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ALIGNING MONETARY AND FISCAL POLICIES TOWARDS ACHIEVING A ROBUST EXPORT LED GROWTH STRATEGY

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ABSTRACT---
The objective of this study is to align monetary and fiscal policies towards achieving a robust export led growth strategy. Monetary and fiscal policies are considered crucial for establishing a robust financial system; hence the need to align them, especially in Nigeria. The strategic framework and specific policy actions required to align Nigeria's monetary and fiscal policies to achieve a robust, shock-resilient, and efficient financial system and support export led growth strategy. A robust financial system is one that is resilient to domestic and external shocks, efficiently intermediates resources, protects consumer deposits, maintains market integrity, and provides the necessary capital for economic growth. This involves managing and eliminating systemic risks created by the historical tension between the Central Bank (CBN) and the Ministry of Finance (MoF).
KEYWORDS: *Aligning, Monetary, Fiscal Policies, Towards, Achieving, Robust, Export, Led, Growth, Strategy,*

INTRODUCTION

The primary and major threat to the stability of Nigeria's financial system and price stability_is Fiscal Dominance. This occurs when the fiscal authority's large, chronic borrowing needs (budget deficits) constrain the independence and effectiveness of monetary policy. The CBN is often compelled to finance government deficits (via "Ways and Means" advances). This injects massive, non-sterilized liquidity into the economy, directly leading to high inflation and making the CBN the primary cause of the instability it is mandated to control. CBN Act, BOFI Act 2020 and ECOWAS Macro-economic Convergence Criteria wants lending to Government of no more than 10% of its revenue of the previous year, and repayable in the same financial year. Interests charged are high and usually 2% to 3% above the Monetary Policy Rate (MPR). Unreasonable FSP benchmarks; Poor MTEP Budgeting and Unlawful Deficits; Debt eligibility criteria, Cost/Benefit Analysis and Lack of Enforcement Powers of Non-compliance.

Fiscal and monetary policies are the two most significant tools available to policymakers in guiding an economy towards attaining desired macroeconomic objectives. Both policies are useful for maintaining macroeconomic stability and achieving medium to long-term economic growth and welfare (World Bank, 2014). However, there has been a lack of consensus on the most appropriate manner that policymakers can use fiscal and monetary policies (Wren-Lewis, 2011). This relates, in specific terms, to whether the instruments of fiscal and monetary policies are independent or intertwined in their impact on the economy (Hallett et al., 2011; Hetz

Government over-reliance on domestic borrowing, which attracts sovereign guarantee, raises market interest rates, effectively crowding out the private sector, which is then unable to access affordable credit for productive investment. This in turn forces CBN to embark on Domestic Finance intervention of the real sector. Policy alignment is crucial to remove these conflicting signals, restore confidence, and ensure that the financial sector can perform its core function of intermediation effectively.

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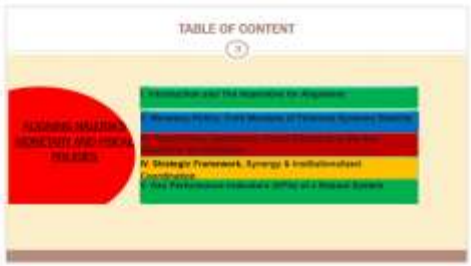
CONCEPTUAL FRAMEWORK

The proponents of the Fiscal Theory of Price Level (FTPL) argue that fiscal policy is the foremost determinant of price level, unlike the monetarists who propose that government budgets indirectly affect the price level through seignorage- money stock channel. Woodford (1995, 1996, 2001) and others posit that government budget can have a direct impact on price level void of any monetary channel.

Monetary Policy & Financial Systems Stability



Restoring Price Stability (Disinflation) and managing Stagflation

Focus on Core Mandate: The CBN must prioritize its legal mandate of price stability. Achieving sustained disinflation (reducing the inflation rate) is the most critical contribution to financial system health, as high inflation distorts pricing, creates negative real interest rate (ECOWAS MCC), discourages savings, and undermines long-term investment.

The CBN Governor, Mr. Olayemi Cardoso, said that it had become clear to the monetary and fiscal authorities that the most efficient and effective way to achieve their objectives is through partnership and collaboration. While presenting a communiqué from the 303rd meeting of the apex bank's Monetary Policy Committee, Cardoso said that the collaboration had become obvious to the rating agencies. "You will see collaboration in operation in many spheres, including the outcomes of the rating agencies. "We are very fortunate that we have a position of the Permanent Secretary of the Ministry of Finance as a standing member of the MPC. "That also is something that we do not take lightly, given that it is the leadership of the fiscal authority that sits here. "Also, further down the line, across different parts of both the CBN and the Federal Ministry of Finance in particular, we have joint committees that meet regularly and work together.

Cardoso said that the move to inflation targeting by the CBN required the utmost collaboration between the fiscal and the monetary authorities. "In fact, some would argue that you are not likely to succeed if you are unable to collaborate effectively. "We are well on that path, and we will do all that is in our power to ensure that the collaboration continues. "It is that collaboration that has brought stability, and we all know what it means to have economic stability; we are not about to lose that for any reason in the world," he said.

CBN's Deputy Governor, Corporate Services, Emem Usoro, said that aligning fiscal and monetary decisions would promote transparency, accountability, policy discipline and credibility, particularly as digital finance expanded. Usoro said that ongoing reforms within the apex bank had restored relative stability and improved key economic indicators. She, however, said that consistent public communication was vital to deepening understanding of policy choices and sustaining confidence. "While progress has been made, more work is required to improve macroeconomic fundamentals and the standard of living for Nigerians. "This makes partnerships among policymakers, regulators, and the media even more important." She cited high inflation, currency volatility, limited external reserves and heavy dependence on Ways and Means financing as key challenges of the financial system in the recent past.

According to her, guided by strong and transparent leadership, the CBN implemented well-sequenced and compliance-driven measures, including orthodox monetary policies, strengthened corporate governance, and ongoing bank recapitalisation. “These actions, aligned with the Federal Government’s reform agenda, have helped restore stability and improve key macroeconomic indicators,” she said. Usoro said that notable achievements included a decline in inflation to 16.05 per cent, stabilisation of the Naira at below N1, 500 to the dollar, and external reserves exceeding 46 billion dollars, representing over 10 months of import cover. She said that monetary policy adjustments were also supporting lower lending rates as inflation continues to ease.

Dr Afangideh Johnson, Assistant Director, Monetary Policy Department at the CBN, said that Nigeria’s macroeconomic landscape required coordinated responses to address structural weaknesses. Johnson said that aligning government borrowing with CBN liquidity forecasts would enhance monetary policy transmission and prevent crowding out private-sector lending. He recommended formalising the Fiscal-Monetary Policy Coordination Committee and establishing a multi-agency council to harmonise fintech, digital payment and data-protection regulations. Most of the stakeholders agreed that alignment of monetary and fiscal policies required certain mechanisms for effective coordination. They urged policymakers to establish clear frameworks and operational arrangements, adding that the CBN must maintain its independence and strictly adhere to its primary mandate of price stability.

Unfettered Independence: Monetary policy decisions (like setting the Monetary Policy Rate, or MPR) must be made solely based on economic data, free from the political pressure of short-term fiscal needs.(US FED V Trump). Ensuring steady Forex inflow (thanks to re-routing NNPC revenue through CBN and increased crude production and Dangote export of refined products), to stabilise Forex and increase Foreign Reserves. New Forex Code Enhanced transparency and capacity for managed float, induced Foreign Portfolio Investment, Diaspora Remittance, and export revenue Strengthening Regulatory Oversight. Capital Adequacy: Strict enforcement of Ccapital Aadequacy Rratios (CAR), including the recent bank recapitalization exercise, is vital to ensure that financial institutions can absorb unexpected losses without taxpayer intervention.(AMCON, 2009 US Sub-prime Financial crisis). Higher CAR required for Banks operating overseas.

Bank Recapitalisation

Non-Bank Supervision: Extend rigorous supervision to the non-bank financial sector (Fintechs, Micro-finance, Sshadow banking) to mitigate emerging systemic risks and close regulatory loopholes. Cyber security and AML: Intensify oversight on cyber security resilience and enforce strict Anti-Money Laundering (AML) and Counter-Terrorism Financing (CFT) protocols to protect the integrity of digital transactions and the nation's reputation.(Nigeria exit from FATF Grey List/19 Action Points).

Market-Based Sterilization: Use market instruments (like Treasury Bills and Open- market Ooperations - OMO) for liquidity management, rather than blunt tools (like arbitrary increases in Cash Reserve Ratios - CRR) that strain bank balance sheets.

Deepening Money Markets: Develop and deepen secondary markets for fixed-income securities to improve liquidity transmission and create transparent pricing benchmarks for credit risk. Use of Loan to Deposit Ratios to increase liquidity to the private sector. Use of Differentiated Cash Reserve Ratios to also target lending to the Real Sector and Manufacturing sector on single digit and medium term Statutory Fore-bearance brought in during COVID-19 era to prevent collapse due to wide-spread default. AMCON to finance Banks Balance sheet due to US Sub-prime property crisis

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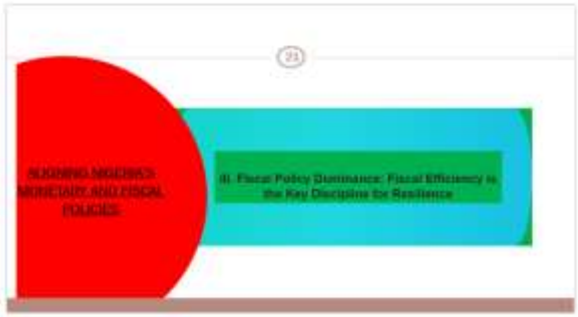

Fiscal Policy Dominance, Fiscal Efficiency and Resilience
Fiscal policy actions must support price stability and avoid placing undue pressure on the banking system or the nation's balance sheet.

Institutional Fiscal Discipline
Zero Deficit Monetization: The Fiscal Authority must enact and strictly adhere to an absolute ban on borrowing from the Central Bank (Ways and Means), in accordance with ECOWAS Macro-economic Convergence Criteria. Borrowing must stay within 10% of the previous year’s income and repayable in the same financial year. All deficits must be financed through transparent market borrowing (bonds, Eurobonds) or increased revenue.

Fiscal Responsibility Commission (FRC): Empower and ensure the independence of FRC, which is the institutional framework set up by the Fiscal Responsibility Act 2007, with Amendment to the Act awaiting the final reading, to provide oversight on public spending, deficit size, and adherence to debt ceilings. It is the relevant Agency to issue or approve Certificate of Compliance on borrowings in accordance with the provisions of FRA2007.

Debt Sustainability and Transparency
Prioritize Revenue: Aggressively broaden the non-oil revenue base (taxation, customs, levies). A strong, diversified revenue stream is the primary tool for reducing the structural deficit and minimizing the need for debt

Further prioritize Ad-Valorem Levy of 15% on imported fuel in accordance with Public Service Obligation (PSO) and achievement of import price parity and impose 5% Levy on non-compliance with Domestic Crude Obligation (DCO) which mandates supply to local refining before export.

Debt Profile Management: Rebalance Domestic and Foreign borrowing. Shift the national debt profile towards longer maturities and more external (concessional) sources where appropriate,(in accordance with FRA 2007) to reduce the domestic interest burden and free up local bank liquidity for private lending.

Public Financial Management (PFM)
TSA Utilization: Optimize the Treasury Single Account (TSA) system to ensure efficient cash management, which reduces unnecessary public borrowing and provides a clearer picture of government cash balances, aiding CBN liquidity forecasting.

Targeted Spending: Ensure all capital expenditure is targeted toward high-impact, productive projects that enhance the economy's *supply-side capacity, rather than contributing to inflation through unproductive consumption spendi*ng.

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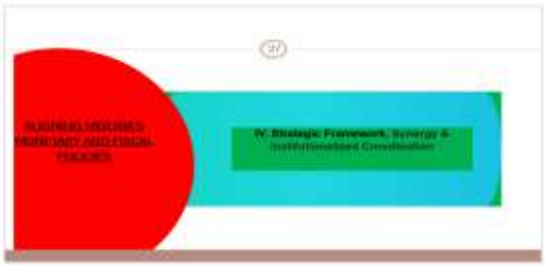
Responsible FSP benchmark, MTEF Budgeting



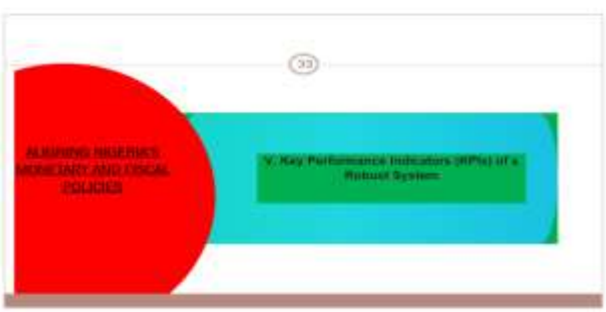
Strategic Framework, Synergy & Institutionalized Coordination
A robust financial system relies on formal, transparent, and continuous coordination between the two authorities.

The Monetary-Fiscal Policy Compact
Establish a statutory coordination council with clear mandates, frequent meetings, and transparent reporting. This forum should: Agree on Macro Targets: Jointly set achievable and consistent targets for inflation, GDP growth, and the fiscal deficit-to-GDP ratio and borrowing profile.

Establish the Debt to GDP ratios, Debt Service to Revenue ratios for Federal, State and Local Government. Joint Liquidity Forecasting: Share real-time data on expected government revenue/expenditure and foreign exchange flows to enable the CBN to accurately forecast market liquidity and plan its operations. Contingency Planning: Develop and agree upon pre-defined responses to potential economic shocks (e.g., oil price collapse, global recession) to ensure a unified and swift reaction

Strategic Framework, Synergy & Institutionalized Co-ordination
Strengthening the Regulatory Perimeter: The FMoF and CBN must collaborate on legislation that enhances the powers and scope of financial regulation, particularly in managing systemic risk. This includes: Crisis Resolution: Developing a unified framework for resolving banking or financial sector crises without legislative delay or political interference.
Deposit Protection: Ensure the Nigeria Deposit Insurance Corporation (NDIC) is adequately capitalized and its mandate is harmonized with the CBN's regulatory framework.

Considering establishing CBN-SEC Joint Supervision of Crypto regulation, as it impacts the banking and other financial institutions.



Key Performance Indicators (KPIs) of a Robust System
The success of policy alignment can be measured by specific metrics that reflect financial resilience and efficiency: Inflation Targeting: Achieve a sustained single-digit inflation rate (e.g., below 10%).

Credit to Private Sector (CPS) Growth: Increase the growth rate of credit directed towards the productive private sector (as a percentage of total credit) relative to government borrowing.

Financial Depth: Increase the ratio of M2 (broad money supply) to GDP, indicating the financial system's ability to intermediate and mobilize savings effectively.

Exchange Rate Volatility Index: Maintain a low volatility index for the Naira, demonstrating predictability and reducing speculative activity, including USD dollarisation.

Non-Performing Loan (NPL) Ratio and Capital Adequacy Ratio: Keep the NPL ratio of the banking sector below the prudential threshold of 5%, and Capital Adequacy Ratio around 15%, reflecting the health of bank balance sheets.

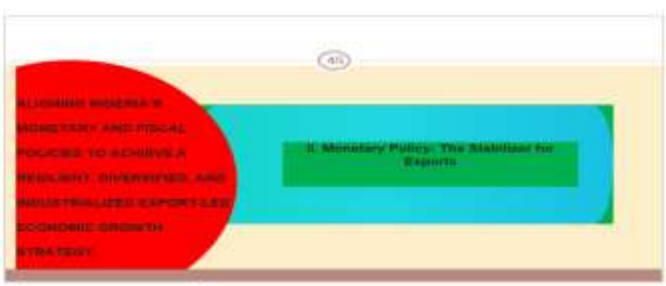
This alignment framework moves the Nigerian financial system from a position of chronic vulnerability to one defined by resilience, efficiency, and credibility.

The Current Economic Imperative

Nigeria's economy faces structural challenges rooted in its dependence on crude oil, which accounts for over 90% of export earnings. This reliance creates vulnerability to global shocks, persistent exchange rate volatility, and limits the capacity for broad-based job creation. Achieving resilience, diversification, and industrialization requires a fundamental shift from a rentier economy to one driven by value added refined petroleum and gas exports and productive, non-oil exports.

Goal of Policy Alignment

The primary goal of aligning Monetary (Central Bank) and Fiscal (Federal Government) policies is to ensure that the tools of each authority do not counteract the other, but rather amplify their combined impact on *boosting manufacturing output, stabilizing the macroeconomic environment, and enhancing the global competitiveness of Nigerian goods.*



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Monetary Policy: The Stabilizer for Exports
The Central Bank of Nigeria (CBN) must utilize its tools not just for traditional price stability, but as active instruments of industrial and export promotion, ensuring predictability and access to capital.

Exchange Rate Predictability and Stability
Market-Reflective Pricing: The CBN must maintain a transparent, unified, and market-reflective exchange rate regime. Predictability is paramount, allowing exporters to plan investments and manage costs without relying on speculative arbitrage.

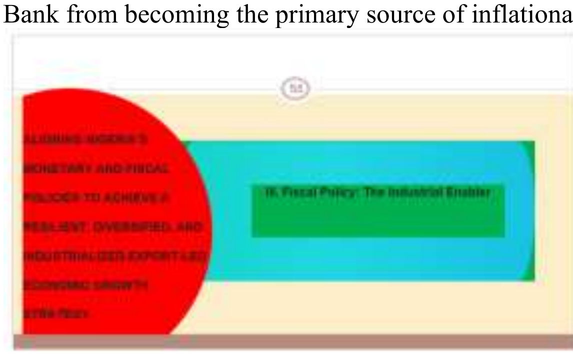
Exporters' Proceeds Management: Policies must encourage full repatriation and sale of non-oil export proceeds through the official market. Incentives, such as the *RT200 Non-Oil Export Proceeds Repatriation Rebate Scheme* (if operational), should be supported and adequately funded to reward exporters for formalizing FX flows.

Monetary Policy: The Stabilizer for Exports
Targeted Development Finance
Low-Cost, Long-Term Credit: The CBN should continue to utilize its intervention windows to provide sub-market interest rate financing tailored specifically to manufacturers and agro-processors who are committed to backward integration and export.

Loan Tenor Matching: Loans must have appropriate long tenors (7-15 years) that match the project lifecycle in industrial production, moving away from the short-term financing cycles prevalent in the Nigerian banking system.

Inflation and Interest Rate Management
Inflation Anchoring: The CBN must achieve sustainable disinflation (reduction of the inflation rate) to gradually reduce the Monetary Policy Rate (MPR). Lower policy rates are essential to reduce the overall cost of credit, making Nigerian production competitive.

Liquidity Management: Focus on sterilization mechanisms (like OMO bills) that are independent of fiscal needs, thereby preventing the Central Bank from becoming the primary source of inflationary money supply.



Fiscal Policy: The Industrial Enabler
The Federal Government (FG) must strategically deploy taxation, spending, and trade policies to lower the cost of production and facilitate market access for export-oriented industries.

Critical Infrastructure Investment
Power and Logistics: The FG must prioritize capital expenditure on export-enabling infrastructure, focusing especially on reliable, low-cost power supply and efficient rail/road links to ports. High energy and transport costs are the biggest inhibitors of Nigerian industrial competitiveness.

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Export Processing Zones (EPZs): Dedicate public resources to developing fully serviced, reliable EPZs and Free Trade Zones (FTZs) where administrative and infrastructure bottlenecks are minimized for manufacturers.

Fiscal Policy: The Industrial Enabler

Fiscal policy uses government spending and taxation to influence the economy, while monetary policy uses interest rates and money supply to manage it. Fiscal policy is handled by the government (like the Ministry of Finance), and monetary policy is managed by the central bank. Both aim to achieve stable economic growth, low unemployment, and controlled inflation, but they use different tools and have different speeds of impact

Coordinated Export Incentives

Targeted Tax Breaks: Provide tax holidays or reduced corporate income tax specifically for companies that achieve defined non-oil export targets or demonstrate a minimum percentage of local value addition (LVA).

Customs and Trade Facilitation: Streamline and automate customs procedures to drastically reduce clearance times and costs. Ensure that incentives like the *Export Expansion Grant (EEG)* are predictable, timely, and settled efficiently.

Domestic Revenue Mobilization and Debt Management

Non-Oil Revenue Base: Intensify efforts to broaden the non-oil tax base and improve collection efficiency (e.g., through digital tax systems). Increased non-oil revenue reduces the government's need to borrow. Responsible Borrowing: Fiscal authorities must manage public debt responsibly, prioritizing borrowing for productive capital projects rather than consumption. This reduces pressure on the domestic money market and prevents the crowding out of private sector credit.

Strategic Alignment: The Non-Negotiable Synergy

The success of the export-led growth strategy hinges on the continuous, transparent, and institutionalized coordination between the CBN and the Ministry of Finance.

EMPIRICAL REVIEW

Several studies have examined the issue of fiscal and monetary policy interactions (Muscatelli et al., 2005; Davig &Leeper, 2009; Algozhina, 2012; Xie, 2019; Afonso et al., 2019; Chen et al., 2020). Fiscal and monetary policies can by nature, interact as substitutes or in a complementary manner in their effect on the aggregate economy. Both policies interact as substitutes when an expansionary fiscal (monetary) policy is countered by contracting monetary (fiscal) policy and as complements, when an expansionary fiscal (monetary) policy is accompanied by a corresponding expansionary monetary (fiscal) policy stance, i.e. they offset and support each other in the stabilization of the economy (Chuku, 2010; Jawadi et al., 2016; Qayyum & Shahid, 2016). CBN's role is to ensure price stability and oversee the soundness of the financial system. Its tools must be used consistently and predictably to inspire & maintain investor confidence in our financial systems.

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Kadiri Abdulrahman (2025) observed that experts believe that when these two major macroeconomic levers work in harmony, they create a stable, predictable economic environment that allows financial institutions to perform their core function of intermediation effectively, while minimising systemic risk. To this end, the Central Bank of Nigeria (CBN) recently invited stakeholders to map out ways to effectively align both policies in its recent seminar for finance correspondents and business editors.

Monetary Policy, managed by the CBN, uses tools like interest rate changes and open market operations to control money supply and maintain price stability. By adjusting interest rates, the CBN can influence borrowing, spending and investment decisions, impacting overall economic growth and inflation levels. Fiscal policy, on the other hand, refers to the use of government spending and tax policies to influence economic activity. In the aftermath of the crisis and the recession following, some advanced economies opted for expansive fiscal policy in the form of bailouts and stimulus packages to complement the efforts of monetary policy to stimulate the economy at the zero lower bound rate (Leeper & Leith, 2015). Managed by the government, fiscal policy focuses on increasing public spending, reducing taxes or a combination of both to stimulate the economy during a downturn.

Fiscal policy may also involve reducing spending or increasing taxes to cool down an overheating economy. In line with this, existing empirical studies have exam ined fiscal-monetary policy interactions in a DSGE modeling setup (Muscatelli et al., 2005; Davig &Leeper, 2009; Gilksberg, 2016). Most of the existing studies have been conducted for developed economies while the empirical literature on fiscal and monetary policy interactions in developing economies, specifically in Nigeria remain sparse (Chuku, 2010; Musa et al., 2013; Goshit & Landi, 2014; Oye et al., 2018; Tule et al.,2020; Omotosho, 2021)

While fiscal policy primarily targets aggregate demand through changes in taxation and government spending, monetary policy influences money supply, borrowing costs, and credit availability. Experts say these two policies, working in tandem, can help achieve macroeconomic stability and avoid situations like hyperinflation or recession. They say coordination between fiscal and monetary policy becomes crucial when aiming for overall economic stability. It is their contention that without coordination, fiscal expansion by the Federal Government could lead to excessive inflation if not accompanied by monetary tightening. The experts also say that restrictive fiscal policies might need to be offset by accommodative monetary measures to ensure that growth is not compromised. (Kadiri Abdulrahman, 2025). They posit that the primary benefit of the alignment is that it prevents conflicting signals and policy pushback, which can introduce volatility and uncertainty into financial markets. A renowned Economist, Prof. Ken Ife, described a robust financial system as one that is resilient to domestic and external shocks.

Ife, the Chief Economic Strategist, ECOWAS Commission, said that such a system should be able to efficiently intermediate resources, protect consumer deposits, maintain market integrity and provide the necessary capital for economic growth. “This involves managing and eliminating systemic risks created by the historical tension between the CBN and the Ministry of Finance.” He said that the major threat to the stability of the Nigerian financial system and fiscal stability was fiscal dominance. According to him, fiscal dominance occurs when the fiscal authority’s large, chronic borrowing needs (budget deficits) constrain the independence and effectiveness of monetary policy.

“The CBN is always compelled to finance government deficits via Ways and Means Advances. “This injects massive, non-sterilised liquidity into the economy, directly leading to high inflation and making the CBN the primary cause of instability it is mandated to control. ”Ife said that the role of the CBN was to ensure price stability and oversee the soundness of the financial system. He said that its tools must be used consistently and predictably to inspire and maintain investor confidence in the financial system. The economist urged the apex bank to prioritise its legal mandate of price stability. “Achieving sustained disinflation is the most critical contribution to financial system health, as high inflation distorts pricing, creates negative real interest rate, discourages savings and undermines long-term investments. “Monetary policy decisions must be made solely based on economic data, free from political pressure of short-term fiscal needs,” he said.

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CONCLUSION

The strategic framework and specific policy actions required to align Nigeria's monetary and fiscal policies to achieve a robust, shock-resilient, and efficient financial system and support export led growth strategy. Fiscal and monetary policies are the two most significant tools available to policy makers in guiding an economy towards attaining desired macroeconomic objectives. Both policies are useful for maintaining macroeconomic stability and achieving medium to long-term economic growth and welfare.

RECOMMENDATIONS

The alignment strategy must be focused on sectors with high growth potential, low import content, and strong local value chains. The success of the export-led growth strategy hinges on the continuous, transparent, and institutionalized coordination between the CBN and the Ministry of Finance. The FG must strictly abide by legal limits, and the CBN must maintain its commitment to zero monetization of fiscal deficits (i.e., no more Ways and Means financing). This is the single most important step to restoring price stability and policy credibility. The CBN and MoF must jointly plan the government's borrowing schedule to minimize disruptions to money market liquidity and prevent unintended spikes in interest rates that could harm exporters. For every sector targeted for export growth (e.g., Agro-processing), the CBN's subsidized credit window must be explicitly linked to the MoF's customs duty and tax incentive window. This ensures that the incentive is delivered simultaneously and effectively. Fiscal efforts to attract large-scale FDI into industrial projects should be coordinated with the CBN's FX management strategy to ensure that those investors have predictable mechanisms for capital repatriation.

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