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**Macroeconomic policy for full and
productive and decent employment
for all: The case of Nigeria**

Ugochukwu Agu
Chijioke J. Evoh

Employment
Policy
Department

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization, and*¹ which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work², in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

At the 99th session of the International Labour Conference, constituents endorsed the need to promote a ‘pro-employment’ macroeconomic framework. It was felt that the current framework, while making an important contribution to the goal of macroeconomic stability, paid insufficient attention to the way in which macroeconomic policy instruments either helped or hindered employment creation and poverty reduction. In the standard framework that has evolved since the days of the structural adjustment programmes of the 1980s and 1990s and that has remained intact during the 2000s, the emphasis is on attaining key nominal targets pertaining to debts, deficits and inflation. The rationale is that attaining such targets in the medium to long term run will engender a predictable macroeconomic environment that is crucial for supporting growth and hence employment creation. It now appears that macroeconomic stability is necessary, but by no means sufficient to engender inclusive, job-rich growth.

The ILO/Korea partnership programme has been providing additional support to the Employment Policy Department’s endeavour to identify existing constraints in the macroeconomic policy instruments that may hinder generation of full and productive employment, and to suggest a way forward for job-rich growth. A series of country case studies has been conducted, and the current case study of Nigeria represents one result. It analyzes recent macroeconomic performance, shows their relationship with employment outcomes or lack thereof, reviews the existing programmes on employment and social safety nets, and reflects the views of the ILO constituency and other key national stakeholders that were collected through consultations.

The Nigeria economy has experienced robust GDP growth rates over the reform period 2000 to 2010. However these high levels of economic growth have not translated to the expected increase in employment opportunities for a rapidly growing young population. The paper noted increased unemployment in the reform years as well as increased rate of joblessness and vulnerability during the global crisis period, demonstrating a clear mis-match between the goals of macroeconomic policies and the goal of achieving productive employment and poverty reduction as a key priority of the Nigeria vision and development framework 20:2020. Using a Structural Vector Auto Regression (SVAR) model, the paper explores the relationships between the monetary policy rate (interest rate), growth rate of money supply, inflation, exchange rate growth and growth rate of output. The results demonstrated that changes in monetary policy, rate while it reduces inflation, does have an adverse effect on credit growth and real growth of output. The implication of the analysis is that discretionary monetary policy (inflation targeting achieved by raising interest rate) could discourage potential investment, depressing growth rate of output and hamper efforts towards poverty reduction and job creation. The paper concludes that new policy directions including combination of employment-friendly macroeconomic policies, especially targeting employment as a key outcome, and re-aligning the educational and skill development and training systems to the demands of the labour market, are key challenges to achieving the goal of productive employment and decent work for all in Nigeria.

We are grateful to the Honourable Minister of the Federal Ministry of Labour and Productivity and the ILO Country Office for Nigeria, Ghana, Sierra Leone, Liberia and the Gambia for providing valuable support in the field work of this study.

Azita Berar Awad
Director
Employment Policy Department

Abstract

This study examines the prospects and challenges of productive employment and decent work in Nigeria within essential macroeconomic policy targets. Premised on the dynamics of expanding labor market in Nigeria and by juxtaposing the labor market and macroeconomic policies in the country, the study examines the contradictions and challenges facing the realization of the goals of gainful and productive employment in Nigeria. By using a recursive structural Vector Autoregressive model, we find that increases in monetary policy rate (MPR) to cut down on inflation have a depressing impact on the economy. The result of this study does not support the assertion that a tight monetary policy coupled with a contractionary fiscal policy will engender natural rate of growth of the Nigerian economy. This is contrary to persuasive monetary policy advice for inflation targeting pursued by central banks and the International Monetary Fund (IMF). The study suggests that a more flexible inflation rate, increased money supply, access to credit and a modest but upward adjustment to capital and recurrent expenditure have greater potential in accelerating GDP growth and for the attainment of full employment and poverty reduction in Nigeria. Economic activities leading to expansionary trends in GDP growth and the growth rate of credit and money supply pose no unenthusiastic challenge on inflation. Rather, such activities can only be a boost to the labor market in Nigeria.

Keywords: Labor Market, Productive Employment, Decent Work, Monetary and Fiscal Policy Innovations and Structural Vector Auto Regression.

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1. Introduction

In the past one decade, Nigeria has struggled to implement a restrictive monetary policy of inflation targeting and fiscal sustainability. The goal is to ensure sustained economic growth and fiscal discipline. Over these periods, the successes of various economic reforms pursued by the government and prudent policies have contributed to the consolidation of macroeconomic stability and improvements in major economic indicators. To this effect, the Nigerian economy has experienced an astronomical rate of growth in the past decade. However, such level of growth has not translated to the expected increase in employment opportunities and poverty reduction on the ground. Thus, there is an apparent trade-off between the various macroeconomic policies in Nigeria in the past decade and the creation of productive employment and poverty alleviation for the populace. Like most developing countries, there has been a mismatch between macroeconomic policy strategies and socio-economic development goals in Nigeria. This study aims at reviewing the available evidence, and provides new evidence, to assess to what extent macroeconomic policies and management (monetary, fiscal, exchange rate and capital account regimes) strategies have either helped or hindered the goal of attaining full and productive employment, and suggest policy options for the future.

This study examines the extent to which macroeconomic policies in Nigeria have lifted the country out of poverty through employment generation in the era following the structural adjustment program (SAP). The study explores the nuances and dynamics of recent monetary and fiscal policy instruments, on the one hand, and how these macroeconomic policy regimes affect the ability of the economy to generate productive employment and reduce poverty in the country. There is a direct correlation between employment and poverty reduction (Heintz, 2005). However, recent macroeconomic policies have been narrowly focused on reducing inflationary trend in the economy through inflation targeting and stabilization of the debt-to-GDP ratio. This lack of broad-based approach in macroeconomic policy has proven counter-productive to the overall goal of real output and employment in the Nigerian economy.

The objective of this study is to draw an empirical contrast between the macroeconomic policies in post-SAP era in Nigeria, which is narrowly focused on inflation targeting and real exchange stability, and the overall goal of generating productive employment and poverty reduction. The SAP in Nigeria was designed by the IMF-World Bank to change and restructure the production and consumption pattern in the economy. The goal was to reduce price distortion and heavy dependence of the economy on crude oil export (Anyanwu, 1993 cited in Udoka & Anyingang, 2010). The major goal of SAP was to reduce Nigeria's external imbalances with a restrictive monetary policy with the hope of achieving a non-inflationary growth and increase in domestic production of non-oil goods in the economy (ibid). In turn, the expected increase in aggregate production of non-oil tradable goods in a diversified economy will stimulate domestic saving and achieve a sustainable external debt servicing profile for the country. The SAP strategy created an enormous strain on social infrastructure, and the expected SAP-induced growth did not generate sufficient productive employment in Nigeria. By implication, lack of employment opportunity translates to increased poverty in the country. This illustrates the extent to which past macroeconomic policies have been narrowly framed without much consideration to the goals of employment and poverty reduction.

The gap between the current macroeconomic paradigm in the country and the ultimate goal of productive employment and poverty reduction casts doubts on the commitment of the Nigerian government to the attainment of the Millennium Development Goal (MDG) target 1B of 'full and productive employment and decent work for all' (ILO, 2009, p. 12). This calls for the rethinking of the Nigeria's economic policy instruments, which primarily target single digit inflation in the absence of expansionary fiscal policy regime and real exchange rate stability (Chowdhury & Islam, 2010).

This study addresses the following research questions:

1. What is the trend of macroeconomic policy in post-SAP era in Nigeria?
2. To what extent has the macroeconomic policy regimes in post-SAP era in Nigeria enhanced or hindered the creation of productive employment opportunities?

This study is justified by the increasing rate of unemployment and poverty in Nigeria in the face of increasing economic growth⁵. The study puts forward two basic arguments. First, it argues that there is a clear mismatch between the goals of the post-SAP macroeconomic policies of inflation targeting and exchange rate stability, on the one hand, and the overall long-term development goals of productive employment and poverty reduction in Nigeria on the other. Second, the present macroeconomic policy instruments make it difficult for the Nigerian government to assume the responsibility of employment creation and the “employer of the last resort”. This underscores the need for a broad-based and prudent macroeconomic strategy, which protects the vulnerable members of the society in line with the MDG B1 and sustainable long-term development goals in the country.

Following the introduction, the rest of the paper is divided into eight main sections. Section two of the paper looks at extant literature on inflation targeting particularly in the developing economies. The methodology used in the study, including data analysis and choice of variables, is presented in section three. Section four presents the relationship among economic growth, labour market and poverty profile in Nigeria. The dynamics of macroeconomic policy targets in Nigeria are examined in the fifth section with particular focus on monetary policy, fiscal policy, exchange rate and capital account management. The sixth section gives a critical analysis of macroeconomic policies, employment and poverty reduction strategies in Nigeria. The section further looks at the imperative to harmonize macroeconomic policy regimes and productive employment strategies in the country. The seventh section of the study presents the implications of the study for macroeconomic policy in Nigeria, and the last section is the concluding remark.

2. Literature Review on Inflation targeting, Growth, Employment and Poverty Reduction

Inflation Targeting (IT) by Central Banks in developing economies has proven to be one of the most controversial monetary policies since the end of orthodox structural adjustment policies. As Epstein and Yeldan (2008, p. 1) note, many Central Banks have declared as their sole mandate maintaining price stability with inflation in the low single digits in the range of 4-6 rates. The Central Banks employ monetary tools such as the policy interest rate to keep inflation within the target range (Heintz and Ndikumana, 2010). In a study titled, “Inflation Targeting, Employment Creation and Economic Development: Assessing the Impacts and Policy Alternatives” Epstein and Yeldan (2008) traced the origin of IT to 1990 when the policy was adopted in New Zealand. Many countries, they argue, are pressured to adopt IT policy as a condition for accepting of IMF-led stabilization packages. Hence, these scholars see an IT policy framework as a new façade of neoliberal conditionality. The wisdom behind IT, according to the scholars, is that price stability will lead to sustained growth, which in turn, generates employment. Citing Setterfield (2006), Epstein and Yeldan observe that, IT policy generally involves, “the public announcement of

⁵ See Tables 3&4.

inflation targets, coupled with a credible and accountable commitment on the part of government policy authorities to the achievement of these targets” (2008, p. 1).

The expectation that price stability through IT will eventually generate productive employment in the economy has not materialized. This study points out that the focus of the Central Banks on price stability through inflation targeting has compromised their mandate of employment creation in the economy (Epstein & Yeldan, 2008). Thus, IT policy has brought about a trade-off between price stability and employment generation. They argue that the present system of financial globalization creates insufficient fixed capital formation essential for capital accumulation and employment creation. Therefore, it is financial and not price stability that threatens overall macroeconomic performance. The study offers viable policy alternatives to inflation-focused monetary policy in the developing countries. This includes, widening of the inflation target band, especially, for developing economies, creating new tools to accomplish employment and growth targets, and credit policies to support employment and industrial policies. These policy regimes will enable Central Banks to pursue a broad-based development and stabilization goals. The expectation that price stability through IT will eventually generate productive employment in the economy has not materialized.

Given that maintaining low inflation involves higher interest rates and the appreciation of the country’s exchange rate, it affects economic growth and development negatively due to the immediate impact on investment demand. On the other hand, the appreciation of exchange rate hurts export and encourages imports. One major contribution of the study to macroeconomic analysis is that exchange rates are important variables to consider in an analysis of inflation dynamics in sub-Saharan African countries (*ibid*). This argument is premised on the application of a broader set of macroeconomic variables focusing on 12 SSA countries (Botswana, Cameroon, Chad, Gabon, The Gambia, Kenya, Malawi, Lesotho, Mauritius, South Africa, Swaziland, and Zimbabwe) covering the period 1975-2007. The study shows that monetary aggregates, i.e., the growth rate of M2, which is one of the variables used in the analysis, do not have much impact on inflation as do exchange rates (*ibid*, P. 23). As they argue, this does not mean that money supply does not affect price stability, rather, changes in money supply impact inflation indirectly through other variables. However, this is particularly the case in countries with high rates of inflation (e.g., above 30 percent) than those where the rate is low.

The experience of IT policy, which was adopted in South Africa in 2000, suggests that the country would have gained more in growth and employment with higher interest rates (*ibid*). At the same time, the country’s exchange rate (i.e., the Rand) appreciated during IT, with the possible effect of reducing the country’s net export. However, more recently particularly in the wake of the global financial crisis, the South African Reserve Bank and Treasury Department have been flexible in implementing IT policy by allowing inflation to rise above the 6 percent threshold and by announcing exchange control liberalization measures (*ibid*, p. 31). The IT policy in Ghana was adopted in 2007. Heintz and Ndikumana (2010) observe that Ghana’s inflation dynamics are influenced primarily by external factors of supply-side shocks, external price and changes in the nominal exchange rate. Above all, the Bank of Ghana has shown discretion and flexibility in handling IT policy without adhering strictly to the rules of IT policy as always recommended. Nevertheless, Heintz and Ndikumana see IT policy implementation in South Africa and Ghana as exceptional cases. This is because IT policy makers in these countries have demonstrated some flexibility and discretion. In reality, they argue that IT advocates do not see it as constituting a set of inflexible rules. Rather, IT policy constitutes a framework, which allows for ‘constrained discretion’ (*ibid*, p. 37).

Although a strict, rules-based inflation-targeting regime in Africa would attempt to meet its target by raising interest rates and intervening into the foreign exchange market to support the currency, Heintz and Ndikumana (2010) argue that such policy regime will have a negative impact on economic growth and development in the region, thereby

worsening employment and poverty situations in SSA. As an alternative to the IT policy regime in Africa, the scholars recommended the pursuit of a broad-based monetary policy regime, which sees the Central Bank as an agency of development rather than narrowly focusing on price stability.

Divino (2009) investigates the extent to which the macroeconomic policy of inflation targeting affects unemployment in developing and emerging economies. The paper investigates whether the economic performance of inflation-targeters is better than that of inflation non-targeters. He observes that, unlike in the relative success of IT policy in the developed economies, the empirical evidence of the economic benefits of IT is unclear in developing and emerging economies. Divino (2009) argues that the IT policy regimes in developing and emerging economies that are already facing structural deficiencies, while seeking price stability are twofold. First, he argues that a tight monetary policy regime might increase existing distortions and have undesirable consequences in the labour market. Even though inflation might successfully be reduced to its target rate, but this might be at a high cost of unemployment, the output gap and economic growth. The second possible impact of IT policy can be a favourable one. Price stability achieved through a successful IT policy regime, he argues, might lessen uncertainty and economic growth.

Divino's study shows that inflation-targeting countries, on average, were able to reduce unemployment rate by 5 percent in the post-targeting period when compared with non-targeting countries. However, the study also shows that there was no significant difference in the performance of targeting and non-targeting in volatility of unemployment between the two periods. In addition, the study shows that IT policy regimes did not bring about expected higher average economic growth. Finally, Divino (2009) maintains that IT policy had no adverse impact on underemployment in developing and emerging countries. This study made a valuable contribution to the debate on the macroeconomic impact of the IT policy regime in the developing countries. However, the author examined all developing and emerging economies as a homogenous entity. The study seems to have ignored the obvious structural differences that characterize the economies of these countries. The analysis of each country's economy needs to be done on its own merits.

In a paper titled, "*Inflation Targeting: A Monetary Policy Management Framework for the Attainment of Price Stability in Nigeria*," Uchendu (2006) advocates for the adoption of IT policy by the Central Bank of Nigeria. According to Uchendu, there are a number of issues involved in the design and implementation of IT. Countries aspiring to adopt IT policy have to: define the boundaries of the target; decide inflation rate or target; ensure the transparency of the Central Bank to build public support; make room for flexibility to respond to shocks; and implement IT at the right time. Other factors to consider are the choice of operating target; availability of timely and quality data; and political support for price stability. Uchendu argued that, with external technical assistance from the IMF, Nigeria is well positioned to implement an IT policy regime. Uchendu further argues for the implementation of IT framework in Nigeria "since it hinges on strategic objective of achieving low single digit inflation" (Uchendu, 2007 cited in Aliyu & Englama, 2009). Uchendu is of the view that Nigeria has reached the level of preparedness to adopt an IT policy framework. However, Uchendu's paper was centrally focused on price stability with no consideration of the impact of IT policy on the overall economic growth and development in Nigeria. In addition, no consideration was given to the social impact of IT policy on employment creation and poverty reduction. Besides, the author presented the experience of countries such as New Zealand, Canada and U.K that have successfully implemented IT policy. However, these are countries with advanced and developed economies, and they are by no means comparable to Nigeria.

In another study, Salami and Kelikume (2010) advocated for an inflation threshold of 8 percent for Nigeria. Their study employed the Granger causality test to analyze country-specific annual time series data spread over two periods, 1970-1008 and 1980-2008, to determine the inflation threshold for Nigeria. It is interesting to note that in line with IT

school of thought, Salami and Kelikume (2010) cited studies that established inflation threshold in the developing countries at 17 percent (i.e., the level at which inflation will not have a significant negative impact on economic growth). Such studies include Gomis and Hernandez (2005), Kremer, Bick and Nautz (2009) (cited in Salami and Kelikume, 2010). By setting the inflation threshold at 8 percent, this study argues that inflation should be targeted at a minimal level, in other words, a tight monetary policy. However, such low rate of inflation threshold for a developing economy is challenged by the fact that the study did not include robust analysis of broad-based macroeconomic variables that influence the rate of inflation in a developing economy. In addition, as a developing economy with structural deficiencies, an 8 percent inflation threshold can only worsen the employment and poverty situations in Nigeria. To give credence to Salami and Kelikume (2010) study, and against the background of short-run Philips Curve, one would like to know what the rate of unemployment in the Nigerian economy would be at the 8 percent inflation threshold. The absence of such in-depth analysis renders the suggested inflation threshold questionable.

From an empirical standpoint, Aliyu and Englama (2009) assess the readiness of Nigeria to implement an IT policy framework. The study estimates the quantitative relationship between inflation, monetary policy instruments and output. They contend that the Central Bank of Nigeria has reached a reasonable threshold of independence and autonomy following a mandate enshrined in the CBN Act of 2007. Other requirements, which in their view have been met by the CBN, are the transparency and the identification of a reliable monetary transmission mechanism (Aliyu & Englama, 2009). These are among the basic component of IT (Epstein, 2007). The paper argues that Nigeria should not pursue a full-fledged inflation targeting rather, they maintain that, “Nigeria should adopt inflation targeting lite (ITL)² given the enormous advantage of inflation targeting as a monetary policy framework” (Aliyu & Englama. 2009, p. 41). This is rather a more flexible approach to price stability. However, despite their pragmatism and flexibility, Aliyu and Englama’s study remain confided only on the goal of price stability through low single digit IT. The paper did not address how ITL scenario will impact economic growth and overall development in the Nigerian economy.

Adebiyi (n.d) investigates the existence of the necessary macroeconomic preconditions for inflation targeting in Nigeria and Ghana. He examines whether there is a stable and predictable relationship between price and monetary policy instruments in Nigeria and Ghana using the vector autoregressive (VAR) model. Based on the common dynamics of the two economies, Adebiyi argues that inflation is an inertial phenomenon in Nigeria and Ghana. Hence, monetary innovations are not “strong and statistically important determinants of prices when compared with price shocks” (Adebiyi, n.d, p.22). Against this background, he maintains that money supply, interest rates and exchange rates in Nigeria and Ghana do not contain any information about inflation in the two economies. The findings of this study show that there is no need for the adoption of an IT policy framework in Nigeria and Ghana.

The fundamental goal of economic growth and stability, especially in developing countries, is to reduce poverty through employment generation and overall development. Unfortunately, recent monetary policy regimes pursued by Central Banks, particularly inflation targeting, tend to separate these intertwined economic goals. Recent macroeconomic policies have been narrowly focused on reducing inflationary trend in the

² As defined by Stone (2003, p.3) inflation targeting lite regimes is a monetary policy where the central bank announces a broad inflation objective but owing to low credibility is not able to maintain inflation as the foremost policy objective. The approach of ITL enables central banks to pursue IT regimes without committing to any numerical target.

economy through inflation targeting and stabilization of a debt-to-GDP ratio. Epstein (2007) draws a sharp contrast between the abandonment of the employment creation mandate by Central Banks and the critical importance of unemployment, underemployment and poverty at the global stage. Citing ILO figures, Epstein (2007) argues that, in order to meet MDG target of halving the share of working poor by 2015, real GDP growth of 4.7 percent has to be maintained. While the rigid inflation-focused approach of many Central Banks may have yielded some minuscule benefits of reduced inflation, Epstein argues that the expected gain in employment generation has not materialized. The single-minded focus on quantitative inflation targeting has undermined the ability of many economies to create robust and productive employment. While the paper acknowledges the importance of stabilization policy, it argues for a return to the historical norms of Central Bank policy. To this effect, the paper argues that Central Banks are agents of development; hence, “employment creation or other developmentally valuable objectives should join inflation and stabilization more generally as key goals of Central Bank policy” (Epstein, 2007, p.4).

Much has been contributed in the field of IT policy in developing and emerging economies. However, most scholars agree that developing countries, including Nigeria, are not good candidates for IT policy. Apart from their structurally deficient economies, the inflationary trends in the developing economies are caused by an inertial inflation phenomenon. Unfortunately, the phenomenon of inertial inflation defies monetarist and Keynesian explanations. Under inertial inflation, increased money supply is perceived as the cause rather than the consequence of inflation. Despite the increased level of study on IT, little has been done on the impact of an IT policy framework on productive employment and poverty reduction in Nigeria. This study plans to bridge this knowledge gap.

3. Methodology:

3.1 Data and choice of variables:

In this study, we used annual data from 1961 - 2009. The choice of this period is to cover vital economic regimes in Nigeria classified by regulated regimes (1960 – 1985) and de-regulated regime (1985 – 2009). Thus the dataset include the following Variables:

Dmpr: Monetary Policy Rate

Dm2: Money Supply

inf: Inflation

Drexr: Exchange rate

Dcredit: Credit to the Private Sector

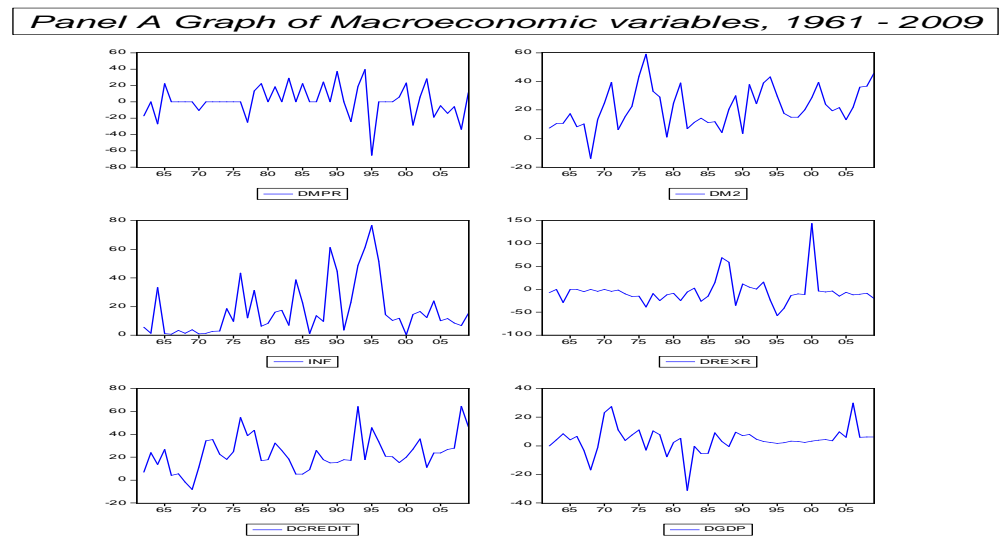
Dgdp: Real output rate

These variables are taken entirely from the statistical bulletin of the Central Bank of Nigeria (CBN) and Nigeria Bureau of Statistics (NBS). We picked the growth of MPR³ as

³ In Nigeria, data series for MPR, deposit rate of interest and prime lending rate are virtually identical. They were used interchangeably and the results of the analysis remained the same. The estimation results available on request.

against other measures of interest rate like prime lending or deposit interest rate as it serves as the best variable indicating whether the CBN is pursuing a contractionary or expansionary monetary policy. M2 is considered given that the growth rate of money is a vital measure in formulating and implementing monetary policy rate at the CBN. An increase in the rate of growth of exchange rate is taking as a measure of depreciation indicating the impact of policy variables on exchange rate. Inflation measures the price level as it is calculated as the growth rate of consumer price index (CPI), and we are more interested in measuring the impact of rate of change in inflation. Growth rate of real output measures the changes in economic activities in Nigeria. The behaviours of the variables are displayed in panel A. All variables are in growth rates except inflation taking as growth rate of CPI.

(Panel A) Graph of Macroeconomic Variables, 1961-2009



3.2 Econometric test of stability

Investigating the stationary properties of the variables used in economic analysis is very vital to ensuring a non-spurious estimation. The ADF (Augmented Dickey-Fuller) tests in Table 4 (Appendix 1) show that all the variables except inflation displayed evidence of unit root meaning that they are not stationary at the level form. We basically transformed the variables into percent changes to guarantee stationarity of the variables. Hence, table 5 (Appendix 1) shows the summary statistics for this study in percent changes. The variables incorporated in SVAR are all in percent changes except inflation, which has to be used in levels according to the guide from the ADF test.

The lag length criteria of the VAR estimation were selected using the Akaike information criteria (AIC). It reports an optimal lag length of the first order for all

monetary policy shocks considered according to table 1. The test for autocorrelation was done and the result shows no serial correlation (see Table 2)

3.3 Empirical framework

Our study draws on the traditional Keynesian argument that high real interest rate has an inverse relationship with key macroeconomic variables like output, investment, credit and employment. In order to get a more precise understanding of the effects of the recently practiced discretionary monetary policy on output, credit, and money growth and its grip on attainment of full employment in Nigeria, we estimate a model with changes in various monetary policy tools with respect to macroeconomic variables. Given the dynamic nature of the Nigeria economic system, the model of our study builds on recursive formation (Cholesky decomposition) Structural Vector Auto-regression (SVAR) approach.⁶ We estimated monetary policy innovations by studying the impacts of changes in monetary policy rate (DMPR), growth rate of money supply (DM2) and growth rate of credit (Dcredit) as endogenously determined tools of monetary policy working on different estimates of SVAR with similar restrictions and contemporaneous relationships among the variables.

The SVAR estimation for this study uses all variables as endogenous and in percentage changes (Dmpr Dm2 inf Drexr Dcredit Drgdp) except for inflation in level form. No variable is imposed on the model exogenously except a constant term. The ordering of the variables play very crucial role in determining the transmission channels of monetary policy shocks. The basic identification assumption in ordering the variables is based on the assumption that variables do not respond contemporaneously to a monetary policy shocks. Building on these assumptions, this study uses an SVAR with a recursive assumption for the identification of the monetary policy shocks in Nigeria. This implies that the policy shocks are orthogonal to all other contemporaneous variables.

We started by gathering five endogenous variables in the k - dimensional vector Y_t ; the reduced form of the VAR model can be specified as below:

$$Y_t = \sum_{i=0}^k A_i Y_{t-i} + v_t. \quad (1)$$

where $Y = [Dmpr, Dm2, inf, Drexr, Dcredit, Dgdp]$ and A_i is the $n \times n$ matrix of coefficients. The optimal number of included lags k can be determined by some information criteria such as the Akaike or Schwarz criterion. The vector of reduced form residuals v_t is n -dimensional with the variance-covariance matrix Σ_ε where $E(e_t e_t') = 0$. To transform the reduced form model into a structural model, an AB-Model is usually employed. The AB – model as developed by Amisano and Gannini (1997) simply describes the relationship between the reduced form residuals v_t and the structural form residuals e_t , such that v_t gives:

$$v_t = A_t^{-1} B_0 \varepsilon_t \quad (2)$$

Hence, the structural VAR model with A_t variables could be written thus:

$$A_0 y_t = \sum_{i=1}^p A_i y_{t-i} + B e_t \quad (3)$$

Further restrictions would need to be placed on $A_t^{-1}B_0$ to make the system justified. For reliable values of impulse responses of the variables in the system, the matrices $A_t^{-1}B_0$ and the variance-covariance matrix of the structural residuals (Σ_v) must be estimated. The diagonal matrix Σ_v can be used to express Σ_e as follows: $A_0^{-1}\Sigma_v(A_0)' = \Sigma_e$ where $A_t^{-1}B_0$ represents the lower triangular matrix.

Following equation (3), the recursive identification approach requires a minimum number of $K(K + 1)/2$ restrictions where k is the number of endogenous variables. Technically, the matrix A is a lower triangular matrix with ones on the main diagonal, and the matrix B is the identity matrix which implies that the relationship between the reduced form disturbances μ_t and the structural disturbances ε_t takes the following form:

$$B\varepsilon_t = \begin{bmatrix} \varepsilon_t - Dmpr \\ \varepsilon_t - Dm2 \\ \varepsilon_t - inf \\ \varepsilon_t - Drexr \\ \varepsilon_t - Dcredit \\ \varepsilon_t - Drgdp \end{bmatrix} = A\varepsilon_t \begin{bmatrix} 1 & 0 & 0 & 0 & 0 & 0 \\ NA & 1 & 0 & 0 & 0 & 0 \\ NA & NA & 1 & 0 & 0 & 0 \\ NA & NA & NA & 1 & 0 & 0 \\ NA & NA & NA & NA & 1 & 0 \\ NA & NA & NA & NA & NA & 1 \end{bmatrix} \begin{bmatrix} v_t - Dmpr \\ v_t - Dm2 \\ v_t - inf \\ v_t - Drexr \\ v_t - Dcredit \\ v_t - Drgdp \end{bmatrix} \quad (4)$$

Here, $\varepsilon_t - Dmpr$, $\varepsilon_t - Dm2$, $\varepsilon_t - inf$, $\varepsilon_t - Drexr$, $\varepsilon_t - Dcredit$, $\varepsilon_t - Drgdp$ are the structural disturbances from the six endogenous variables, and $v_t - Dmpr$, $v_t - Dm2$, $v_t - inf$, $v_t - Drexr$, $v_t - Dcredit$, $v_t - Drgdp$ are the residual shocks.

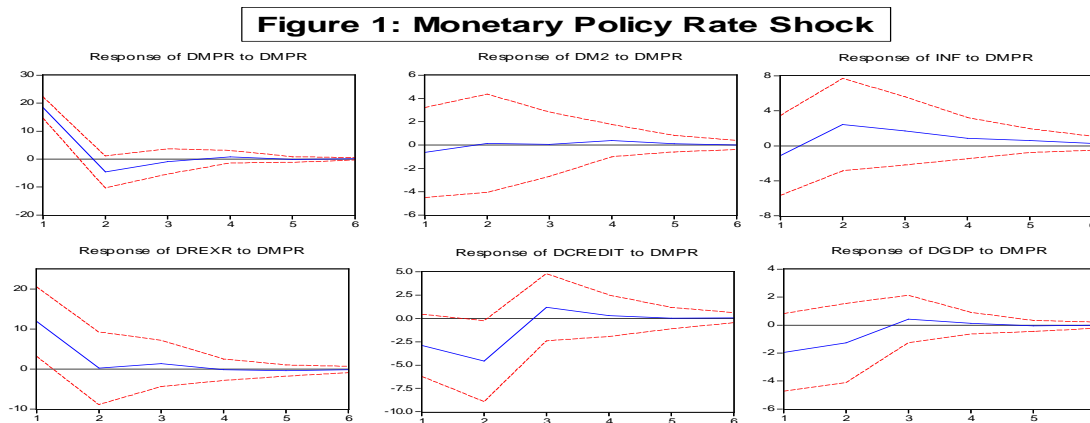
3.4 Estimation results:

1. Monetary Policy Rate Shock

Monetary theory postulates that tight monetary policy through an increase in the monetary authorities' official rates (for this study DMPR) should lead to a fall in the demand for money, prices and output while the exchange rate will rise⁴.

⁴ Abradu-Otoo, *et al* (2003).

Figure 1. Monetary Policy Rate Shock



Looking at figure 1 above, the estimated effects of a positive innovation in monetary policy rate confirms this assertion given that it creates an increase in depreciation of real exchange rate, slight reduction in inflation as expected and greater negative impact on economic growth, credit for investment and demand for money.

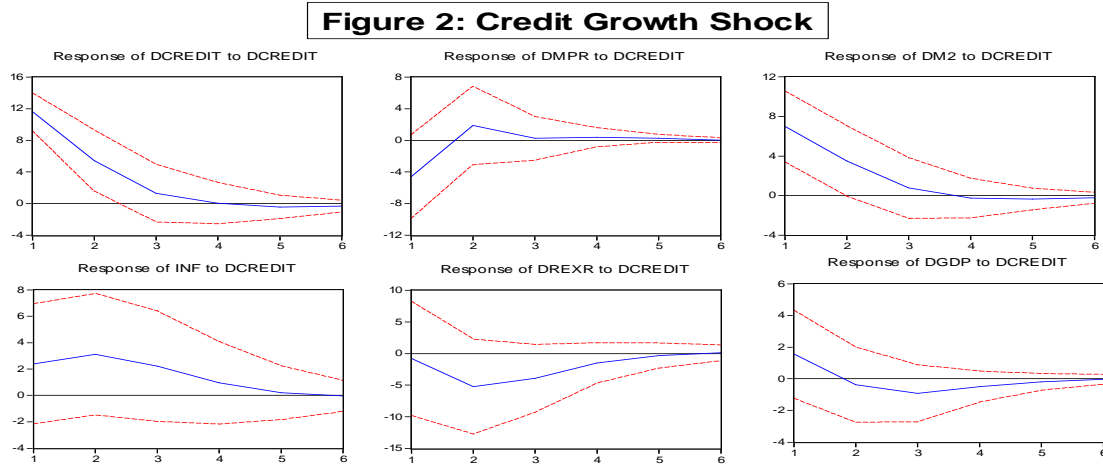
The impulse response function shows that the implementation of a tight monetary policy (Dmpr, an increase in the interest rate) has a lasting negative impact on growth rate of the economy (DRGDP). This conforms to results of other researchers in developing African countries (Chukwu 2009, Abradu-Otoo *et al* (2003), Epstein and Heintz (2006) that monetary policy contraction chokes the developing countries economy with a long lasting effect. This creates a serious concern as it counters the assumption of tight monetary policy with its negative and long lasting effect to economic growth and presumably employment⁵. The size of this reduction achieved in inflation cannot be compared with a sustained reduction in growth rate of output, growth of credit to the private sector and money demand. This shows that inflation targeting by Central Banks would have a greater adverse effect on the economy compared to how much could be gained from a slight reduction in inflation. The amazing increase in real exchange rate (i.e. depreciation), as observed in other studies (Chukwu, 2009) is explained by the under-developed nature of the capital market.

2. Credit Growth Shock

Economic theory postulates that money supply responds positively to an increase in total credit, which will in turn boost aggregate demand, investment and increase in output. A credit crunch economy resulting from contractionary monetary policy (or inflation targeting central bank), risks stifling growth rate in infrastructural development and output on the other hand.

⁵ See Epstein and Heintz (2006).

Figure 2. Credit Growth Shock

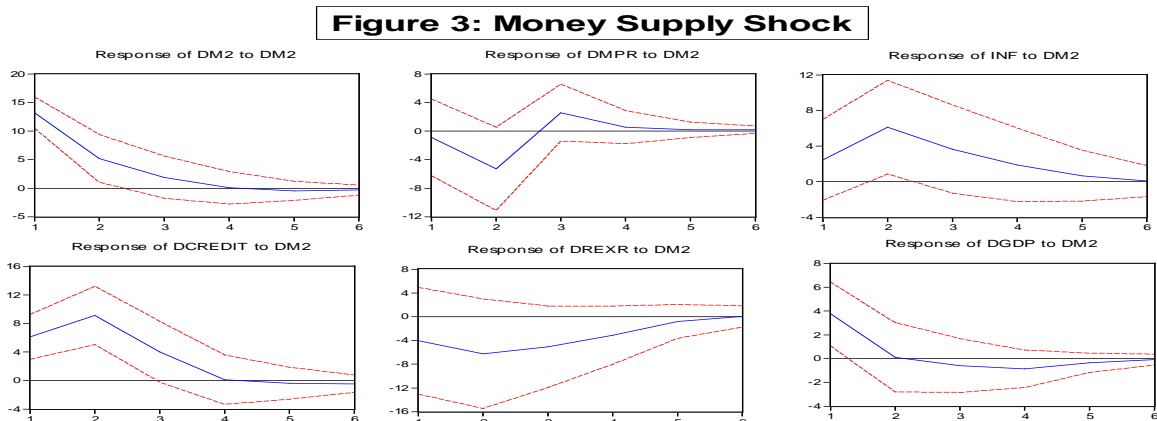


Focusing on figure 2 above, we see that there exists a positive correlation between increase in bank credit to the private sector for investment, money growth and output growth. This further infers that a sustained credit growth in an economy and growth rate of money supply could lead to creation of jobs via investment and hence output growth leading to implementation of poverty reduction strategies. This lays credence to a more job-orientated Central Bank policy, and towards a more flexible monetary policy, which is capable of ruining jobs and the attainment of full employment and poverty reduction in the country. It is equally evident that when money supply responds positively to increase in credit it crashes interest rate (MPR), which results in a relative spike in inflation. It is equally visible that such an increase in credit raises sustained growth in economic activity of Nigeria.

3. Monetary Supply Shock

Monetary policy theory suggests that an increase in the money supply will result to an upward shift in price level, access to credit, investment, real depreciation of exchange rate and increase in real gross domestic product.

Figure 3. Money Supply Shocks



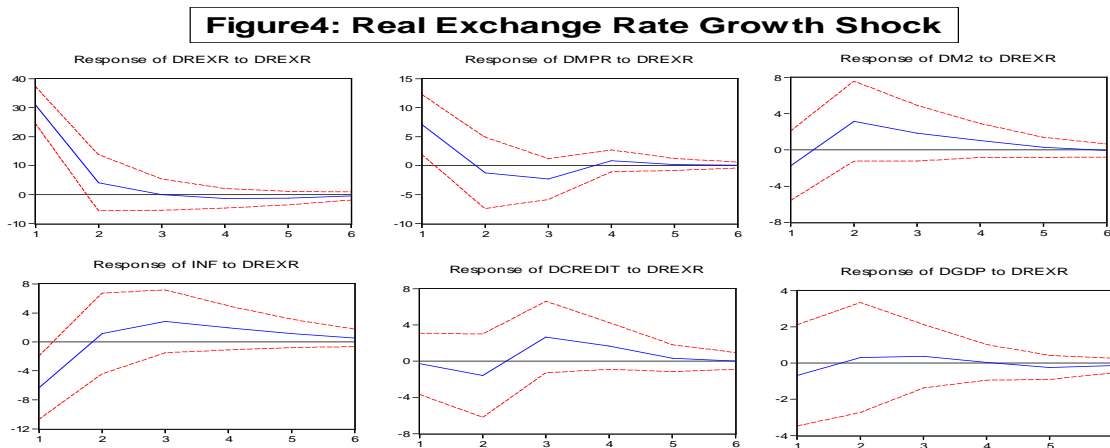
As expected, figure 3 above does show that expansionary monetary policy (typified by increase in money supply) significantly impacts the growth rate of the economy and credit of the private sector. This is on the basis that such monetary policy expansion induces investment via increase in aggregate demand and thus output increase. However, there

seems to be no evidence of liquidity puzzle contrary to the findings of (Chukwu, 2009; Akinlo, 2007) that price level (inflation) does have a positive correlation to an increase in money supply in Nigeria except after the first year. This further buttresses the fact that expansionary monetary policy that leads to increase in credit to private sector through bank lending has the potential of not reacting to inflation immediately but reacts to a sizeable boost in aggregate demand and investment. This, no doubt, will in turn have a positive impact on the economy and also create jobs. This further lays credence to expansionary monetary policy as against contractionary, as a means to boost output in Nigeria towards attainment of full employment. It was not an oversight that an increase in money supply without a corresponding increase in rate of interest or price level ought to cause real appreciation of exchange rate.

4. Exchange Rate Shocks

Contrary to the theory supporting the potentiality of exchange rate depreciation in accelerating domestic net exports and thus aggregate demand, our analysis shows that a positive shock to the real exchange rate (real depreciation) leads to a decrease in output in the first year. An increase in output is evident only after the second year and it fizzles out almost immediately. This short-lived impact of exchange rate depreciation on output had been explained by Chukwu (2009) to be consistent with theory especially for an open economy with many trading partners like Nigeria.

Figure 4. Real Exchange Rate Growth Shock

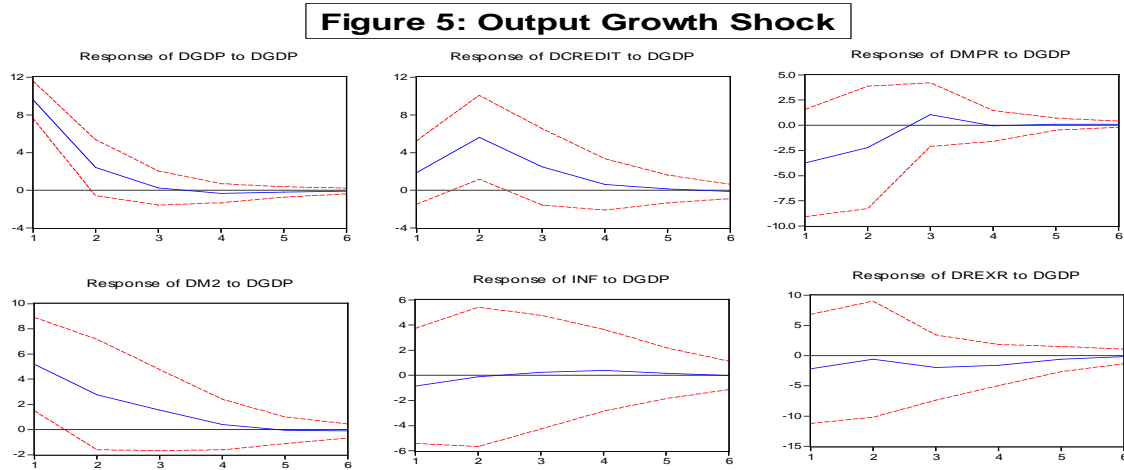


We could further infer from these findings that the exchange rate does not significantly explain the monetary policy channel of transmission in Nigeria. Depreciation of exchange rate with an increased monetary policy rate (interest rate) reduced inflation but drastically ruined access to credit, hampered money supply and increased instability in the real growth rate of the economy.

5. Output Growth Shock

As expected, a positive output growth innovation responds inversely with interest rate. This is followed by the appreciation of the real exchange rate, and an increase in the credit and growth rate of money supply. The most amazing impact is the relationship between increases in real GDP and negative response of inflation up to the second year. This goes further to say that a real GDP growth induced expansionary monetary policy still records a non-inflationary outcome in the economy. Economic policies to increase GDP growth have no inflationary pressure on the Nigerian economy. Rather, an increase in GDP can accelerate aggregate demand, which further creates demand for investment fund in the private sectors.

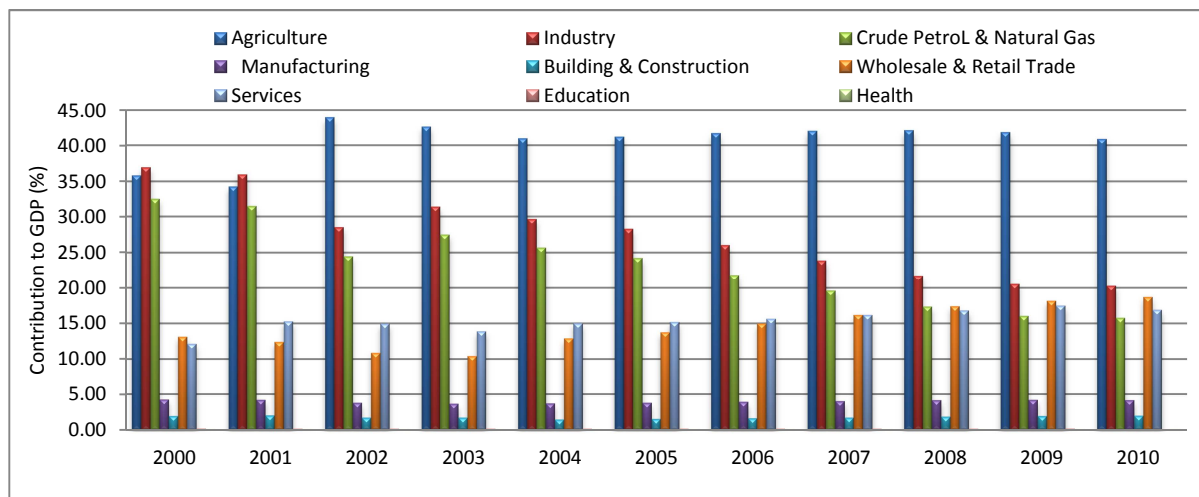
Figure 5. Output Growth Shock



4. Economic Growth, Labour Market and Poverty Profile in Nigeria

With an estimated population of 152 million people, a GDP of \$369.8 billion and a GDP per capita of \$2,400 (Oshikoya, 2008; British Council and Harvard School of Public Health, 2010), Nigeria is undoubtedly the largest country in Africa. With this size of GDP, the country boasts the second largest economy in Africa, after South Africa. In recent years, the Nigerian economy has experienced some modest growth. Since the discovery of oil in 1958 by the British in commercial quantity, Nigeria has been a major oil exporting country. The country is ranked as the 12th largest oil exporter in the world and most of its oil reserves are located in the Niger River Delta region. Unfortunately, the country's over-dependence on the capital-intensive oil sector neglected the diversification of the economy. In effect, the country abandoned its non-oil sector, which entails the production and export of agricultural products such as palm oil, cocoa and groundnuts, the major foreign exchange earners prior to the discovery of oil. Oil export provides Nigeria with 90 percent of its foreign exchange earnings and about 80 percent of the country's budgetary revenues (Sanusi, 2004) (See figure 6&20). For many decades following oil exploration in the country, the positive externality of the oil sector in Nigeria did not produce the expected effect on non-oil sectors of the economy.

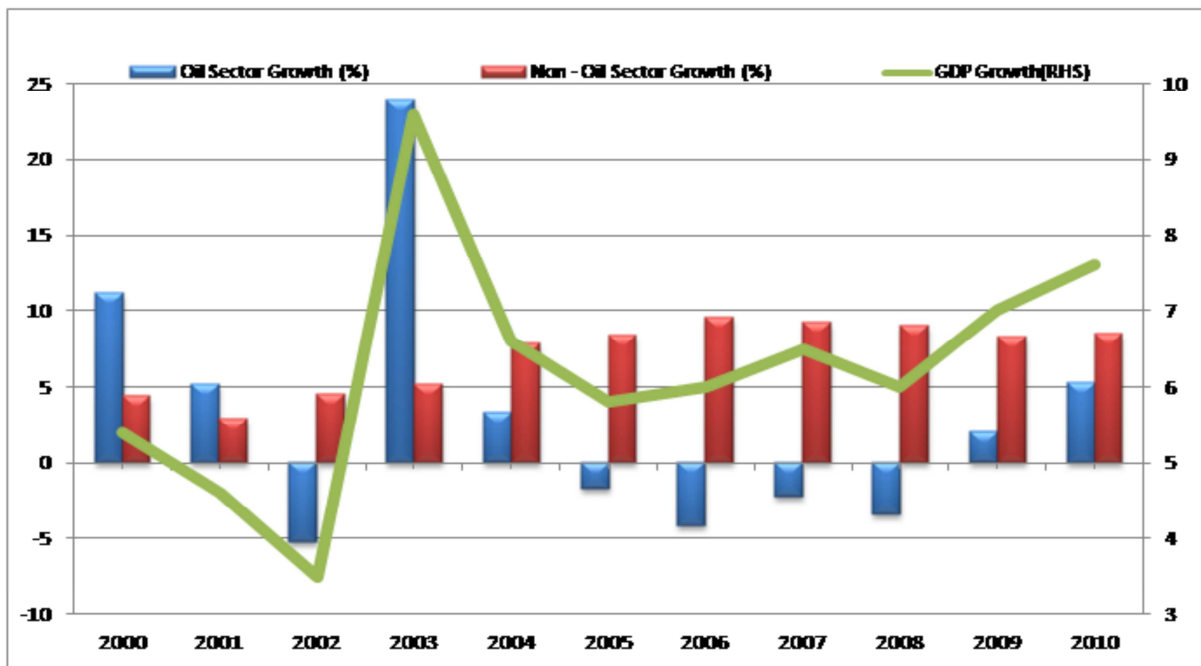
Figure 6. Contribution of Oil and non-Oil Sectors to GDP (2000- 2010)



Source: Authors' Compilation based on data from the Central Bank of Nigeria & National Bureau of Statistics

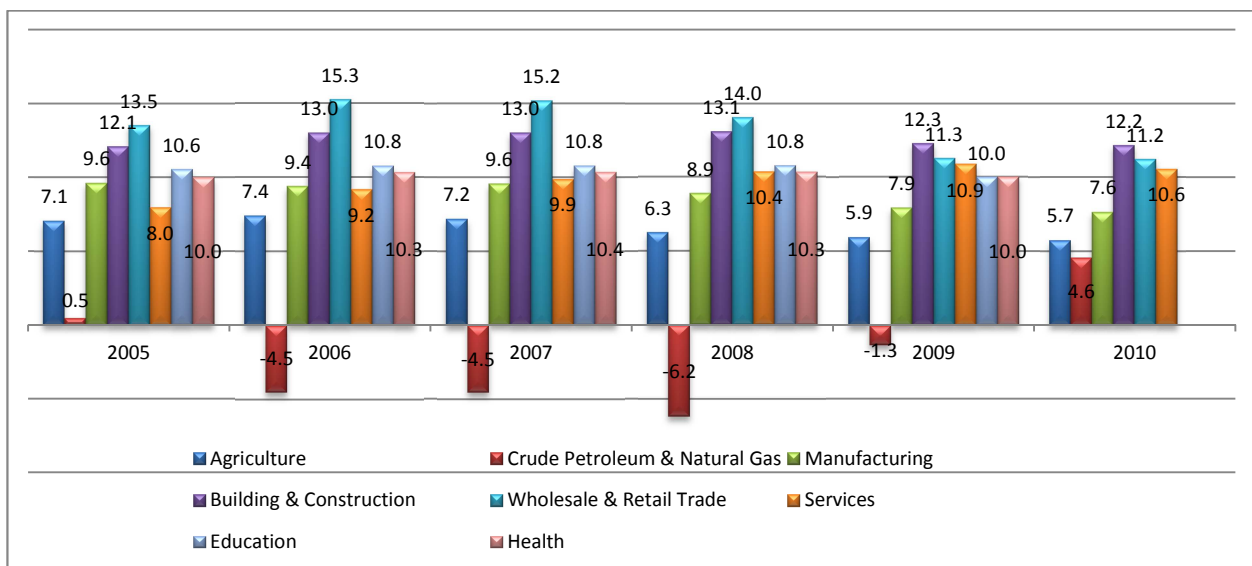
Despite the overreliance on the oil sector, other sectors of the Nigeria economy have experienced robust growth in recent years. Non-oil GDP grew by 9.1 percent in 2008 while agriculture constitutes 51 percent of the non-oil sector in the country (Mordi & Nwawudu, 2010). In 2009, the agriculture sector contributed 41.8 percent to GDP followed by 18.16 percent contribution from the wholesale and retail sectors. Other drivers of growth included building and construction, services, education and health, which recorded growth rates of 12 percent, 10.8 percent, 10.01 percent and 10.01 percent respectively. Oil and manufacturing sectors have contributed 16.05 percent and 4.19 percent respectively to the GDP (ibid). The unimpressive contribution recorded from the manufacturing industry since its pick in 2005 with 9.61 percent has been attributed to precarious energy supply and lack of access to credit by private firms (The contributions and the growth rate of oil and non-oil sectors to overall economic growth are illustrated in figures 7 and 8).

Figure 7. Oil and non-Oil rate of Growth (2000- 2010)



Source: Authors' Compilation based on data from the Central Bank of Nigeria & National Bureau of Statistics

Figure 8. Growth Rate of Some Key Sectors in GDP (2000- 2010)



Source: Authors' Compilation based on data from the Central Bank of Nigeria & National Bureau of Statistics

As reported by Mordi and Nwawudu (*ibid*), the growth of the non-oil sector of the Nigerian economy was driven by government reforms and the expansion of the private sector. The growth of private sector conglomerates and the deregulation of the economy coupled with the ability of Nigerian banks to raise about \$10 billion in new equity in 2007 provided a good measure of stimulus to oil sectors across the economy (*ibid*). Although Nigeria depends heavily on oil as the main source of revenue, the economy is however, driven by the non-oil sectors, mainly agriculture.

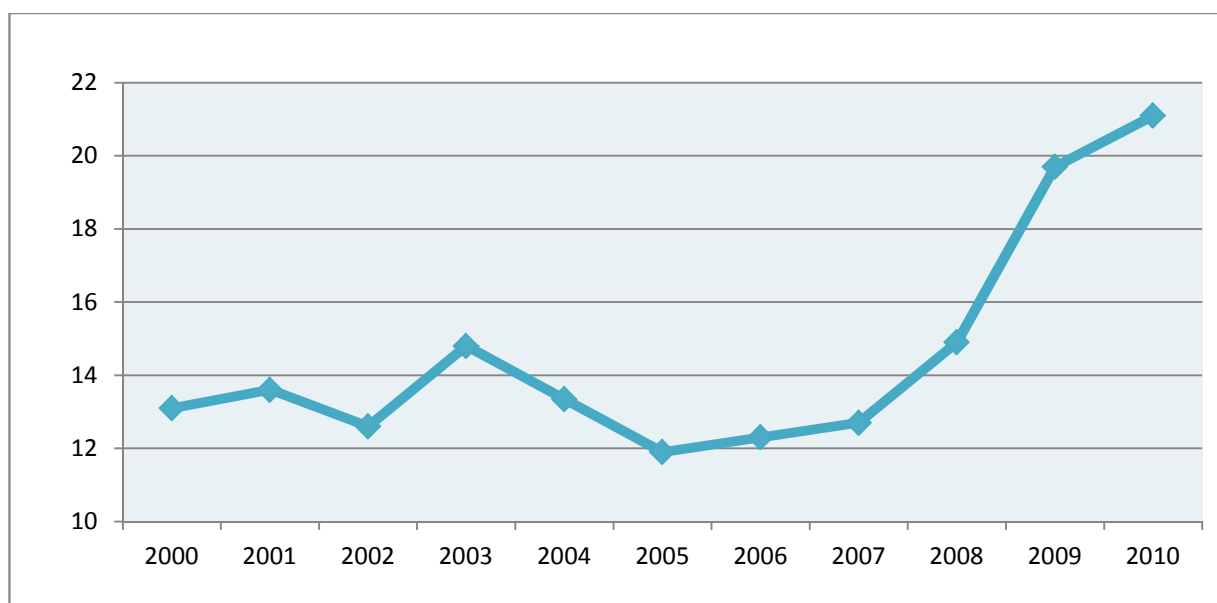
4.1 Labour market and economic growth in Nigeria

As in many developing economies, the labour market in Nigeria can be divided into three different sectors, namely: the rural sector, informal urban sector and formal urban sector (Onwuioduokit et al, 2009, p. 66). Self-employed and unpaid family workers dominate the rural sector, while the informal urban sector is characterized by small privately owned businesses. On the other hand, the formal urban sector is made up of large private and public enterprises that employ workers based on some elements of regulatory control (*ibid*). With a relatively high level of literacy, there is a high mobility of labour between the formal and informal sectors of the economy. Generally, the Nigerian labour market can be classified into five categories, namely: employers, employees of public companies, employees of private companies, employees of Ministries and Parastatals and informal employment (Federal Office of Statistics, 2001, cited in Ogwumike, *et al* 2006).

The structure of the labour market in the country is directly influenced by macroeconomic policies. In turn, the labour market shapes the nature and character of poverty and equality in the country through the spread of wage income. This is because the labour markets “represents one of the sources of risk through which people fall into poverty” (*ibid*). At the same time, the labour market has the ability to cushion the impacts of poverty and economic exclusion as presently suffered by a disproportionate number of Nigerians.

Unfortunately, the labour market in Nigeria has not reflected the impressive level of economic growth experienced from 2001-2010. Although the economy recorded an average of 9.8 percent of GDP growth per annum between 2002 and 2010, the official unemployment rate for the working age population range between 12 and 15 percent between 2002 and 2007 (ILO, 2010). The accurate unemployment figure in Nigeria is highly controversial, as the country’s population reaches beyond 150 million with nearly half of the people (or 70.5 million) living in urban areas, of which, 64.2 per cent (or 45.3 million) are in slums (Oyeyinka, 2010). Based on the population figures and the growth rate of 6-8 percent in cities like Lagos and Ibadan (*ibid*), one can argue that the unemployment figure in Nigeria is grossly underestimated. Empirical data shows that the level of unemployment in the country is close to 20 percent (see Figure 9 & Tables 1).

Figure 9. National Unemployment Rates (2000-2010)



Source: Authors' Compilation based on data from the National Bureau of Statistics

Table 1. National Unemployment Rates in Nigeria (2004-2010)

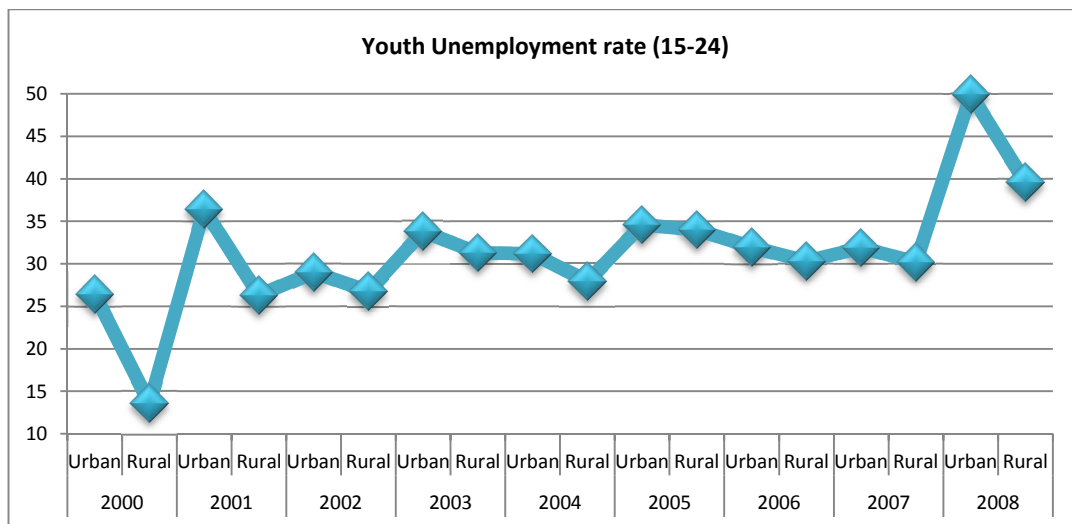
	Labour Statistics 2004 - 2010						
	2004	2005	2006	2007	2008	2009	2010
Total Population	134131224	138468013	140003542	144483655	149107132	153878560	158802674
Total Labour Force	55538881	56170672	58933891	61249485	62946096	64960371	67039103
Total Employment	48124440	49486362	50886826	52326923	53807775	55529624	57306572
Total Unemployment	7414441	6684310	8047065	8922562	9204515	9499059	9803029
Unempl. Rate (%)	13.3500007	11.90000006	13.65439285	14.56757065	14.62285286	19.7	21.1
Pop. Growth Rate	2.8	2.8	2.9	3.2	3.2	3.19999985	3.200000052

Source: Authors' Compilation based on data from Central Bank of Nigeria data

Thus, 2001-2010 was indeed a decade of jobless growth for the country given those years of economic growth has not translated to more wage employment opportunities and poverty reduction. The increasing rate of unemployment, particularly in Nigeria where 45 percent of the population is below the age of 15 and 70 percent below 30 (ILO, 2010), and where a huge number of the youth enters the job market every year, spells potential disaster, if left unaddressed.

Nigeria is one of the most youthful countries in the world. About 45 percent of the country's population is under the age of fifteen (ILO, 2010; British Council & Harvard University, 2010). Thus, it is not surprising that unemployment among the youth (i.e. 15-24 years age cohort) in Nigeria is 40 percent in rural areas and 49 percent in urban areas in 2005 (See Figure 10). This trend has some striking implications. At independence in 1960, less than 7 percent of Nigeria's population lived in urban areas. Today, half of the country's 150 million people live in urban areas with unsustainable conditions, including high rate of unemployment (British Council & Harvard University, 2010). Unfortunately, Nigerian cities lack the resources to cope with the astronomical increase in youth population. With little or no resources to support youth livelihood both in urban and rural areas and as the youth becomes more jobless and idle, they are more likely to indulge in unrest and lawlessness (Kakwagh and Ikwuba, 2010).

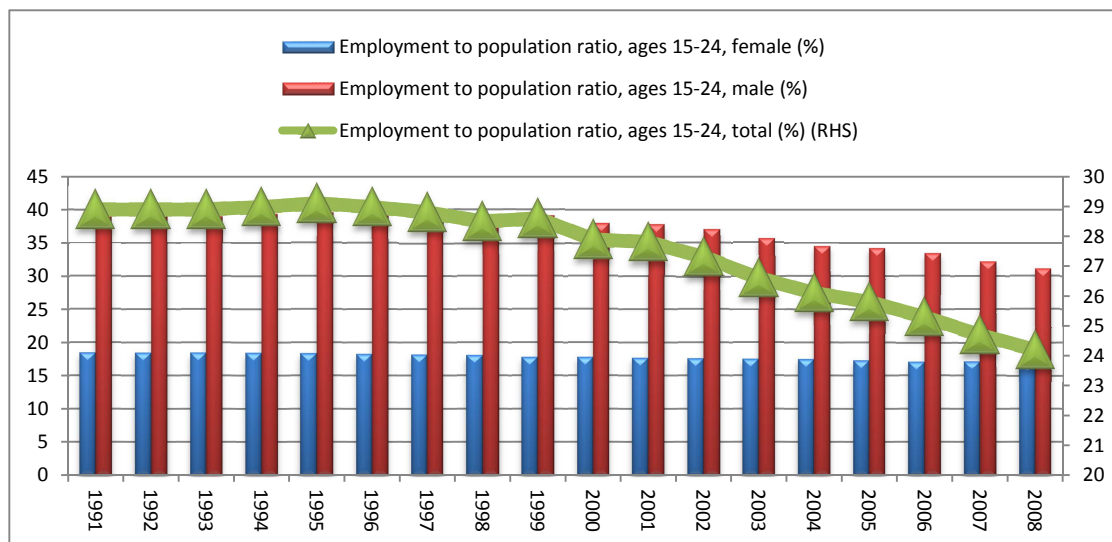
Figure 10. Youth (15-24 age cohorts) Unemployment Rate in Nigeria



Source: Authors' Compilation based on data from the National Bureau of Statistics

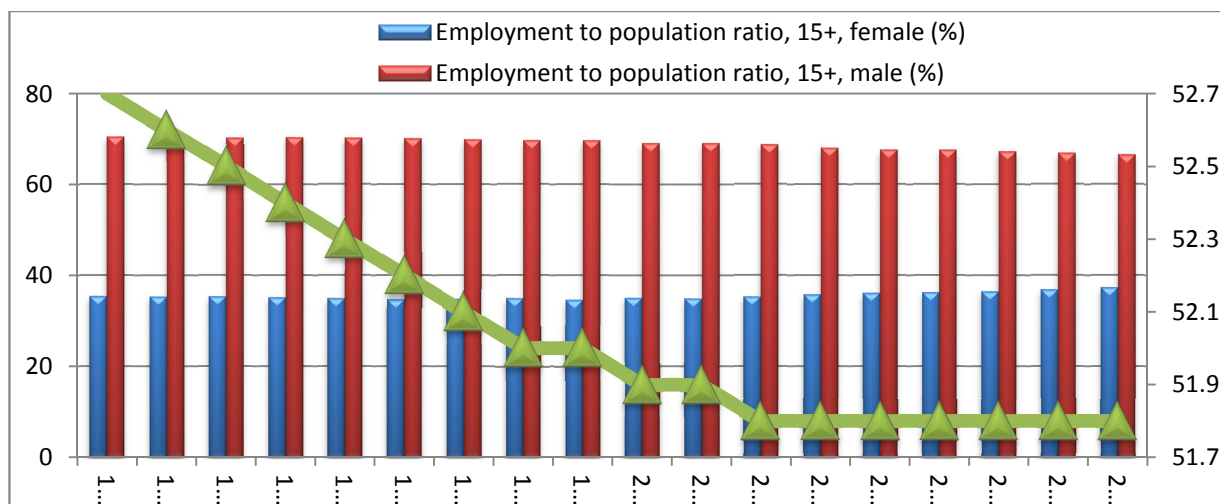
Youth unemployment rates are twice as high as the national unemployment rate. In a general household survey conducted by the National Bureau of Statistics (2009) in Nigeria, the national unemployment rate hovered around 19.7 percent in 2009 and 21.1 percent in 2010. As mentioned above, estimate shows that 49 percent of the unemployed youths live in urban area while 39.7 percent live in rural area (ibid). The implication is that Nigeria is facing the highest rate of unemployment both in rural and urban areas and across different labour sectors in the country. The increase in the unemployment rate is largely attributed to a number of factors. Among these are the increased number of school graduates with no matching job opportunities, a freeze in employment in many public and private sector institutions, the crash in the capital market and continued job losses in the manufacturing and oil sectors (Central Bank of Nigeria, 2010).

Figure 11. Employment to Population Ratio (1991-2008)



Source: Authors' Compilation based on data from the World Bank Development Indicators (WDI)

Figure 12. National Unemployment Rates by Age Group and Sector



Source: Authors' Compilation based on data from the World Bank Development Indicators (WDI)

According to the World Bank, wage employment in Nigeria is estimated to have declined by about 30 percent. Meanwhile, employment to the population ratio for the youth (ages 15-24) in Nigeria declined drastically between 1991 and 2008 (see Figures 11 and 12). With 70 percent of Nigeria's population under the age of 30 years (*ThisDay Newspaper*, April 28, 2011), and as illustrated in figure 2, the youths in the country are affected most by the unemployment crisis than any other group. The present demographic structure of Nigeria characterized by a bulging youth population could either be a force for sustainable economic growth or a force for militancy, illegal migration abroad, social delinquency and unrest. As Treichel (2010, p.9) puts it:

Nigeria's growth performance has not responded to the aspirations of its population as a whole, especially the young generation. While the number of jobs seems to have grown in line with the labour force, most of these jobs have been created in family agriculture. Wage employment, however, has declined. Job creation in family agriculture was accompanied by rapid income growth and falling rates of poverty in rural areas.

Since independence, the three tiers of government in Nigeria (Federal, State and local governments), through the civil service system, have been the biggest employers of labour (see Table 2). As in most developing economies, wage employment in Nigeria, which constitutes about 8-10 percent of the labour force in the country (Treichel, 2010), is dominated by the public sector. In essence, most jobs in the Nigerian economy are directly created by the civil service administration through local, state and federal governments in the country (see Table 2). This speaks to the relevance and the role of the government on economic growth and poverty reduction in the country through fiscal policy adjustments.

Haywood and Teal (2010, p. 69) subdivide wage employment into three categories, namely: the private sector (including cooperatives), the public sector, and non-governmental organizations (NGOs) and international organizations. A good measure of employment is generated in the informal sector of the economy. Onwuoduokit et al (2009) argue that Nigeria is experiencing a declining employment coefficient (i.e., the degree of responsiveness to changes in economic growth). To this effect, very few jobs are created in the formal sector, and this has caused a decline in the percentage of new entrants to the labour force in the country since the 1980s (ibid). However, recent economic restructuring policies such as the privatization of public companies and retrenchment in the civil services have compelled government agencies and institutions to downsize their workforce thereby increasing high level of unemployment (Treichel, 2010).

Table 2. Types of Wage Employment

Formal Employment	Percentage of the wage labour force
Private sector	22
Public sector	62
NGO, international organization	10

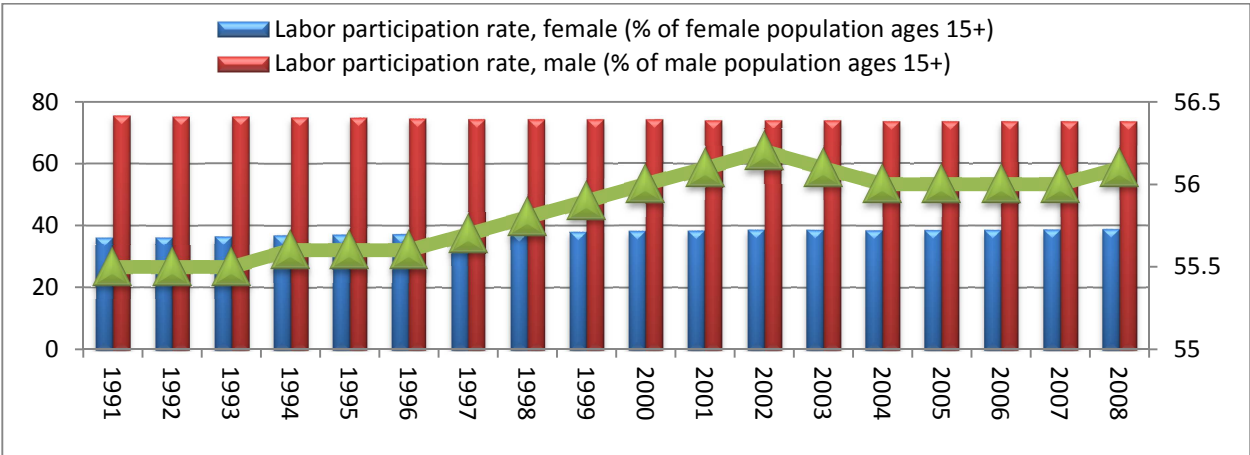
Source: Federal Ministry of Labour and Productivity, 2009

Prior to the global recession of 2008, the National Bureau of Statistics shows that the unemployment rate in Nigeria ranged from 11-15 percent in the 2003-2007 period (Federal Ministry of Labour and Productivity, 2009) (see Table 1). This rate is higher than the average in sub-Saharan Africa. The dismal nature of the labour market, particularly unemployment and under-employment in Nigeria, correlates with the poverty level in the country.

With female unemployment rate of 12-14 percent, women experience more joblessness than their male counterpart, whose rate of unemployment falls within the range of 10-12 percent (Federal Ministry of Labour and Productivity, 2009). Of the total official unemployment rate in Nigeria in 2009, Haywood and Teal (2010) found that about 26 percent of the working-age population (15 to 65 years) in the country is not in the labour force. The increasing share of non-participants in the labour force is predominant among young, female, and more highly educated (see fig. 13). Others are unmarried young men (91.23), married (76.17) and unmarried women (23.83) (ibid, pp. 88-89). This trend is reinforced by recent data presented in Figure 13 on labour participation rate.

A major failure of the Nigerian labour market is the inability of many educated Nigerians to find decent and productive employment in the economy. According to a report by the British Council and Harvard School of Public Health (2010), three in ten graduates of higher education in the country are unemployed, and almost the same proportion of secondary school graduates in the country is jobless. As they put it, “A highly educated Nigerian is not significantly more likely to find work than one with no education at all ... and an average Nigerian does not generate more labour income than her or his individual consumption until 32 years of age, when she, or he becomes a net contributor to society” (ibid. p. 25). The magnitude of unemployment among Nigerians goes a long way to explain the level of social decadence and institutionalized corruption in the country.

Figure 13. Labour Force rate by Gender



Source: Authors' Compilation based on data from the World Bank Development Indicators (WDI)

In a study of the Macroeconomic determinants of the labour market in Nigeria, Onwiodoukit et al (2009, 83) explains that on the supply side, “labour force participation in Nigeria is largely determined by its own backward looking expectation and demand elasticities.” They further argue that while real minimum wage and population growth is insignificant but positively related to labour force participation (ibid). With a high level of unemployment and low returns to labour due to excess capacity, the labour market in Nigeria is fast becoming a dead-end, which exacerbates poverty and inequality in the country.

4.2 The MDGs Goals, unemployment and poverty profile in Nigeria

In 2000, the international community under the auspices of the United Nations declared a milestone international cooperation to fight poverty known as the Millennium Development Goals (MDGs). Development efforts around the world are inspired to target eight major goals aimed at improving lives of hundreds of millions of people by the year 2015. These goals touch every aspect of human needs and basic rights, including, freedom from extreme poverty and hunger, basic education and productive employment. Recent economic reforms have stimulated growth in the Nigerian economy. The result is that the Nigerian economy witnessed an average growth rate of 6 percent between 2001 and 2010 (UNDP, 2010). This makes the Nigerian economy one of the fastest growing economies in SSA. Yet, Nigeria continues to have one of the highest levels of poverty in the world.

Nigeria has no official poverty line. However, the increasing economic growth in the country has not translated to increased generation of decent employment and low levels of poverty. The estimated number of people living in extreme poverty in Nigeria has increased from 17.7 million in 1980 to 67.1 million and 71.3 million in 1996 and 2004 respectively (Omotola, 2008 cited in Oshewolo, 2010, p. 266; Ogun, 2010, p. 4) (See Tables 3 & 4). In the same vein, 70.2 percent of people in Nigeria live on less than \$1 a day, while 90.8 percent live on less than \$2 a day (ibid). Based on the rising level of abject poverty and other socio-economic conditions in the country, Nigeria is far from meeting the millennium development goals.

Table 3: Spread and Trend in Poverty Levels in Nigeria

Levels	1980	1985	1992	1996	2004
NATIONAL	27.2	46.3	42.7	65.6	54.4
Urban	17.2	37.8	37.5	58.2	43.2
Rural	28.3	51.4	46.0	69.3	63.3
ZONE					
South-South	13.2	45.7	40.8	58.2	35.1
South-East	12.9	30.4	41.0	53.5	26.7
South-West	13.4	38.6	43.1	60.9	43.0
North-Central	32.2	50.8	46.0	64.7	67.0
North-East	35.6	54.9	54.0	70.1	72.2
North-West	37.7	52.1	36.5	77.2	71.2
SIZE OF HOUSEHOLD					
0-1	0.2	9.7	2.9	13.1	12.6
2-4	8.8	19.5	19.5	51.5	39.3
5-9	30.0	50.5	45.4	74.8	57.9
10-20	51.0	71.3	66.1	88.5	73.3
20+	80.9	74.9	93.3	93.6	90.7
EDUC.LEVELS of HH HEAD					
No Education	30.2	51.3	46.4	72.6	68.7
Primary	21.3	40.6	43.3	54.4	48.7
Secondary	7.3	27.2	30.3	52.0	44.3
Higher than Secondary	24.3	24.2	25.8	49.2	26.3

Source: Authors' Compilation based on data from the National Bureau of Statistics

Table 4. Urban-Rural Poverty trends in Nigeria, 1980–2004

Year	Poverty level (%)	Poverty level (%)		Population in poverty (millions)
		Urban	Rural	
1980	27.2	17.2	28.3	17.7
1985	46.3	37.8	51.4	34.7
1992	42.7	37.5	46.0	39.2
1996	65.6	58.2	69.3	67.1
2004	54.4	43.2	63.3	71.3

Source: National Bureau of Statistics (2006, cited in Ogun, 2010)

4.3 Alternative macroeconomic policy towards poverty reduction

With the official rate of unemployment of 21.1 percent (African Development Bank, 2010) and more than 71 million people in abject poverty, Nigeria is hardly on track to meet the MDGs, particularly the number goal of poverty reduction. As Khan (2007, p. 3) rightly points out “Employment-intensive growth is the most effective method of poverty reduction because labour is the most plentiful resource that most poor are endowed with.” In the past few years, economic policies in Nigeria have been narrowly focused on growth in contrast to development (UNDP, 2010). As Sen (2000, p.14) reminds us “Adequate conception of development must go much beyond the accumulation of wealth and the growth of gross national product and other income-related variables. Without ignoring the importance of economic growth, we must look well beyond it.” Economic growth in Nigeria has not trickled down with a strong multiplier effect in the overall economy. With inequality rising from 0.43 to 0.49 (one of the highest inequality levels in the world), the

overall economic growth has had insignificant improvement in the welfare of the poorer segments of the Nigerian society (UNDP, 2010).

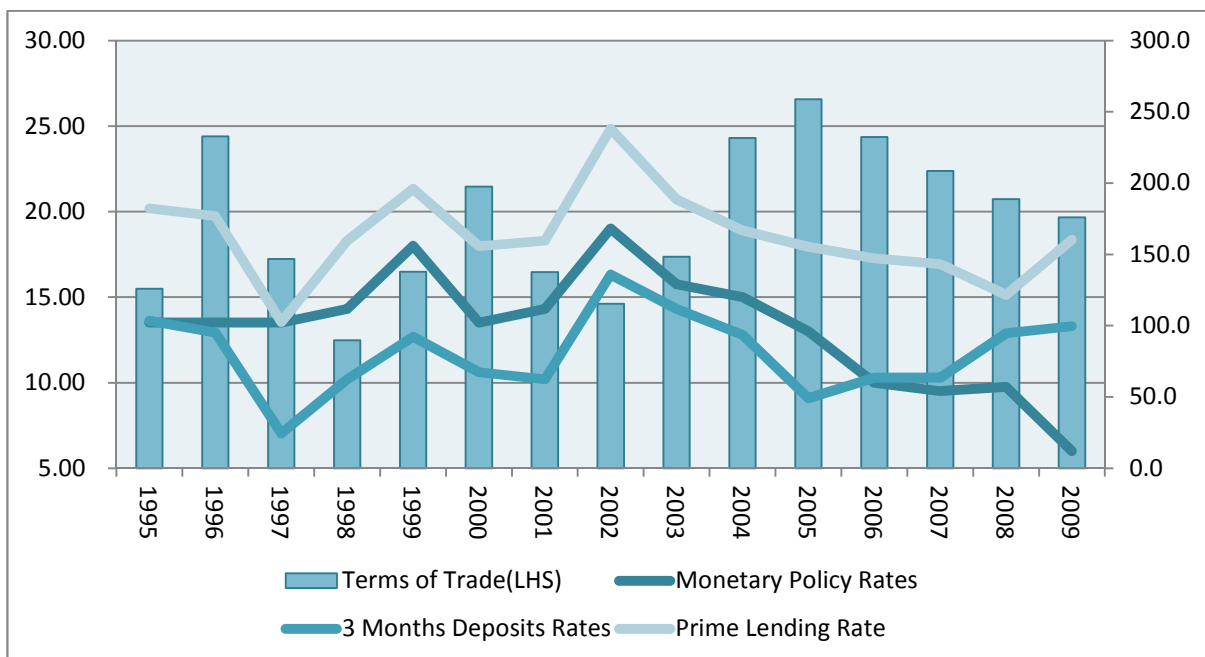
The above challenges underscore the need to reconcile the fundamental goals of economic growth, productive employment and poverty alleviation in Nigeria. These issues cannot be addressed through the MDG-related spending and the implementation of social and economic development programs alone. Rather, the socio-economic challenges of the country, especially employment generation and poverty alleviation require the re-examination of its monetary policy frameworks. The ability of Nigeria to attain the MDGs of decent and productive employment and poverty alleviation depends largely on macroeconomic frameworks in place. As demonstrated in this study, a tight monetary policy framework does not enable Nigerian economy to improve the living conditions of its people through the creation of decent employment.

5. Macroeconomic Policy Targets in Nigeria

5.1 Monetary policy in Nigeria

The core idea of monetary policy has been construed to mean price stability at the expense of other key macroeconomic indicators like job creation that measures growth performance of a nation. Although the Nigerian economy has a fragile private sector, financial resources to the private sector in Nigeria, such as through loans, purchases of non-equity securities, trade credits and other accounts receivable have been constrained over the years following insolvency in many banks and effects of the global financial crisis in Nigeria. As illustrated in figure 14, this triggered a hike in interest rate to the domestic private sector in Nigeria since 2006. As illustrated in figures 13, the upward adjustment of the prime-lending rate by the Central Bank mostly in fourth quarter of 2008 and the consistent manipulation of the monetary policy rate by the monetary policy committee to force inflation to single digits have created adverse effects on activities of the private sector and the economy.

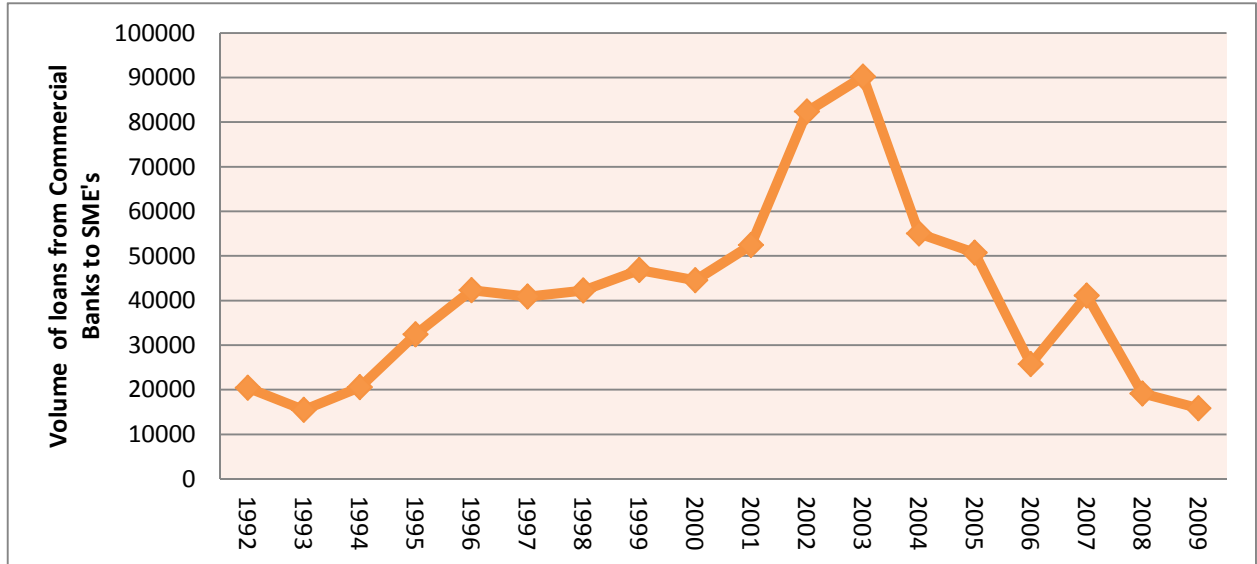
Figure 14. Interest Rates and Terms of Trade Situation in Nigeria 1990 – 2009



Source: Authors' Compilation based on data from the Central Bank of Nigeria

The intended or unintended consequence of this monetary policy stance in the overall economy begins with the reduction or stagnation of credit to the private sector, particularly, small and medium enterprises by commercial banks (See figures 16 and 17). This tight monetary policy reduces the ability of these businesses to take out loans from commercial banks at reduced market rates and expand existing businesses or start new ones.

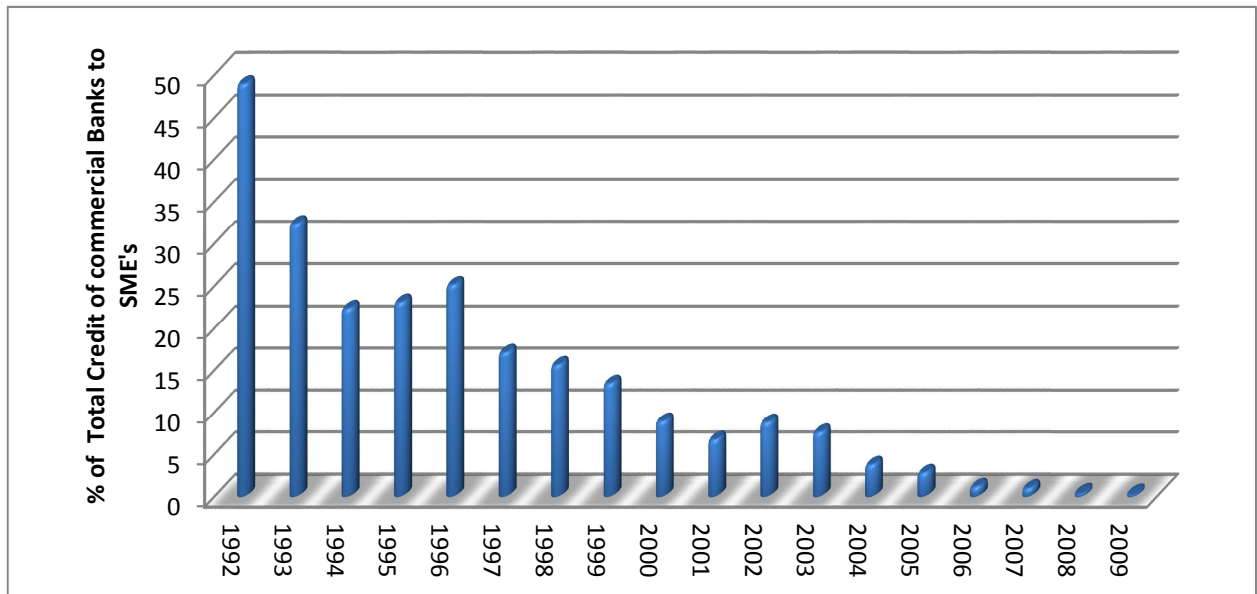
Figure 16. Volume of Loans from Commercial Banks to SMEs in Nigeria (1992-2009)



Source: Authors' Compilation based on data from the Central Bank of Nigeria

In 2008, the domestic credit to private sector (% of GDP) in Nigeria was reported at 33.91 according to the World Bank (Trading Economics, 2010, see fig 14). Consequently, the IMF and the Central Bank of Nigeria (CBN) expressed concern about the stagnation of aggregate credit to the private sector (IMF, 2010). At the same time, IMF advised that boosting lending to small businesses in the country should be based on tight monetary policy and targeted reforms.

Figure 17. Total Credit of Commercial Banks to SMEs



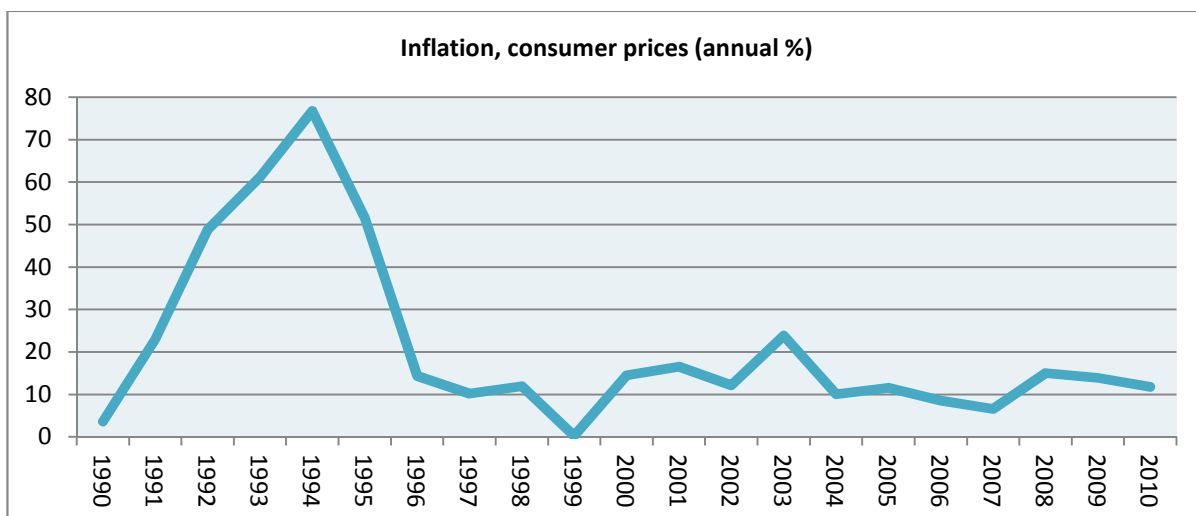
Source: Authors' Compilation based on data from the Central Bank of Nigeria

The stagnation of credit to businesses in the Nigerian economy resulting from tight monetary policy from 2006 was primarily intended to reduce inflation. As Mordi and Nwawudu (2009) reports, inflation has been under control in Nigeria in the past couple of years. Thanks to the goal of the CBN to bring inflation within single digits. With the current inflation rate of 11.5 percent (CBN 2011), many institutions that favour a tight monetary policy in Nigeria such as the CBN and the National Bureau of Statistics have solicited the help of the IMF to compel the Nigerian monetary authority to enforce a single-digit inflation target.

From a historical perspective, the rate of inflation of 11.5 percent in Nigeria is at all times low. However, some scholars have recommended the inflation threshold of 8 percent for Nigeria (Salami and Kelikume, 2010). As pointed out in the literature review section, such a low threshold of inflation is overtly ambitious, unrealistic and counterproductive to job creation and poverty alleviation efforts in the country. Recent monetary policy frameworks have helped to reduce inflation in Nigeria to about six times below the rate of 73 percent where it was in 1995 (Mordi & Nwawudu, 2009). However, in an assessment following a visit of its officials to Nigeria in November 2010 to conduct the 2010 Article IV Consultation, the IMF expressed concerns over what it called “Nigeria’s stubbornly high rate of inflation” (IMF, 2010). Given that inflation in the country hovers around 11 percent (see figure 18), a rate considered sustainable by the standard and dynamics of a developing economy, the concern expressed by the IMF may give an excuse to the Nigerian monetary authorities to mount a more vigorous contractionary monetary policy through a single digit inflation control regime. Despite the good performance of the Nigerian economy at the wake of the global economic recession, the Fund “recommended that the CBN conduct monetary policy with a view to reducing inflation to a single-digit level” (ibid). This is no doubt an indirect pressure on monetary policy authorities in Nigeria to implement stricter monetary policy through the inflation target framework.

As figure 18 demonstrates, inflation rate in the Nigeria is presently falling. According to the National Bureau of Statistics (NBS), the country achieved the single digit target in August 2011 when inflation dropped to 9.3 percent (Weekly Economic & Business Review, 2011). This is the lowest rate of inflation the country in 3 years. By all measurements, the Central Bank of Nigeria has been successful in the use of monetary policy tools to fight inflation. However, such success comes at the cost of an unsustainable high rate of unemployment in the country. It must be noted that the private sector creates the most jobs in a free market economic system. Therefore, the current monetary policy in Nigeria kills jobs by squeezing existing and prospective businesses out or by reducing their capacity to absorb excess labour.

Figure 18. Inflation and Consumer Prices in Nigeria (1990 – 2010)

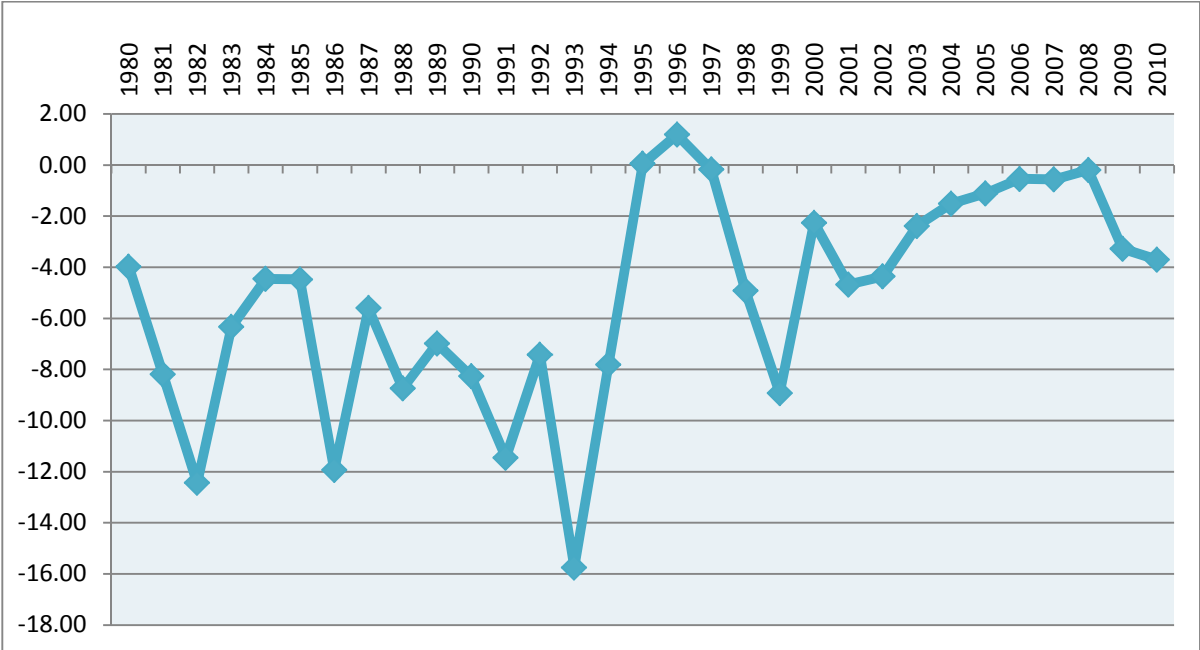


Source: Authors' Compilation based on data from the Central Bank of Nigeria

5.2 Fiscal policy in Nigeria

In line with Keynesian economic theory, fiscal policy plays a crucial role in the Nigerian economy. This is not surprising considering the central role of the public sector in the country. Like monetary policy, fiscal policy tools can be used to realize broader social and economic development goals such as the creation of decent and productive employment and poverty reduction. As shown in Figure 19, Nigeria achieved surplus fiscal balance between 1995 and 1997. Overall, fiscal balance has been reduced substantively from its peak of 16 percent to as little as -2 percent in 2009. This conservative fiscal policy outlook has drastically reduced the contribution of government spending to the GDP⁶. Balancing the difference between expenditure and revenue remains a prerequisite in ensuring the sustainability of fiscal reforms towards jobs creation in the country.

Figure 19. Overall Fiscal Balance 1980 – 2010 (as % of GDP)

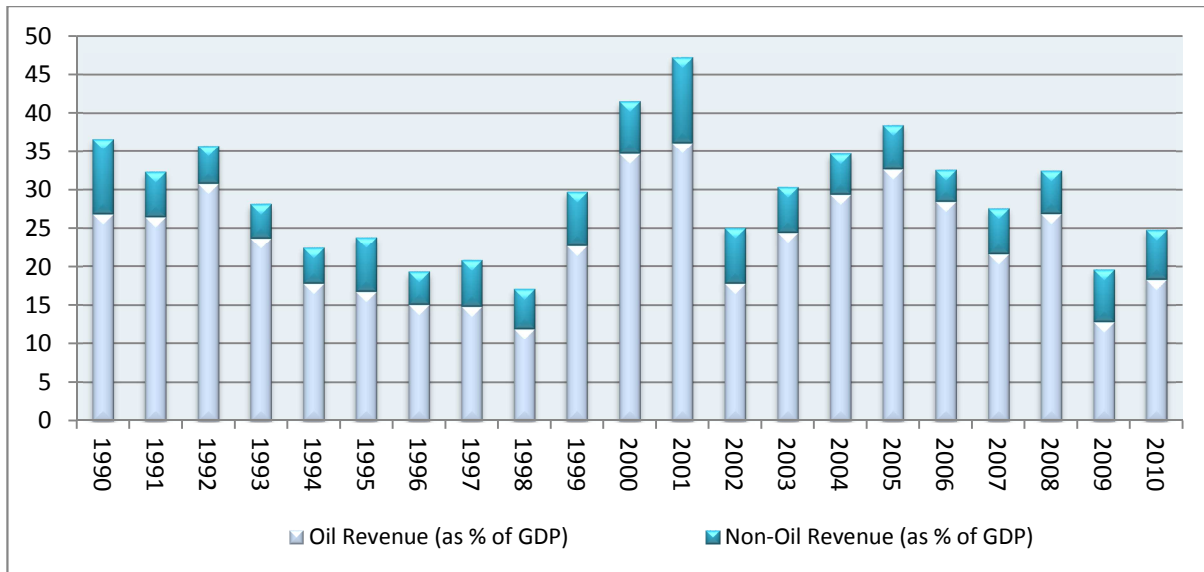


Source: Authors' Compilation based on data from the Central Bank of Nigeria

Though the Nigerian economy is diversifying away from oil dependence, it is still observable that substantial volume of the countries revenue comes from the oil sector. The effect of the financial and economic crisis was dominant in 2009 as the country lost substantial value of its revenue from oil. In line with the dictates of the fiscal responsibility bill, the country has significantly cut spending to consolidate the reduction in fiscal balance and a return to surplus growth (See figure 20).

⁶ See Figure 25

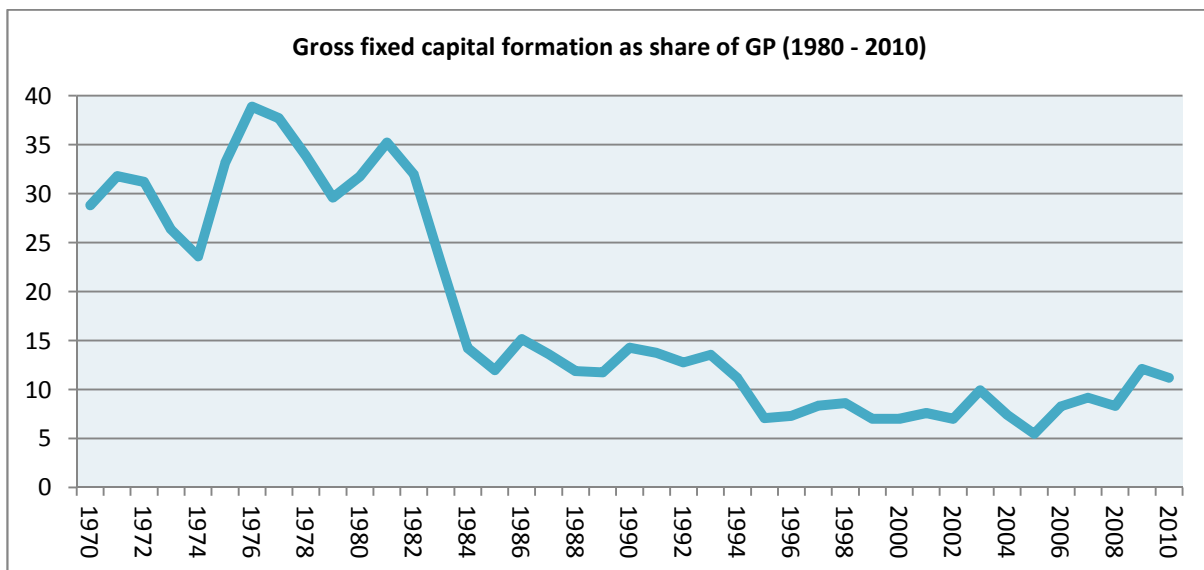
Figure 20. Revenue Performance 1990 – 2010 (as % of GDP)



Source: Authors' compilation based on data from the Central Bank of Nigeria

Buoyed by dwindling growth in investment and the reduction in ratio of manufacturing to gross domestic product (see figures 21 and 22), the country is feared to be plummeting deeper into poverty and unemployment.

Figure 21. Investment in Nigeria (as share of GDP)

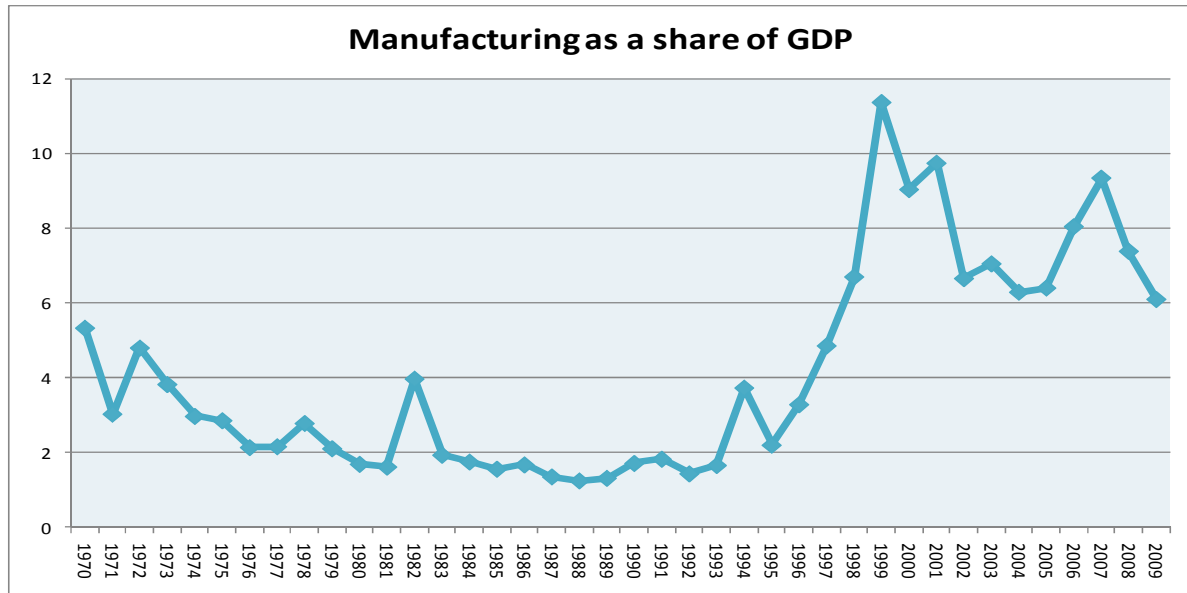


Source: Authors' Compilation based on data from the Central Bank of Nigeria

The upsurge in population of young people in the labour market without jobs can only be curbed by a commensurate growth in manufacturing and capacity utilization. Obviously, tight monetary policy practiced in Nigeria has unintended macroeconomic consequences as demonstrated by all major indicators. Lack of access to funds by the private sector and small and medium enterprises have not only caused a drastic reduction in investment but also ignited violence and social unrest among youths due to increased rate of unemployment and poverty. As discussed earlier, the private sector is the engine of growth in the urban formal sector. In the face of a decline in government spending during the oil boom era in the 1970's, the private sector, if properly guided with supportive legislations and macroeconomic reforms, could have generated sufficient opportunities to bridge the gap in unemployment. In the post-SAP era, and in line with the guidelines of the

IMF poverty reduction strategy, Nigeria has shown no interest in infrastructural development. Consequently, the gross fixed capital formation to GDP in the country fell from the peak value of well above 35 percent in 1976 to the current value of less than 10 percent (See figure 21). Not surprising also is the fluctuation in growth rate of manufacturing from 2 percent in 1995 to 11 percent, and down to the current level, which is less than 6 percent (see figure 22). Nigeria's spending habit has been skewed up on recurrent spending than on Capital.

Figure 22. Manufacturing in Nigeria (as share of GDP)

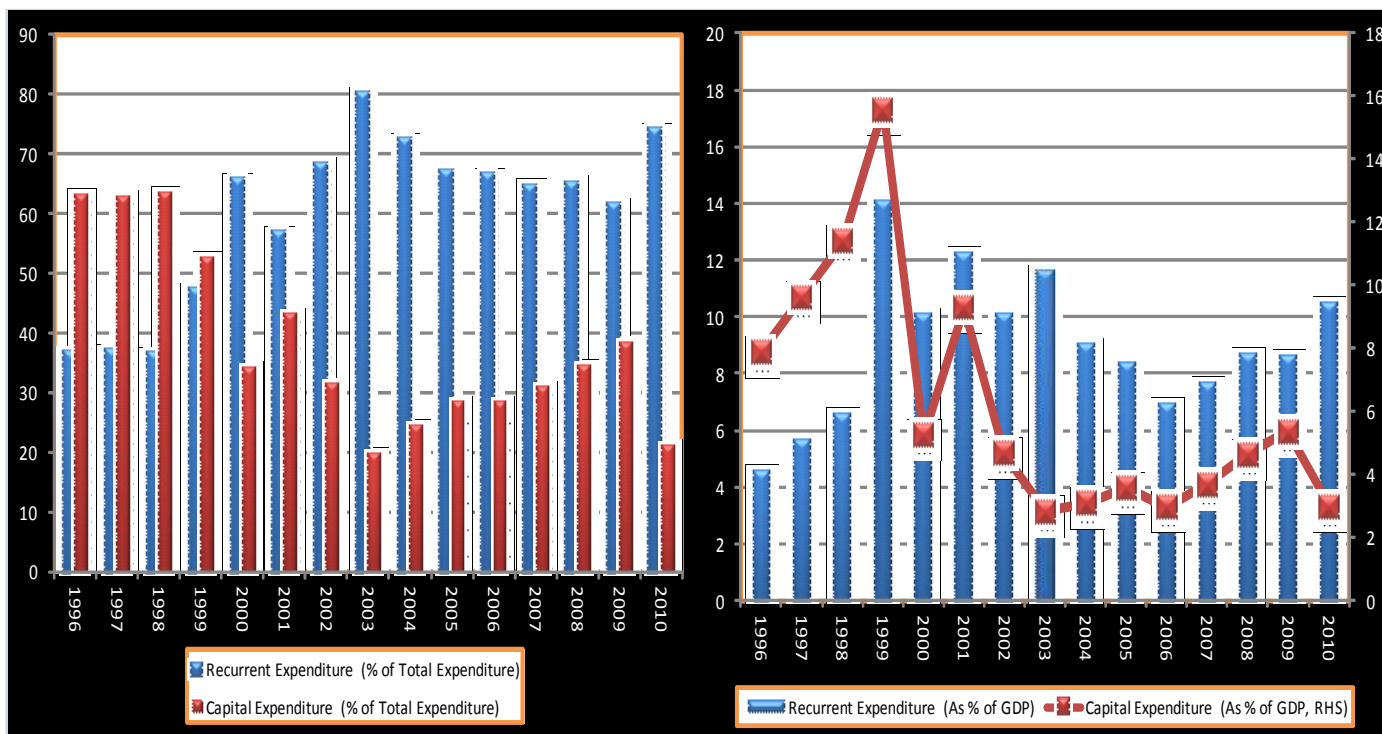


Source: Authors' Compilation based on data from the Central Bank of Nigeria

Prior to 1999, the government of Nigeria worked in establishing the rising growth rate with employment options for the populace by spending more in infrastructure than recurrent expenditure. Thus, one may infer that unemployment was moderately low for this reason. It is evident in Figure 23 that since the last decade, the Nigerian government has invested more in recurrent spending involving defense and administrative sectors, etc, than on public capital spending. This shows that an increase in capital spending would spur investment and employment, which will further suppress increasing rate abject poverty and social alienation in the country. It could be noted as well that government spending is particularly important given the absence of a social safety net (e.g., social security) system for the most vulnerable groups in the country and the rising rate of unemployment, which have reduced the capacity of the people to defend themselves against abject poverty. As Obi (2007, p. 8) rightly observers:

Public spending [in Nigeria] has not been geared towards supporting economic expansion and human development but towards such activities as transfers and administration. Transfers are dominated mainly by budgetary allocations to unproductive activities rather than income distribution and poverty alleviation.

Figure 23. Summary of Total Government Spending



Source: Authors' Compilation based on data from the Central Bank of Nigeria

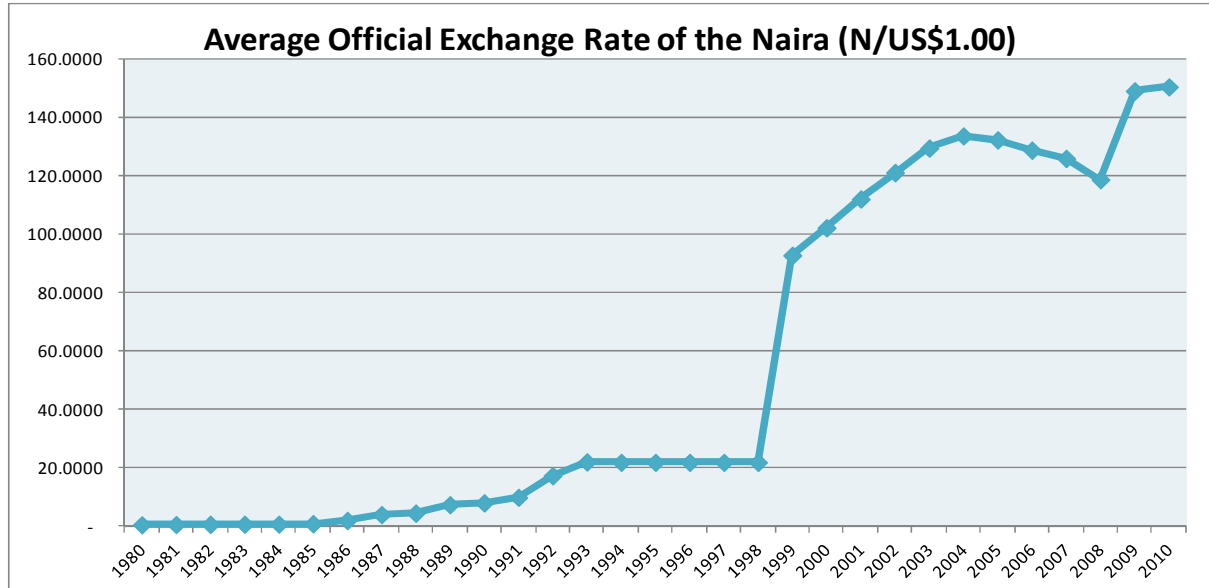
5.3 Exchange rate policy in Nigeria

Exchange rates are an important yardstick for measuring economic performance, particularly, the impact on price signals, international trade and foreign direct investment. The maintenance of low inflation rates involves higher interest rates, and this leads to the appreciation of the country's exchange rate. Exchange rate regimes in Nigeria have gone through different levels of changes. As the Governor of the Central Bank of Nigeria observed (Sanusi, 2004, p.1), exchange rate arrangements in the country "shifted from a fixed regime in the 1960s to a pegged arrangement between the 1970s and the mid-1980s, and finally, to the various types of the floating regime since 1986, following the adoption of the Structural Adjustment Program (SAP)." A fixed exchange regime led to an overvaluation of the local currency (i.e., the *Naira*) and was supported by exchange control regulations that caused instability and distortions in the economy (ibid).

On the other hand, floating exchange rates have induced unprecedented volatility in the economy (Olowe, 2009). A low rate of inflation affects economic growth and development negatively due to the immediate impact on investment demand. On the part of net-export, the appreciation of exchange rate hurts export and encourages imports. Nigeria operated a fixed exchange rate regime prior to the introduction of the SAP in 1986. Since then, the value of the *Naira* to the US dollar has depreciated remarkably, reaching its lowest rate of over 150 *Naira* to one dollar in 2009 (see figure 24). As argued by Sanusi (2004), the maintenance of a realistic exchange rate for the *Naira* is very crucial, given the structure of the economy, and the need to minimize distortions in production and consumption. However, the Nigerian foreign exchange market is peculiar in the sense that the country's foreign exchange earnings are more than 90 per cent dependent on crude oil export receipts (ibid). The fluctuations in the global oil market have direct impact on the supply of foreign exchange in Nigeria and revenue allocation to the three tiers of government in the country. This is because the oil sector contributes more than 80 per cent of government revenue (ibid). Increased price of crude oil at the global market brings in additional foreign exchange, which in turn induces an upward adjustment in revenue

allocation to the three tiers of government in Nigeria. Empirical evidence shows that much of such revenues are utilized for consumption as opposed to production purposes. This, no doubt, pushes up aggregate demand including, imported goods and services. With a high import propensity in the country, the demand on foreign exchange has the impact of depleting the country's foreign reserve.

Figure 24. Exchange rate movement in Nigeria



Source: Authors' Compilation based on data from the Central Bank of Nigeria

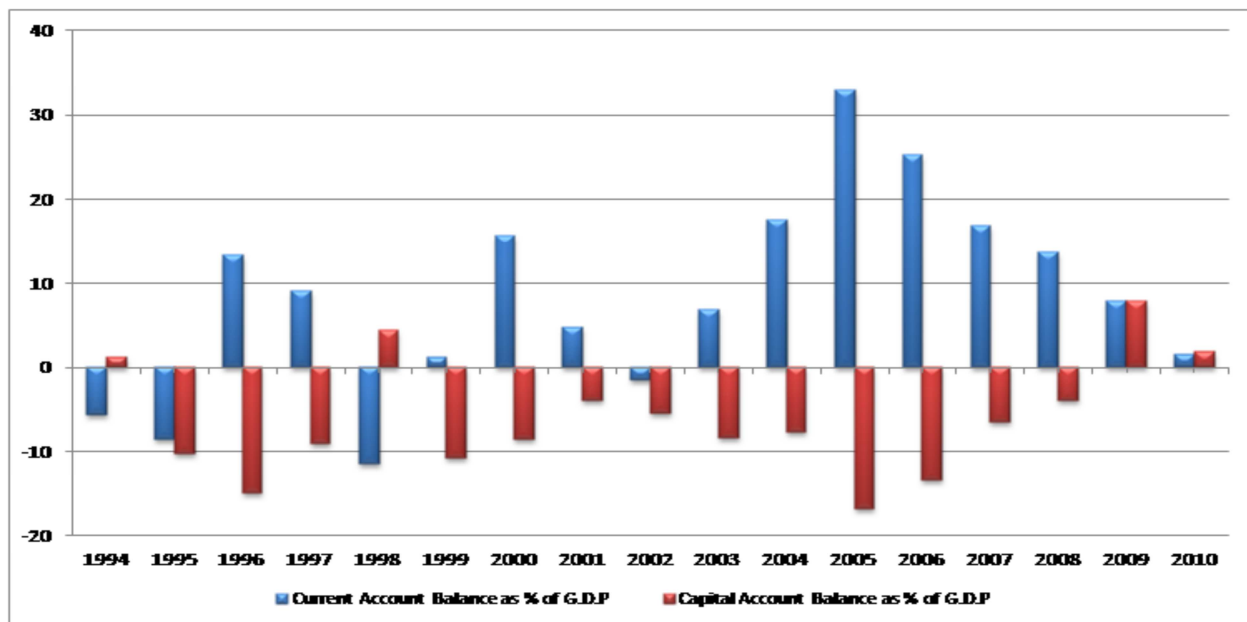
Exchange rate management policy is an evolving process in a developing economy like Nigeria. Hence, to accomplish the goal of a realistic exchange rate in the country, monetary policy should be geared towards increased production in the non-oil sectors, less importation, and increased export.

5.4 Capital account management

In Nigeria, it is obvious from the data that the same negative impact of tight monetary policies on monetary indicators is experienced in the inflow of foreign non-oil private investment in Nigeria. By stifling the inflow of the much-needed foreign capital, Nigeria's tight monetary policy contradicts its efforts to attract foreign investment in the non-oil sectors (see figure 25). As illustrated in the next section this situation has further been jeopardized government's effort to create jobs and reduce poverty.

The overall current account balance is impressive as it remained resilient even in the face of the recent financial crisis. Despite the incessant fluctuations in the price of oil, Nigerian's current account surplus as a percentage of GDP averages 18 percent between 2003 to 2009. In 2009, it stood at 13.6 percent showing a 2 percent reduction in the aftermath of the global economic crisis. Although overall balance in Nigeria declined in 2009, it had maintained a surplus value averaging 7 percent of GDP between 2004 and 2008 (See Figure 25).

Figure 25. Government Expenditure as a Ratio of GDP in Nigeria



Source: Authors' Compilation based on data from the Central Bank of Nigeria

5.5 Dynamics of the external sector of the Nigerian economy

1. The Global Financial Crisis and the Nigerian Economy

As the Global Financial Crisis (GFC), which originated in the U.S financial markets evolved in 2007, it seemed that the Nigerian economy was insulated from the impacts of this global phenomenon. At the beginning, many policy makers in the country expressed confidence that the Nigerian economy will be minimally affected by the crisis. This view was prompted by the low integration of the Nigerian economy into the larger global economic system (Gabriel and Oshobuye, 2011). Many also felt that the Nigerian economic reforms were prominent in shielding the country from the perils of GFC particularly, the recapitalization and reform strategies that took place in the Banking sector, coupled with the small size of inter-bank markets and several financial institutions in the country. However, subsequent developments in the Nigerian economy illustrate the contagion effects of the GFC, thereby quashing the sense of complacency expressed earlier by many policy makers. As illustrated by Governor of the Central Bank of Nigeria, Sanusi Lamido Sanusi (2010, p.5), there are several channels through which the impacts of GFC were felt in the Nigerian capital market. Among these are:

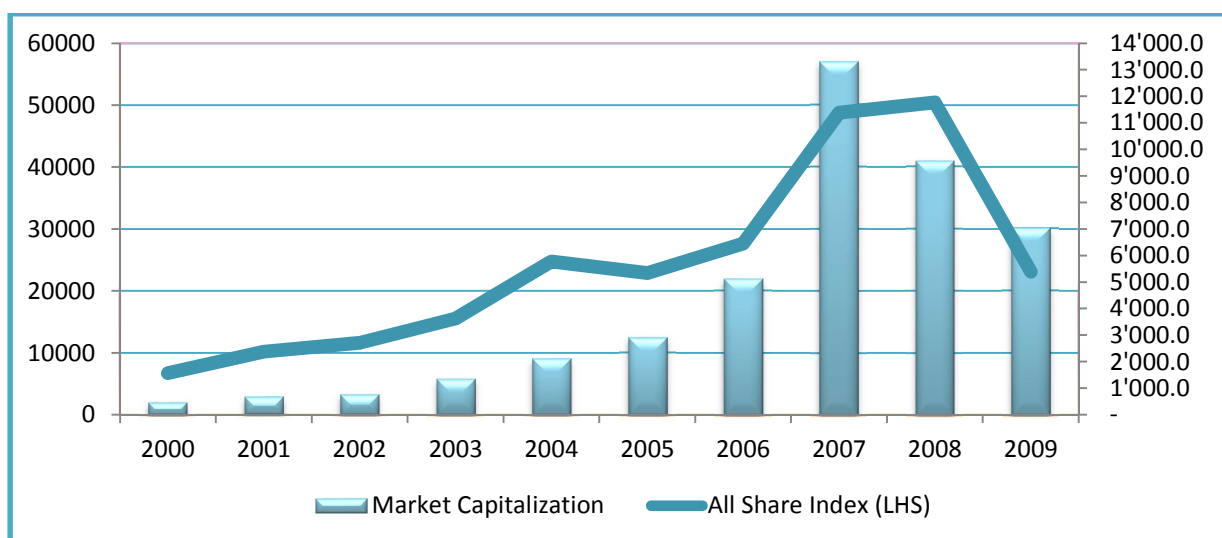
- Lower crude oil demand at the global market;
- Lower crude oil price;
- Lower revenue;
- Lower foreign exchange earnings/export receipts;
- Lower capital inflow;
- Higher capital outflow – divestment from capital market particularly of portfolio investments; and
- Drying-up of lines of credit to Nigerian banks.

The first major effect is the pressure brought to bear on major financial institutions in the U.S and Europe to pull their funds out of the Nigerian money market (ibid). Generally,

the contraction in the balance sheet of major financial institutions and the need to rebuild their capital base in the U.S and Western Europe precipitated a decline in global capital flows to Nigeria. Such flows come in different forms such as, Foreign Direct Investment (FDI) Portfolio investment, Official Development Assistance (ODA) private charity and remittances (Ajakaiye and Fakiyesi, 2009; Arieff et al. 2010). These forms of capital flows have contributed measurably to economic growth in Nigeria in recent times. Consequently, the contraction created by the GFC caused a significant financial stress in Nigeria capital market in form of a seize-up in global credit flow.

This brought about a measurable divestment in the country’s capital market. The post-GFC divestment in Nigeria capital market can be attributed to two main factors. First, many foreign portfolio investors pulled their monies away from the Nigerian money market for safer and more liquid investments in their home countries (Arieff, et.al, 2010). Second, due to the eroding confidence in global investment climate, many prospective investors in Nigeria adopted what Ajakaiye and Fakiyesi (2009) called the ‘wait and see’ tactics. Consequently, this led to a drop in the All-Share Index and the volume of traded securities at the Nigeria Stock Exchange. The implication is that between March 2008 and March 2009, the All-Share Index had lost a total share of 67 percent, while market capitalization had lost 62 percent of its value (Ajakaiye and Fakiyesi, 2009, p. 7) (See Figure 26). These situations jeopardized the already fragile labour market situations such that massive retrenchments followed the GFC. The perils of the GFC in the capital market and banking sector caused huge job losses, and continued job losses in manufacturing and oil sectors of the economy (CBN, 2011).

Figure 26. Stock market performance, 2002-2009



Source: Authors' Compilation based on data from the Central Bank of Nigeria

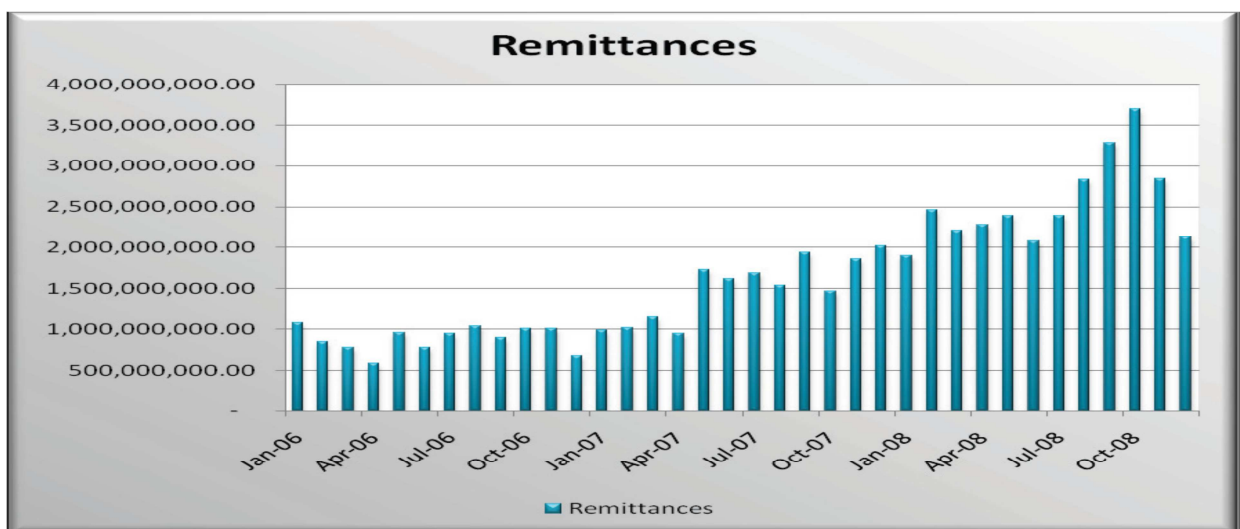
Another manifestation of the GFC in the Nigerian economy is in the sharp decline in the export sector. A drop in aggregate demand in major export destinations for Nigerian goods, particularly those in Europe and North America resulted in a fall in the value and volume of Nigerian exports. Of particular importance is the reduction in the demand for crude oil, which alone generates more than 80 percent of Nigeria’s foreign earnings (Ajakaiye and Fakiyesi, 2009). According to the IMF (2009, p. 6), oil-exporting countries in Africa like Nigeria have been hardest hit by the GFC. This is because, by the end of 2009, oil prices have fallen over 60 percent from their mid-2008 peak (ibid). The IMF contends that oil exporters went from fiscal and current account surpluses in 2007–08 to deficits in 2009, putting pressure on fiscal and external accounts. About 58.4 percent and 25 percent of Nigeria’s exports go to the U.S and Western European markets respectively (Adamu, 2009; Gabriel and Oshobuye, 2011). The implication is that the economic

recession in the U.S and the Euro zone had a spill over effect on Nigeria by causing a decline in demand for the country's exports.

As mentioned earlier, the immediate result of this was a significant decline in the foreign exchange earnings and de-accumulation of external reserve by Nigeria. As Sanusi noted, the fall in foreign exchange earnings led to a reduction in revenue and expenditure profile of the three tiers of government in Nigeria (i.e. Federal, State and Local governments), following the fall in the monthly allocation from the Federation Account (2010). The ripple effect of this in the wider economy was the partial halt in the implementation of approved capital projects by the government in different sectors. This, in turn, affected many projects under the MDGs across all tiers of government in the Nigeria and also impacted negatively on job creation initiatives. Besides, the fall in revenue compelled the government to revise the 2009 Federal Government Budget. As Sanusi (2010) observed, this trend negatively affected welfare programs and plans to build and renovate capital infrastructure aimed at poverty reduction and job creation. Above all, the decline in oil export resulted in severe distributional consequences for the Nigerian economy as households witness a decrease in their income and lower returns on private investment and job creation. Following the GFC, Ajakaiye and Fakiyesi (2009, p. 13) forecast that the income of an average household in Nigeria would decline by 5.07 percent between July-December 2009 under the cumulative 63.5 percent oil shock scenarios. A downward pressure on household income in Nigeria resulting from the GFC exacerbates the already precarious employment situations and poverty situation in the country.

Another impact of the GFC is the drop in remittances (i.e., monies sent home by foreign workers overseas) to Nigeria. It is important to note that remittances from Nigerians in Diasporas are the most stable source of development finance because it is not influenced much by international politics (Ratha, 2003 cited in Arieff et.al, 2010). In addition, remittances form a major source of economic growth and development in many Nigerian towns and villages. For example, in 2007, Nigerians abroad sent home over US\$17 billion for different purposes such as building constructions and tuition payments for their relatives in the country. However, figures from the CBN show that remittances, which reached a record high of US\$3.5 billion in October 2008, declined to \$2 billion by December following the GFC (Ajakaiye and Fakiyesi, 2009) (See Figure 27). Generally, many families and communities in the country depend on remittances from their relatives abroad as the major means of livelihood. Hence, one can infer that a reduction in remittances to Nigeria has exacerbated youth and social vices in the country following the aftermath of the economic and financial crisis.

Figure 27. Monthly remittances to Nigeria, 2006-2008 (naira)



Source: Ajakaiye and Fakiyesi (2009, p. 5).

1. Structural Reforms and the External Sector

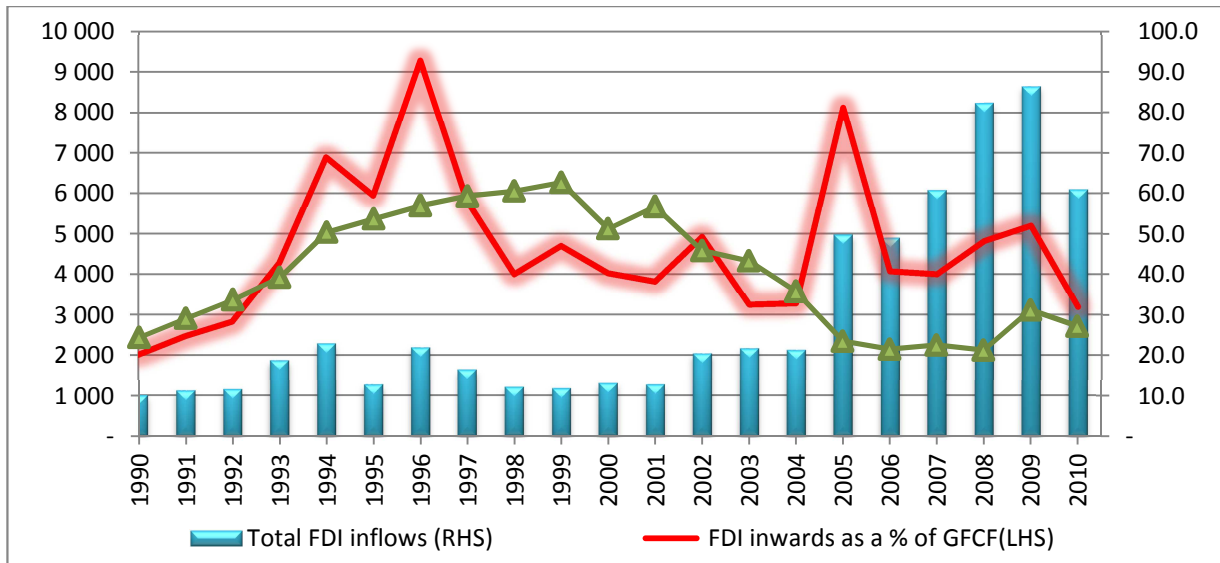
The Nigeria government began structural reforms of the external sector of the economy in 2006. These reforms include liberalization of the import tariff regime and the introduction of a wholesale Dutch Auction System (DAS) on the foreign exchange market by the Central Bank of Nigeria (CBN) in July 2002. The goal of this reform is to improve trade and enhance exchange rate stability (CBN, 2006; West African Monetary Agency, 2008). According to the CBN, the primary goal of the DAS is to realign the exchange rate of the *Naira* (the local currency), conserving external reserves, enhancing market transparency and curbing the capital outflow from the country (CBN, 2006). The DAS strategy enables the CBN to intervene in the foreign exchange market twice every week alongside authorized representatives who bid on behalf of the end-users. To a large extent, the introduction of DAS has been rewarding to the foreign exchange market and the economy in general. To its credit, the DAS has brought measurable stability in the exchange market in Nigeria in recent years.

The global oil market heavily influences Nigeria's external sector. This is because the country is a major exporter of crude oil, and ironically, imports 90 percent of its domestic petroleum products (AFDB/OECD, 2011). Nigeria, the eight largest producer of crude oil in the world, has remained a major importer of petroleum products due to the inability of its local refineries to meet local demands. Operational problems coupled with local sabotage have kept the four refineries in the country perennially producing below installed capacity.

The price shock in the global crude oil market has given a boost to Nigeria external sector. Data from the AFDB/OECD (2008, p. 513; 2011) shows that Nigeria had a huge surplus of between 27.4 percent of the GDP in 2005 to 13.3 percent of the GDP in 2010 due to crude oil windfall (ibid). However, the current account surplus enjoyed since 2006 declined from 13 percent of GDP in March 2010 to 6.6 percent by the end of 2010 (IMF, 2011). As of March 2010, Nigeria's official external reserves stood at USD 40.68 billion, which represents about 17 months of imports. The decline in the country's current accounts is attributable to increased income repatriation by non-resident investors, and increased outflows in service bills and import bills of non-oil goods and services, which rose in 2010 by 33 percent (ibid). The speed at which Nigeria exhausted the huge built up in its external reserve attests to the import-dependent nature of the country's economy. The disaggregation of the imports shows that consumer goods made up about 40.7 per cent (Central Bank of Nigeria, 2010). Such a high propensity for imports has the consequence of stifling the productivity of domestic industries and their ability to create descent jobs in the country's labour market. Besides, it poses a big challenge to the goal of economic diversification in Nigeria.

Nigeria has experienced increased inflows in foreign direct investment (FDI) and portfolio investments since 2007. An estimated \$9 billion were realized in 2007 as FDI (AFDB/OECD, 2008). According to United Nations Conference on Trade and Development (UNCTAD), FDI to Nigeria reached a record amount in 2008. As illustrated in figure 28, FDI in the country grew from a paltry sum of USD1.14 Billion in 2001 and USD2.1 billion in 2004, to US\$11 billion in 2008 (UNCTAD 2008). FDI to Nigeria dropped by 62 percent in 2010 (from \$6 billion in 2009 to \$2.3 billion in 2010) However, despite a notable decline in FDI figures, Nigeria is currently among the best FDI destinations in Africa.

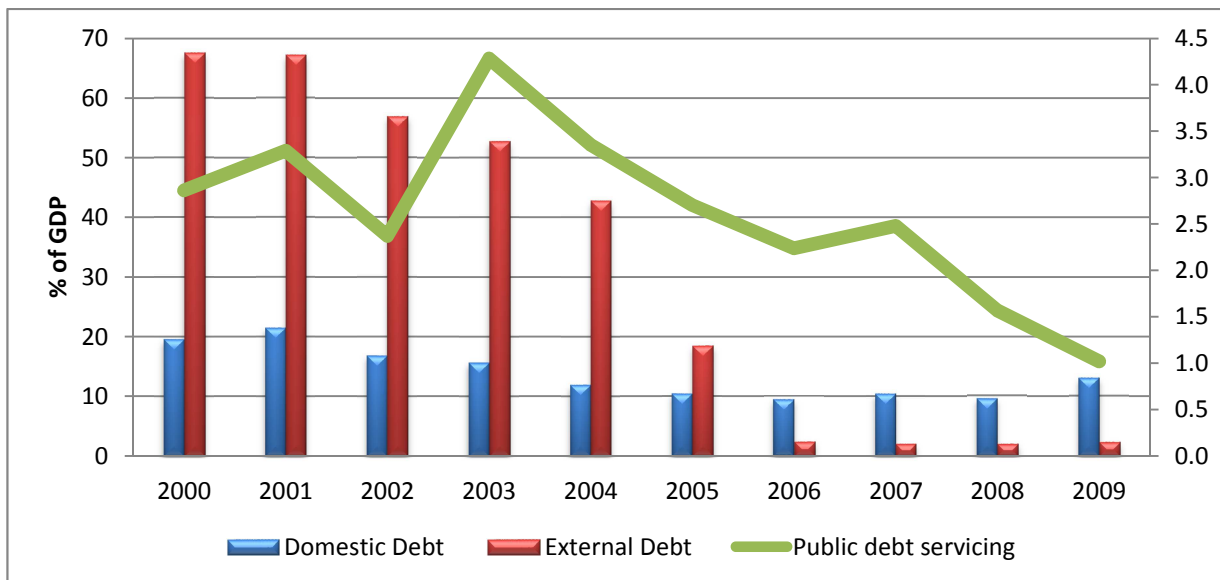
Figure 28. FDI Flows in Nigeria (1990-2010)



Source: Authors' Compilation based on data from the Central Bank of Nigeria.

One remarkable achievement made by the administration of former President Olusegun Obasanjo was the drastic reduction of Nigeria's external debt load and debt service obligations. For the first time in many decades, debt-relief arrangements and buybacks strategies enabled Nigeria to reduce its external debt load and nominal debt burden. Consequently, the present value (PV) of the country's external debt-to-GDP ratio declined steadily in recent years (see Figure 29). The country reached a debt agreement with the Paris Club of creditors in 2006, which led to an \$18 billion reduction in its external debt. Nigeria also retired its debt with the London Club by repurchasing its promissory notes and redeemed Par Bonds worth US\$1.5 billion (AFDB/OECD, 2008).

Figure 29. Nigeria's Domestic and External Debt Stock (Percent of GDP)



Source: Authors' Compilation based on data from the Central Bank of Nigeria

The improvements in the country's external debt status coupled with merchandise trade surpluses have combined to reduce the total debt stock of the country to US\$4.8 billion, or 2.2 per cent of GDP by the end of 2010 (IMF, 2011). Out of this total external debt stock, \$4 billion is classified as multilateral debt, of which over 90 percent is owed to IDA (ibid), (See Table 5 below). The debt sustainability analysis (DSA) released by the

IMF indicates that, at the rate of 2.2 percent of the GDP, Nigeria is classified as having a low risk of debt distress (ibid).

Table 5. Nigeria’s External Debt Stock (\$b)

Category	Multilateral	World Bank Group	IBRD	IDA	IFAD	African Devt. Bank Group	ADB	ADF	EDF	IDB	Bilateral	Commercial
Balance Outstanding			35	3617	62		101	451	120	16	164	202

Source: IMF (2011)

5.6. Alternative policy options

In general, Nigeria has adopted various policy strategies in the past decade to stimulate economic growth. While these efforts have yielded measurable results in economic growth, much of development challenges in the country, particularly, unemployment and poverty have persisted. From 1986 until date, Nigeria has implemented various economic reforms and programs. Among the major ones are the Structural Adjustment Program (SAP), and the National Economic Empowerment Development Strategy (NEEDS). The government has equally attempted mirage of public expenditure reforms after many years of resource mismanagement and misappropriation. These include Fiscal Responsibility Act and Medium Term Expenditure Framework. The MDG Report (2010) underscores that the purpose of these reforms was to raise the country’s standard of living through a variety of reforms, including macroeconomic stability, deregulation, liberalization, privatization, transparency, and accountability.

The Nigerian government projected that the NEEDS would create 7 million new jobs, diversify the economy, boost non-energy exports, increase industrial capacity utilization, and improve agricultural productivity. On September 25, 2009, the Nigerian government unveiled a blueprint for economic development titled, Vision 2020. This blueprint has been adopted as a long-term growth and development framework. It foresees Nigeria as being among the twenty largest economies by the year 2020. According to the plan, the Nigerian economy will be nurtured into “A sound, stable and globally competitive economy with a GDP of not less than \$900 billion and a per capita income of not less than \$4000 per annum” (The Presidency, 2009, P.4).

According to J.O Nnanna of the Ministry of Finance (2010), the government of Nigeria is using budget as a viable macroeconomic instrument for policy interventions towards generating more jobs. Tracking the employment generating value of all contracts awarded by the federal government does this. In support of the giant strides made in the agricultural sector, great potential exist in the service sector. Investment into energy and communication could have a quick turn around on employment and economic growth. Obviously, the actualization of the above macroeconomic goals depends largely on monetary and fiscal policies that are capable of generating sustainable employment for the masses.

6. Macroeconomic Policies, Employment and Poverty Reduction in Nigeria

The preceding sections of this study focused on the Nigerian labour market, macroeconomic policies and the prospects of achieving the objective of productive and decent work within the framework of the MDGs. Sound macroeconomic policy, decent employment and sustained poverty reduction are not mutually inclusive. Therefore, it is imperative to integrate productive employment and the creation of decent work in the monetary and fiscal policy frameworks in Nigeria. However, present monetary policy regulatory environment in Nigeria, which favours inflation targeting runs contrary to the overall goal of employment creation as the centrepiece of economic growth and development.

Nigeria does not lack the necessary institutional frameworks essential for the accomplishment of its employment and development goals. Rather, high level of unemployment and chronic poverty in the country are attributable to flawed and contradicting macroeconomic policy regimes in a predominantly informal economic structure. Therefore, it is crucial to support existing institutions such as the Ministry of Labour, which is responsible for the implementation of National Employment Policy in the country, in coordinating employment creation strategies across ministries and department. Other institutions such as the Ministries of Finance, Treasury and the Central Bank of Nigeria should be engaged as partners with the Ministry of Labour in employment generation. This also underscores the need to define a new multi-target macroeconomic policy framework in Nigeria. Monetary policy in the country should target not only price stability through inflation reduction but also the creation of decent employment and poverty reduction at large.

The Federal Ministry of Labour in Nigeria estimates that about 22 million new jobs could be created in the short term, 23 million in the medium term and 29 million in the long term, mainly in the informal sector and agriculture (Federal Ministry of Labour, 2009). These lofty projections can only be accomplished through an effective harmonization of macroeconomic policy regimes, employment and poverty reduction strategies in Nigeria.

7. Policy Implication: Achieving Decent Work and Sustained Poverty Reduction

Our SVAR analysis finds a significant and robust link between money supply, credit to the private sector and real output. There exist viable evidence contradicting tightening monetary policy option in Nigeria but suggesting that expansionary monetary policy through money supply and credit impacts positively on the growth rate of the economy with less or no significant negative impacts on inflation. Since the estimations prove that credit and money supply are most potent variables in asserting influence on economic growth, it goes to show that the Central Bank has the money supply as the most potent tool to direct economic activities in Nigeria.

However, tight monetary policy in the form of inflation targeting framework is expected to guide the economy through a process of price stability and sustained economic growth, barring any drawback from discretionary fiscal policy regimes. Inflation is always thought to be harmful to economic growth by discouraging savings and investment. At the same time, most, if not all empirical inquiries on successful inflation targeting has focused primarily on the experience of advanced economies with little successful case studies in the Africa.

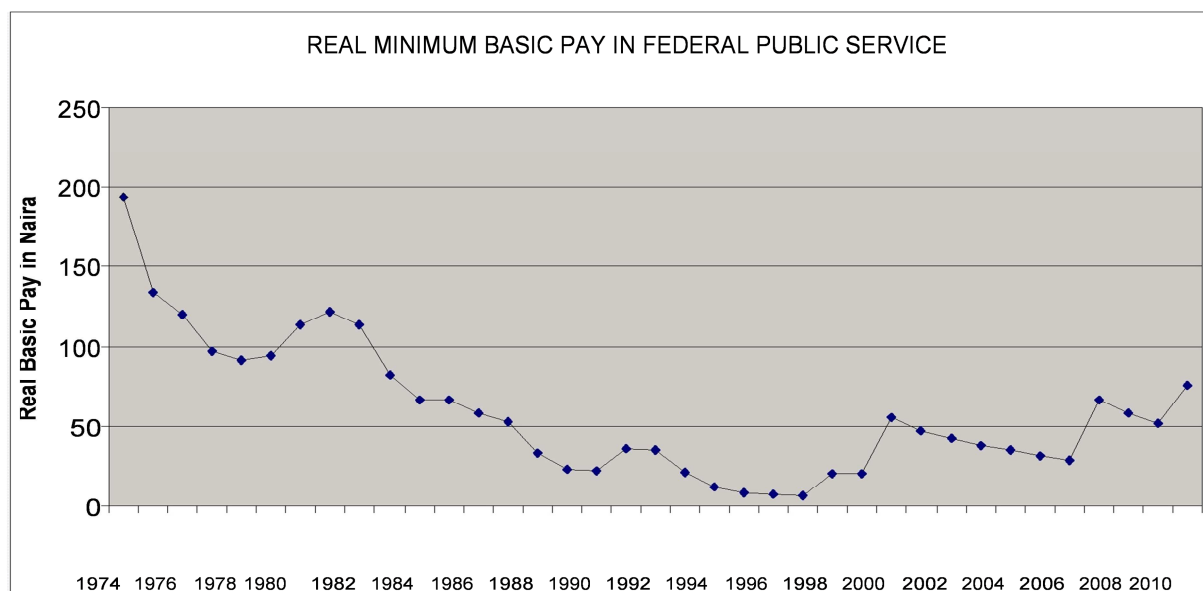
Therefore, it is reasonable to question the extent to which conventional orthodoxy of inflation targeting framework will work in Nigeria's fragile and developing economy to

enable it to accomplish economic growth, social development and poverty alleviation. The result of this study shows that inflation targeting or related tight monetary policy framework is a mistaken agenda. This is because Nigeria is not experiencing a runaway inflation. Hence, inflation is not the major problem that beset macroeconomic stability in the country. Because of the high interest rate, tight credit for the private sector, and exchange rate volatility, inflation targeting can only keep the Nigerian economy in a state of semi-stagnation and also induce recurring balance-of-payment crises. Although implemented with the best intentions, this policy stance comes with the trade-off of stifling employment generation which, in turn offset poverty alleviation efforts in the country. This state of the economy will not enable Nigeria to attain the MDGs through the creation of productive employment and poverty alleviation. This is contrary to the declaration of African Heads of States and Governments to:

Place employment creation as an explicit and central objective of our economic and social policies at national, regional and continental levels, for sustainable poverty alleviation and with a view to improving the living conditions of our people. (African Union, 2004.p. 5)

The failure of macroeconomic policies to meet the aspirations of Nigerians in employment generation underscores the need for monetary and fiscal policy adjustment. As mentioned earlier, monetary policy in the country should have two targets: price stability and employment generation. So far, the target has been solely on the former, and this has happened at a huge cost to the labour market. As much as the monetary authorities need to watch inflation in Nigeria, creating decent and productive employment will go a long way to alleviate poverty and ensure sustainable development in the country. As fewer people enter the workforce and as real basic pay declines (See Figure 30), particularly, in the public service, inflation becomes a lesser threat to the stability of the economy.

Figure 30. Real Basic Pay in Nigeria (Naira)

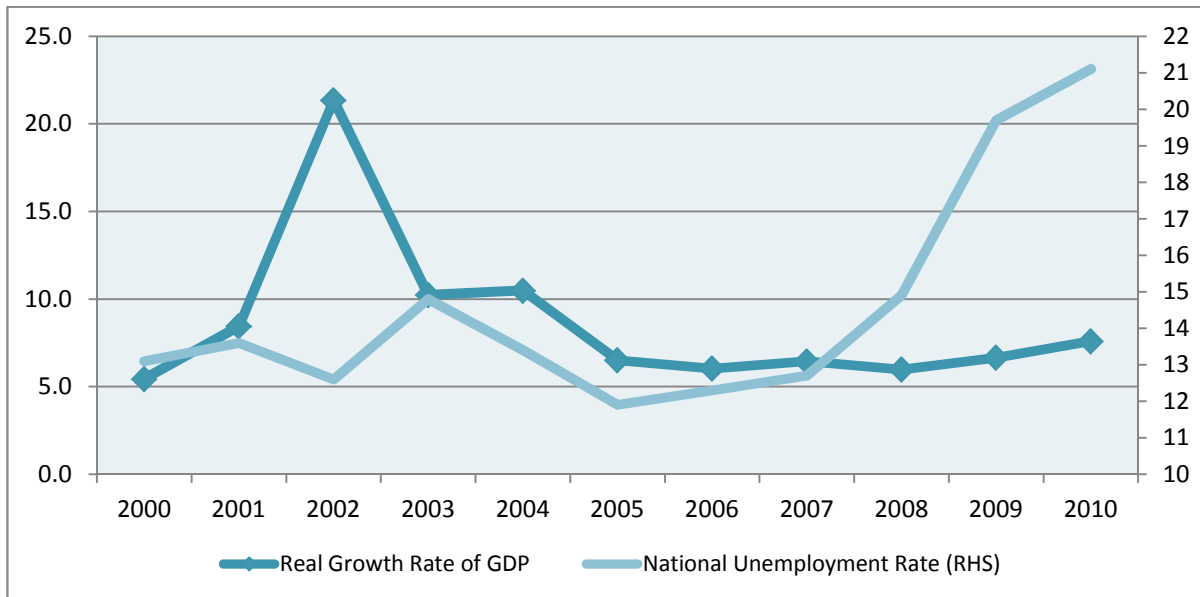


Source: Adapted From National Wages and Salary Commission 2010

However, a contractionary monetary policy, with or without inflation targeting does not enable the country to place employment generation as an explicit and central goal of its macroeconomic policy. This is particularly true given the rising rate of unemployment when compared with the steep decline in real growth of GDP in the country since 2005

(See figure 31). Contrary to the declaration of African Heads of States and Governments (African Union, 2004), macroeconomic policy in Nigeria does not create the “enabling environment for economic production and decent employment opportunities to achieve socio-economic development” in Nigeria. Thus, translating economic growth, as experienced in recent years in Nigeria, into sustainable development has become a major challenge.

Figure 31. Real Growth Rate of GDP and National Unemployment Rate in Nigeria



Source: Authors' Compilation based on data from the National Bureau of Statistics, Nigeria

Against this backdrop, this study puts forward a strategy that aligns the goals of generating productive employment and decent work with those of macroeconomic stabilization and development in Nigeria. This strategy will enable the country to pursue sound economic growth and development objectives in line with the MDGs. As macroeconomic variables in this study indicate, the Nigerian economy will be in a better position to generate productive and decent employment without single digit inflation targeting policies. Such flexible monetary policy framework will engender effective poverty alleviation and employment creation initiatives such as the National Directorate of Employment (NDE) and the National Economic Employment and Development Strategy (NEEDS).

8. Conclusion

We utilized quantitative and non-quantitative estimation techniques in studying the prospects and challenges of productive employment and decent work in Nigeria. The quantitative estimation technique used annual, un-interpolated data for the period 1961 – 2009 to study the effect of monetary policy shocks in Nigeria. The study adopted a Structural Vector Auto-regression (SVAR) model, which has been widely used in most monetary policy studies. The analyse employs the recursive order of identification in exploring the relationships that exist among monetary policy rate (interest rate), growth rate of money supply, inflation, exchange rate growth (i.e. taking as depreciation) and growth rate of output. The interpretation of results is based on the sizes and signs of impulse response function generated from the recursively-orthogonalized SVAR estimated residuals.

The results depict reliable proofs that monetary policy shocks affect growth rate of output. Additionally, money supply is the most potent instrument for monetary policy changes in Nigeria. The most astonishing finding was that both output growth (Dgdp) and money growth (Dm2) reduces the rate of inflation and monetary policy rate substantially whereas increases in monetary policy rate reduces inflation but leaves destructive impact on credit growth, growth rate of money supply and real growth of output. The implication of this result is that a discretionary monetary policy (inflation targeting central bank achieved by raising interest rate) will destroy investment through credit crunch, depressing growth rate of output and hamper efforts towards poverty reduction and job creation.

Contrary to previous literature on IT in Nigeria, and considering influential macroeconomic variables for sustainable and productive employment creation and poverty reduction, we find no meaningful support for inflation targeting in Nigeria. In this study, we were able to analyzed overall GDP data. We were unable to disaggregate non-oil GDP data, a major sector of the Nigerian economy from the overall GDP of the country's economy due to lack of long time series data on non-oil GDP. In view of recent efforts to diversify the Nigerian economy, it is imperative to further separate the contributions of the non-oil sector as major drivers of growth in future studies.

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Appendix 1: Estimations and Techniques

Table 1: VAR Lag Order Selection Criteria

Table 1: VAR Lag Order Selection Criteria

Endogenous variables: DMPR DM2 INF DREXR DCREDIT DGDP

Exogenous variables: C

Date: 01/22/11 Time: 17:42

Sample: 1961 2009

Included observations: 44

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1094.572	NA	2.14e+14	50.02598	50.26928*	50.11621*
1	-1051.980	71.63096*	1.61e+14*	49.72637*	51.42946	50.35796
2	-1021.137	43.46014	2.24e+14	49.96079	53.12368	51.13374
3	-997.0388	27.38493	4.96e+14	50.50176	55.12443	52.21607
4	-959.7561	32.19868	8.16e+14	50.44346	56.52592	52.69913

* Indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

Table 2: Serial correlation Test

Roots of Characteristic Polynomial

Endogenous variables: DMPR DM2 INF DREXR DCREDIT DGDP

Exogenous variables: C

Lag specification: 1 1

Date: 01/22/11 Time: 17:42

Root	Modulus
0.387523 - 0.300957i	0.490662
0.387523 + 0.300957i	0.490662
0.460902	0.460902
-0.206595 - 0.282214i	0.349752
-0.206595 + 0.282214i	0.349752
0.195788	0.195788

No root lies outside the unit circle.

VAR satisfies the stability condition.

Table 3: Vector Auto-regression Estimates

Sample (adjusted): 1963 2009
 Included observations: 47 after adjustments
 Standard errors in () & t-statistics in []

	DMPR	DM2	INF	DREXR	DCREDIT	DGDP
DMPR(-1)	-0.198550 (0.15466) [-1.28380]	-0.053287 (0.11095) [-0.48028]	0.048408 (0.13148) [0.36818]	-0.112894 (0.25945) [-0.43514]	-0.244255 (0.09727) [-2.51123]	-0.076442 (0.08042) [-0.95050]
DM2(-1)	-0.629138 (0.26417) [-2.38160]	0.386924 (0.18951) [2.04172]	0.509959 (0.22458) [2.27075]	-0.335492 (0.44315) [-0.75705]	0.668582 (0.16614) [4.02430]	-0.023234 (0.13737) [-0.16914]
INF(-1)	0.122895 (0.17431) [0.70504]	0.016210 (0.12505) [0.12963]	0.493694 (0.14818) [3.33161]	-0.092239 (0.29241) [-0.31544]	-0.021115 (0.10962) [-0.19262]	0.009203 (0.09064) [0.10153]
DREXR(-1)	-0.002003 (0.10567) [-0.01896]	0.141741 (0.07581) [1.86981]	0.151328 (0.08983) [1.68455]	0.121148 (0.17727) [0.68342]	0.040162 (0.06646) [0.60434]	0.032890 (0.05495) [0.59856]
DCREDIT(-1)	0.441695 (0.23132) [1.90946]	0.042422 (0.16594) [0.25564]	-0.086930 (0.19665) [-0.44205]	-0.285689 (0.38805) [-0.73622]	-0.042616 (0.14548) [-0.29294]	-0.083201 (0.12029) [-0.69169]
DGDP(-1)	-0.043696 (0.32188) [-0.13576]	0.083980 (0.23091) [0.36369]	-0.174806 (0.27364) [-0.63882]	0.151437 (0.53996) [0.28046]	0.144051 (0.20243) [0.71161]	0.257947 (0.16738) [1.54112]
C	2.732234 (5.58984) [0.48879]	12.83845 (4.01005) [3.20157]	1.548091 (4.75211) [0.32577]	10.88325 (9.37727) [1.16060]	10.62021 (3.51549) [3.02098]	5.558387 (2.90674) [1.91224]
R-squared	0.205363	0.239399	0.385498	0.100291	0.499264	0.100689
Adj. R-squared	0.086167	0.125309	0.293323	-0.034666	0.424153	-0.034208
Sum sq. resids	13605.07	7001.680	9832.766	38287.38	5381.129	3678.877
S.E. equation	18.44253	13.23034	15.67862	30.93840	11.59863	9.590199
F-statistic	1.722905	2.098330	4.182226	0.743135	6.647060	0.746413
Log likelihood	-199.8893	-184.2784	-192.2583	-224.2042	-178.0920	-169.1552
Akaike AIC	8.803800	8.139507	8.479077	9.838478	7.876255	7.495965
Schwarz SC	9.079353	8.415061	8.754631	10.11403	8.151809	7.771519
Mean dependent	1.330158	22.02449	17.75277	-4.339876	23.70018	4.181530
S.D. dependent	19.29243	14.14633	18.65079	30.41570	15.28457	9.430260
Determinant resid covariance (dof adj.)		5.94E+13				
Determinant resid covariance		2.26E+13				
Log likelihood		-1122.701				
Akaike information criterion		49.56176				
Schwarz criterion		51.21508				

Table 4: Augmented Dickey-Fuller Tests (Test of Statistical Significance)

	Data in Levels			Data in Percent Changes		
	1961 to 2009 (48 Obs)			1961 to 2009 (48 Obs)		
Variable	# Lags	T_Stats.	P_Value	# Lags	T_Stats.	P_Value
DMPR	0	-1.92	-0.3165	1	-5.84	0.0000
DM2	1	0.02	0.9558	0	-4.26	0.0014
INF	0	-3.97	0.0033	0	-11.45	0.0000
DCREDIT	1	5.07	1.0000	0	-4.38	0.0010
DREXR	1	-2.59	0.1019	0	-5.67	0.0000
DGDP	1	2.16	0.9999	0	-5.22	0.0001

Table 5: Summary Statistics

Date: 05/02/11
Time: 16:42
Sample: 1961 2009

	DMPR	DM2	INF	DREXR	DCREDIT	DGDP
Mean	0.939210	21.71631	17.49708	-4.393197	23.34999	4.093412
Median	0.000000	20.39058	11.74000	-7.725752	20.66197	3.984359
Maximum	39.58957	58.94527	76.76000	144.1028	64.58486	29.90017
Minimum	-65.54069	-13.80245	0.220000	-57.70508	-8.045685	-31.21607
Std. Dev.	19.27732	14.15696	18.53615	30.09266	15.31449	9.349352
Skewness	-0.667863	0.243588	1.484468	2.856189	0.755909	-0.504777
Kurtosis	4.735457	2.971891	4.449008	14.46589	3.753460	7.602483
Jarque-Bera	9.591946	0.476262	21.82840	328.1957	5.706586	44.40410
Probability	0.008263	0.788099	0.000018	0.000000	0.057654	0.000000
Sum	45.08208	1042.383	839.8600	-210.8735	1120.800	196.4838
Sum Sq. Dev.	17465.91	9419.712	16148.68	42561.71	11023.08	4108.288
Observations	48	48	48	48	48	48

Appendix 2: Working Population in Nigeria by Economic Activity, 2001 – 2005 ('000s)

Economic Activity	2001	2002	2003	2004	2005
Total Working Population	43,600.0	44,800.0	46,800.0	47,993.4	63,931.5
Agric: Hunting, Forestry & Fishing	23,870.0	26,840.0	27,840.0	28,438.6	37,486.7
Mining & Quarrying	68.1	67.7	66.2	67.1	89.1
Manufacturing Industries	775.0	680.0	820.0	836.2	1,172.9
Production & Distribution of Electricity & Water	356.0	320.0	410.0	421.8	551.2
Building & Construction	289.0	252.0	260.0	267.2	352.8
Comm. & Repairs of Auto & Domestic Art	120.2	91.7	93.1	96.8	134.2
Hotels and Restaurants	90.8	83.3	86.9	89.2	124.5
Transp., Storage &	388.0	390.0	400.0	411.1	537.4

Communication							
Financial Intermediation (Includes Insurance)	360.0	244.0	270.0	275.1	363.0		
Real Estate, Renting & Business Activities	69.2	56.1	58.6	59.8	77.4		
Public Admin. & Defense, Compulsory Social Services	5,429.0	4,940.0	4,900.0	5,038.7	6,546.6		
Education	8,800.0	8,317.0	8,430.0	8,759.6	12,238.6		
Health & Social Work	276.0	183.0	280.0	290.6	382.9		
Others	2,708.8	2,475.2	2,885.3	2,941.6	3,874.0		

Source: National Bureau of Statistics (2006)

Appendix 3: Total Employment in Industries and Businesses 1999-2005 ('000)

Sectors	1999	2000	2001	2002	2003	2004	2005	1999-2005
Agriculture	76.5	79.9	80.7	81.3	88.4	109.5	123.8	640.1
Manufacturing and Processing	1916.8	1835.1	1905.1	1849.2	1944.0	1987.5	1912.9	13350.6
Building and Construction	290.6	307.9	476.5	409.9	398.8	431.7	459.0	2774.4
Hotels, Rest. and Tourism	537.1	509.7	572.0	556.2	544.3	538.2	520.6	3778.0
Transport	154.7	158.2	179.2	192.9	203.3	189.1	241.4	1318.7
Communications	17.4	28.3	193.7	198.9	315.0	325.0	467.3	1545.7
Education Services	8.2	8.9	12.4	18.4	20.4	21.9	25.8	116.0
Mining and Quarrying	56.1	18.7	18.7	19.9	31.9	33.7	35.9	215.1
Utilities	14.9	14.5	14.6	14.8	15.2	15.4	14.9	104.3
Banking	28.3	17.1	24.3	24.9	24.5	25.3	29.9	174.2
Distributive Trade	146.6	145.5	162.5	177.1	183.5	190.9	196.5	1202.7
Private Prof. Services	7.0	8.4	7.6	7.8	8.8	9.6	10.2	59.5
Real Estate and Biz Services	75.0	77.8	85.6	93.0	94.2	94.0	103.3	622.9
Health	305.9	301.6	318.4	346.1	347.3	355.7	330.0	2305.0
Finance	24.1	28.2	28.2	28.7	25.4	26.8	52.4	213.8
TOTAL	586.9	578.5	1650.8	677.6	683.7	702.3	722.3	4578.1

Source: National Bureau of Statistics, Nigeria.

Appendix 4: List of Institutions and Stakeholders Consulted

Federal Ministry of Finance, Nigeria

Federal Ministry of Labour and Productivity, Nigeria

National Bureau of Statistics, Nigeria

Central Bank of Nigeria (Research Department)

Central Bank of Nigeria (Monetary Policy Committee Representative)

National Planning Commission, Nigeria

Policy Analysis and Research Project (PARP), Nigeria

ECOWAS COMMISSION (Macroeconomics Unit)

The World Bank Office (Nigeria)

United Nations Children Fund (UNICEF)

United Nations Educational Scientific and Cultural Organization (UNESCO)

The Resident Representative, IMF, Nigeria

National Salaries Incomes & Wages Commission (The Presidency), Nigeria

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