had seasonal value=111.067. These results suggest that policy implementation in Nigeria was effective for increasing RGDP by 208.084 billion naira in the take-off phase and 111.067 billion naira in the final phase. The negative signs for seasonal values in the secondary transition phase (-127.930 billion naira) and the tertiary transition phase (-191.220 billion naira) imply that policy implementation in the secondary and tertiary transition phases were ineffective as it resulted to reduction in RGDP by 127.930 billion naira in secondary transition phase and 191.220 billion naira in the tertiary transition phase.

4.3 Responsiveness of Growth to Contingencies under Trade Paradigm Shift, Bank Reforms and SAP

Table 5. Mean, Standard Deviation (SD) and Coefficient of Variation (V) of Random Values of RGDP under different Trade Paradigm, Bank Reforms and SAP

Comparative	Competitive	Control	Decontrol	Consolidation	PreSAP	PostSAP	
8285.9	-2875.4	8285.9	832.2	-3715.9	8285.9	832.2	
7218.7	-4284.7	7218.7	-220.7	-2707.2	7218.7	-220.7	
5870.7	-5745.4	5870.7	-620.8	-859.1	5870.7	-620.8	
4158.0	-6450.2	4158.0	-1258.6	879.4	4158.0	-1258.6	
2654.8	-6977.0	2654.8	-759.5	3005.9	2654.8	-759.5	
1573.5	-8083.0	1573.5	-1944.9	6250.2	1573.5	-1944.9	
230.8	-9051.1	230.8	-2875.4	8070.1	230.8	-2875.4	
-1479.0	-10013.3	-1479.0	-4284.7	9137.4	-1479.0	-4284.7	
-2998.0	-10126.0	-2998.0	-5745.4	10709.1	-2998.0	-5745.4	
-4074.6	-10263.9	-4074.6	-6450.2	13131.3	-4074.6	-6450.2	
-5421.2	-8085.6	-5421.2	-6977.0	13923.6	-5421.2	-6977.0	
8023.5	-6412.7	8023.5	-8083.0		8023.5	-8083.0	
6238.7	-4453.2	6238.7	-9051.1		6238.7	-9051.1	
4024.5	-3715.9	4024.5	-10013.3		4024.5	-10013.3	
2602.5	-2707.2	2602.5	-10126.0		2602.5	-10126.0	
2060.0	-859.1	2060.0	-10263.9		2060.0	-10263.9	
832.2	879.4		-8085.6			-8085.6	
-220.7	3005.9		-6412.7			-6412.7	
-620.8	6250.2		-4453.2			-4453.2	
-1258.6	8070.1					-3715.9	
-759.5	9137.4					-2707.2	
-1944.9	10709.1					-859.1	
	13131.3					879.4	
	13923.6					3005.9	
						6250.2	
						8070.1	
						9137.4	
						10709.1	
						13131.3	
						13923.6	
Sum	34996.5	-34996.7	38968.8	-96793.8	57824.8	38968.8	-38969.0
Mean	1590.75	-1458.20	2435.55	-5094.41	5256.80	2435.55	-1298.97
SD	3910.76	7748.70	4280.69	3693.99	6295.84	4280.69	6919.38
V	245.84	-531.14	175.76	-72.51	119.77	175.76	-532.68

Overall Mean = -0.004

Table 5 shows that under the trade paradigm, mean random value for Comparative advantage trade regime (CATR) = 1590.75 (SD=3910.76, V=245.84) while mean random value for Competitive advantage trade regime (CTR) = -1458.20 (SD=7748.70, V=-531.14). These results suggest that contingency impacted negatively and more intensely on RGDP during the CTR than it impacted positively on RGDP during the CATR. Besides, the impact of contingency on RGDP was more sustained during the CATR than during the CTR ( $V_{CATR} < V_{CTR}$ ). Also, Table 5 shows that under bank reforms, Control regime (CRL) had mean random value=245.55 (SD=4280.69, V=175.76) while Decontrol (DCT) and Consolidation (CND) regimes had mean random value= -5094.41 (SD=3693.99, V=-72.51) and mean random value=5256.80 (SD=6295.84, V=119.77) respectively. These results indicate that contingency

impacted positively and more intensely on RGDP during CND than during CRL and DCT. However, the impact of contingency on RGDP was more sustained during DCT regime than it was during CRL and CND regimes ( $V_{DCT} < V_{CND} < V_{CRL}$ ). With respect to SAP, the table shows that Pre-SAP era had mean random value=2435.55 (SD=4280.69,  $V=175.76$ ) while Post-SAP era had mean random value=-1298.97 (SD=6919.38,  $V=-532.68$ ). These results imply that while contingency impacted positively on RGDP during Pre-SAP era, the impact of contingency on RGDP during Post-SAP era was negative and less intense. Besides, the impact of contingency on RGDP during the Pre-SAP era was more sustained than it was during the Post-SAP era ( $V_{Pre-SAP} < V_{Post-SAP}$ ).

Overall, mean random value=-0.004, thereby implying that contingency in the Nigerian economy tended toward reducing RGDP.

#### 4.4 Susceptibility of Growth to Fiscal, Monetary and Trade Policy Impulses

The results of trade cycle analysis of growth vis-a-vis fiscal, monetary and trade policy impulses have been presented in Figure 1 and Table 6 to facilitate discussion on the extent to which fluctuations in RGDP were partly or solely attributable to monetary, fiscal, and trade policy measures.

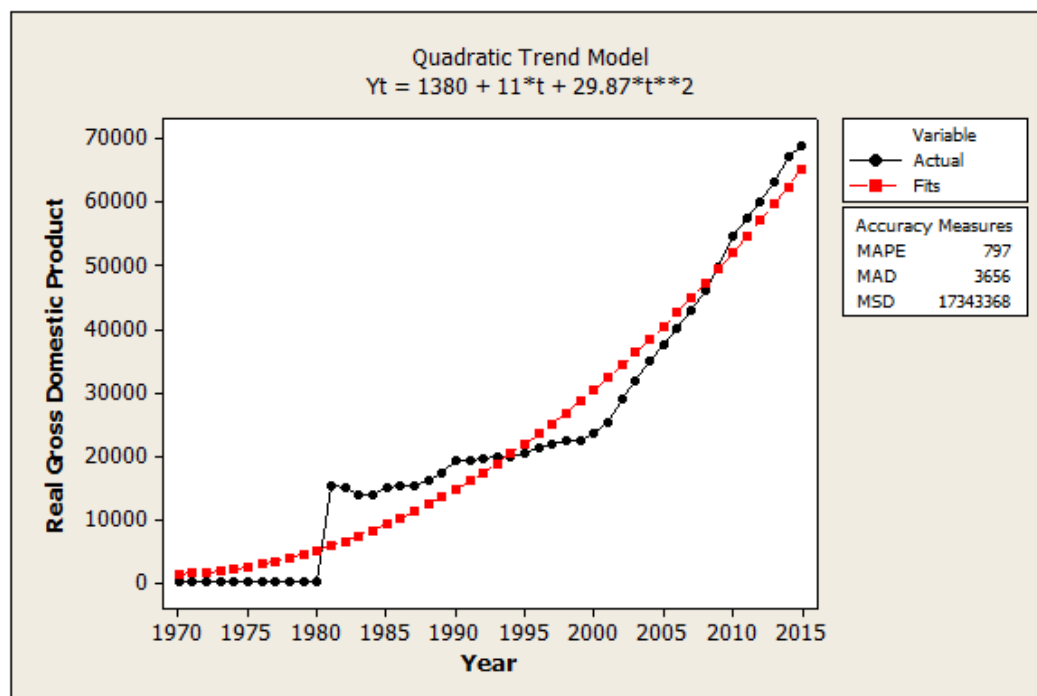


Figure 1. Phases of Nigeria's Trade Cycle

Table 6. Historical Records of Fiscal and Monetary Intermediations in Nigeria

S/No	Nature of Intermediation	Intervening Authority	Nature of Policy	Year of Intervention
1	Bank reform (Control Regime)	CBN	Monetary	1970-1985
2	Bank reform (De-Control Regime)	CBN	Monetary	1986-2004
3	Bank reform (Consolidation Regime)	CBN	Monetary	2005-2015
4	SAP (Pre-SAP)	FG	Fiscal	1970-1985
5	SAP (Post-SAP)	FG	Fiscal	1986-2015
6	Fixed Exchange Rate Regime	CBN	Monetary	1970-1986
7	Floating Exchange Rate Regime	CBN	Monetary	1986-2015
8	Privatization of Public Enterprises	FG	Fiscal	1988-2015
9	Trade and Financial Liberalization	FG	Fiscal	1989
10	National Poverty Eradication Programme (NAPEP)	FG	Fiscal	2001
11	National Economic Empowerment and Development Strategy (NEEDS)	FG	Fiscal	2004-2007

Figure 1 shows the trend line as upward sloping curve rising slowly from 1970-1993 from where it rose sharply till 2015. The trend line is nearly flat between 1970 and 1980, representing the period of oil boom. From 1980, the trend line rose slowly and steadily till 1993 on account of cumulative effect of SAP of 1986, bank De-control regime of 1986, privatization exercise of 1988 and trade and financial liberalization of 1989 as evinced in Table 6. The figure also shows that the trend line rose sharply between 1993 and 2015, representing the cumulative effect of floating exchange rate of 1986-2015, National Poverty Eradication Programme of 2001, NEEDS of 2004-2007 and bank consolidation regime of 2005-2015 as are reflected in Table 6.

As can also be seen in Figure 1, brief and short fluctuations are entirely above the trend line between 1980 and 1993. This serves as an indication that the upper turning points occurred after the economy has attained sustainable growth. The brief and short contraction phase in 1993 was followed by a long and large expansion phase in 2004 and was accompanied by large and long expansion phase with peak in 2014 that yielded the length of the cycle=22. These results suggest that: (i) Economic growth in Nigeria was not self-sustaining as it was exogenously determined (ii) Reconfiguration of the economy in 2001 revolving around poverty reduction and employment generation resulted to economic recovery from slump (iii) The Nigerian economy was characterized by building or Kuznets cycle.

#### 4.4 Summary of Major Findings

The major findings which had emerged from the study include the following:

1. Nigeria was a developing and emerging large market.
2. Nigerian economy was characterized by poor policy implementation.
3. Trade openness subjected the Nigerian economy to the vagaries of international financial instability and global recession.
4. Economic growth in Nigeria was not self-sustaining.
5. Reconfiguration of the Nigerian economy revolving around poverty reduction and employment generation was an effective policy for economic recovery.

### 5. DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Discussion of Findings

Indeed, it is rational to expect the finding that Nigeria was a developing and emerging large market. The rebasing of the Nigerian GDP in April 2014 by NBS and some governmental agencies had placed Nigeria in the top 26 performing economies in the world (Kwanga, 2015). The rebasing of Nigeria's GDP was carried out using 2010 as the base year as against 1990 base year. A total number of 46 separate economic activities were assessed under the rebasing process as compared to 33 in the 1990. As a result, the Nigeria's GDP increased from \$285.5bn to \$510bn in 2013, thereby relegating Africa's largest economy,



South Africa to the second position with the GDP of \$370bn. It is generally accepted that GDP is a barometer to measure the health of an economy. Undeniably, therefore, Nigeria has remained till date, Africa's largest economy. This finding is a confirmation of the outcome of NBS (2013) assessment which has placed Nigeria in the top 26 performing economies in the world.

That the Nigerian economy was characterized by poor policy implementation is no more a rhetoric. Proper planning precedes effective policy implementation. The former prime minister of India, Jawaharlal Nehru had described planning as the exercise of intelligence to deal with facts and situations as they are and find a way to solve problem (Todaro, 1977). It is therefore, reasonable to argue that a country such as Nigeria with weak data base and where mediocrity rules can hardly plan properly or implement policy effectively. Up till date, the objectives of the First National Development Plan (1962-1968) are yet to be achieved. This finding is in agreement with the findings reported by Ojo (2012), Ibietan and Ekhosuehi (2013) and Ugwuanyi (2014).

The finding that trade openness subjected the Nigerian economy to the vagaries of international financial instability and global recession is anchored in the Nigerian culture of 'what is foreign is best'. Taste and preferences of Nigerian consumers for foreign goods and services have been responsible for the country's heavy dependence on import. Imported inflation and heavy pressure on the dollar have not only worsened Nigeria's balance of payment situation but more than that rendered the fiscal and monetary policy instrument ineffective. This finding best corroborates the findings reported by Oriakhi and Iyoha (2013) and Jawad (2013).

There is another finding that economic growth in Nigeria was not self-sustaining. Nothing could be closer to truth than this. The Nigerian economy is monolithic, and wholly dependent on import and propelled by crude oil export which is susceptible to international oil price volatility. To achieve sustainable growth in such an economy would require the effective implementation of fiscal and monetary policies which are combined in a proper mix. However, the Nigerian situation is such that violates the principle of proper monetary-fiscal policy mix. There is lack of synergy between the fiscal and monetary authorities in Nigeria. While money supply is determined exogenously by CBN on the one hand, on the other hand, it is endogenously determined by the fiscal authority. The results are clear- policy contradiction and policy summersault which inhibit growth. This finding is in agreement with the findings of Onwuemele (2013) and Chete et al (2016).

Finally, there is this finding that poverty reduction and employment generation programme of National Economic Empowerment and Development Strategy (NEEDS) were effective for economic recovery from recession. One would expect that SAP left a long, lasting positive impact of economic growth in Nigeria. However, this is not a current issue for discussion. Susceptibility of an oil propelled economy to international financial instability and global recession is only a matter of fact. Perhaps, what is startling is that poverty reduction and employment generation were powerful enough to offset the recessionary forces and restore the economy to the part of recovery. This is not difficult to understand considering that when private sector account more for growth, only a small contribution can be expected in terms of employment to reduce poverty. In this sense, it is logical to aver that poverty reduction and employment generation would lead to economic empowerment of the people and enhanced their participation in economic activities which in turn would result to economic recovery. This finding is in consonance with the findings reported by Mohanty's (2014) and Kwanga's (2015). Mohanty had reported that economic growth has positive relationship with poverty. On his own part, Kwanga had reported that 2013 economic growth comes more from private sector leaving little to be expected in terms of employment to reduce poverty.

## **5.2 Conclusions**

From the foregoing, it is safe to conclude that poverty reduction and employment generation are a sine qua non for the achievement of self-sustaining growth in developing countries. Most developing countries rely heavily on imports and are susceptible to international financial instability and global recession. Often, financial intermediation in these countries is ineffective due to lack of synergy between fiscal and monetary authorities which eventually result to a mismatch between fiscal and monetary policies. The far-reaching implication of this inference which is, of course, the contribution of this study to knowledge is that Nigeria like other developing economies suffer from overdependence on international liquidity which is usually grossly inadequate even to meet the demand by the developed countries of the International Monetary Fund (IMF). The study has injected the novelty of uncommon use of business cycle analysis into economic literature usually dominated by econometric analysis. The strength of the study lies in the progressive valuation of real GDP which business cycle analysis affords. Notwithstanding, the study has its limitation which is the dearth of traceable transmission mechanism. However, it is a deep conviction of the researchers that the full benefits of this study would be derived with a religious implementation of the recommendations proffered in the next section.

## **5.3 Recommendations**

Based on the major findings of this study and the accompanying discussion on findings, the researchers have prescribed the following policy measures:

1. With Nigeria's soaring profile as emerging large market with full potentials for attracting foreign investors, a viable option for Nigeria and other African countries is to forge close ties into regional trade bloc in order to convert their competitive disadvantage into competing comparative advantage during trade negotiations in international market.
2. Poor policy implementation is a direct consequence of poor planning, corruption and lack of commitment which require that governments and their agencies involved embarked on project evaluation at each stage of implementation in order to achieve the desired goals.
3. Susceptibility of developing economies to international financial instability and global recession necessitates that the developing economies reduce their overdependence on international liquidity and mobilize domestic resources to achieve self-sustaining growth through direct application of fiscal and monetary policies in a proper mix.
4. With the direct action of poverty reduction and employment generation in recovering the Nigerian economy from recession, there is a need for developing economies to invest massively in basic infrastructure, agriculture, social services and other labour-intensive industries in order to empower the people economically and so avert or exit from recession or prevent a relapse into it.
5. Trade openness which is a global response to shift in trade paradigm has altered the flow of resources in favour of the developed economies and had therefore made it imperative that developing economies revise their trade policies continually to protect home industries.

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