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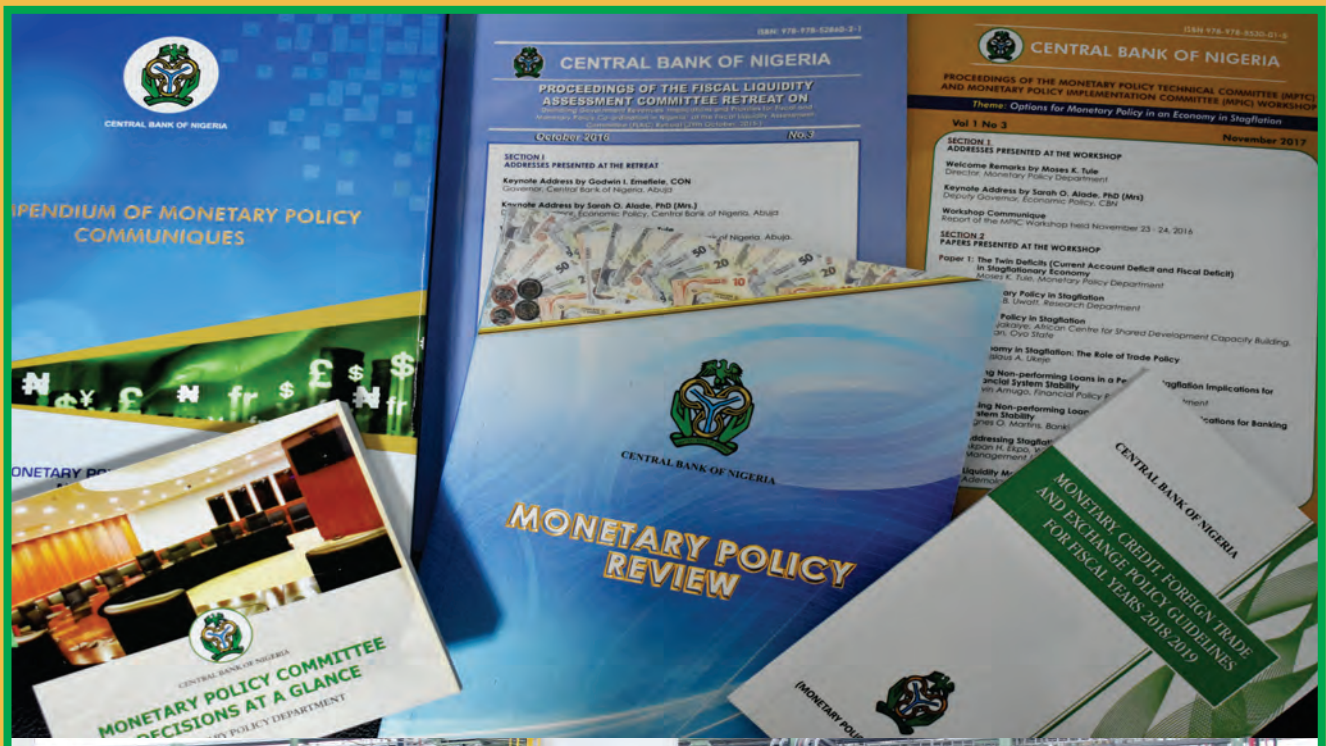

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CENTRAL BANK OF NIGERIA

Fiscal Rules And Its Implication For Monetary Policy In Nigeria

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Abstract

Following the return of Nigeria to democratic rule in 1999, the performance of the capital expenditure in the country's yearly budget has been a subject of debate between the legislative and executive arms of government.

The country's annual budget has not been able to deliver on welfare enhancement to the people due largely to weak link between capital budget implementation and the associated necessities of life that were aimed at poverty reduction for the populace. Using descriptive analysis for the period 2004 - 2018, this paper examines the low capital budget allocation and its implementation in Nigeria. Since the growth of any nation is premised largely on capital projects, the paper recommended that considering the huge provision of infrastructure by banks which constitutes a large portion of the operating cost, efforts by both the monetary and the fiscal authorities to continue to tackle the problem of infrastructure would assist in reducing the cost of funds and ensure affordable credit needed to engender rapid growth and development.

Keywords: fiscal rule, budget performance, monetary management
JEL codes: E43, E52, G21

Section One:

Introduction

Classical and Keynesian economics have formed the focal point of economic perspective over the years. Both ideologies have different perspectives on the means of resource ownership, utilization, production and distribution. While the Classical ideologists have argued against government's intervention, Keynesian economists have argued otherwise, insisting that the price mechanism alone cannot guarantee economic prosperity hence, government intervention is a panacea to all economic challenges that any nation may face. Since the birth of Keynesian economics after the Great Depression in the 1930s, most economies, particularly in developing countries, have been pro-Keynesian.

This has led to massive government involvement in economic activities, large expenditure of national funds which have often resulted to increase debts and its concomitant consequences. Despite this excessive expenditure, there seems to be insignificant impact in some economic objectives as there is still widespread unemployment, high poverty levels, poor infrastructural development and poor health indicators.

While the implementation of recurrent expenditure for the years under consideration has generally been fairly fully implemented, the capital expenditure angle has been a dismal failure.

On this premise, fiscal policy commentators have asserted that public expenditure on critical sectors of the Nigerian economy would lead to rapid economic growth in the sense that capital expenditure in particular would reduce joblessness and its social vices, boost the productive base of the economy which in turn will lead to growth. . Barro (1990) posited that there is a relationship between size of government and rates of growth and saving. In his view, he stated that an increase in resources devoted to non-productive government services is associated with lower per capita growth.

He concluded that government expenditure especially capital project, which enhances economic growth should be tailored towards productive services.

In many cases, most of the capital projects poor implemented which creates several negative effects to growth and development. The unceasing abandonment of many developmental capital projects is so shocking the country has remained one of the countries in such difficulty (Ayodele and Alabi, 2011).

The need to accord high percentage to capital expenditure in the yearly budget and its timely accomplishment should be realized at all times otherwise needless of such development (Gardner, 2005).

The development projects specific in the paper is infrastructural projects (such as; ICT, roads, houses, electricity, industries, schools, and drainage).

The cogent of this paper is on the premise that the expected gains capital projects and its values in Nigeria are suspected to be dwindling as a result of incessant low allocation in the yearly budget coupled with incompletion and abandonment of such projects.

1.1. Conceptual Issues

By definition, fiscal policy simply refers to the use of government spending and taxation to enhance the growth of the economy (Horton & El-Ganainy, 2009). Along with monetary policy, both are the tools through which an economy is regulated by the government or the respective central bank (Musa et. al, 2013). Globally, governments employ fiscal policies to promote strong and sustainable growth and reduce poverty.

The role and objectives of fiscal policy gained more prominence especially during the 2007/08 global economic meltdown as governments have stepped in to support financial systems, jump-start growth, and mitigate the impact of the crisis on vulnerable groups (Horton & El-Ganainy, 2009).

Fiscal policies, along with monetary policies, are used to achieve macroeconomic goals of price stability, full employment, reduction of poverty level, high and sustainable economic growth, favourable balance of payment, and reduction in a nation's debt.

Fiscal policies can be contractionary or expansionary. Contractionary fiscal policy is a situation where the government either cuts spending or increases taxes. This measure can be used in an overheated economy to slow economic growth to a healthy economic level (Amadeo, 2015).

On the other hand, expansionary fiscal policy is when the government either increases spending or decrease its revenue through lower taxes. Its purpose is to increase growth to a healthy economic level as expansionary policy leads to the crowding out effect of the private sector bearing in mind that in a situation where government borrowing is excessive, as necessitates by its need to spend, absorbs most of the available lending capacity in the private sector. This can cause interest rates to rise as private businesses would find it cost prohibitive to lend money to fund growth and expansion of their businesses.

This can also force banking institutions to raise their interest rates so as to make the most of their available funds. However, this can create a downturn in the economy, which reduces tax revenue and increases the need for the government to borrow more money, from internal or external sources. Over the last decade, Nigeria's macroeconomic landscape has continued to witness increasing efforts at ensuring institutional co-ordination and policy consistencies between the Central Bank of Nigeria (CBN) and the fiscal authorities occasioned by the fiscal reforms embarked upon by the Federal Government since 2002.

The reforms which among others established a medium-term framework brought fiscal policy formulation into alignment with the medium term monetary policy framework of the CBN. Generally, the medium term policy outlook was embraced in order to free policies from the problem of time inconsistencies as evidenced in the fact that past policy actions affect the ultimate objectives with substantial lags.

This alignment engendered greater institutional co-operation and policy consistencies with culminated into positive macroeconomic outcomes as indicated by persistent low inflation and steady real output growth.

Structurally, this paper is divided into five parts. Part one focused on introduction and conceptual issues while the literature review is in part two. Budgeting and its performance formed the bedrock of section as the implications of skewed and non-adherence to fiscal rule were examined in section four. The conclusion and recommendations were in section five.

Section Two:

Relevant Literature

In literature, the consensus has been that an expanded recurrent expenditure can drag down the pace of economic development as recurrent is merely consumption in nature (Micaiah, W. (2013. This is true because, it works mainly via lower aggregate demand, although under full Ricardian equivalence an increase in private demand following fiscal expansion, may mitigate, or even fully offset, these contractionary effect (Giudice et al. (2007). From 2004 to 2013, government's recurrent spending (i.e. salaries, pensions and overheads) accounted for 48.06% and capital expenses (i.e. spending on infrastructure, educational services and healthcare) which accounted for 29.62% (Budget Office, 2014). The persistent allocation of more funds for recurrent expenditure over capital expenditure is the norm in the current day Nigerian economy.

The FGN has undertaken various reforms in public services since 1999 including budget management reforms among others (Ben-Caleb et al. 2014). The major aim of these reforms was to increase budget control and disciplines within the public sectors. The FGN initiated the Medium Term Expenditure Framework (MTEF) 2005 and the Fiscal Responsibility Act (FRA) 2007 as the alternative for budget reforms, whereas budget discipline (BDISC) and fiscal discipline (FDISC) were also applied as other alternatives for the quality of budgeting.

These reforms focused on five main aspects that are; administrative procedures, budget preparation, management of government spending, budget implementation, as well as budget monitoring and evaluation (Ben-Caleb et al. 2014). Among four budget formats, the FGN have adopted two types of budget formats since 1999 namely; line-item and Zero Based Budgets.

Rizvi,Qamar and Shamim (2010) investigated the relationship between government expenditures and gross domestic product (GDP) based on modern time series econometric techniques. Using thirty years of data for the period from 1979 to 2008 they found a long-run relationship between government development expenditures and economic growth. The Granger causality test indicated that government expenditures are caused by economic growth, while an error correction model showed that there is a short-run relationship between government development expenditures and economic growth.

Rizvi et al., 2010), argued that public investment in education increases the level of human capital and that human capital constitutes a primary source of long-run economic growth.

In his findings, Henrowneeks (2013) posited that there are three main reasons for an increase in the role of government. First, industrialization and modernization would lead to a substitution of public for private activities. Second, an increase in real income leads to an expansion of income-elastic "cultural and welfare" expenditures. Thirdly, natural monopolies, such as railroads, have to be taken over by government because private companies would otherwise be unable to run these undertakings efficiently because it would be impossible to raise the huge financing needed to develop them.

Oluwatobi and Ogunrinola (2011) examined the relationship between human capital development efforts by the government and economic growth in Nigeria. They sought to determine the impact of government recurrent and capital expenditures on education and health in Nigeria and to assess their effect on economic growth.

Ogujiuba and Adeniyi (2005) examined the impact of government education expenditures on economic growth. Their results showed a statistically significant positive relationship between economic growth and recurrent expenditures on education, while the

contribution of capital expenditures to economic growth was negative but not significant. Lawanson (2009) extended this study by including both health and education.

After regressing GDP on government expenditures on education, government expenditures on health, and enrolment rates, she found a clear relationship between human capital development and economic growth.

However, unlike Ogujiuba and Adeniyi (2005), Lawanson did not disaggregate expenditure figures on health and education into recurrent and capital components. Their findings were that improved capital allocation has the capacity to enhance welfare than recurrent expenditure.

Asghar et al. (2012) examined the impact of government spending on poverty reduction in various sectors of the economy in Pakistan. Time series annual data for the period from 1972 to 2008 were used to analyze the long-run impact of government spending on education, health, and economic and community services. The results showed that government spending on education and law and order significantly contribute to growth. For a public budget to effectively perform its role, it should be well designed, effectively and efficiently implemented, and adequately monitored, and ultimately, its performance should be evaluated (Faleti & Myrick 2012).

2.1: Rationale for Fiscal Responsibility Act

The Fiscal Responsibility Acts (FRAs) was designed to enhance fiscal prudence by placing statutory obligations on central, regional and local governments to commit to transparent fiscal and budget practices that can be evaluated over time (Ushie, 2010). Fiscal responsibility is the basic duty of any government-cutting wasteful spending and spending taxpayer's money appropriately.

Fiscal Responsibility Acts have become increasingly common tools to enhance fiscal prudence and public expenditure transparency in many countries. Implemented in July 2007, the Fiscal Responsibility Act 2007 No. 31 was established for several objectives which related to controlling the way the Federal Government of Nigeria managed public funds.

The Act was meant to guide the country for the prudent management of the Nation's Resources, ensure long-lerm macro-economic stability, secure greater accountability and transparency in fiscal operations within the Medium Term Fiscal Policy Framework, and establish the Fiscal Responsibility Commission to ensure the promotion and enforcement of the nation's economic objectives; and for related matters.

This provision gives support for achieving macro-economic goals through medium term plans. The provisions of the Act are in no doubt needed in Nigeria to checkmate corruption and also engender sustainable development (Emejuiwe, 2014).

In Nigeria, fiscal profligacy at the sub-national level has emerged as a major contributor to state corruption and macroeconomic instability. The FRA was also enacted to encourage a saving culture, provide limitations to and set guidelines for borrowing by the federal and state governments. According to section 35 of the Act which states that, "Where the reference commodity price rises above the predetermined level, the resulting excess proceeds shall be saved. Currently, this is being implemented in the savings of proceeds in the excess crude account. (Emejuiwe, 2014).

Some of the features of the 2007 Fiscal Responsibility Law in Nigeria include:

1. The Medium Term expenditure framework entails the projection of macroeconomic activities for three years.

2. **Public Revenues**: The creation, forecast, and effective collection of all taxes levied by the federating units pursuant to the constitution are basic requirements for the responsibility in fiscal management for the country. The laws stipulate that each tier of government shall get the share of revenue/transfers after prompt remittance of collected revenue.

3. **Public Expenditures**: The laws specify conditions under which any tier of government can increase expenditure. Certain conditions must be met in order to increase expenditure such as:

i. An estimate of the budgetary or financial impact in the year it became effective and, in the two subsequent years, a statement from the entity (or ministry) requesting for the increase consistent with the budget and the medium-term economic plan in Nigeria.

ii. Contract award must satisfy the due process procedure and certification of contract; procurement and award of contract.

ii. Personnel expenditure must not exceed prudent limits set in the budget.

iii. Violation of these sections of the law is deemed as unlawful

4. Debt and the Indebtedness:

This section states that government is allowed to borrowed only for human capital or other capital expenditure on the condition that it shall be on concessionary terms or low interest loan with a reasonably long payment period.

5. Transparency and Accountability:

This section specifies that simplified versions of the federal and the state medium-term economic plans, annual budgets, appropriation act, rendering of accounts and prior statement of opinion, summary budget execution report and fiscal management report are widely publicized in the media.

It also specifies that the legislative arm of each government should ensure transparency by encouraging public hearings during preparation and discussion of annual plans, budgets or appropriation bills.

Some of the basic structures that have to be placed in order for the fiscal responsibility policy to be effective include:

1. Adherence to the principle of transparency; accountability; fiscal discipline; due process; and good governance.
2. A good taxation structure for various tiers of the government.
3. Eradication of corruption which must be addressed in every sector of the society, including the home and school institutions;
4. Reduction of deficits/method of financing them through money creation;
5. Proper training of all government staff and infrastructural development, including the Information Technology structures.

Section Three:

Budgeting And Its Performance

This can be described as an estimation of the revenue and expenses over a specified future period of time. A budget is an expression of the intent that an individual, a group, institution or organization seeks to path a meaningful direction towards growth and development.

More often than not, people or institution create budget which stands as a standard of performance. With the budget comes standards of projected achievements or pursuits and at the end of that budget life, the individual or group evaluates its activities based on the proposed earning and proposed spending.

The Nigerian budget is the forecast by the government of its expenditure and revenue for a specific period of time.

3.1 Nigerian Budgeting and Budgeting Performance

Government expenditures range from national defense, infrastructure, grants for research, education, and the arts, and social programmes such as Social Security and Medicare.

Such social programmes are not common in Nigeria and the irony is that over the years, the country's budget has neither performed nor has it allocated substantial resources to capital infrastructure on the holistic scale.

Table 1.1: Nigeria's budget composition from 2004 to 2018

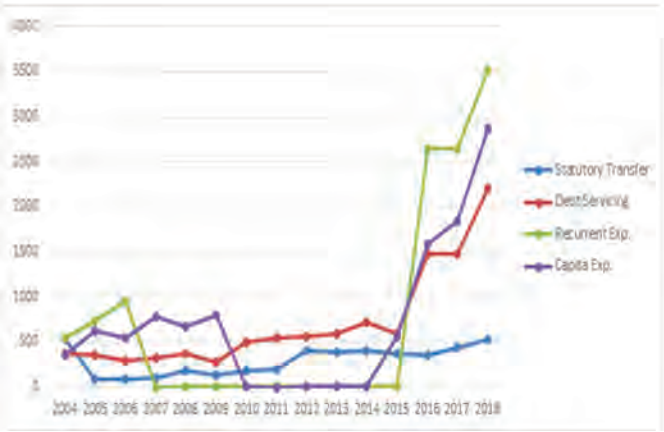
Year	Budget Components	Allocation	%	%
2004	Statutory transfers	532.3 bn	29.72%	50.35%
	Debt servicing	369.3 bn	20.63%	
	Recurrent Expenses	539.2 bn	30.11%	49.65%
	Capital Expenses	349.8 bn	19.54%	
	TOTAL	1.79 trn		
2005	Statutory transfers	89 bn	4.98%	24.74%
	Debt servicing	355 bn	19.76%	
	Recurrent Expenses	737 bn	40.96%	75.26%
	Capital Expenses	617 bn	34.29%	
	TOTAL	1.799 trn		

2006	Statutory transfers	86.4 bn	4.61%	20.04%
	Debt servicing	289.5 bn	15.43%	
	Recurrent Expenses	961.1 bn	51.22%	79.96%
	Capital Expenses	539.2 bn	28.74%	
	TOTAL	1.876 trn		
2007	Statutory transfers	102 bn	4.51%	18.90
	Debt servicing	326 bn	14.38%	
	Recurrent Expenses	1.056 trn	46.62%	81.10%
	Capital Expenses	781 bn	34.48%	
	TOTAL	2.266 trn		
2008	Statutory transfers	187.6 bn	7.53%	22.46%
	Debt servicing	372.2 bn	14.94%	
	Recurrent Expenses	1.259 trn	50.52%	77.54%
	Capital Expenses	673.1 bn	27.01%	
	TOTAL	2.491 trn		
2009	Statutory transfers	140.6 bn	4.90%	14.78%
	Debt servicing	283.6 bn	9.88%	
	Recurrent Expenses	1.649 trn	57.46%	85.22%
	Capital Expenses	796.7 bn	27.76%	
	TOTAL	2.87 trn		
2010	Statutory transfers	180.2 bn	3.91%	14.70%
	Debt servicing	497 bn	10.79%	
	Recurrent Expenses	2.077 trn	45.08%	85.30%
	Capital Expenses	1.853 trn	40.23%	
	TOTAL	4.608 trn		

2011	Statutory transfers	196.1 bn	4.64%	17.47%
	Debt servicing	542.3 bn	12.83%	
	Recurrent Expenses	2.481 trn	58.72%	82.53%
	Capital Expenses	1.005 trn	23.80%	
	TOTAL	4.226 trn		
2012	Statutory transfers	397.9 bn	8.38%	20.16%
	Debt servicing	559.5 bn	11.78%	
	Recurrent Expenses	2.471 trn	52.05%	79.84%
	Capital Expenses	1.319 trn	27.79%	
	TOTAL	4.749 trn		
2013	Statutory transfers	387.9 bn	7.78%	19.65%
	Debt servicing	591.7 bn	11.87%	
	Recurrent Expenses	2.386 trn	47.84%	80.35%
	Capital Expenses	1.621 trn	32.51%	
	TOTAL	4.987 trn		
2014	Statutory transfers	399.69 bn	8.61%	23.95%
	Debt servicing	712 bn	15.34%	
	Recurrent Expenses	2.43 trn	52.35%	76.05%
	Capital Expenses	1.10 trn	23.70%	
	TOTAL	4.642 trn		
2015	Statutory transfers	375.6 bn	8.36%	29.58%
	Debt servicing	953.6 bn	21.22%	
	Recurrent Expenses	2.607 trn	58.02%	70.42%
	Capital Expenses	557 bn	12.4%	
	TOTAL	4.493 trn		
2016	Statutory transfers	351.37bn	5.80%	30.13%
	Debt servicing	1475.32bn	24.33%	
	Recurrent Expenses	2648.6bn	43.69%	69.87%
	Capital Expenses	1587.403b	26.18%	
	TOTAL	6.69trn		
2017	Statutory transfers	434.41bn	5.84%	25.66%
	Debt servicing	1475.32bn	19.83%	
	Recurrent Expenses	2648.6bbn	35.59%	60.40%
	Capital Expenses	1845.54bn	24.80%	
	TOTAL	7.175trn		
2018	Statutory transfers	530.421bn	5.82%	29.98%
	Debt servicing	2203.83bn	24.16%	
	Recurrent Expenses	3512.68bn	38.51%	70.02%
	Capital Expenses	2873.4bn	31.51%	
	TOTAL	9.331trn		

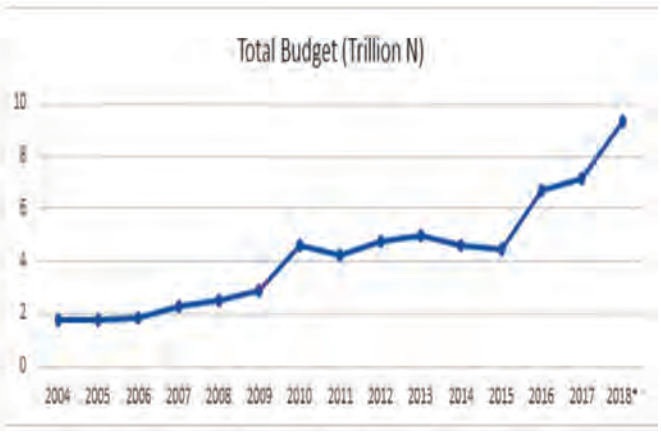
Sources: *www.budgetoffice.gov.ng* & Micaiah (2013 & 2014)

Fig 1.1: Graphical analysis of Nigeria's budget composition from 2004 to 2015



Data Source: Budget Office.

Fig 1.2: Budgetary allocations from 2004 to 2018



Data Source: Budget Office.

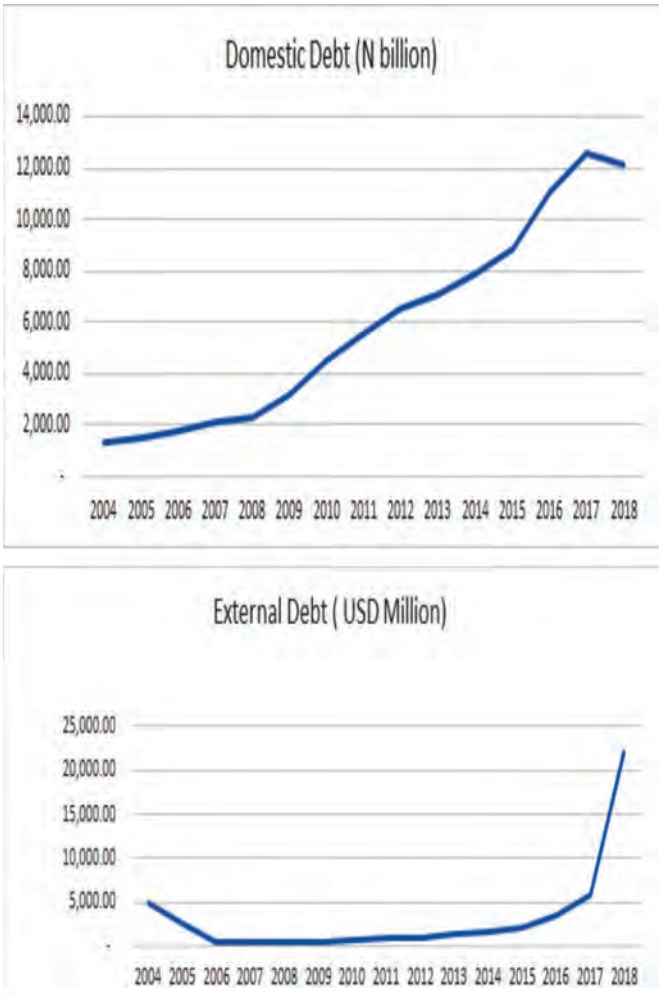
Using the data from Table 1.1 and Figure 1.1, it is apparent that most of the country's priority, in terms of budgetary allocation, is directed towards recurrent expenditure.

Looking at Fig 1.1, it is only in two years (from 2004 to 2015) that capital expenditure has exceed N1.5 trillion and Table 1.1 also reveals that the only year capital expenditure accounted for 40% of the country's budget was in 2010 (i.e. 40.23%).

The figures also reveal a steady growth in recurrent expenditure, with the highest allocations coming at 2015 (i.e. N2.607 trillion).

The data also reveals a steady increase in debt servicing over the years. In terms of debt servicing, the government had reduce the amount of foreign debts it took but increased the level of domestic debts it had taken (see the DMO tables below). This also reflects the debt servicing made from the budgetary allocations.

Figure 1.3: Nigeria's external and domestic debt profile from 1985 to 2010



Data Source: Debt Management Office.

Table 1.2: Nigeria's debt servicing allocations to domestic and foreign debt (from 2004-2018)

Year	Domestic Debt	Foreign Debt [1]
2004	50.29%	49.71%
2005	52.22%	47.78%
2006	75.99%	24.01%
2007	81.29%	18.71%
2008	82.27%	17.73%
2009	80.31%	19.69%
2010	93.18%	6.82%
2011	92.82%	7.18%
2012	91.49%	8.51%
2013	91.82%	8.18%
2014	82.89%	17.11%
2015	80.71%	19.29%
2016	76.07%	23.93%
2017	68.51%	31.49%
2018*	64.29%	35.71%

*As at end-June 2018

Source: Debt Management Office, Nigeria

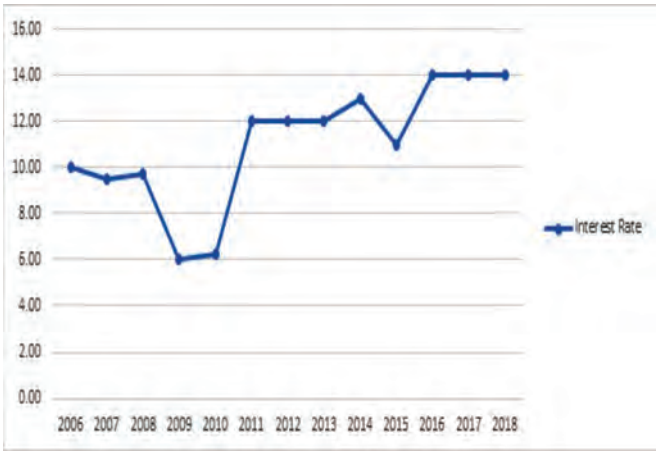
Also, Table 1.2 and Figure 1.2 revealed that the trend of Nigeria's debt has shifted from external to domestic which is most noticeable within the year 2004 to 2006. The reduction of foreign debts might be a positive outcome for the Nigerian economy; however, such reduction seems to have impact on the level of domestic debts, which has taken a steady increase over the years. This implies that the government has stopped borrowing money from foreign financial bodies, as characterized by the nation pulling out of the Paris Club and London Club during the Olusegun Obasanjo administration in 2006.

On the other hand the government has persistently taken money out of the Nigerian economy, i.e. private individuals, state government and banks. The standard set by the New Medium Debt Management Strategy approved a ratio of domestic to foreign debt of 60:40. However, according to Amaefule (2013), Nigeria's debt profile as at June 2011 stood at $37 billion, with the ratio of domestic and external debt stock at 88:12. As at June 2013, the nation's total debt rose to $50.91 billion (about N7.93 trillion) with external debts at $6.92 billion and domestic debts at N6.85 trillion ($43.99 billion). In 2014, Nigeria's debt stock rose to N10.4 trillion made up of 1.46 trillion ($9.377 billion) from external debt and N7.421 trillion ($47.653 billion) from domestic debt (Gabriel & Ujah, 2015). This debt profile rose to 11.24 trillion as at December 31, 2014 (Amaefule, 2015). Currently, Nigeria's current domestic debt stands at $60.1 billion and $9.5 billion.

The foregoing implies that the government is steadily and persistently borrowing money from the society, i.e. domestic debts, and this can impact negative effects on the society. Not being able to adhere to the 60:40 debt management objectives is one of the reasons the country is experiencing high unemployment rate and a poverty level of 70%.

This has also destabilized the efficient operations of the Nigerian economic as the country witnesses the crowding-out effect. Over the years, the level of money in circulation has decreased and this is evident in the increase in interest rates as shown in Figure 1.3:

Figure 1.4: Nigeria's Interest rate from 2006 to 2018 (as at June 2018)



In-Sources: Central Bank of Nigeria

This trend has also impacted on the country's inflation rates. Nigeria has experienced an average inflation rate 11.48% from 2003 to 2014 and a current inflation rate of 9%, as at April 2015 (Central bank of Nigeria, 2015).

This trend simply implies that the government is persistently contracting the economy which did not have the economic impetus to encourage active participation from citizens of the country.

Also, there would be low funds for members of society while those who are able to access it would find it difficult to pay back let alone make profit from it. Accompanied with the consistent growth in inflation rate, the facts displayed imply that life might get more difficult for the average Nigerian.

1.1. The recurrent expenditure and the ineffective budgetary performance

Using the data provided in Table 1.1 and Figure 1.1, the nature of the country's spending and allocation has been directed towards the concentration of recurrent operations which keeps the country stable at the short-term but negatively consequential for the long term.

The nature of the country's spending has serious implications for its long-term growth, considering the nature of its debts that are majorly domestic and the current level of infrastructural decay.

The incessant allocation to majority of the budget to recurrent expenses is a far cry from the required standard of 70% allocation for capital expenditure. Using a compilation of data from 2004 to 2013, some of the top spenders of the recurrent expenditure include:

Table 1.3: Top spenders of the Nigerian budget from 2004 to 2013

MDA's	Gross%
Education	12.66%
Police Formation and Commands	11.33%
Defence/MOD/Army/Air Force/Navy	11.00%
Health	7.38%
Interior	6.73%

Source: Budget Office (2018)

The foregoing implies that the chunk of the nation's wealth is spent on paying salaries in Federal Government Ministries, Department and Agency, paying pensions and overheads on electricity, water, telecommunications, office rent, office equipment and consumables, staff training, transportation among others.

To an extent, there seems to be a major contradiction in the figures presented. Government debts keep increasing every year, with a major part of the debt from domestic sources.

There has been an increase in budgetary allocations to recurrent expenditure without a commensurate and substantial increase in employment in this Ministries, Department or Agencies neither has there been a reduction in the prices of essential services member of the society receive. The Nigerian society is characterized by unfair electricity bills, poor water supply, steady increase in the cost of living among others. This invariably means that budgetary allocation by the government has not been optimally used to meet intended objectives.

In addition, the concept of ghost workers is a feature of the lexicon of Federal Ministries, Departments and Agencies.

3.2: Evaluation Of The Budget

1.1. Budget and Economy Growth

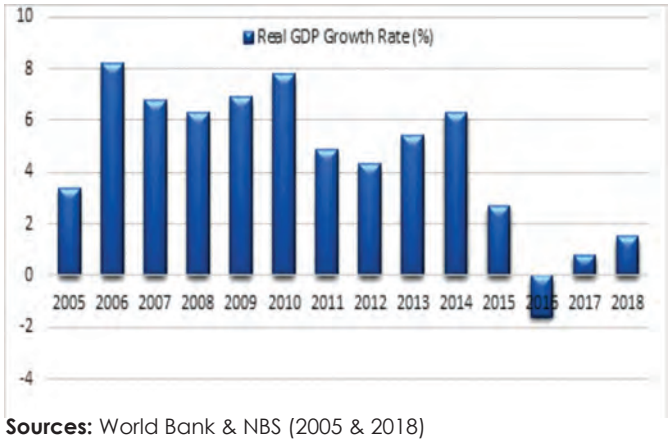
Economic growth in the Nigeria can be identified by the Real growth in the Gross Domestic Product Rate of the country. Over the years, the country has experienced unstable economic growth, despite the abundance of untapped resources and the dominance of the oil sector of the country in the international world market.

Table 1.4: Figures on the real growth in GDP (from 2005-2018)

Year	Real GDP growth rate (%)
2005	3.4
2006	8.2
2007	6.8
2008	6.3
2009	6.9
2010	7.8
2011	4.9
2012	4.3
2013	5.4
2014	6.3
2015	2.7
2016	-1.6
2017	0.8
2018*	1.5

*As at end-June 2018

Figure 1.5: A graph showing the growth rate in the GDP from 2005 to 2015



Sources: World Bank & NBS (2005 & 2018)

The highest real growth rate in GDP was in 2006, while the lowest occurred in 2005 and 2015(as at the first quarter). The low growth rate in 2015 was majorly as a result of the anticipated political instability and uncertainty which characterized the economy during the 2015 elections and the fall in oil price. This stimulated foreign investors to pull their investments from the economy, coupled with the fact that the fall in oil prices led to the devaluation of the currency and made the country a bad place for business. Technically, the country moved at a slow pace from 2011 to 2013 where growth hovered around 4.9% to 5.4%. Nigeria's economic growth slowed to 4 percent on an annual basis in the first quarter from 5.9 percent in the final three months of 2014 as the oil industry contracted (National Bureau of Statistics, 2014 & 2015).

Another indication of the Nigerian economy is its overbearing dependence on oil wealth. The dismal performance of the Nigerian economy in the face of huge rents from oil has rekindled world but it is faced with the immanent interest on the importance of oil in the growth and development process in Nigerian (Akinlo, 2012). Sequel to high dependence on oil exports, the share of oil revenue in federally collected revenue increased phenomenally over the study period. It increased from 26.3 per cent in 1970 to 85.8 per cent in 2005. The percentage dropped to 78.7 per cent in 2009 reflecting the increasing emphasis by government on non-oil exports since mid-2000. The major implication of high government dependence on oil revenues was the fluctuation of government revenues in reflection of the value of its oil exports. This explains why government expenditure increased when the economy experienced boom and dropped when the economy slumped (Akinlo, 2012). The oil sector currently accounts for about 15 percent of Nigeria's gross domestic product but it makes up to 75 to 80 percent of government revenues with the United States as its biggest customer, buying over 40$ of its crude oil (Reuters, 2014). Conversely, the agriculture and manufacturing sector still contributes very little to the government revenue. This only presents the fragile nature of the Nigerian economy in Africa. Even with an economy of about $657.218 billion, the 2014 fall in oil prices have shown that the oil market still has a control over the Nigerian economy. As a result of the fall, dollar exchange rate increased from about N160 to over N220 in the late 2014 before reducing about N198 now.

In addition, the United States, which is Nigeria's biggest customer, can influence the country's growth by reducing or increasing its purchase of crude oil. This is evident in the recent in their reduction of purchase of crude oil from Nigeria as a result of the discovery of shale oil. Thus, it is difficult to convince an investor about investing in a Nigerian economy which is politically unstable and dependent on oil revenue. The need to improve the infrastructural base of the society and diversify the Nigerian economy has not be complemented with commensurate action as there are various mineral resources and economic sector the country has neglected, including agriculture despite the existent of massive arable land for commercial cultivation.

3.1 Budget and Development

Nigeria has been evaluated to have the largest economy in Africa and the 26th largest in the

contradiction of underdevelopment. Expected to growth at 6% in 2015, with an economy worth $657.218 billion and untapped numerous mineral resources, it is unfortunate that such economic growth has not yet trickled down to the masses in the country. Nigeria is faced with so many serious developmental issues and the country is regarded as a low development country, according to the Human Development Index Ratings of the United Nations Development Programme (2014). Ranked at 152 (tied with Cameroun) out of 187 countries, the country has a H.D.I. score of 0.504 despite its abundant wealth. 70% of its citizens are living below poverty line (i.e. at $1.25 or N200 or less every day) while unemployment rate stands at 29.5%, as at 2014 (UNDP 2012 & NBS, 2014).

The country's budget does not reflect in the lives of the common Nigerian, as most people tend not to be concern about budgetary allocations anymore. Figures allocated to various recurrent and capital expenditure is as good as just words on the newspaper as the impact of such heavy allocation to different sectors of the economy are yet to be realized.

Section Four: Budget Consistencies And Implications For Monetary Management

Mordi (2010) observed that good monetary and fiscal policies are critical in facilitating the achievement of macroeconomic stability and growth in Nigerian. Therefore, efficient and effective implementation of both policies requires consistency and co-ordination between the fiscal and monetary authorities to avoid conflicts and backlash on the economy. As in most developing and emerging economies, interaction between the central bank and the fiscal authority relates not only to investing in economic development initiatives, but also on issues concerning fiscal spending as well as the financing of the associated deficits. Monetary management remains relevant to the extent that they support the achievement of the overall economic objectives of the budget.

Until recently, there had been the areas of overreaction and inconsistency between both authorities, but the implementation of the fiscal reform of the Federal Government reversed the trend. Accordingly, both authorities have continued to embrace the medium-term outlook in policy formulation as was the case in 2015 fiscal year till date. Other areas include close monitoring of policy implementation and increased consultation to ensure the desired outcomes.

The continued adherence to the revised MTFF in the preparation of the yearly budget especially that of 2018 was consistent with the MTMPF of the CBN and the medium-term outlook is expected to further minimize the problem of time inconsistencies by shortening the lag effect of policies. With the budgetary desire to enhance job creation and bolster employment generation, the accommodative stance of the CBN to ease credit for onward lending to the private sector especially the various intervention policies of the Bank remained supportive to the budget.

Given that the provision of infrastructure by banks constitutes a large portion of the operating cost, efforts by both the CBN and the fiscal authorities to continue to tackle the problem of infrastructure would assist in reducing the cost of funds and ensure affordable credit to the real sector of the economy.

The CBN monetary policy measures outlined in the Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for fiscal years 2018/2019 would continue to address the issue of stability of the exchange rate and ensure the sanctity of the budget projections of N305/US$1 to realize government objectives.

Notwithstanding the areas of complementarities, the monetary authority must be mindful of the risk to monetary management by the proposed public expenditure of N4.23 trillion, of which about N1.39 trillion deficits was expected to be largely financed with domestic and external borrowing. The domestic financing of the significant portion of the deficit through the issuance of FGN bonds and drawdown of the excess crude account have ramifications for interest and exchange rates as well as inflation.

Following from the above, the skewed budgetary provision in favor of recurrent expenditure at the expense of capital call for the following:

The cardinal objective of the monetary policy of the Central Bank of Nigeria (CBN) is price stability. The perpetual increase in recurrent is a necessary avenue for inflation. Critics have argued that recurrent expenditure is mere consumption while capital expenditure is investment. With this increase, the Bank spends a substantial amount on liquidity management which fuels quasi-fiscal operation of the Bank.

Secondly, to ensure proper cash management and the potential for minimizing corruption and providing adequate information on cash plans and management, as well as borrowing needs, the Federal Government should expedite

actions to ensure the full implementation of Treasury Single Account (TSA) in Nigeria. Importantly, the Federal government should ensure that the design of TSA infrastructure includes all autonomous agencies that receive revenue allocations and grants

It must equally be stressed that to ensure speedy budget performance, the TSA must be exercised to ensure that it is fit for purpose. This is because, it would be highly beneficial to monetary authority in terms of eliminating the problems of liquidity cycles, high cost of mopping excess liquidity and ensuring policy design and implementation for achieving and sustaining the objective of monetary and price stability

In the light of the limit of monetary policy, a menu of policy instrument proves potent in achieving the objective of price stability in the presence of asset price volatility shock. From a short-run perspective, the response of the policy rate to asset price fluctuation is neutral and confirms the reason for the delayed response of the policy rate to asset price volatility. The short-run responses suggest a rather transitory and insignificant impact of volatility on monetary policy and other economic indicators.

In all, it must be stated that the major objectives of macroeconomic policy by both the fiscal and monetary authorities continued to be the achievement of non-inflationary and stable growth. With two separate institutions superintending over policy formulation/implementation, there is the need for greater institutional cooperation/collaboration in order to ultimately promote the growth of the economy for the benefit of the citizens. Improved relationship and greater collaboration is necessary to ensure sustainable fiscal management and pragmatic monetary policy which are essential for economic growth and development.

Section Five: Conclusion And Recommendations

5.1: Conclusion

The Classical and Keynesian perspective has influenced government intervention in the economic affairs of a society. Using the figures of the budget from 2004 to 2015, the trend seems to have taken a Keynesian-like idea as government keeps increasing budgetary allocations in the face of increasing interest and inflation rates. Using various events and developments in the recent years, it is evident that the recurrent allocations has not improve the quality of basic services members of society receive, in terms of security, education, health, water supply, power among others. However, on the other hand, the country has improved in its capital investment as some of the capital budgetary allocations made to the sector has yield some positive results.

There is no gainsaying that the government should transfer some of the amount of budgetary allocations made for recurrent expenditure to capital expenditure. The quality of services provided by Ministries, Departments and Agencies would improve if there are proper structures requisite towards its efficiency. No matter the number of doctors in the country, if there no proper medical equipment and well-functioning hospitals, health indicators will continue having negative outcomes.

One of the bane of the poor educational standard in the country is the poor infrastructural services in the country. Students prefer to enroll for first and second degrees in oversea Universities because of the poor level of educational infrastructure in the country. Thus, the performance of the budget, at this level of development, is hinged on the country's capacity to enhance its structures and infrastructural base through capital expenditure and investments. This would also provide the enabling environment requisite for encouraging members of the society to invest into the economy through small and medium scale enterprises. This would also encourage foreign investment without pleading for it. Investing in the most populated black nation, with an estimated population of 170 million, is a no brainer, provided that the infrastructural base is adequate.

At the root of the poor performance of the budget is corruption. With a ranking of 136 out of 175 countries and a corruption index of 27, Nigeria is the third most corrupt nation in West Africa after Guinea and Guinea Bissau (Transparency International 2014). Even though this represented a slight improvement from 144 in 2013, 139 in 2012 and 143 in 2011, institutions meant to check the performance of the budget and the excesses of the government has either been compromised, disempowered or frustrated from being effective. This also reveals the social aspect of the economy which diverts funds from meaningful development to private hands. As rightly suggested by former Nigerian President, Olusegun Obasanjo, `Corruption is the greatest single bane of our society today.

5.2: Recommendations

Some of the recommendations towards the poor performance of the budget, based on the facts and figures presented in the course of this study include:

1. More funds for capital projects: A gradual and consistent commitment towards the improvement of capital expenditure can be made in order to put the adequate infrastructural base needed to accelerate economic growth. The state should also take advantage of the projected 6% GDP growth rate by concentrating on key infrastructural sectors like Power (especially in the aspect of generation), health, education, transportation and road construction.

2. Empowering anti-graft agencies and civil society groups: Agencies such as the Independent Corrupt Practices and other related Offences Commission (I.C.P.C.), Code of Conduct Bureau (C.C.B.) and Economic and Financial Crime Commission (E.F.C.C.) should be empowered to operate effectively. Also, these agencies should be liberated of any form of governmental influence so that they can be free to investigate their cases without fear or favour. Through this, every form of leakages and wastage in the execution of the budget by the MDA's can be adequately handled. Also, these agencies can employ sophisticated technological applications to cleanse the MDA's of ghost workers and contribute towards re-engineering the MDA's to be more efficient.

Civil society groups should also be stimulated to approach Ministries, Departments and Agencies on their expenditure as they take advantage of the Freedom of Information Bill. Various civil society groups should link up with International anti-graft institutions in order to be empowered to probe the excesses of the MDA's.

3. Proper budget implementation and management: The Federal government should ensure adequate execution and management of the budgetary allocations. The Federal government can also create sub-groups whose sole function is to investigate and probe the progress of the various projects taking place in the different MDA's.

4. Adherence to the Fiscal Responsibility Act: Given the unstable and uncertain nature of the oil market from which Nigeria is a beneficial of, the Federal government should adhere to the principles of the FRA in order to put the budget in a proper position relative to its economic objectives and reduce its level of domestic and foreign borrowing. The legislature can also help in checking the executive when the Government MDA's intend to borrow high interest loans or huge loans for white elephant projects.

5. An active opposition: Opposition parties are integral to the development of the economy. Apart from criticizing the ruling party, their presence keeps the party in power on its toes in justifying its mandate given to them by the masses. Opposition parties should check the excesses of the government MDA's and provide useful suggestion on how the state can properly allocate the nation's resources.

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Impact Of Resurgence Of Protectionism On Emerging Market Economies

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Introduction

When two elephants fight, the grass suffers, points out an old African proverb. With the threat of a trade war between the United States and China looming large, 'protectionism' is becoming a major factor influencing the pace of global economic growth. Protectionism refers to government actions and policies that restrict international trade either through the use of tariff barriers or non-tariff barriers. For many years, the World Trade Organization provided a moderating effect on protectionism. But this moderation seems to be wearing off following the deteriorating trade relations between the United States and China. Both countries are in the midst of a trade war in which the United States has placed about US$200 billion worth of tariffs on Chinese goods. China has responded in equal measure making it more difficult for US companies to sell in the Chinese market. Just how will this development impact emerging market economies?

Relying chiefly on desk research, this paper examines the impact of the resurgence of Protectionism on emerging market economies with a special focus on Nigeria. The remaining sections explain the conceptual framework of Protectionism and emerging market economies, provide a historical perspective to protectionism and its resurgence, as well as, examine how protectionism could impact on emerging market economies. The final section concludes the paper.

Conceptual Framework

Protectionism refers to government actions and policies that restrict international trade. According to the Business Dictionary (2010), it is governmental policy aimed at shielding a fragile economy, or a weak or critical sector, from cheaper or better imports through imposition of high duty rates (tariff barriers), quotas, and/or inordinately stringent or time consuming inspection or quality regulations (non-tariff barriers).

Protectionist policies can be implemented in several ways, including tariffs, import quota, and outright ban or embargo. Also, administrative barriers may be designed in such a way as to reduce imports. For example, all lager beer that do not meet certain purity standards could be banned. Germany effectively excluded foreign brands by such measures. Similarly, governments can help domestic businesses compete by providing subsidies and cheap loans which lower their cost of production. Furthermore, protectionist policies include exchange controls, which limit the amount of foreign exchange made available to importers. It can also take the form of access denial to the official foreign exchange market as is the case with the CBN's 41 items. Devaluing a country's currency is also another protectionist measure as that will have the effect of making imports more expensive.

The arguments in favour of protectionism include the promotion of the growth of domestic industries since they do not face competition from foreign products and so job creation is enhanced. It curtails dumping of goods, conserves foreign exchange and helps stabilize the exchange rate. It can also be used to 'normalize' the Balance of Trade. On the flip side, protectionism limits the range of goods and products that are available to consumers. As is the case with China and the United States, adopting protectionist measures may cause tensions between nations. Once imposed, removing trade restrictions may prove to be detrimental to domestic industries as they become accustomed to functioning with government support.

The term emerging market economy (EME) was coined in 1981 by Antoine Van Agtmael of the World Bank who defined it as an economy with low to middle per capita income. Although the term is loosely defined, it is

generally seen as an economy that is progressing toward becoming developed. There seems to be no unanimity regarding which countries are emerging markets. For example, while the IMF and the Morgan Stanley Capital International (MSCI) classify 23 countries as emerging markets, Standard and Poor's (S&P) classifies 21 countries as emerging markets, while Dow Jones classifies 22 countries as emerging markets.

A list of countries that are classified as emerging markets include Brazil, Chile, China, Colombia, Hungary, Indonesia, India, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Thailand and Turkey. The remaining countries on the IMF emerging market list are Argentina, Bangladesh, Bulgaria, Pakistan, Romania, Ukraine and Venezuela. The remaining counties on the list are Bangladesh, Czech Republic, Egypt, Greece, Qatar, South Korea, Taiwan and the United Arab Emirates. The S&P list has these remaining countries: Bangladesh, Czech Republic, Egypt, Greece and Taiwan. The Dow Jones list also includes the following countries: Czech Republic, Egypt, Greece, Qatar, Taiwan and the United Arab Emirates. Many of these institutions consider Nigeria as a frontier economy. The term "frontier market" is used for developing countries with slower economies than "emerging".

MSCI, the US company that introduced the benchmark MSCI Emerging Market index in 1988, defines an emerging market in terms of the number of quoted companies of a certain size and "free float" (the proportion of shares available for ordinary investors to buy), plus a market's openness to foreign ownership and capital. Nigeria is included in the Emerging Market Bond Index, as well, as the BRICS + Next 11. The acronym "BRICS" was coined in 2001 by Jim O'Neill, former chief economist at Goldman Sachs to describe Brazil, Russia, India and China. It was followed by "MINT" Mexico, Indonesia, Nigeria and Turkey. And by HSBC's "Civets" – Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa and the "Next 11" – Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam.

Generally, Emerging Economies are characterised by Lower-than-average per capita income. The World Bank defines developing countries as those with either low or middle per capita income of less than US$4,035. They are also associated with rapid growth and high volatility. In 2017, for example, the economic growth of most developed countries, such as the US, Germany, the UK and Japan was less than 3 per cent, while China, Turkey, and India grew by around 7 per cent according to the World Bank. Emerging markets are more susceptible to volatile currency swings, such as those involving the US dollar. They are also vulnerable to commodities swings such as those of oil or food. Their capital markets are largely shallow and illiquid. The private sector is crowded out in the bonds market. All these raise investment risk. Expectedly, large fiscal deficits and government borrowing mean a higher return on bonds and other government securities. It is this quality that makes emerging markets attractive to investors (Uwaleke, 2017).

Resurgence Of Protectionism

Some scholars have argued that no major country has ever successfully industrialized without some form of economic protection. Economic historian Paul Bairoch wrote that "historically, free trade is the exception and protectionism the rule". According to Encyclopaedia Britannica (2005), "A reaction in favour of protection spread throughout the Western world in the latter part of the 19th century. Europe became increasingly protectionist during the 18th century. Germany adopted a systematically protectionist policy and was soon followed by most other European countries in an attempt to build their domestic economies. Great Britain began to abandon its protective tariffs in the first half of the 19th century after it had achieved industrial pre-eminence in Europe.

During the 20th century, many developing economies pursued Import Substitution Industrialization which advocated replacing imports with domestic production. It was a protectionist policy that mainly petered out during the 1980s and 1990s. The United States had a long history as a protectionist country, with its tariffs reaching their high points in the 1820s and during the Great Depression. From 1816 to the end of World War II (1945), America had a *de facto* protectionist policy. The

country's protectionist policies changed toward the middle of the 20th century and in 1947 the United States was one of 23 nations to sign reciprocal trade agreements in the form of the General Agreement on Tariffs and Trade (GATT). That agreement was replaced in 1995 by the World Trade Organization (WTO) in Geneva (Encyclopaedia Britannica, 2005).

Protectionism has re-emerged with the US President Trump's "trade war" with China. The Trade tension started brewing on March 23, 2018 when Trump announced US$60 billion in tariffs against Chinese products into the United States. On April 2, 2018, China retaliated with new tariffs on 128 categories of products, including pork, fruit and nuts, steel pipe for the oil industry, and ethanol. In fact, the US-China relationship is rapidly deteriorating. Both sides are in the midst of a trade war in which America has placed about US$200 billion worth of tariffs on Chinese goods. Beijing has responded in equal measure making it difficult for US companies to sell in the Chinese market. Moving over to Europe, many view Brexit as some form of protectionist measure.

The argument has been that the UK would be better off if it negotiated its own bilateral trade agreements with other countries. Donald Trump is reported to have expressed disapproval of Theresa May's "soft" Brexit plan which he warned would "kill" any future trade deal between the US and the UK.

Impact On Emerging Economies

The resurgence of Protectionism will most likely affect global markets negatively. The IMF projects the world's economy to grow by 3.7 per cent in 2018, which is 0.2 points lower than what the Fund had estimated in April. According to the IMF's *World Economic Outlook 2018,* "the forecast for 2019 has been revised downward due to recently announced trade measures, including the 200 billion tariffs imposed on of US imports from China". So, a trade war has a potential of slowing global growth. The hardest-hit areas in the event of increased protectionism would be developing economies. Emerging market assets are already under pressure from the US Federal Reserve's interest rate hiking cycle, which is taking place faster than initially expected. The tightening policy is supporting the dollar, which has appreciated since the beginning of 2018 on an index benchmarked against a basket of currencies. A strong dollar has negative implications for emerging economies that are over exposed to foreign loans.

The US inflation rate is currently above the 2 per cent Fed Reserve target and the US-China trade war is partly to blame. In response, the Fed Reserve is raising interest rates to curb inflation, making it more expensive for investors to borrow and take to emerging markets. This puts pressure on emerging market currencies, fuelling inflation, which in turn, leads to growth-dampening interest rate hikes in their countries. The resurgence of Protectionism has resulted in many emerging market currencies taking a beating, including the South African Rand, which weakened to nearly R14 to the dollar from a peak of R11.50 early in 2018. Yields on benchmark 10-year government bonds also climbed, extending increase since the start of 2018 to about 9 per cent. Emerging market equities have equally been hard hit with the benchmark MSCI Emerging Market Index witnessing a staggering US $5.39 billion of net outflow.

The continuous appreciation of the dollar raises the cost of the foreign currency denominated debt in emerging economies, making less money available for government spending. Early in June 2018, Argentina was forced to take a US$50billion loan from the IMF after its peso crashed to a record low despite interest rates rising to 40 per cent. Turkey also hiked its interest rates far more than anticipated to support the Lira. The main channel of transmission to other emerging economies is through trade. A slowdown in China's growth occasioned by Protectionism will have an indirect impact on other emerging economies through lower commodity prices as Chinese demand falls. Before the trade tension erupted, China's growth was already estimated to slow to 6.5 per cent in 2018 from 6.9 per cent in 2017. If the slowdown deepens, the country will need less commodities from other emerging markets and those prices will fall which will also hit emerging economies revenues.

According to *Capital Economics,* small open economies in East Asia, such as Taiwan, Singapore and Malaysia, are most exposed to

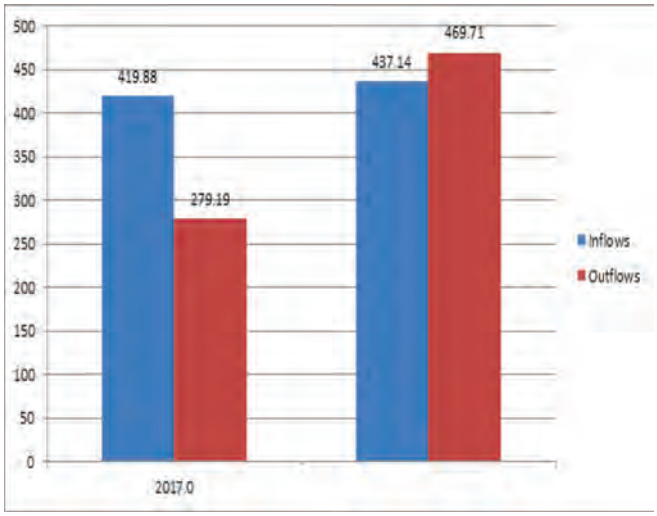
US tariffs on imports from China due to their role in global supply chains, comprising their exports of semi-finished products and parts/components. As such, an upward spiral in tariffs between the US, the EU and China would likely have a negative impact on emerging economies transmitted through the value chains. This is because products manufactured by European and Chinese firms that can no longer be sold on the US market also contain intermediate products from developing countries, South Korea, Chile and Taiwan are most vulnerable, with nearly 30 per cent of their exports going to China in 2017 according to IMF data. Russia will also be affected, with China taking 10 per cent of its exports. In terms of sectors, mining stands out the most, with countries like Indonesia, Russia and South Africa hurt by China tariffs. With respect to electronics, Taiwan and the Philippines are hurt if their trading partner, China, in particular, faces US protectionism. According to the Reserve Bank of South Africa, about 20 per cent of South African exports go to China, including half of its mineral exports.

Like other developing countries, the resurgence of Protectionism has implications for the Nigerian economy. A slowdown in the global economy could result in lower demand for crude, which may impact oil price, foreign exchange earnings and foreign reserves. Pass-through from weaker naira can lead to higher import prices. Collateral damage is already evident in plummeting stock prices compounded by interest rates normalization in the US. The US Federal Reserve's monetary policy tightening is strengthening the dollar and triggering capital flows out of Nigeria. As indicated in the Nigerian Equities Market Bulletin for the month of May 2018 "the stronger US dollar may have undermined sentiments towards emerging markets equity in May 2018 with a 2.2 per cent decline in the MSCI Emerging Market Index over the month...

The Nigerian Market was not spared as increased profit-taking in May pushed the index into negative territory".

According to the NSE Domestic and Foreign Portfolio Investment Report, while there was a 3.5 per cent decrease in foreign inflow to 62.06 billion in May from 64.28 billion in April, Foreign portfolio investment outflows from the nation's bourse rose by 125 per cent in "from N58.25billion to N130.89bn within the same period, Foreign outflows jumped from US$269 million in H1 2017 to over US$460 million in 2018" (see fig 1)

Fig 1: Portfolio Participation In Equity Trading 2017 Vs 2018



Source NSE

Expectedly, the capital flow reversal rub offs negatively on foreign reserves. Available data from the Central Bank of Nigeria indicates that the reserves stood at US$47.697 billion on July 11, 2018, down from US$47.799billion on July 5 2018, a drop of US$102million in just six days! Global uncertainties arising from trade tensions and the fog over Brexit have also been partly blamed for the drop in capital importation into Nigeria. According to the NBS Q2 2018 Capital Importation report, the total value of capital imported into Nigeria stood at US$5.5 billion in Q2 of 2018, a decrease of 12.53 per cent, compared with the level in Q1 2018.

On the fiscal side, the resurgence of Protectionism has the potential of hurting crude oil prices through low global oil demand and hamper Nigeria's oil revenue targets and the implementation of the government's Economic Recovery and Growth Plan. In his personal statement in support of a the Monetary Policy Committee's decision in May 2018 to hold rates, Balami Hassan, a member of the MPC had opined that "the China - US negotiations at the global level has implications for the Nigerian economy. It is likely that China would sacrifice

imports from other countries such as Nigeria's oil in the ongoing arrangement.

The Federal Government's capacity to fund the 2018 budget would therefore be constrained". Rising interest rates in the US and the appreciation of the dollar also has implications for Nigeria's growing external debt profile.

The risk is heightened by the growing proportion of commercial debts relative to concessional loans

Tables 1a,1b and 1c show how Eurobonds are proving to be a major budget risk in Nigeria

Table 1a: Nigeria's External Debt Stock as at June 30, 2018 In Millions of USD (Source: DMO)

Debt Category	Total	% of Total
Multilateral	10,883.70	49.28
Bilateral	2,399.74	10.87
Commercial	8,800	39.87
Grand-Total	22083.44	100

Table 1b: Actual External Debt Service Payments in Q2, 2018 in Thousands of USD (source: DMO)

Category	Total	% of Total
Multilateral	51,115.06	25.26
Bilateral	16,023.94	7.92
Commercial	114,375.00	56.52
Others	20,859.63	10.31
Total	202373.63	100

Table 1c: Selected NIGERIA'S EUROBONDS AND DIASPORA BOND CLOSING PRICES AND YIELDS AS AT OCTOBER 11, 2018 (source: Bloomberg)

Bond Name	5.625% US$300M JUN 2022 Diaspora bond	6.500% US$1.5B NOV 2027 Eurobond	7.143% US$1.25B FEB 2030 Eurobond	7.875% US$1.5BFE B 2032 Eurobond	7.696% US$1.25B FEB 2038 Eurobond
Price (US$)	99.395	93.560	94.284	98.802	93.263
Yield (%)	5.806	7.485	7.913	8.021	8.405
Yield at issue (%)	5.625	6.500	7.143	7.875	7.696

Despite accounting for less than 40 per cent of total foreign loans, non-concessional loans constitute over 56 per cent of external debt service obligations (See tables 1a and 1b). Table 1c reveals that the yields on most of Nigeria's Eurobonds are rising.

This implies that their prices are falling, an indication of sell offs not unconnected with the resurgence of Protectionism.

Nevertheless, the US-China trade tension presents some opportunities. The tariffs on Chinese products imported to the United States could create supply gaps in the US market.

Imports into the US from China will become more expensive thereby making exports from countries not affected by the US Tariff hike more competitive in the US. Within the context of the African Growth and Opportunities Act, this situation presents new opportunities for Nigerian export to the US market.

The trade tension could also trigger migration of investment from China to countries not affected by the US import tariff hike. With the trade war, many investors in China, whose main export market is United States may begin to seek new locations for their investments.

This offers new opportunities for countries such as Nigeria to offer alternative destinations for such investors.

Conclusion

The resurgence of Protectionism would certainly continue to shape developments in Emerging Economies both in the near and medium term. Certainly, growing trade tensions between the US and China, two of the world's biggest economies, would naturally spill over to other developed countries with a negative pass through on the quantum of Diaspora remittances to Nigeria.

Therefore, the Nigerian government would need to brace up for stress from these global headwinds, especially from the combined effects of rising interest rates in the US and higher tariffs in both the US and China.

The current pressure on foreign reserves created by capital flow reversal poses a threat to the relative stability in all segments of the foreign exchange market.

This calls for the sustenance of tight monetary policy. On the fiscal side, the rising exchange rate risk calls for a slowdown in the uptake of commercial foreign loans.

Fiscal incentives are required to support the stock market and boost domestic investor participation. Government should leverage on the upsides of the trade tensions by investing in the agricultural value chain, Fast-tracking implementation of the ERGP is a sine qua non for export base diversification.

The protection against protectionism would require a great deal of synergy between monetary and fiscal authorities to fashion out the right response to the challenge of capital flow reversals.

So, beginning with a radical and more result-oriented approach to tackling the insecurity situation, the importance of vigorously implementing the capital component of the 2018 budget cannot be over stressed.

The stock market can then take shelter in an enabling domestic environment in which country-risk arising from political and economic uncertainties is substantially reduced.

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The Impact Of External Debt On Economic Growth In Nigeria

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1. Introduction

1.1 Background of the Study

The recent momentous increase in external debt amidst daunting economic growth reinforces the continuing validity of debt management principles and its relevance to contemporary issues and problems of economic development. Borrowing from local and international sources is prompted by countries' inability to enhance the level of domestic savings needed for production. Ezeabasili (2006) proposed also that borrowings from external sources augment country's domestic savings increasing their financial strength to execute productive activities.

External debt is capable of stimulating economic growth given that such funds are judiciously utilised in enhancing the productive capacity of the economy. A country can also engage in short-term borrowing from external sources to finance current account deficits arising from external disruptions thereby boosting external reserves and strengthening external liquidity position in the long-run. However, growing concerns has been raised regarding the possible hostile consequences of the significant accumulation of debt by countries in the sub-Saharan Africa owing to events in the past few years. Past experiences of countries in South America and North America around the early 80s with cases of accumulated and unpaid debt reinforced such fears.

These fears showed that huge external debt burdens will pose a threat to financial stability alongside devastating consequences for the real economy, or that upsurge in debt induces pressures in the polity which makes increase in rate of inflation certain (Summers, 1986). In developing economies, the upsurge in debt figures poses danger to the stability of the financial system according to some analysts still in line with Summers' view.

Furthermore, they added that heavy debt burdens have impaired the ability of financial institutions, borrowers and the economy at large to withstand recessions and other types of economic hardship.

Debt is a contract in which the holder is obliged to fulfil the stated obligations contained in the contract and finally to pay principal borrowed alongside accrued interest.

Policy makers and other stakeholders have to evaluate every huge sum borrowed to totally avoid the risk of compounded charges arising from debt-servicing defaults and its adverse effect on income of a country due to recurrent servicing.

In line with proper evaluation, a criterion for evaluating external borrowing will include necessity, value cost, tenor, source and the impact of the additional borrowing on the existing portfolio of debts.

An arrangement of priorities to guide selection of projects, programmes and sectors with a prospect of higher income, multiplier effect and mostly contribute to human capital development, should be funded immediately with proceeds from the loan. (NCEMA, 2002).

Inability to service a debt is generally caused by hasty and distress borrowing practiced by countries in the sub-Saharan Africa and they borrow more to finance budget deficits influenced by deteriorating world price of their primary exports. Nigeria found itself in this position in the 1980s when her external debt position deteriorated so significantly (See table 1). As a result of crash in world price of primary goods, Nigeria was unable to generate sufficient revenue from the sale of her crude oil to service the debt owed to international creditors. Nigeria adopted a number of policies such as the Structural Adjustment Programme (SAP) of 1986 to liberalise her economy and boost Gross Domestic product (GDP) growth.

In a bid to ensure the implementation of these policies the government embarked upon massive borrowings from multilateral sources which resulted in a high external debt service burden and by 1992 Nigeria was classified among the heavily indebted poor countries (HIPC) by the World Bank. Consequently, various strategies were tried includes internal embargoes and limits on new loans, rescheduling, restructuring, debt servicing and plea for debt forgiveness in mitigating the effects of the huge debt accumulation. These strategies did not appear effective and the economy failed to achieve the desired rate of economic growth (DMO, 2004).

According to (Omotoye, Sharma, Ngassam and Eseonu, 2006) Nigeria is the largest debtor nation in sub Saharan Africa. When compared with other sub-Saharan countries such as South Africa, Nigeria's external debt stock follows an upward pattern over the years while the former was relatively stabilized (Ayadi and Ayadi, 2008). Nigeria's external debt stock rose from US$28454.8 million in 1997 to US$31041.6 and US$37883.1 million in 2001 and 2004 with 80.3, 64.67 and 52.58 percentages of GDP respectively.

On the other hand South Africa's external debt stock stood at US$25272.4 million, US$24050 million and US$27112.4 million in 1997, 2001 and 2004 with 16.98, 20.34 and 12.52 percentages of GDP respectively. Consequently, the rapid growth of external debt stock and debt service payments became clogs on the wheel of national economic growth effort (Ezeabasili, 2006; NCEMA, 2002).

The mounting percentage of external debt to GDP raises serious oxymora for policy analyst and debt management. Quite surprisingly, country specific examination of the relationship between external debt and economic growth still remain unresolved. Most of the available literature reviews on the empirical validation of the nexus between external debt and economic growth were descriptive. This identified gap is a motivating factor for conducting this research.

The remaining sections of the paper are as follow: chapter one contains the introduction dealing with the overall view about the paper. In chapter two: literature review will be discussed under three sub-headings: external debt as a theoretical foundation to growth and conceptual and empirical evidences of the relationship between external debt financing and economic growth.

Chapter three focuses on the methodology and analytical framework while chapter four discusses the analysis of results. Chapter five reports the findings, recommendation and conclusion

2. Literature Review

In this chapter, a review of previous studies will be discussed under three Sub-headings: theoretical framework, conceptual review and empirical studies.

Review of Theoretical Issues

There are numerous theoretical contributions to the body of knowledge concerning external debt and economic growth. These theories are of paramount importance and also serve as a backbone to this research work, forming the bedrock for a thorough theoretical review and as such the following theories will be discussed; the dependency theory, crowding-out effect theory, dual-gap theory and the Solow growth model.

2.1 The Dual-gap theory

Omoruyi (2005) stated that most economies have resorted to external borrowing in order to bridge the gap between the level of savings and investment. The dual-gap analysis provides a framework that shows that the development of any nation is a function of investment and that such investment requires

domestic savings which is not sufficient to ensure that development take place (Oloyede, 2002).

The dual-gap theory was coined from a national income accounting function which implies that excess investment expenditure (investment-savings gap) is equal to the surplus of imports over exports (foreign exchange gap).

2.2 Debt overhang theory

The matter of external debt has become a major hindrance to the growth and stability of emerging economies. Economists after thorough exploration of channels through which the effects of external debt burden are realized came up with two theories namely; debt overhang theory and the crowding-out effect theory.

Debt-overhang occurs when a nation's debt is more than its debt repayment ability. Krugman (1982) explains debt overhang as one whereby the expected repayment amount of debt exceeds the actual amount at which it was contracted. The "debt overhang effect" comes into play when accumulated stock of debt dissuades investors from investing in the private sector for fear of heavy tax placed on them by government, popularly termed as tax disincentive. The tax disincentive here implies that because of the high debt and such huge debt service payments, it is assumed that any prospective income accrued to potential investors would be taxed heavily by government so as to reduce the amount of debt service and its multiplier effect leads to investors' fright and anxiety and in the short-run lead to disinvestment in the overall economy and as such a fall in the rate of growth (Ayadi and Ayadi, 2008).

In addition, Clement et al (2003) stated that external debt accumulation can promote investment up to a certain point where debt overhang sets it and the willingness of investors to provide capital starts to deteriorate. The crowding-out effect refers to a situation whereby a nation's revenue which is obtained from foreign exchange earnings is used to pay up debt service payments. Cohen (1993) and Clement et al (2003) observed that external debt can also affect growth through accumulated debt servicing payments, which likely will 'crowd out' investment in the economy. This limits the resources available for utilisation for the domestic economy as majority of it is used to fulfil external debt obligations which decrease the level of investment.

Tayo (1993) opined that the impact of debt servicing on growth is detrimental as a result of debt-induced liquidity constraints which decreases government expenditure in the economy. These constraints arise as a result of debt service requirements which alter the focus from the primary aim of developing the domestic economy to repayments of the debt. Public expenditure on social infrastructure is reduced significantly and this affects the level of public investment in the economy.

Furthermore, some researchers have found other ways through which external debt may affect economic growth and is visible in (Borenstein, 1990) where he postulated that external debt affects growth through the credit rationing effect which is a condition faced by countries that are unable to contract new loans based on their previous inability to pay (defaults).

2.3 The Dependency Theory

This theory is based on the assumption that resources drift from poor and underdeveloped states to wealthy nations thereby enriching the latter at the expense of the former. The phenomenon associated with the dependency theory is that poor states are impoverished while rich ones are enriched by the way poor states are integrated into the world system (Todaro, 2003; Amin, 1976).

Dependency theory states that the poverty of the countries in the periphery is not because they are not integrated or fully integrated into the world system as is often argued by free market economists, but because of how they are integrated into the system. From this viewpoint, a common school of thought is the bourgeoisie scholars whose belief maintains

that the state of underdevelopment and the constant reliance of less developed countries on developed countries are as a result of their internal mishaps.

They believe this issue can be explained by their lack of close integration, diffusion of capital, low level of technology, poor institutional framework, bad leadership, corruption, mismanagement, etc. (Momoh and Hundeyin, 1999). This school of thought believes the way forward is for third world countries to obtain foreign assistance in terms of aid, loan, investment, etc, and allow undisrupted operations of the Multinational Corporations (MNCs). The dependent nature of most underdeveloped countries has made them vulnerable to exploitation by Western metropolitan countries and Breton Woods Institutions (Ajayi, 2000).

2.4 The Solow Growth Model

The Solow-growth model was published in 1956 as a seminar paper on economic growth and development with the title, "A contribution to the theory of economic growth". Like most economic growth theories, assumptions of the Solow growth model are listed as follows:

- Countries will produce and consume only a single homogenous good.
- Technology is exogenous in the short run.

The Solow growth model is developed based on a Cobb - Douglas production function given by the form:

$Y = F(K, L) = K^{a}L^{1-a}$

Where

Y = output

K = Capital input

L = Labor input

a and 1-a are output elasticities of capital and labor respectively and a is a number between 0 and 1.

2.5 Solow Growth Model and External Debt

The Solow growth model is built on a closed economy which makes use of labour and capital as its means of production. Under this scenario the implication of external debt on growth can be seen through its effect on the domestic saving which in turn used as investment in a closed model.

The general effect of external debt on the Solow growth model can be analyzed by looking at the individual effects of the debt overhang and debt crowding theories on the Solow growth model.

Conceptual review

Arnone et al (2005) defined external debt as that portion of a country's debt that is acquired from foreign sources such as foreign corporations, government or financial institutions. According to Ogbeifin (2007), external debt arises as a result of the gap between domestic savings and investment. Debt accumulation is certain as long as the investment-savings gap widens and will spur government to borrow in continuity in order to stay afloat.

2.6 Nigeria's External Debt; Historical Perspectives

Nigeria's external debts are acquired on request with approval from multilateral agencies, Paris Club of Creditors, London Club of Creditors, Promissory Note Holders, Bilateral and Private Sector Creditors and other sources (Jhingan, 2004, and Salawu, 2005).

According to Debt Management Office, Nigeria's external loan acquisition dates back before independence came to the fore not until 1978. The oil boom of 1970-1973 fortified Nigeria's revenue and reserves positions. Faced with recession in 1977/78, Nigeria raised the first US$ 1 Billion loan known as 'Jumbo Loan' from International Capital Market to finance infrastructural projects. Subsequently, oil boom of 1980's, a notion of economic enthusiasm was felt which heralded the ostentatious consumption pattern favouring imported goods and relaxation of measures formerly put in place as a result of oil price decline.

Indiscriminate importation overvalued exchange rate, over invoicing of imports and under invoicing of exports compounded the problem.

In 1982, Federal and State governments owing to fall in price borrowed massively from the international capital market without any worthy effort to seek solution to the main problem in the economy. At that period, excess loanable funds were resident in the western world known as Idle 'Petro-dollar'. Acting under the ploy that the loanable funds can be used to assist less developed countries and developing countries to achieve economic growth but with the main aim is to recycle idle funds and have a major stake in the governance of debtor countries.

Nigeria's external debt increased from US$ 0.763Billion in 1977 to US$ 5.09 billion in 1978 and US$ 8.855 billion in 1980 representing 73.96% between 1978 and 1980 (DMO). By 1985, external debt of Nigeria was US$19Billion. By December 2014, external debt stood at over US$34 Billion. Growth in debt stock rose continuously and in 2005, President Olusegun Obasanjo argued that Nigeria needed debt relief as it is clear that she cannot service and pay her debts. This was granted in 2006. Meanwhile, Nigeria have started accumulating debt again with debt stock as at June 2015, recording US$10.317 Billion.

2.7 Causes of the Debt Crisis

Boyce and Ndikumana (2002) postulated that the inability of many Sub Sahara Africa (SSA) countries to meet their social needs and continuous wallow in debt is as a result of the fact that the borrowed funds have not been used productively. African political elites prefer chopping off a significant portion of foreign loans to transfer to their numerous foreign bank accounts instead of supporting domestic investment in key sectors, inducing capital flight which endangers the country's financial strength in the long-run. Without much ado, the misappropriation of external loans and non-actualization of its initial objective i.e. the key reason why such fund was acquired is a function of political rascality, bad governance, abuse of office and power, criminal corruption tendencies, mismanagement and wastage, misplaced priorities, fiscal indiscipline, weak control, monitoring and evaluation mechanisms, and a society that was openly tolerant of corruption and other underhand and extra-legal methods of primitive accumulation (DMO, 2005).

According to Soludo (2003) the underlying basic of external borrowing entails three phases of the debt cycle: in the first phase, debt grow in order to fill resource gaps, in the second phase, the country generates surplus resources but probably not enough surpluses to cover interest payments, while in the third phase it must generate enough surpluses to cover interest repayments and amortization.

The peculiar experience of highly indebted countries is that they have been confined in phases I and II for decades. These conditions have weakened the economic sovereignty and independence of many developing countries including Nigeria. In the case of Nigeria, mismanagement of the oil revenue during the oil boom era and high level of corruption in the handling of borrowed funds among others were accountable for her debt crises. Additionally, a lot of white elephant projects were embarked upon for political reasons; these were later abandoned by successive governments after so much money was allocated to them (Anyawu, 1986; Ajayi, 2008)

In the view of Nzekwu (2011) as cited in Okolie (2014) the causes of the Nigerian external debt burden include the following;

(i) Inefficient trade and exchange rate policies

(ii) Adverse exchange rate movements

(iii) Poor lending and inefficient loan utilization

(iv) Poor debt management practices

(v) Accumulation of arrears and penalties

Furthermore, Nzekwu (2011) as cited in Okolie

(2014) emphasized that debt level increased due to reckless and inefficient borrowing pattern which is a function of the following factors;

(i) Massive external borrowing took place in the 1980s, largely to offset the collapse in oil prices

(ii) Borrowing was not linked to future growth or exports

(iii) Insufficient regard given to economic viability of projects

(iv) Poor implementation due to weak absorptive capacity and governance problems

(v) Mismatch between loan terms and project profile

2.8 Nigeria's External Debt Profile

Nigeria has two major categories of external creditors; official and private creditors. Her official creditors include the International Fund for Agricultural Development (IFAD), African Development Fund (ADF), European Development Fund (EDF), and International Bank for Reconstruction and Development (IBRD), the African Development Bank (AFDB), Economic Community of West African States (ECOWAS) fund and the European Investment Bank. These official lists of international providers of fund are Nigeria's multilateral creditors, including the International Monetary Fund (IMF) an active lender to Nigeria in the 1970s and 1980s.

In the bilateral league are the Paris Club and Non-Paris Club creditors. The Paris Club is an informal group of official creditors which was created to aid debtor countries going through payment difficulties by finding sustainable and lasting solutions. Also Nigeria is indebted to private creditors which consist of promissory note holders and the London Club group.

The total debt outstanding as at 31st December 2004 stood at US$35.94 billion with Paris Club (85.82%), multilateral creditors (7.86%), London Club (4.01%), Non-Paris Club (0.13%) and Promissory notes (2.18%) (DMO, 2012). This clearly shows that the largest proportion of Nigeria's external debt is accrued to the Paris Club group of creditors. During Obasanjo's administration, relief was granted in 2006 settling the highest proportion of her external debt portfolio with the Paris Club where the Former Minister of Finance Dr. (Mrs) Okonjo Iweala held sway in frontline negotiations. And it is evident that the total debt stock has reduced following DMO's declaration that Nigeria's external debt stock as at December 2009 stood at $3.947 billion, Federal Government owed (2.093billion) while State governments owed a sum of $1.85billion(CIA World Fact book, 2010).

2.9 Empirical review

Adesola (2009) in his study on the effect of external debt service payment practices on sustainable economic growth and development in Nigeria from 1981 to 2004 argued that debt payment to Nigerian creditors could affect the economic growth both positively and negatively. Similarly, Momodu (2012) examined the correlation between debt servicing and economic growth in Nigeria. The study sought to find a relationship between the Gross Domestic Product (GDP) and Gross Fixed Capital Formation at current market prices (GFCF) using Ordinary Least Square (OLS) multiple regression method. The study revealed that debt payment to Nigerian creditors has significantly impacted on the GDP and GFCF. Ayadi and Ayadi(2008) in their study on the impact of external debt on economic growth in Nigeria and South Africa using neoclassical growth model found a negative impact of debt (and its servicing requirements) on growth in the two countries while external debt contributes positively to growth up to a point after which its contribution became negative in Nigeria. Numerous empirical studies found a positive impact of external debt on economic growth in Nigeria. For instance; Sulaiman and Azeez (2012) examined the effect of external debt on the economic growth in Nigeria from 1970 to 2010. The study found short-run and long-run relationship among the variables and concluded that external debt has contributed positively to economic growth in Nigeria. Amooteng and Amoako (1996) investigated the relationship

between external debt and economic growth in 35 African countries. Granger causality test was employed. The result showed a unidirectional and positive causal relationship between economic growth and debt servicing. Ogege and Ekpudu (2010) examined the impact of debt burden on the Nigerian economy using time series data from 1970-2007. Ordinary least square (OLS) was employed to test the relationship between debt burden and growth of the Nigeria economy.

The result showed a negative relationship between debt stock (internal and external); and gross domestic product, meaning that an increase in debt stock will lead to a reduction on the growth rate of Nigerian economy

Furthermore, Ezeabasili, Isu, and Mojekwu, (2011) studied the relationship between Nigeria's external debt and economic growth from 1975-2006, using an error correction approach. Error correction estimate revealed that external debt has negative relationship with economic growth in Nigeria. Karagol (2002) investigated the long-run and short-run relationship between external debt and economic growth for Turkey during 1956-1996 and the Granger causality test results showed a unidirectional causality from debt to economic growth.

3. Theoretical Framework and Research Methodology

Section 3.1 discussed the theoretical framework, Section 3.2 describes specification, estimation and inference in Vector Autoregression (VAR) models and covers forecasting from the VAR model. The discussion summarises the types of structural analysis typically performed using VAR models. These analyses include Granger-causality tests, the computation of impulse response functions, and forecast error variance decompositions. The simple trend model was also built .section 3.3 looked at model Modification, section 3.4 dealt on the issues of measurement, measuring GDP as a proxy for productivity growth and other core variables of the study, section 3.5 identified the sources of data, in addition the restatement of hypothesis (3.6) and estimation techniques was discussed in (3.7), respectively.

3.1 Theoretical Framework

VAR models in economics were made popular by Sims (1980). The definitive technical reference for VAR models is Lutkepohl (1991), and updated surveys of VAR techniques are given in Watson (1994) and Lutkepohl (1999) and Waggoner and Zha (1999). Applications of VAR models to financial data are given in Hamilton (1994), Campbell, Lo and MacKinlay (1997), Cuthbertson (1996), Mills (1999) and Tsay (2001).

Three decades ago, Christopher Sims (1980) provided a new macroeconometric framework that held great promise: vector autoregressions (VARs). A univariate autoregression is a single-equation, single-variable linear model in which the current value of a variable is explained by its own lagged values. A VAR (multivariate) is an *n*-equation, *n*-variable linear model in which each variable is in turn explained by its own lagged values, plus current and past values of the remaining variables. This simple framework provides a systematic way to capture rich dynamics in multiple time series, and the statistical toolkit that came with VARs was easy to use and to interpret. As Sims (1980) and others argued in a series of influential early papers, VARs held out the promise of providing a coherent and credible approach to data description, forecasting, structural inference and policy analysis. In this work, we assess how well VARs have addressed these four macroeconomic variables of interest. In data description and forecasting, VARs have proven to be powerful and reliable tools that are now, commonly adopted in empirical analysis and forecasting. Structural inference and policy analysis are, however, inherently more difficult because they require differentiating between correlation and causation; this is the "identification problem," often mentioned in econometrics issues.

VARs come in three varieties: reduced form, recursive and structural. A *reduced form VAR* expresses each variable as a linear function of its own past values, the past values of all other variables being considered and a serially uncorrelated error term. Thus, in our study this option will be used, each equation is estimated by ordinary least squares (OLS) regression

A *recursive VAR* constructs the error terms in each regression equation to be uncorrelated

with the error in the preceding equations. This is done by including some contemporaneous values as regressors. In a three-variable VAR, ordered as 1) inflation, 2) money supply, and 3) GDP. In the first equation of the corresponding recursive VAR, inflation is the dependent variable, and the regressors are lagged values of all three variables. In the second equation, money supply is the dependent variable, and the regressors are lags of all three variables *plus* the current value of the inflation rate. GDP is the dependent variable in the third equation, and the regressors are lags of all three variables, the current value of the inflation rate *plus* the current value of the money supply. Estimation of each equation by ordinary least squares produces residuals that are uncorrelated across equations. Evidently, the results depend on the order of the variables: changing the order changes the VAR equations, coefficients, and residuals, and there are *n*! Recursive VARs representing all possible orderings.

A *structural VAR* uses economic theory to sort out the contemporaneous links among the variables (Watson, 1986 and Sims, 1986).Structural VARs require "identifying assumptions" that allow correlations to be interpreted causally. These identifying assumptions can involve the entire VAR, so that all of the causal links in the model are spelled out, or just a single equation, so that only a specific causal link is identified. This produces instrumental variables that permit the contemporaneous links to be estimated using instrumental variables regression.

The number of structural VARs is limited only by the inventiveness of the researcher. In our seven-variable study, the researchers will consider a reduced-form VAR model. In VARs, this algorithm for estimating the recursive VAR coefficients is equivalent to estimating the reduced form, then computing the Cholesky factorization of the reduced form VAR covariance matrix Lutkepohl (1993).

3.2 The Empirical Model

The empirical exercise is now to examine if external debt has an impact on economic growth rates. The study presents empirical evidence that uncovers interesting and significant interactions between external debt stock and growth.

3.2.1 The Stationary VAR Forecasting Model

As Sims (1980) provided

Let $X_t = (X_{1t}, X_{2t}, ...X_{nt})$ = denote an n*1 Vector of time series variables, the basic p-lag vector autoregressive (Var (p)), has the form

$$X_t = \pi_0 + \pi_1 X_{t-1} + \pi_2 X_{t-2} + ... + \pi_P X_{t-p} + \epsilon_t$$

Where t = 1... n

Model Definition X_t is a vector of endogenous variables. π_1 are (n x n) coefficient matrices and $t\epsilon$ is an (nx1) unobservable zero mean white noise vector process (serially uncorrelated or independent) with time invariant covariance matrix is also known as innovation or shock.

π_0 is a constant

The model can also be represented as

$$X_t = \pi_0 + \sum_{i=1}^{p} \pi_i X_{t-i} + \epsilon_t$$

We assume that each equation combines K lag values of the variables. In this case one can estimate each of the following equations by OLS. Each variable expressed as a function of its past values and the past values of other variables.

3.2.2 Lag Length Selection

The lag length for the VAR model can be determined using model selection criteria. Information Criteria (IC) can be used to choose the right number of lags in a VAR (p).

The three most common Information Criteria are the Akaike Information Criterion (AIC), Schwarz Information Criterion (SIC) and Hannan-Quinn (HQ)

$$\text{In AIC} = \left(\frac{2K}{n}\right) + In\left(\frac{RSS}{n}\right)$$

$$\text{In SIC} = \frac{K}{n}\ln n + In\left(\frac{RSS}{n}\right)$$

In AIC = Natural Log of AIC and

2k/n = Penalty Factor for AIC

In SIC = Natural Log of SIC and

K/n *In n* = Penalty Factor for SIC

Others are

Final Prediction error Criterion (FPE) and

Likelihood ratio test Criterion (LR)

As the number of variables gets bigger, it is more unlikely that the AIC ends up over parameterizing (Gonzalo and Pitarakis; 2002).

3.2.3 Var Granger Causality

If the history (i.e. lagged observations) of variable X does not help to predict the future values of variable Y given lagged values of Y and lagged values of other variables), we say that x does not Granger-cause Y (Granger, 1969; SIMS; 1972).

Pair of Estimable Regressions

$$X_{1t} = b_{11}X_{1t-1} + b_{21}X_{2t-1} + \ell_{x1t}$$
$$X_{2t} = c_{11}X_{1t-1} + c_{21}X_{2t-1} + \ell_{x2t}$$

Where it is assumed that *tx*1l and*tx*2l are uncorrelated. The test expectations are

1. Unidirectional Causality from Y_1 to Y_2
2. Unidirectional Causality from Y_2 to Y_1
3. Feedback or Bidirectional Causality
4. Independence (no relationship)

3.2.6 Estimation of Trend for VAR Forecast

This is illustrated to show how the core variables that generate external debt fluctuations vary from year to year, in line with the fourth objectives of our study. Each of the variables will be plotted against Trend (X), simply represented as

$Y_i = a + bX$

Y_i = Variable as 'Endogenous'

X = (Years)

3.3 Model Modification

The major focus of the study is to determine if external debt has any impact on economic growth. The fundamental principle of the model was built around Sims (1980). "Macroeconomic and Reality".

The model adopted is as follows:

$$GDPD_t = \alpha_0 + \sum_{j=1}^{k}\alpha_1 LEXTgdp_{t-j} + \sum_{j=1}^{k}\alpha_2 FDIgdpnet_{t-j} + \sum_{j=1}^{k}\alpha_3 INF_{t-j} + \mu$$
$$LEXTdebt_t = \alpha_0 + \sum_{j=1}^{k}\alpha_1 GDP_{t-j} + \sum_{j=1}^{k}\alpha_2 FDIgdpnet_{t-j} + \sum_{j=1}^{k}\alpha_3 INF_{t-j} + \mu$$
$$FDIgdpnet_t = \alpha_0 + \sum_{j=1}^{k}\alpha_1 GDP_{t-j} + \sum_{j=1}^{k}\alpha_2 LEXTdebt_{t-j} + \sum_{j=1}^{k}\alpha_3 INF_{t-j} + \mu$$
$$INF_t = \alpha_0 + \sum_{j=1}^{k}\alpha_1 GDP_{t-j} + \sum_{j=1}^{k}\alpha_2 LEXTdebt_{t-j} + \sum_{j=1}^{k}\alpha_3 INF_{t-j} + \mu$$

Definition of Model Variables:

The variables used in the parsimonous vector auto regression (VAR) model as specified in chapter three are: Gross Domestic Product deflator (gdpd), natural logarithm of Debt service on external debt as a percentage to GDP (private nonguaranteed (PNG) (TDS, current US$) (LEXTdebt) to mirror the involvement of private investment void of government expenditure size, foreign direct investment net outflows (% of GDP) (FDIgdpnet) and inflation (GDP deflator (annual %)) denoted as inf.

3.7 Estimation Techniques

Concept of Unit Root

A Time Series is said to be stationary of its mean, variance and covariance are all invariant with respect to time. Regression of a non-stationary time series on another non-stationary time series may produce a spurious regression. In other words the model may yield misleading values of coefficient of determination R^2, t statistic and F-statistic. Thus the estimation technique used in this analysis will be Augmented Dickey – Fuller (ADF) test for unit root.

The ADF test is a test against the null hypothesis that there is a Unit root of I (1) series.

The test equation is of the form;

$$\delta\Delta_t = \alpha + \alpha_1 Y_{t-1} + \delta\Delta Y_{t-2} + \delta\Delta Y_{t-3} + \partial_{p-1}\Delta Y_{t-p+1}$$

The t-statistic test of the coefficients of the lagged level of Y_{t-1} with the critical t-values is given in Fuller (1976) distribution table. The critical values for the rejection (or acceptance) of the null hypothesis is a function of the sample size and the functional form of the model used for the test.

Vector Autoregression Model

A VAR Forecasting Model was built to estimate each of the equations by Ordinary Least Squares (OLS) Method. Each variable expressed as a function of its past values and the past values of other variables. A VAR Impulse Response Function (IRF) and VAR Forecast Error Decomposition of Variance (FEDVS) were computed from the Moving Average (MA) representation of the Vector Error Correction Mechanism (VECM).

4. Data Analysis and Interpretation

The impact of external debt on economic growth has been evaluated in the Nigerian parlance for the study from 1970 – 2016 tracking the oil boom of the 1970s to the oil glut vis a vis economic recession of the early 1980s and the policy inconsistency of the IMF's

ensuing effects of debt policies in the face of structural adjustment policy (SAP) of 1986 and the the current global shocks. The data was obtained from the World Development Indicators (WDI, 2017) and the International Monetary Fund WEO data engine (2017).

4.1 Variables

This sub-section seeks to provide clarity on the selected macroeconomic variables and country-level variables that are essential to capturing the effects of external debt and the economy and also in presenting a distinctive comparative analysis of the country's growth and debt profile from 1970 -2016.

The choice of model is supported by Karagol (2002) estimation and empirical findings of the debt and economic growth nexus with the VAR model producing a negative link between the variables. This an improvement from several empirical studies that employed the Ordinary Least Squares (OLS) method both for single-country and cross-country estimation frameworks. Economic theory postulates that a considerable level of borrowings is sufficient to growth drive. The greatest challenge is liquidity constraint, hence the need for a functional debt model (Walsh, 2003).

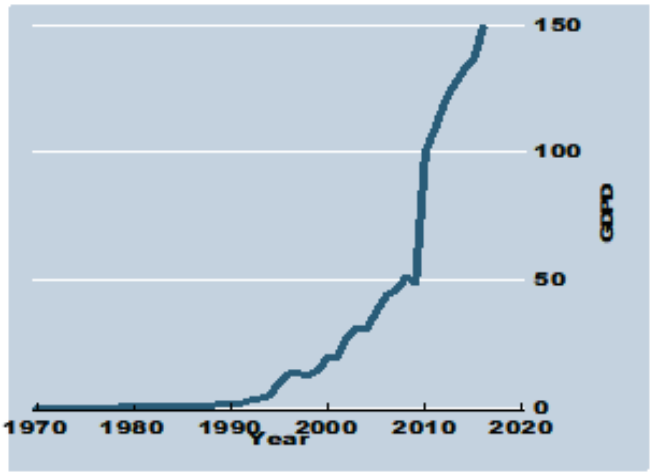
4.2 Descriptive Analysis

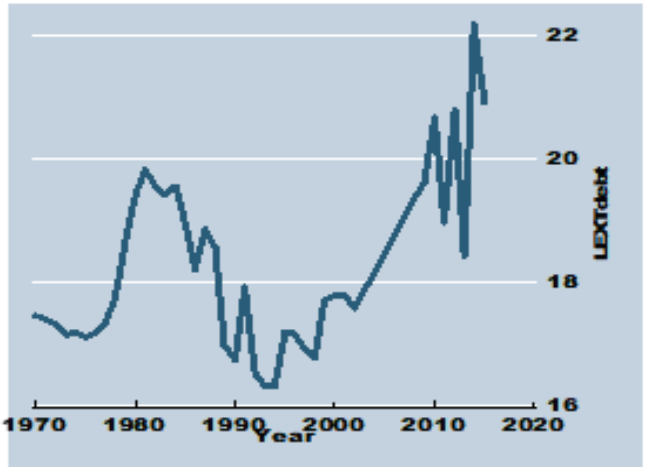
Hameed (2008) remarked that the debt challenges experience by most developing economies in the 1980s and 1990s are distinct from the past historical records due to the international dent settlement issues involved between creditor and debtor economies and international organisation and creditor governments. In addition, the history of debt points to the consistent act of lending beyond planned threshold leading to overhang and dilemma with countries failing to finance the debt in the face of solvency tightness and liquidity trap. Nigeria as an emerging markets in need of cash injection to finance expenditures on goods and services have suffered from fiscal indiscipline – culminating to debt irresponsibility and policy implementation distortion. Cohen (1997).

Table 4.2a: The Macroeconomic Picture

Variable	obs	Mean	Std. Dev	Min	Max
gdpd	47	28.01161	43.96122	0.065901	149.4562
LEXTdebt	41	18.22337	1.401707	16.30042	22.17734
FDIgdpnet	46	2.607556	2.169973	-1.15086	10.83256
inf	47	20.9867	25.15677	-5.66569	113.0764

The mean values of the variables are not a 'perfect representation' of the data. The standard deviation shows the average distance from the mean and shows how spread out the data is. A larger mean value was observed especially for GDP deflator, inflation and foreign debt. However, volatility and large dispersion from the mean value can be seen in growth variable and inflation with relative stability for foreign debt and foreign direct investment (FDIgdpnet).





Trend Pattern of Growth and Foreign Debt

Figure 4[a] for growth shows that there was an upward trend in growth adjusted at the rate of prices of goods in the market, and an upward trend became stronger from 2010 to 2016. The steady increases in spending have been financed by borrowing and have impacted on the countries' earnings from production.

Figure 4[b] of foreign debt shows a rather unpredictable and stochastic movement over the years under study. This further confirms the random behavior of the country's debt history with interest and monies owed increasing substantially at different peak periods especially in the early 1980s and 2014.

The failure of SAP (1986) ultimately led to a moderation in debt 1990 and 1997 before the transition of power from the military to civilian.

4.3 Unit root test and Lag Length Selection

For the three tests, the statistic test in absolute value is higher than the critical value (at the 5% level), meaning that the first difference variable is stationary. Consequently, the variable FTSE is integrated of order 1 or I (1).

We proceed in a similar manner for the other variables (the results are displayed in the Appendix), and come up with the following results.

Table 4.3a: Summary of the variables

Variable	Decision
gdpd	I(1)
LEXTdebt	I(1)
FDIgdpnet	I(1)
inf	I(0)

See appendix 2a: unit root test

The lag length for the VAR model can be determined using model selection criteria. Information Criteria (IC) can be used to choose the right number of lags in a VAR (p).

The three most common Information Criteria are the Akaike Information Criterion (AIC), Schwarz Information Criterion (SIC) and Hannan-Quinn (HQ)

$$\text{In AIC} = \left(\frac{2K}{n}\right) + In\left(\frac{RSS}{n}\right)$$

In AIC = Natural Log of AIC and

2k/n = Penalty Factor for AIC

As the number of variables gets bigger, it is more unlikely that the AIC ends up over parameterizing (Gonzalo and Pitarakis; 2002).

Table 4.3b: Lag Length Selection Criterion for the Debt-Growth Model

Selection-order criteria

Sample: 1974 - 2015 with a gap

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-181.461				1323.34	10.0249	10.0863	10.1991
1	-117.905	127.11*	1	0	45.0288*	6.64352*	6.72026*	6.86121*
2	-117.903	0.00396	1	0.95	47.5829	6.69746	6.78956	6.95869
3	-117.855	0.09678	1	0.756	50.181	6.7489	6.85635	7.05367
4	-117.853	0.00353	1	0.953	53.0862	6.80286	6.92565	7.15117

The AIC is suitable for monthly data series. Based on the lag selection criteria of lags 1 to 5; lag 1 is more appropriate than lags 0, 2, 3, and 4 because it produced the lowest AIC value. Based on the dynamic vector autoregressive model estimates, a lag of one period was chosen to establish the granger causality or direction of relationship as indicated in the study objectives.

4.4 The Econometric Model: VAR Model for Nigeria

Mohaddes and Pesaran (2016) The merits of a dynamic framework like that of the VAR - model that captures the macroeconomic effects of foreign debt and growth and also incorporates the shocks specific to the country in sync with the peculiarities of the debt profile.

However, with incidences of depleting reserves majorly due to disruptions in production channels; the question requires that we seek for a way to create a model that will take into account the workings of exogenous that will impact on debt services.

Variables as defined above in the previous

As Sims (1980) provided an autoregressive model (VAR (p)) in the form;

$$X_t = \pi_0 + \pi_1 X_{t-1} + \pi_2 X_{t-2} + \ldots + \pi_P X_{t-p} + \epsilon_t$$

Where t = 1... n

Model Definition X_t is a vector of endogenous variables. π_1 are(n x n) coefficient matrices and ϵ_t is an (nx1) unobservable zero mean white noise vector process (serially uncorrelated or independent) with time invariant covariance matrix is also known as innovation or shock.

π_0 is a constant

The model can also be represented as

$$X_t = \pi_0 + \sum_{i=1}^{p} \pi_i X_{t-i} + \epsilon_t$$

It is assumed that each equation combines K lag values of the variables. In this case one can estimate each of the following equations by OLS with each variable defined as a function of its past values and the past values of other variables.

The model is as follows:

$$GDPD_t = \alpha_0 + \sum_{j=1}^{k} \alpha_1 LEXTgdp_{t-j} + \sum_{j=1}^{k} \alpha_2 FDIgdpnet_{t-j} + \sum_{j=1}^{k} \alpha_3 INF_{t-j} + \mu \quad -(Growth\ Relation)$$

$$LEXTdebt_t = \alpha_0 + \sum_{j=1}^{k} \alpha_1 GDP_{t-j} + \sum_{j=1}^{k} \alpha_2 FDIgdpnet_{t-j} + \sum_{j=1}^{k} \alpha_3 INF_{t-j} + \mu \quad -(Debt\ Relation)$$

Table 4.4 a

Equation	Parms	RMSE	R-sq	chi2	P>chi2
gdpd	5	7.78784	0.9711	1311.633	0.0000
LEXTdebt	5	0.897869	0.6426	70.11551	0.0000
FDIgdpnet	5	1.96507	0.3549	21.45675	0.0003
inf	5	24.6796	0.2357	12.02919	0.0171
AIC	22.877				
N	39				
Sample	1971 - 2015 with a gap				

Table 4.4b

Growth Relation	Coefficient	Std.Error	z	P>|Z|	(95%con. Interval	
gdpd						
L1.	1.044683	0.038694	27	0.000	0.968844	1.120522
LEXTdebt						
L1.	1.836055	1.269524	1.45	0.148	-0.65217	4.324276
FDIgdpnet						
L1.	1.377799	0.606355	2.27	0.023	0.189365	2.566232
inf						
L1.	-0.03864	0.044478	-0.87	0.385	-0.12582	0.048532
_cons	-34.0504	23.46795	-1.45	0.147	-80.0467	11.94593

Table 4.4c

Debt Relation	Coefficient	Std.Error	z	P>|Z|	(95%con. Interval	
gdpd						
L1.	0.012084	0.004461	2.71	0.007	0.003341	0.020828
LEXTdebt						
L1.	0.456577	0.146365	3.12	0.002	0.169707	0.743447
FDIgdpnet						
L1.	-0.08687	0.069907	-1.24	0.214	-0.22388	0.050148
inf						
L1.	-0.01075	0.005128	-2.1	0.036	-0.0208	-0.0007
_cons	10.12968	2.705646	3.74	0.000	4.826708	15.43264

From table 4b, the growth relation, shows that the coefficient of the past level of growth to current growth at period one is positive 1.044, which implies that a 1.0 percent increase in previous growth performances adjusted at the rate of inflation have a contributory impact on the current growth by 1.044%. External debt servicing also impacts on growth by 1.83% positively with an increase in debt financing expected to stimulate growth.

Due to the idea of infinite memory of a variable and the persistence of random shocks, current values always influence and are mainly affected by their past values over time. Foreign direct investment impacts negatively on growth by 1.377% and inflation negatively impacts on growth by 0.03%.

Similarly, in table 4c: for the debt relation, a 1.0 percent increase in market growth stimulates foreign debt servicing by 0.012 percent. Interestingly, as more debts are serviced, borrowings also assume an upward trend, impacting positively on current interest on debt by 0.45%. In consonance with supply shocks that pre-medicate borrowings, foreign direct investment and inflation negatively impacts on debt by 0.08 percent and 0.01 percent. Particular attention goes to inflation to growth and inflation to debt relationship, moving in the same direction but as expected different magnitude of impact. On the basis of the *p-value*, variable significance was established for lag period one in gdpd and FDIgdpnet in the growth model while all of the variables were significant in the debt model except FDIgdpnet. On the basis of overall model significance and model selection criteria, the Akaike Information Criterion (AIC) indicates a high and reliable estimate as shown in Table 4a, the illustration also shows a coefficient of determination (R^2) that explains a high variational Impact of the variables on gdpd equation by 97.0 percent and a moderate variational impact on debt equation by 64.0 percent within the VAR. all the four equations in the model are significant on the basis of the F-value further cementing the validity and strength of the equations in the model. Also of particular importance is inflation rate (inf) which produced a low R^2 of 23.0 percent.

The standard error statistic points to the predictive power of the included variables in the VAR model. Table 4a shows that inflation rate lacks forecast precision because of the wide spread between the regression line data points and residuals on inflation.

The table shows that foreign debt and FDI are well concentrated with less dispersion and best fitted to the data. The results discusses the reason why debt service increments carries relatively different value in magnitude, implying that debt servicing to external debt is no substitute to gdp deflator.

4.5 Johansen Cointegration Test

Here, we perform the first and second step regression model and use the ADF test on the residuals with Mckinnon critical values adjusted for the number of variables to establish cointegration.

Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
0.012084	0.004461	1.004461	2.004461

Comparing the DF test statistic of 0.012 with the appropriate critical value of 0.004, we reject the null hypothesis of no cointegration at the 1% level.

4.6 Granger Causality Test

Granger Causality test is to test essentially whether the lagged variable of a variable can be introduced to other variable equations. If a variable is influenced by lagging of another variable, there is a causal relationship between them. Granger causality test can only be conducted on stationary data. Causality test is carried out on stationary data gdpd, LEXTdebt, FDIgdpnet which were stationary at first difference (Integrated at order 1 = I (1)) except inf that was stationary at level (Integrated at order 1 = I (0)).

In the Appendix Table 2,

Table 4.6: GrangerCausality Wald Test

Equation	Excluded	chi2	df	Prob>chi2
gdpd	LEXTdebt	2.0917	1	0.148
gdpd	FDIgdpnet	5.1632	1	0.023
gdpd	inf	0.75485	1	0.385
gdpd	ALL	5.6736	3	0.129
LEXTdebt	gdpd	7.3378	1	0.007
LEXTdebt	FDIgdpnet	1.5441	1	0.214
LEXTdebt	inf	4.3951	1	0.036
LEXTdebt	ALL	12.328	3	0.006
FDIgdpnet	gdpd	0.00232	1	0.962
FDIgdpnet	LEXTdebt	1.1921	1	0.275
FDIgdpnet	inf	2.7649	1	0.096
FDIgdpnet	ALL	4.7583	3	0.19
inf	gdpd	1.8021	1	0.179
inf	LEXTdebt	1.1002	1	0.294
inf	FDIgdpnet	10.153	1	0.001
inf	ALL	12.025	3	0.007

(1) Economic growth do not granger cause external debt, but external debt granger causes economic growth in China. This can be clearly seen in the gdpd and LEXTdebt segment in table 4.4 as LEXTdebt – gdpd yields a p-value less than 0.05 (5%) but produces a p-value greater than 5% for gdpd - LEXTdebt. This is a one-way *unidirectional* relationship. External debt leads to economic growth but economic growth efforts do not replicate the reverse causal relation.

(2) Economic growth granger cause foreign direct investment, but foreign direct investment does not granger cause economic growth in China. This can be clearly seen in the gdpd and FDIgdpnet segment in table 4.4 as gdpd – FDIgdpnet yields a p-value less than 0.05 (5%) but produces a p-value greater than 5% for FDIgdpnet - gdpd. This is a one-way *unidirectional* relationship. External debt leads to economic growth but economic growth efforts do not replicate the reverse causal relation.

(3) Inflation and debt & inflation and FDI both shows a uni-directional relationship

5. Summary, Recommendations and Conclusion

5.1 Summary

In this study, effort has been made to examine the dynamics of external debt and growth, using a VAR model in accordance with Sims (1980) and Luktepohl (1991). The model, leading to a dynamic system of equations, specifically assisted us to incorporate the dynamics of external debt, external debt servicing, government expenditure, consumption, trade balance and capital formation shock into the analysis of economic growth in Nigeria. However, the reduced-form equation assisted in the application of VAR model as the basis of estimating inter-temporally the variation and response of the gross domestic product to unanticipated changes in external debt, external debt servicing, government expenditure, consumption, and trade balance and capital formation. Granger-causality was used to check the direction of causality between the dependent and independent variables in the model. The cointegration result for Nigeria shows that there exists no long-run relationship between external debt and economic growth reaffirming that the relationship effect between both variables is short-term hence, the relevance of the causality test.

The empirical results suggest the existence of unidirectional causality relationships between the two variables, which means that the performance of both variables is not interrelated with the evidence suggesting that economic growth Granger caused external debt – a policy decisions related to capacity absorption enhancement in Nigeria.

5.3 Recommendations

Based on the above findings, the following recommendations are proffered:

1) External debts should only be acquired exclusively for economic reasons and not for social or political reasons. This is to avoid an upsurge in external debt servicing overtime and avert leaders from burgling the motive behind the acquisition of funds from international sources.

2) Government should uncompromisingly hasten the process of diversification of the economy. This will result in buoyant and robust economy which will reduce the need for external debt to the barest minimum.

3) Anticorruption agencies such as Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices and other Related Offences Commission (ICPC) and Code of Conduct Bureau should be made truely independent and free from any Government influence as well as constant reviews of laws that established them to make the agencies more functional and efficient. This will reduce the occurrence of misappropriation and embezzlement of funds from external debt.

4) A laid down procedure for repayment of loan(s) within the tenor of the loan should be a perfect substitute for incessant debt servicing. This will curb the associated leakages from the economy.

5) The Debt Management Office responsible for managing Nigeria's external debt should adequately keep track of the debt payment obligations and the debt should not be allowed to pass a maximum limit so as to avoid debt overhang.

5.4 Conclusion

This study examined the impact of external debt on economic growth in Nigeria. The study sought out to find the causal relationship between external debt and economic growth. Gross domestic product was used as a proxy for economic growth which is the dependent variable while external debt stock, external debt service payments and government expenditure, consumption, trade balance and capital formation were the independent variables. External debt stock and external debt service payments were used to capture the external debt burden in Nigeria. The Granger causality test was used to test the null hypothesis of no causal relationship between external debt and economic growth in Nigeria. The null hypothesis is rejected as the result shows that there is no bi-directional causal relationship between external debt and economic growth.

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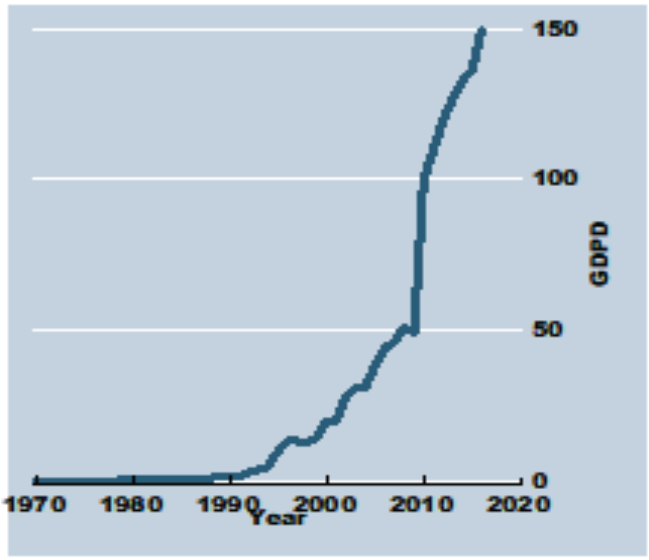
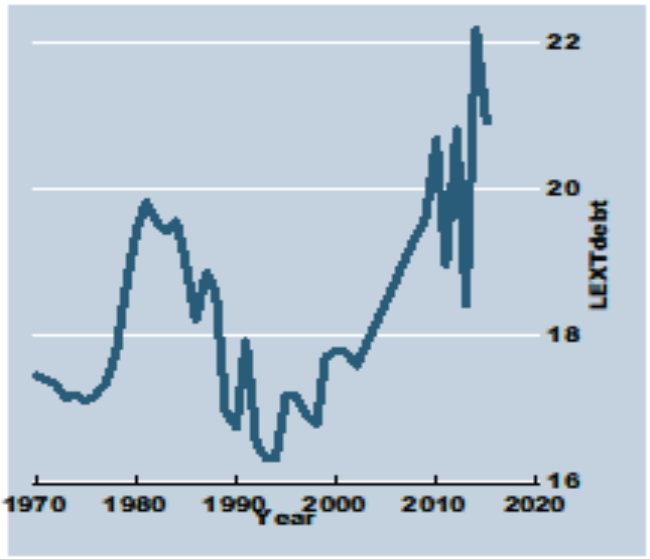
Appendix

1(A) & (B): VARIABLE SETTING & DESCRIPTIVES

```
. tsset year
        time variable:  year, 1970 to 2016
                delta:  1 unit
```





Variable	Obs	Mean	Std. Dev.	Min	Max
gdpd	47	28.01161	43.96122	.065901	149.4562
LEXTdebt	41	18.22337	1.401707	16.30042	22.17734
FDIgdpnet	46	2.607556	2.169973	-1.150856	10.83256
inf	47	20.9867	25.15677	-5.665685	113.0764

2(A): UNIT ROOT

```
. ***gdpd

. dfuller gdpd, regress lags(0)

Dickey-Fuller test for unit root                  Number of obs   =        46

                         ------------ Interpolated Dickey-Fuller ------------
                 Test         1% Critical       5% Critical      10% Critical
              Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             2.848            -3.607            -2.941            -2.605
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 1.0000

------------------------------------------------------------------------------
       D.gdpd |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+---------------------------------------------------------------
        gdpd |
         L1. |    .077404   .0271793     2.85   0.007     .0226278    .1321803
             |
       _cons |   1.283759   1.288857     1.00   0.325    -1.313761    3.881279
------------------------------------------------------------------------------

. dfuller gdpd, trend regress lags(0)

Dickey-Fuller test for unit root                  Number of obs   =        46

                         ------------ Interpolated Dickey-Fuller ------------
                 Test         1% Critical       5% Critical      10% Critical
              Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             4.002            -2.626            -1.950            -1.608
------------------------------------------------------------------------------

------------------------------------------------------------------------------
       D.gdpd |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+---------------------------------------------------------------
        gdpd |
         L1. |   .0918883   .0229599     4.00   0.000     .0456447    .138132
------------------------------------------------------------------------------

. gen Dgdpd=d.gdpd
Dgdpd already defined
r(110);

. dfuller Dgdpd, regress lags(0)

Dickey-Fuller test for unit root                  Number of obs   =        45

                         ------------ Interpolated Dickey-Fuller ------------
                 Test         1% Critical       5% Critical      10% Critical
              Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)            -5.748            -3.614            -2.944            -2.606
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

------------------------------------------------------------------------------
      D.Dgdpd |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+---------------------------------------------------------------
       Dgdpd |
         L1. |   -.884726    .153915    -5.75   0.000    -1.195125   -.5743268
             |
       _cons |   2.970538   1.289102     2.30   0.026     .3708162    5.570259
------------------------------------------------------------------------------

. dfuller Dgdpd, trend regress lags(0)

Dickey-Fuller test for unit root                  Number of obs   =        45

                         ------------ Interpolated Dickey-Fuller ------------
                 Test         1% Critical       5% Critical      10% Critical
              Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)            -7.193            -4.196            -3.520            -3.192
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

------------------------------------------------------------------------------
      D.Dgdpd |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+---------------------------------------------------------------
       Dgdpd |
         L1. |  -1.105341   .1536601    -7.19   0.000    -1.41544   -.7952424
       _trend |   .3070135   .0923852     3.32   0.002     .1205726    .4934544
       _cons |  -3.422409   2.246754    -1.52   0.135    -7.956541    1.111724
------------------------------------------------------------------------------

. dfuller Dgdpd, noconstant regress lags(0)

Dickey-Fuller test for unit root                  Number of obs   =        45

                         ------------ Interpolated Dickey-Fuller ------------
                 Test         1% Critical       5% Critical      10% Critical
              Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)            -5.031            -2.628            -1.950            -1.608
------------------------------------------------------------------------------

------------------------------------------------------------------------------
      D.Dgdpd |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+---------------------------------------------------------------
       Dgdpd |
         L1. |  -.7564338   .1503568    -5.03   0.000    -1.059458   -.4534097
------------------------------------------------------------------------------
```

2B: LAG SELECTION

Lag Length Selection

Selection-order criteria
Sample: 1974 - 2015 with a gap

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-181.461				1323.34	10.0249	10.0863	10.1991
1	-117.905	127.11*	1	0	45.0288*	6.64352*	6.72026*	6.86121*
2	-117.903	0.00396	1	0.95	47.5829	6.69746	6.78956	6.95869
3	-117.855	0.09678	1	0.756	50.181	6.7489	6.85635	7.05367
4	-117.853	0.00353	1	0.953	53.0862	6.80286	6.92565	7.15117

2(B): VAR & GRANGER CAUSALITY

Vector autoregression

Sample: 1971 - 2015, but with a gap — No. of obs = 39
Log likelihood = -426.1128 — AIC = 22.87758
FPE = 101900.2 — HQIC = 23.18367
Det(Sigma_ml) = 36331.21 — SBIC = 23.73069

Equation	Parms	RMSE	R-sq	chi2	P>chi2
gdpd	5	7.78784	0.9711	1311.633	0.0000
LEXTdebt	5	.897869	0.6426	70.11551	0.0000
FDIgdpnet	5	1.96507	0.3549	21.45675	0.0003
inf	5	24.6796	0.2357	12.02919	0.0171

	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gdpd						
gdpd L1.	1.044683	.038694	27.00	0.000	.9688441	1.120522
LEXTdebt L1.	1.836055	1.269524	1.45	0.148	-.652167	4.324276
FDIgdpnet L1.	1.377799	.6063549	2.27	0.023	.1893648	2.566232
inf L1.	-.0386432	.0444778	-0.87	0.385	-.1258182	.0485317
_cons	-34.05039	23.46795	-1.45	0.147	-80.04672	11.94593
LEXTdebt						
gdpd L1.	.0120843	.0044611	2.71	0.007	.0033408	.0208278
LEXTdebt L1.	.4565772	.1463649	3.12	0.002	.1697074	.7434471
FDIgdpnet L1.	-.0868678	.0699073	-1.24	0.214	-.2238836	.0501481
inf L1.	-.0107503	.0051279	-2.10	0.036	-.0208008	-.0006998
_cons	10.12968	2.705646	3.74	0.000	4.826708	15.43264
FDIgdpnet						
gdpd L1.	.0004701	.0097635	0.05	0.962	-.0186659	.0196061
LEXTdebt L1.	-.3497554	.3203328	-1.09	0.275	-.9775962	.2780853
FDIgdpnet L1.	.3966241	.1529986	2.59	0.010	.0967525	.6964958
inf L1.	.0186615	.0112229	1.66	0.096	-.0033349	.0406579
_cons	7.421544	5.921551	1.25	0.210	-4.184483	19.02757
inf						
gdpd L1.	-.1646094	.1226206	-1.34	0.179	-.4049415	.0757226
LEXTdebt L1.	4.219828	4.023105	1.05	0.294	-3.665313	12.10497
FDIgdpnet L1.	6.122576	1.92153	3.19	0.001	2.356446	9.888706
inf L1.	-.0756025	.1409496	-0.54	0.592	-.3518586	.2006536
_cons	-65.14412	74.3696	-0.88	0.381	-210.9059	80.61761

. vargranger

Granger causality Wald tests

Equation	Excluded	chi2	df	Prob > chi2
gdpd	LEXTdebt	2.0917	1	0.148
gdpd	FDIgdpnet	5.1632	1	0.023
gdpd	inf	.75485	1	0.385
gdpd	ALL	5.6736	3	0.129
LEXTdebt	gdpd	7.3378	1	0.007
LEXTdebt	FDIgdpnet	1.5441	1	0.214
LEXTdebt	inf	4.3951	1	0.036
LEXTdebt	ALL	12.328	3	0.006
FDIgdpnet	gdpd	.00232	1	0.962
FDIgdpnet	LEXTdebt	1.1921	1	0.275
FDIgdpnet	inf	2.7649	1	0.096
FDIgdpnet	ALL	4.7583	3	0.190
inf	gdpd	1.8021	1	0.179
inf	LEXTdebt	1.1002	1	0.294
inf	FDIgdpnet	10.153	1	0.001
inf	ALL	12.025	3	0.007

TABLE 1 Topology of shocks for Nigeria

S/N	Shock	Origin	Immediate Consequence
1	Crude Oil Price	OPEC decision to quadruple the price of crude oil:1973	Economic Boom
2	Low crude oil demand	Another round of crude oil price increase:1979	World economic recession
3	*Foreign debt	Fiscal policy stance	Financing socio - economic programmes
4	Inappropriate policy	Poor macroeconomic management	Macroeconomic instability
5		Rural-Urban movement	Pressure on socio - economic infrastructure
6	Terms of trade	Currency overvaluation	Immizerization growth
7	Changes in economic structure	Structural adjustment programme	Mixed grill
8	Institutional	Transition from state-controlled to market-based economy	Sale of government owned companies, loss of job

**Discusses the highlight of Nigeria's debt reform programmes*

Understanding The Central Bank Analytical Balance Sheet As An Instrument Of Monetary Policy

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Abstract

Central Banks have the responsibility of making monetary policy using instruments at their disposal. In the aftermath of the global financial crisis, monetary authorities have realized the importance of using their balance sheet to stimulate credit and spur overall growth in the economy. This study explores the Central bank of Nigeria balance sheet to understand the implication of changes in policy variables. In addition, the study highlights linkages with the Depository Corporation balance sheets. Understanding these nexus will assist policymakers in choosing an appropriate mix of policy instruments that will deliver the expected monetary policy outcome.

Key Words: Central Banking, Monetary Policy, Money and Credit

JEL Classification: E58, E52, E51

Section 1

1.0 Introduction

Monetary policy plays an important role in the achievement of macroeconomic and financial stability. It is the combination of measures designed to influence the value, volume and cost of money in an economy. Thus, the objectives of monetary policy in Nigeria are the maintenance of price stability, external sector viability, promotion of employment and output growth. However, price stability remains the overriding objective of monetary policy. The techniques for monetary policy can be broadly classified under two categories, namely, the direct or portfolio control and indirect or market approach.

The portfolio control approach is a direct or non-traditional approach of monetary control use by the central bank. In this type of approach, the central bank utilizes the instruments of reserve requirement, special deposits with the central bank, selective credit controls, and moral suasion. Whereas, the market approach to monetary policy uses instruments at the disposal of the central bank to influence the liquidity level in the economy. This approach uses instruments such as Open Market Operations, Discount window operations, Cash Reserve Ratio, and Liquidity Ratio. The current monetary policy regime in Nigeria is the indirect or market-based approach, which relies on the monetary authorities using its available instrument to influence the public desire of holding currency and the willingness of financial agents to accept deposits and advance credit.

The key instrument of monetary policy implementation is the central bank's operating target, which can be a price variable inform of short-term interest rate or a quantity variable inform of the monetary base. In the case of Nigeria, the central bank uses quantitative targeting derived from its monetary programming techniques, which specifies the quantum of monetary base or reserve money desirable for the economy at a given period, usually on a quarterly basis. The monetary targeting framework is based on the belief that inflation, which is the ultimate target is essentially a monetary phenomenon. The framework focuses on a chosen monetary aggregate and assumes that in the long run, price growth is influenced by money supply growth. The policy is achieved by changing the size of the monetary base and open market operations are primarily the monetary policy instruments deployed to achieve this objective. The argument for using monetary base as an operating target is based on the axiom that there is a stable relationship between reserve money and the intermediate target, which is the money supply through the money multiplier. Intuitively, the price and quantity targets are influenced by the dynamics of the central bank's balance sheet.

The central bank plays a significant role in the economic development of a nation. The provision of foreign exchange for imports transaction and external debt payments, issuance of currency notes to the domestic economy, and acting as lender of last resort are among the key functions of the central bank. These functions affect the central bank balance sheet, thus, the balance sheet is the important variable in understanding the policy objectives the central bank intends to achieve. Borio and Disyatat (2009) posited that balance sheet policies relate to the ability of the central bank to manage liquidity through various interventions targeted at influencing liquidity conditions.

The size and composition of the central bank balance sheet is usually a reflection of the objective priority of the monetary authorities towards economic growth. Central banks can alter the size or composition of their balance sheet to influence liquidity conditions, market rates, exchange rate, and bond yields in some financial instruments. The central bank can intervene in money market to influence liquidity level by either buying-up securities (increasing liquidity) or selling-up securities (decreasing liquidity) to the deposit money banks. The action of buying-up security instruments from the banks, increase the assets of the central bank, and correspondingly, increase banks cash reserve position with the central bank on its liability side of the balance sheet and vice-versa. By extension, the banks liquidity position increase because of increase in their cash reserve with the central bank, which allow them to create loans to other economic agents.

Borio and Disyatat argued that an important variable for the implementation of interest rate policy is the market for bank reserves, which the central bank has monopoly, and set the quantity and terms on which it is supplied.

The remainder of the paper is structured as follows. Following the introduction, is Section 2, which explains the literature on the central bank balance sheet, the size, composition, and structure of the balance sheet, while Section 3 examines the implication of the changes in policy variables on the components of the balance sheet. Section 4 concludes the paper.

Section 2

2.0 Literature Review

2.1 Size, Composition, and Structure Central Bank Balance sheet

A central bank uses three main (interrelated) instruments to influence the economy. These instruments are the policy interest rates, the balance sheet, and, communication. Communication performs the role of shaping expectations about future developments in the other two instruments or more directly, in the policy objectives that is price stability. Central banks also use those three instruments in different ways and combinations. During periods of financial crisis and debt overhang, most central banks adopt unconventional monetary policy using the balance sheet instruments to support policy, which is distinct from the policy instrument. Such a distinction matters to the extent that, beyond the information contained in prices, quantities matter in the transmission of monetary policy in the presence of imperfect arbitrage, segmented markets, and balance sheet effects. The use of the balance sheet instrument can differ with respect to its interaction with the other policy instruments. Lautenschlager (2014) revealed that balance sheet policies as measure of monetary policy are adapted to the environment and economic conditions, and structure of the financial system.

Central bank balance sheet in the majority of countries witnessed a dramatic expansion during the global financial crisis. This development was to restrain the contagious effect of the global financial crisis on most economies. Greenwood, Hanson, and Stein (2016) argued that the Federal Reserve's ability to curb the threat to financial stability is using its balance sheet as an instrument to curtail financialisation by money holding sectors of the economy. A central bank can change the composition of its assets or enlarge its balance sheet size to influence financial markets conditions and the real economy (van den End & Pattipeilohy, 2015).

These changes were the result of quantitative easing (QE) policies, which both increased the size of the balance sheet of the central bank,

by issuing banks reserves, as well as its composition, by extending the maturity of the bonds held (Reis, 2017).

Hormann and Schabert (2015) reported that developed economies responded to the global financial crisis with unconventional monetary policy strategies. The central banks of these countries adopted a balance sheet policy by introducing different lending facilities and improved repo transaction aimed at eliminating illiquidity and stimulating consumption and real activity. The motivation for these policies was the combination of a financial crisis and zero nominal interest rates, together with the need to improve liquidity and reduce long-term yields (Bernanke, 2015).

Orphanides (2016) emphasized that the use of central bank balance sheet as instrument allows the provision of needed resources through the creation of high-powered money during an emergency. However, expanding the central bank balance sheet to accommodate assets purchases, liquidity provision and lender of last resort to the banking sector can have major distributional effects that are associated with a fiscal policy.

Curdia and Woodford (2010) argued that short-term interest rate should not be the overriding instrument of monetary policy, but consideration is given to balance sheet instrument such as changes in bank reserves, changes in the assets purchased by the central bank and interest rate paid on reserves.

2.2 Size and Composition

The CBN Analytical balance sheet totaled N40.7 trillion as at end-December of 2018 compared to N8.7 trillion in 2007, before the global financial crises. The size and composition of the balance sheet have evolved over the years because of policy changes to curb with the dynamism of the domestic economy and developments in the international economies. In 2018, the foreign asset was N18.2 trillion or 44.7 per cent of the total assets of the balance sheet, which is higher than the figures in 2007. While, claims on central government stood at 18.5 percent compared to 1.1 percent in 2007, the growth was predominately-federal government bonds and advances to Sub-treasury.

The balance sheet has not only grown in size, but also in its composition as the Bank has increased its credit easing by accommodating increase credit to Deposit Money Banks (DMBs) and Other Financial Institutions, amounting to 5.9 and 14.3 percent of total assets, compared to 2.5 and 2.6 in 2007, respectively.

In 2007, the liability of the balance sheet constituted majorly of Government deposits, which was about 48.0 percent or N4.2 trillion out of the N8.7 trillion of the total liabilities. However, in 2018 the CBN Open Market Operation (OMO) bills constituted 32.7 per cent of the total liabilities, amounting to N13.8 trillion of the N40.7 total liabilities. Reserve Money is a substantial item on the liabilities side of the CBN balance sheet accounting for N1.2 trillion or 13.8 percent and N7.1 trillion or 17.4 percent in 2007 and 2018, respectively. The currency in circulation (CIC) and bank reserves constituted N960.8 billion and N141.5 billion in 2007 compared to N2.3 trillion and N4.8 trillion in 2018, respectively.

This shows that the ratio of total currency in circulation to total reserve money has drastically reduced from 80.4 percent in 2007 to 32.4 percent in 2018, but the quantum of required reserves had increased from 11.8 percent in 2007 to 60.6 percent in 2018.

The changes in the size and composition of the balance sheet reflect the evolving policies and direction of the monetary authority.

Figure 1: CBN Total Assets, M2 and M3 as Ratio of NGDP

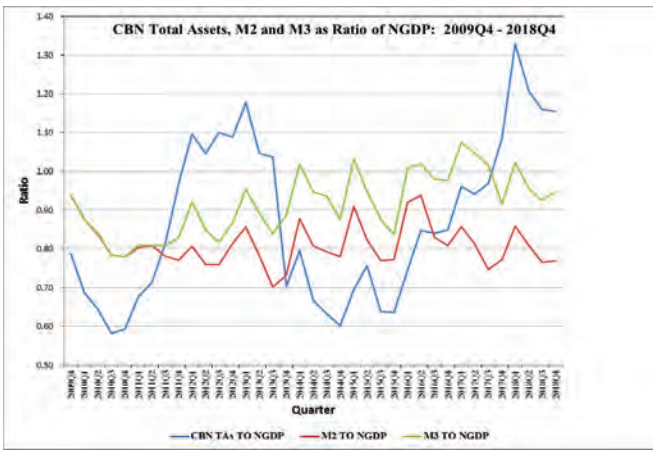
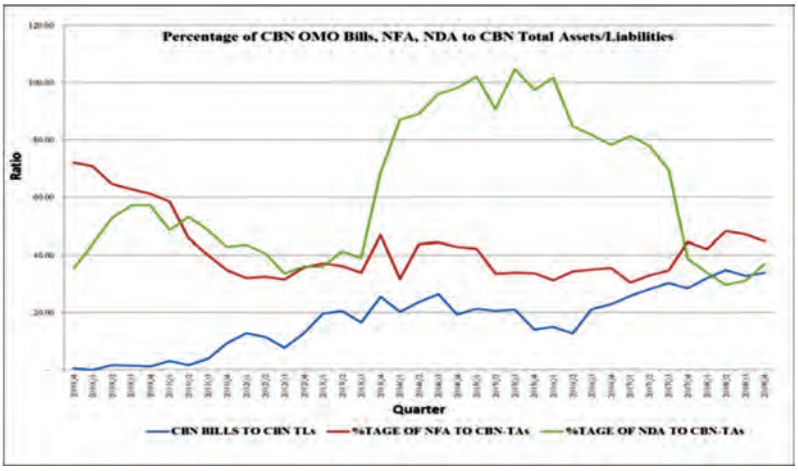


Figure 2: Percentage of CBN OMO Bills, NFA, NDA to CBN Total Assets



2.3 Structure of the Balance Sheet

Due to its unique nature, the balance sheet of the central bank is a focal point in terms of monetary analysis. The central bank balance sheet consists mainly of four types of assets such as foreign assets, claims on government, claims on deposit money banks, and claims on private sector. While, the reserve money is as the major component of the liability. The balance sheet is transformed into an analytical format for monitoring and assessing monetary and credit conditions within the system.

Table 1. A Typical Central Bank Balance Sheet

Assets	Liabilities
1. Foreign Assets	6. Foreign Liabilities
1.1 Gold and SDR Holdings	6.1 Deposits of foreign banks
1.2 Foreign Currency	6.2 Foreign Central banks
1.3 Demand Deposits at Foreign banks	6.3 Securities of nonresidents CB
1.4 Treasury bills of Foreign Govt	6.4 Other foreign debts
1.5 Attached assets	7. Currency in Circulation
1.6 Other assets	
2. Claims on the government	8. Government deposits
2.1 Treasury bills holdings	9. Central Bank Securities
2.2 Bonds and stocks	
2.3 Overdraft and advances (W&M)	10. Liabilities to DMBs
3. Claims on deposit money banks	
3.1 Overdraft	10.1 required reserve
3.2 loans and advances	10.2 demand deposits
	11. Excess reserves and penalty dep
4. Claims on other private sectors	12. Deposits of money holding sectors
4.1 States and local govt	12.1 States and local govt
4.2 Non Financial public enterprises	12.2. Non Financial public enterprises
4.3 non-depository financial inst.	12.3 Non-depository financial inst.
5. Other assets unclassified	13. Capital account
	13.1 Capital
	13.2 Reserves
	13.3 Revaluation account
	14. Other Liabilities unclassified

Table 2: Summarised Analytical Balance Sheet of the Central Bank

Assets	Liabilities
1. Net Foreign Assets (NFA)	4. Reserve Money (RM)
2. Net Domestic Assets (NDA)	4.1 Currency in Circulation (CIC)
2.1 Domestic credit (Net) (NDC)	4.2 DMBs Deposits (DDMBs)
2.1.1 Claims on the Central government (net) (NCG)	4.2.1 Cash Reserve Req
2.1.2 Claims on the DMBs (CDMBs)	4.2.2 Excess Reserves
2.1.3 Claims on other Private Sectors (CPS)	
2.2. Other items (net) (OIN)	

The major components of the analytical balance sheet are discussed below.

2.1 Net Foreign Assets (NFA)

Foreign assets holdings of the central bank include, currency deposits in foreign banks, treasury bills of foreign governments, gold reserves, SDR holdings, and swap facilities.

A robust net foreign asset is an indicator variable that a country has a viable and sustainable balance of payment, and can insulate the exchange rate of its currency from adverse economic development. The bank can use its foreign exchange reserves to influence the level of domestic liquidity conditions through its intervention in the inter-bank foreign exchange market.

The net foreign assets is derived from the netting out of the foreign liability components from the foreign assets.

Foreign exchange intervention is one of the variables of the balance sheet policy. The purchases or sales of foreign reserves by the central bank seek to give indicative direction of the price of domestic currency as against the foreign currency.

2.2 Net Claims on Government (NCG)

The asset emanates from two activities, namely through holding of government debt instrument and or granting of direct advances to finance a budget shortfall.

The central bank builds up this category of assets through its investments in government treasury bills, bonds, and direct credit through the Ways and Means advances.

The deposits of the government are derived from the sum of balances in all the Treasury Single Account (TSA) and its counterparts mirror accounts.

The creation of the TSA has made its mandatory for all public sector agencies to transfer their deposits from DMBs to the central bank. The public sector account balances with the central bank are under the control of the central government.

The Federal government has direct access to credit from the central bank.

The accommodation of the central government financing needs through advances by the central bank leads to the creation of high-powered money, which if not checked can be harmful to the economy.

For monetary analysis purposes, the central government deposits are netted out from their claims to arrive at the Net claims on government.

2.3 Claims on the Private sector.

The private sector includes deposit money banks, states, and local governments, non-financial public and other financial service institutions. The central bank sometimes advances temporary facilities to these

economic agents, which is evidenced by the central bank claims on them. In the case of deposit money banks, such claims may include the issuance of a bailout facility as well as the use of the discount window to augment their liquidity position.

The claim on other private sectors in the central bank balance sheet is usually minimal, which include staff salaries and advances, housing and car loans to staff among others.

The central bank interest rate on loans to DMBs is called the discount rate. The amount of central bank lending to DMBs and the discount rate are important instruments of monetary policy.

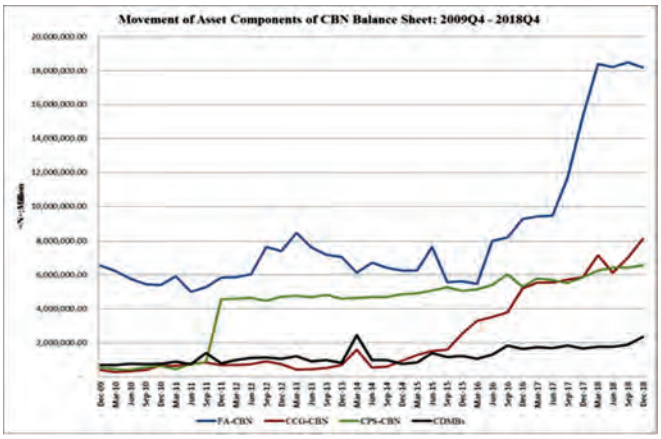
The DMBs deposits, unlike the central government, are not netted out from the claims as their deposits play an important role in monetary policy transmission, which is captured as their cash reserves with central bank, classified in monetary base.

2.4 Other Assets (net).

It includes the operations of the central bank that pertain to its other assets and other liabilities and capital and revaluation accounts that are not categorised elsewhere in the sectoral classification.

This, essentially, consists of all internal accounts of the central bank, such as fixed assets, capital and reserves, valuation adjustment and garnishee accounts.
Movement in these items has policy implication, as excessive growth is an indication that the central bank is indirectly contributing to the growth in broad money.

Figure 3: Movement of Asset Components of CBN Balance Sheet



2.5 Reserve Money

Reserve money is the main component of liability in the central bank balance sheet and it plays a key role in monetary policy formulation and analysis. Reserve money mainly consists of currency in circulation plus banks' deposits with the central bank.

It is also called *a monetary base or high-powered money*. Changes in the reserve money lead to changes in money supply through the interplay of the money multiplier.

Thus, the monetary base is not a monetary aggregate but the source of the funding that influences the direction of the monetary aggregates.

The analytical balance sheet identity of the central bank is represented as:

RM = NFA + NDA,

and NDA = NCG + CDMB +CPS + OIN

Where:

RM = Reserve Money (Base Money)

NFA = Net Foreign assets

NDA = Net Domestic assets

NCG = Net credit to govt

CDMB = Credit to Deposits money banks

CPS = Credit to Private sector

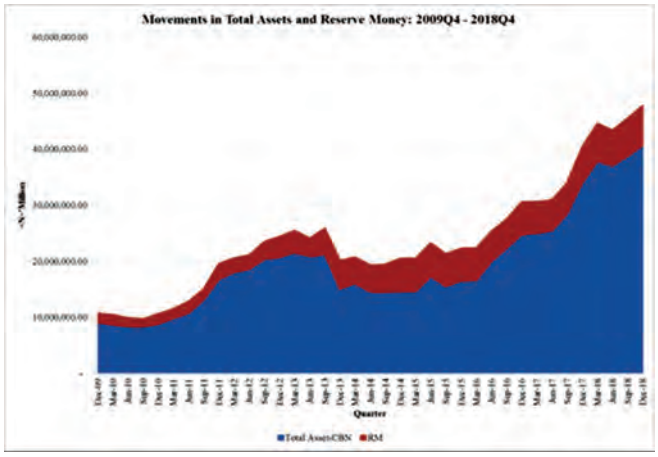
OIN = Other Items net

In terms of flow, that is changes in stock, the identity can be rewritten as:

$\Delta RM = \Delta NFA + \Delta NCG + \Delta CDMB + \Delta CPS + \Delta OIN$

$\Delta RM = \Delta NFA + \Delta NDA$

Figure 4: Movements in Total Assets and Reserve Money

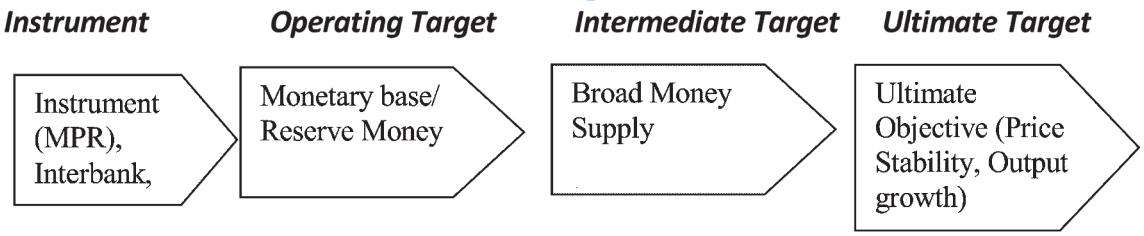


Section 3

3.0 The implication of the changes in Monetary Policy variables on the components of the Balance sheet

The operational framework for the market based monetary policy management involves the use of instruments that have some level of relationship with the operational and intermediate targets, to impact the ultimate target.

To achieve this objective, the CBN use discretionary monetary policy instruments at its disposal to ensure the liquidity level in the economy is consistent with the programmed level of output and prices.



The instruments and operating targets are within the control of the monetary authorities, which gives the bank flexibility in adjusting the rate or the monetary base. Both the asset and liability sides of the central bank balance sheet play a significant role in mitigating the adverse effects stemming from the financial system. The asset side works as a substitute for private financial intermediation, for example, through the outright purchase of credit products, which affects the composition of the balance sheet. The liability side, especially expanded excess reserves, functions as a buffer for funding liquidity risk in the money markets thereby affecting the size of the balance sheet.

3.1 Open Market Operations (OMO)

The OMO is an important approach of altering the stock of base money. It is the process of buying and selling securities by the central bank in the secondary market. Over the years, the central bank has used the treasury bills holding in its portfolio for monetary management, until recently the bank developed its own instruments for liquidity management. Presently the Bank sale its own bills to the commercial banks and repurchase it from the banking sector as the economic fundamentals dictates. The deposit money banks are at the core of money market, with their customers' deposits and their current account balances at the central bank serving as elements in the flow of funds. Developments in money market reflect the demand for reserves (bank balances) relative to its availability, which also reflect the movements in interbank rate and the policy rate, vis-à-vis its effect on the yield curve of securities. For example, if the central bank sales OMO bills, current account balance of DMBs with the central bank will reduce with the appropriate amount. On the other hand, the DMBs will reflect such movement in their balance sheet as claims on central bank on the assets side with the amount of bills purchased. This action reduces the level of reserve money and the ability of DMBs to create credit since they have exchanged cash for securities, thus expansion of broad money is curtailed. Similarly, if the CBN buy-back maturing securities from the banks, this action shows a corresponding increase in reserve money by an increase in deposits of commercial banks, which is reflected in the DMBs balance sheet on the assets side as an increase in their current account balances. This action swells the level of liquidity as more money is released to the banks, which increase their capacity to create credit in the economy and impact on the quantum of money supply.

3.2 Foreign Exchange Intervention

The Central Bank intervenes in the foreign exchange market to stabilise the domestic currency and achieve a balance of payment viability position. This activity has a direct impact on liquidity in the economy, hence the stance of monetary policy. For example, when the central bank sells foreign currency to banks, foreign assets are reduced, and there is a corresponding decline in DMBs current account balances with CBN, thus reserve money decline. On the other hand, when the

central bank intervenes in the foreign exchange market through purchase of forex, it increases the level of its foreign assets and on the liability side, reserve money rises through currency in circulation and or DMBs current account balances.

3.3 Federal Government balances with the Central Bank

The Central Bank performs the function of a banker to the government and lender of last resort. In accordance with the CBN Act as amended, the government could borrow to the tune of 5 percent of its previous year's actual revenue. Government deposits are recorded on the liability side of the central bank balance sheet. Central government deposits are not included in the definition of broad money, this is because macroeconomic variables, such as market interest rate, inflation, and exchange rates, do not influence investment and spending decisions of government.

When the government increases deposits at the central bank, through the collection of taxes or treasury bills' issuance, it affects the balances in the deposit money banks. Alternatively, when the government pays salaries and finance expenditure, it increases the reserve position of commercial banks with the central bank, which also reflects as assets in the balance sheet of the commercial banks.

In a situation where the government borrows from the central bank, or sells securities to the Bank, its assets increase with a growth in the net claims on government with a corresponding increase in government deposits.

However, when the government uses its deposit in the central bank for payment to the private sector, this action reduces the government deposits in the central bank through transfer of the amount of government deposits to the private sector. This ultimately increase the level of broad money.

3.4 Cash Reserve Ratio (CRR)

The cash reserve ratio is a proportion of total deposits liability of the DMBs that is kept in the central bank. The reserve requirement is a mandatory deposit which the DMBs keep with the central bank.

It is an important tool of liquidity management, which the central bank can use to influence the level of liquidity, interbank rate and credit availability in the economy.

For example, the monetary authorities may choose to increase the level of reserve requirement thereby making the banking system to keep more money with the central bank as a reserve deposit.

This process will increase the level of reserve money, but at the same time, it will reduce the capacity of the banking system to create money as their level of current account balances is reduced. The quantum of deposit money banks reserve with the central bank is determined by the changes in the remaining components of the central bank's balance sheet.

3.5 Discount Window

The discount facility is an instrument of monetary control designed to influence the level of central bank credit to the banking system. The central bank influences the level of reserve money more directly under this kind of arrangement by the level and terms of its lending to the DMBs.

An increase in the level of discount rate by the central bank signals its intention to tighten monetary conditions, thus making borrowing by the banks costlier.

On the other hand, if the monetary authorities want to pursue an expansionary monetary policy, it reduces the level of its discount rate thereby inducing banks to borrow more from the central bank.

This type of lending is usually limited to providing short-term financing to upset temporary liquidity needs of banks and in some cases as a belt-out facility for banks in crises.

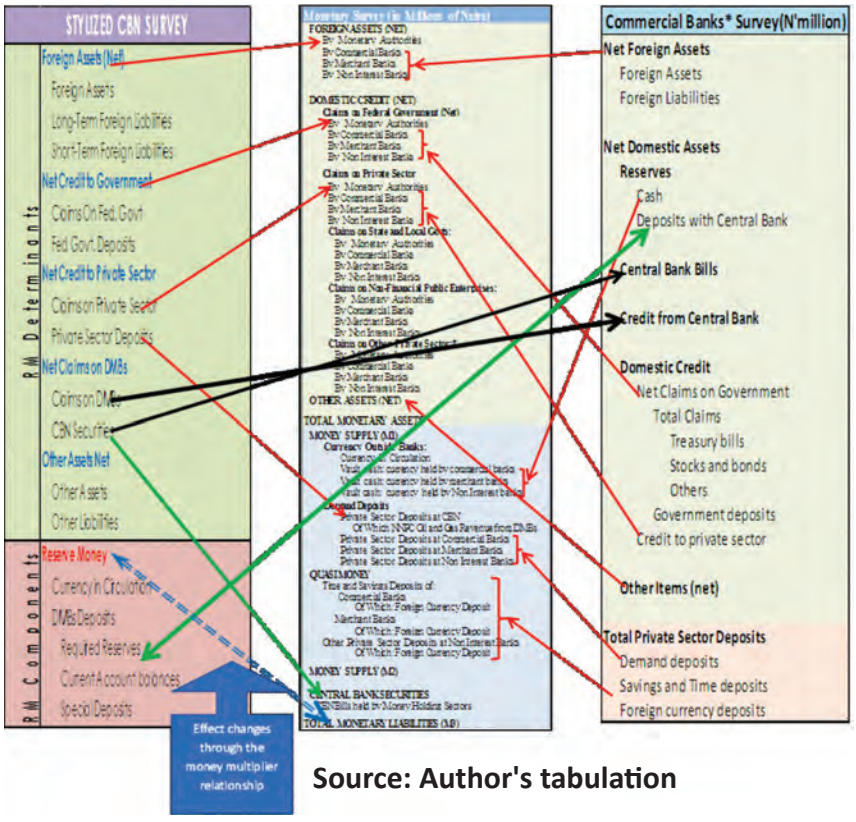
A typical illustration of how the balance sheet reacts to the use of different monetary policy variables is depicted in a diagram below.

Illustration of Balance Sheet Response to Different Monetary Policy Instruments

Variables		Central Bank balance sheet Response			
Monetary Policy Instrument	Operation	Reserve Money	Net Domestic Assets	DMBs current Acct with CBN	Net Foreign Assets
MPR (Standing facilities)	• DMBs access to a lending facility	Increase in Reserve money	Increase in Claims on DMBs by the central bank	Increase in DMBs balances	No effect
	• DMBs patronage of SDF	Reduction in Reserve money	A decrease in claims on DMBs	A decrease in DMBs balances	No effect
Open market operations	• Repo transaction	Increase Reserve money	Increase in Claims on DMBs	Increase in DMBs cash balances	No effect
	• Reverse Repo	A decrease in Reserve money	A decrease in Claims on DMBs	A decrease in cash holdings by DMBs	No effect
Foreign Exchange Operations	• Purchases of foreign currency	Increase in Reserves money	No effect	Increase in DMBs cash balances	Increase in Foreign assets
	• Sales of foreign currency	Increase in Reserve money	No effect	A decrease in DMBs cash balances	A decrease in foreign assets
Central Govt Deposit	• Deposits with Central bank	No effect	No effect	No effect	No effect
	• Deposits move to DMBs	Increase in Reserve money	Increase in Net Govt position	Increase in DMBs balances	No effect
	• From DMBs to the central bank	A decrease in Reserve money	A decrease in Net Govt position	A decrease in DMBs balances	No effect

Source: Author's tabulation

A Systematic Approach to Monetary Accounts Linkages and Interrelationship



Source: Author's tabulation

This section highlights the interaction between the balance sheets of the central bank and the deposit money banks (DMBs), which are consolidated into the monetary survey.

The indicative arrows show the counterpart item(s) in both the central bank and deposit money banks 'balance sheets, and their position in the monetary survey.

The net foreign assets of the central bank and deposit money banks are reflected as net foreign assets in the monetary survey.

This treatment is applicable to all the components of the assets sides of both the central bank and deposit money banks' balance sheets.

However, like items in the central and deposit money banks' balance are netted out during the consolidation to derive the monetary survey.

The treatment on the liability side differs from the asset side of the two balance sheets. The central bank liability side is represented by the reserve money components, while the deposit money banks' liability consists of private sector deposits. The cash reserve requirement and the current account balances in the Reserve money is reflected on the assets side of the deposit money banks as deposits with central bank, which is not included in Broad money.

The currency in circulation item in the Reserve money is reflected as part of Narrow Money supply (M1) net of cash holdings by the DMBs, which is leveled as Currency outside banks.

The currency outside banks, private sector deposits at the DMBs, and the holdings of CBN securities by money holding sectors constitute the Broad Money supply in the Monetary survey.

The interplay of any monetary policy rule begins with the reserve money or its determinants. The reserve money is the single most important liability component of the central bank balance sheet.

The banking system activities in the ecosystem are determined by their available cash reserve position at the central bank, and their ability to secure temporary intraday facility.

The level of the cash reserve requirement ratio, places a limitation on the magnitude to which banks can grant credit, through the multiplier effect. The higher the cash reserve ratio, the lower the rate of credit (and money-supply) growth.

A lower cash reserve ratio provides DMBs with additional current account balances, which gives the DMBs the ability to create credit, which in turn increase private sector deposits with the DMBs, hence increase the quantum of money supply.

4. Conclusion

The central bank balance sheet plays a critical role in the functioning of the economy. The central bank balance sheet is a monetary policy instrument that influences the availability and cost of funds in the economy.

The application of the various policy tools (discount window, reserve requirements, OMO auctions, etc) help in transmission of the policy rate to the real economy.

In doing so, the changes in the balance sheet have a pass-through to the balance sheet of the Deposit Money Banks and ultimately the money supply through the money multiplier.

An understanding of the structure and composition of the balance sheet can offer reasonable direction to the objectives that the central bank is signaling to achieve.

Developments in the balance sheet over time gives the indication of the performance of central bank in achieving its objectives and the sustainability of its current policies.

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Understanding Corporate Communications Campaigns

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Abstract

This paper examines the importance of communication campaigns in organisations. When confronted with the tasks of making strategic impacts on knowledge outcome, influencing a change of opinion or a change of behavior, organisations must utilize the elements of campaign planning with appropriate dexterity. An understanding of these elements would reinforce the professional communicator's efforts in the utilization of campaigns to achieve corporate goals and objectives.

1. Introduction

Communication campaigns could be broadly defined as purposive attempts to inform, persuade, or motivate behavior changes in a relatively well-defined and large audience, generally for noncommercial benefits to the individuals and/or society at large.

Typically the campaigns take place within a given time period, by means of organized activities involving mass, online and interactive media, and often complemented by interpersonal support. (Rice & Atkin, 2009; Rogers & Storey, 1987).

Communication campaigns are important processes towards the achievement of corporate communication goals and objectives. Without campaigns, corporate communication efforts would become stalled and stunted.

Campaigns are thus designed to reach target audiences with specific messages concerning specific problems or issues. Mass media communication channels are usually employed in campaigns geared for wide and public audiences, but often campaigns directed at stakeholder identified audiences are the most effective in involving citizens in problem-solving and planning decisions. Following from these, communication campaigns could be described as meticulously planned and well-researched methods of the reaching target audience, with specific messages designed to produce specific results.

Rice and Atkin (2013) noted that (public) communication campaigns are purposive attempts to inform or influence behaviors in large audiences within a specified time period using an organized set of communication activities and featuring an array of mediated messages in multiple channels generally to produce non-commercial benefits to individuals and society.

While most campaigns aim at individual behaviour change, communication campaigns seek to achieve policy change by exerting influence on public will and engagement.

2. Nature Communication Campaigns

Communications campaigns are usually subject to research and should be meticulously and methodically planned, with the view of getting across to targeted audiences, using messages that were specifically crafted to an intended audience in order to achieve desired results.

To this extent, Salama (2016) noted that communication campaign involves use the media, messaging, and an organized set of communication activities to generate specific outcomes in a large number of individuals and in a specified period of time. The purpose of campaign is furnish the intended audience with messages encrusted with information that will gear them towards taking intended action. In order words, the main aim of campaign is to motivate the intended audience via prepared messages to take action.

In its quest to expand its market in Australia, Coca Cola Bottlling Company embarked on a research on their products which revealed that 50% of teens and young adults in the country have not tasted their product (Coke).The company therefore launched the Share a Coke campaign which was intended to expand the acceptance of Coke among the identified group.The message was a bold print

of popular names in Australia on bottles of Coke, so that someone who bought a bottle and sees her friend's name on the other can purchase (share) with a friend! The campaign was successful and replicated in other regions of the world by the bottling company. Okigbo (2014) noted that communication campaigns are all around us and it is impossible to avoid them in our contemporary environment of traditional communication and the new social media. It involves the usage of a series of coordinated messages or other promotional efforts that are purposively designed to achieve predetermined goals or objectives.

Harrison (cited in Sheehan, *et al* 2008) distinguished the different types of public relations activities and noted that a campaign is a planned set of communication activities, each with a specific defined purpose, continued over a set period of time and intended to meet

communication goals and objectives relating to a nominated issue.

Communication campaigns therefore involves researching into the identified problems to be solved. This means providing diagnosis or setting of goals and objectives of the campaign. It also involves the determination of objectives and building of strategies and tactics needed. Implementation and evaluation are also essential ingredients of communication campaigns.

Concurring with these reasoning about communication campaigns, Gregory (2000) noted that that the kind of objectives in public relations campaigns may be presented to promote understanding, overcome misunderstanding, create awareness, inform, develop knowledge, displace prejudice, encourage belief and confirm a perception.

Communication activities should reflect the goals and objectives of business, either for the stakeholders or for the corporation. Hence, corporate communication should be strategically streamlined and focused on the larger outcomes associated with corporate strategy. In other words, these activities should strategically impact on business outcomes. In establishing the campaign and its tactical activities, communication goal must reflect the larger corporate goals and objectives. (Stacks, 2010).

3. Planning in Corporate Communication Campaigns

The need to plan all corporate communication efforts cannot be overemphasized. Communication professionals are expected to provide reliability for their employers with regards to strategic market counselling and be able to see the big picture, while noting the minute details of communication campaigns. This involves identification of key stakeholder outcomes, targeting the appropriate audience, crafting the right messages and usage of effective tactics to accomplish desired goals with expected impact.

3.1 Elements of Planning in Corporate Communication Campaigns

3.1.1 Goal Setting

A goal is something that is wanted at the end of a campaign, while an objective is a measurable outcome that leads to the accomplishment of some goal (Stacks, 2011). As Lindenmann (2003) noted that in setting communication goals and objectives, it is usually important to recognize that measuring communication effectiveness *per se, i.e* the management of an organization's overall communications activities with its target audience groups or publics could be quite difficult to unless the individual elements [outputs] of the program are clearly defined.

Consequently, goals and objectives must be defined in terms of activities that clearly measure the outcomes that corporate communication activities are to influence. These activities could take the form of any number of different things from media releases to opinion pieces, media kits to video new releases (VNR), blogs and tweets, and so forth.

The key to determining impact is their strategic employment over the duration of a campaign.

3.1.2 Situation Analysis

The first thing to do is to define any problems that currently contribute to an unsustainable situation. A problem is defined as the undesired difference

between a present (unsustainable) situation and a future, desired (sustainable) situation. The definition of the problem must be a factual and specific description of the existing undesired situation. A communication campaign usually is designed to deal with just one problem. However, a communication campaign can also address a complex problem by breaking it down into a series of sub-problems. (Parker, L., 1997).

In communication campaign, the premier point to note in planning is to examine the prevailing communication situation, while dissecting the whole into pieces to distinguish causes from symptoms, with the aim of identifying the exact sources of the asymmetries and malignancy. A description of the history of the problem and previous communication efforts is a part of analyzing the situation. Campaign planning could also be buoyed by an assessment of previous failures and successes.

3.1.3 Objectives

A clear analysis of the situation leads to specifying the overarching communication goal and objectives that should be addressed by the campaign. As noted earlier, goals are broad while objectives are more specific and amenable to actual measurement.

Good statements of objectives will be directly related to the situation, realistic and achievable, with clear reference to completion time and evaluation.

Whereas some objectives are stated in terms of program achievements or outcomes, others are meant to refer to communication output or activities. The true value of communication campaigns should be sought in their impact or outcomes and not just in the communication activities or tactics undertaken. It bears pointing out that communication effects are not necessarily dependent or determinable from specific interventions, and so in some situation, the communication professional prefers to be held responsible for delivering the message. It is also important to stress that campaign objectives must be measurable. Usually, management requires analysis, data and measurements to justify investments in corporate communication efforts, especially in these days of budget constraints. Analytical reports of corporate communication efforts should guide the management towards any course of action be it in form of knowledge outcome, a change of opinion or a change of behaviour.

3.1.4 Target Audience

Another element in the campaign planning process is delineating the target audience. Communication campaigns could appear to be directed at the public in general sometimes, but they are usually directed toward specific and particular segments of the population. Atimes, communication campaigns may include more than one target audience and can include both upstream and downstream groups, whose details should be provided. It should be borne in mind that without an intimate knowledge of the intended audience, communication campaign cannot be successful. The aim of this section is to stress the importance of the audiences or publics that you intend to reach with your campaign efforts. Primary and secondary audiences should be well noted, opinion leaders and influencers

within social groups should be acknowledged. Conduct of research is important to identify key publics by their demographic and psychographic characteristics, as well as by who or what influences their choices.

3.1.5 Strategy

Strategies refer to the choices we make with regards to the selection of identified approaches or channels that are central to the achievement of campaign objectives. Communication campaigns are dependent on good strategies and such strategies are critical because it provides the link between the how and why components. Strategy provides a sense of direction and roadmap for generating the essential messages while also offering a rationale for the various actions that are proposed.

According to Schultz and Barnes,1995 (in Okigbo, 2014), another way to explain strategy in a campaign is to see it as a roadmap that tells the whole team what direction the campaign is going to take. It points the way in terms of what is important; what messages, information, or benefits need to come through; what is valuable; and what must be done if the campaign is to succeed.

Put simply, strategies refer to broad roads on the map, while tactics are the small alleys or specific activities that must be undertaken to address the objectives of the communication campaign. Tactics are therefore the most visible aspects of the campaign plan. Wilcox and Cameron, 2012 (in Okigbo, 2014) explained tactics as the various methods to reach target audiences with key messages and listed the following as the popular tactical communication tools:the World Wide Web (WWW), Web sites,Web casts,blogs,YouTube, Flickr, Texting Twitter, Wikis, Podcasts, news releases, media kits, e-kits, mat releases media alerts and fact sheets, electronic news releases, online newsrooms, media interviews, news conferences, media tours and press parties, public service announcements, video news releases, talk shows, magazine shows, product placements, issue placements, open houses, conventions, promotional events, *etc*.

3.1.6 Tactics/Media of Choice

Tactics to be used in communication campaigns should be identified and linked to strategy. Ways of reaching the target audience could be face-to-face special events such as public town halls, open houses, trade fairs, recognition events or round tables. Furthermore, a tactic could be described as a communication event, activity or occasion put in place to achieve a specific effect on the target audience and for the purposes of achieving a communication objective. It is easy to mix both traditional mass media and new social media tools in today's digital age, to create synergy and increase campaign effectiveness. Campaign managers should not be overwhelmed in their choice of tactics, but must be guided by the nature of the campaign strategy and characteristics of the target audience.

In addition, right classification and demarcation of the target audience ensures easy identification of the best ways and means to reach them and the best time as well. The right media strategy optimises reach, while minimizing costs to achieve optimal results. Selection of media for efficiency and effectiveness thus become achievable. An effective media plan addresses the traditional media concerns of reach and frequency with the gains and downsides associated with them. Media selection is closely related to tactics and the two can have the same meaning in some situations. In addition to the traditional media of television, magazines, radio, newspapers, outdoor, direct mail, and

others such as newsletters and notice boards, we now have the social media channels of blogs, Twitter, YouTube, and podcasts. The abundance of media at the disposal of the campaign planners necessitates the development of a media flowchart.

The media flowchart provides the timing of all the media and promotions for the entire campaign from its launch to its conclusion. Some media and promotions are scheduled to cover the entire campaign. However, other media might be pulsated or appear incrementally throughout the campaign. The flowchart shows when and where various messages and promotions will appear. In addition, the media are often phased. There is usually a launch phase when the campaign is being initiated. It is common for the launch to involve the greatest media presence. The second phase is often the body of the campaign, during which the media are used incrementally to remind the audience of the message. The third phase is usually the final media push before the campaign ends. Sometimes, there are special events that mark the end of a campaign or celebrate its success. Campaigns can last any length of time.

3.1.7 Calendar/Timeline

The seventh element in the campaign design is the calendar of events or the timeline for implementing the various activities. Depending on the goal, objectives and selected activities, the entire campaign can take as little as one week or as long as two years or more. Some campaigns are seasonal or perennial and should be repeated as often as necessary, while others are once and for all.A comprehensive calendar shows what should be done, when, by whom, where, and with whom. Calendars and timelines can be expressed in different formats some of which may require daily updating of individual responsibilities and tasks. Gantt charts and Microsoft Excel designs are popular for scheduling and monitoring timelines and calendar of activities.

3.1.8 Budget

Communication campaigns often involve the production of communication materials and the purchase of space and airtime in the media, in addition to paying for consulting services. Cost is a serious element in campaign planning, especially these days of paucity of funds. The challenge is in providing acceptable justification for budget requests and taking full advantage of all possible free media, as long as this does not compromise the results. Campaign planners need to prove that they have allocated the funding efficiently. In addition to showing how the money was spent, campaign planners need to properly justify their choices.

3.1.9 Evaluation

Evaluation involves putting measures in place to track the results of campaign, with the aim of contextualizing and communicating the result to relevant stakeholders. It relates back directly to the situation analysis, goal, and objectives of the program. The measures of performance should be relevant to the objectives of the campaign and should use valid and reliable methods. Distinction must be made between output (communication products) and outcome (results and impact of actions taken). Evaluation plan should precede a campaign launch and such plans should be explicit. Usually, research evaluating the campaign is done throughout the course of the campaign to identify problems as early as possible. All messages must be copy tested to ensure that they are understood and that they resonate with the audienceCopy testing involves presenting audience members with the

messages and creative executions before the campaign launches. This can be done with focus groups and surveys. Then, campaign planners need to survey the audience during the campaign to make sure that they are learning the message and that the message is having the desired outcome.

Finally, when the campaign ends, the campaign can be evaluated to see if the desired result has been achieved and if it should be continued or if major changes should be made to the communication approach. If there is a problem with a message or a medium during the course of a campaign, certain aspects can be modified to ensure that there is a good fit between the audience and the message (Okigbo, 2014). Evaluation focuses campaign efforts and also demonstrates its effectiveness. It guarantees cost efficiency as budget and time are devoted to things that count and which are also relevant to the campaign.

In summary, none of the identified communication campaign elements is of less importance in relation to others, as illustrated in Fig. 1 below. When these elements are effectively and efficiently combine in totality, a communication campaign is bound to yield the intended result:

Fig. I. Equally-Portioned Communication Campaign Elements

(Adapted from a list of 9 elements of Communication Campaign by Okigbo, C.C , 2014)

4.0 Assessment or Measurement of Communication Campaigns

The need for measuring the impact of communication campaigns has been widely discussed among communication practitioners at various times.

A landmark 1988 study by Walter Lindenmann (Ketchum Nationwide Survey on Public Relations Research, Measurement and Evaluation) surveyed 945 practitioners in the US and concluded that "most public relations research was casual and informal, rather than scientific and precise" and that "most public relations research today is done by individuals trained in public relations rather than by individuals trained as researchers". However, the Ketchum study also found that 54 per cent of 253

respondents strongly agreed that PR research for evaluation and measurement would grow during the 1990s, and nine out of 10 practitioners surveyed felt that PR research needed to become more sophisticated (Lindenmann, 1990).

A study by Smythe, Dorward and Lambert in the UK in 1991 found 83 per cent of practitioners agreed with the statement "there is a growing emphasis on planning and measuring the effectiveness of communications activity" (as cited in Public relations evaluation, 1994, p. 5).

The International Public Relations Association (IPRA) used a section of Lindenmann's survey in an international poll of public relations practitioners in 1994 and confirmed wide recognition of the mportance of research for evaluation and measurement.

CPR and corporate communication objectives are very often not SMART objectives – that is, they are not specific, measurable, achievable, relevant and timely. Many PR and corporate communication programs have broad, vague and imprecise objectives which are unmeasurable even if a six-figure research budget is available. Plans too frequently have stated objectives such as increased policy awareness, successful launch of a product or service, improved image of an organization and employee morale and building of brand awareness or reputation.

Such objectives are open to wide interpretation as they are they are not specific. What is a successful launch? How much increase in awareness should you gain?

lyou may generate a lot of publicity for a launch and increase awareness by 10 per cent, but management may be disappointed. They may have judged the launch in terms of advance orders received and expected a 25 per cent increase in awareness.

Despite the foregoing, Macnamara (2004) still opined that corporate communication programs need to have SMART objectives – objectives that are specific, measurable, achievable, relevant and timely and which are also aligned with the over-arching objectives of the organisation.

He added that an approach which allows specific objectives to measure the direct impact of corporate communication as well its longer-term contribution to overall organisational objectives is micro measuring and macro measuring in two stages.

Specific objectives of corporate communication must be agreed with management – management need to 'buy in' to communication objectives, recognising them as contributing to the overall objectives of the organisation.

Surveys are the most commonly used research instruments for market research, customer satisfaction studies and social research. Customised surveys can be used in PR and corporate communication to evaluate awareness levels among key groups; Gain insights into attitudes and perceptions held within key groups; identify the interests, needs and preferences of target audiences.

Furthermore, at a micro level, surveys can be used to evaluate the effectiveness of corporate communication activities including: Publications (reader surveys); Events (audience surveys); Presentations (audience surveys); Employee communication (internal surveys); Shareholder communication (shareholder surveys); Member communication in organisations (member surveys); Intranet, extranet or Web sites (online surveys); and Community relations programs (local community surveys).

In all of the above, surveys can be done before and after and/or at certain intervals, providing a basis for both strategic planning and measurement of out-takes and outcomes, during campaigns.

4.1 Interviews

Interviews are a valuable method of research for both planning and evaluating and can be used with a wide range of stakeholder groups. Clearly, the main limitation of interviews is the demand on time – for both the interviewer and interviewee. Each interview may take anywhere from 15 minutes to one hour. Thus, interviews are mostly used for qualitative research with small sample sizes, not quantitative, as the volume of interviews required for statistically valid samples would entail many weeks of interviewing.

Interviews are particularly relevant to high-level stakeholders where it would not be appropriate to send them a survey questionnaire – for instance, politicians, senior officials in government, large shareholders, business partners, and sometimes journalists.

A benefit of interviews is that they can obtain more in-depth information than a survey questionnaire in most cases. Interviewee responses can be followed up, clarified, amplification sought, and interviewees have more opportunity to open up and speak freely, especially in open-end questions or informal discussion.

Analysis of interviews can be time consuming if there is a substantial amount of open-end discussion. Therefore, most interviews involve a combination of closed-end and open-end questions.

It is recommended that you use a questionnaire similar to a survey questionnaire for closed-end questions. This not only helps keep you on track but it ensures that the same questions are asked each interviewee and provides some structure to facilitate analysis of data.

Like most other research methods, interviews can be conducted before and after communication campaigns or projects to identify changes.

4.2 Focus Groups

Focus groups are similar to interviews, but with a small group of respondents instead of a single interviewee. Like interviews, focus groups provide qualitative information drawn from small representative groups of people.

Usually focus groups are conducted with 10-15 participants. Larger numbers result in 'group think' and some participants not getting to express their views in the allotted time, while fewer than 10 participants can lead to self-consciousness.

There is no fixed number of focus groups that should be conducted. This decision is usually based on segmentation – *i.e.* ensuring that groups from different segments of the target population are researched. For instance, if a company doing internal focus groups with employees has blue collar workers in factories, white collar workers in head office, and two regional offices, it is desirable to conduct four focus groups to gain views from each segment.

Focus groups are facilitated by a moderator, preferably an independent person. Moderators have an important role in focus groups to ensure that some individuals do not dominate and to draw out the 'shrinking violets', as well as keep the discussion flowing smoothly. Moderators are usually trained in psychology or other areas of the social sciences.

4.3 Media Content Analysis

Media content analysis is a specialized application of content analysis, a well-established research methodology.

A recognised authority on content analysis Kimberley Neuendorf (2002) describes content analysis as "the primary message-centred methodology" (p. 9) and cites studies by Riffe and Freitag (1997) and Yale & Gilly (1988) which reported that "in the field of mass communication research, content analysis has been the fastest-growing technique over the past 20 years or so" (Neuendorf, 2002, p. 1).

Media content analysis was introduced as a systematic method to study of mass media by Harold Lasswell (1927), initially to study propaganda. It became increasingly popular as a research methodology during the 1920s and 1930s for investigating the rapidly expanding communication content of movies.

In the 1950s, media content analysis proliferated as a research methodology in mass communication studies and social sciences with the arrival of television. Media content analysis has been a primary research method for studying portrayals of violence, racism and women in television programming as well as in films.

Berelson (in Macnamara, 2005) suggested five main purposes of content analysis as follows:

- To describe substance characteristics of message content;
- To describe form characteristics of message content;
- To make inferences to producers of content;
- To make inferences to audiences of content;
- To predict the effects of content on audiences.

Michaelson, *et al* (2005) noted that the traditional content analysis involves Clip Counting, Circulation & Readership Analysis, Advertising Value Equivalence (AVE), Simple Content Analysis, Message Analysis, Tonality Analysis, Prominence Analysis, Quality of coverage and Competitive Analysis

5. Conclusion

Corporate communication campaigns involve the articulation of deliberate efforts towards

the explanations of corporate intentions and initiatives, geared towards the overall achievement of organizational goals and objectives.

Its process, therefore, needs to be adequately understood and painstakingly implemented in order to achieve the desired results.

Communication campaigns need to be evaluated to ensure value for efforts, especially budgetary expenses invested in it. The desired result, if obtained, would be of immense satisfaction to both professionals involved as well as corporate management

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