

Relationship of Monetary Policy, Nigerian Economy and Unemployment in Nigeria

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Abstract

The paper focuses on knowing the roles the 'Central Bank of Nigeria (CBN)' play's in maintaining and regulating monetary policies using Nigeria economy as a case study. The statement of the problem examines the economic, political and socio-cultural effect of poor transmission mechanism of the monetary policy in the Nigerian economy. The paper investigates the veracity of the claim by studying the roles of CBN in maintaining its monetary regulations, its monetary policy and regulations and the monetary policy committee rates. The objective of this paper is to ascertain the relationship between monetary policy and Nigerian economy as well as monetary policy and unemployment in Nigeria. The study employed the descriptive research technique to evaluate the hypothesis with the use of oral interviews conducted with top executives of ten (10) major establishments in Nigeria and found among others that the instability in the Nigerian economy has much to do with political class than the monetary policy committee of the Central Bank of Nigeria.

Keywords: monetary policy, central bank of Nigeria, stability, economy, unemployment

1. Introduction

The objectives of monetary policy has continued to exist and about how to achieve domestic and foreign balance of payment globally irrespective of the settings of the types of mechanism utilized. These policies are arranged to sway the growth of supply of regular money with the needed aggregate gross domestic product (GDP) growth rate, ensure financial stability, maintain a stable and competitive exchange rate of the naira and achieve a lasting positive future. The objective of monetary policy has continued to be the real interest rate, as it is aimed at maintaining financial stability which includes interest rate, exchange rate, and cash reserve requirement. No country is a special case. The banking system and money market represent the exclusive settings monetary policies operate with. In a developed country, active and efficient inter-bank market enhances the efficiency of bank monetary policy transmitting its impulse into the economy best.

Nigeria is wealthy in mineral and human resources, regardless of all these attributes, the nation still finds it critical due to the economic crisis. The degree of economic crisis in the country has increased to a serious consideration. Each nation's economic development and society as well as cultural development honestly hinge on the financial strategy and the maintenance by the top most bank, likewise Nigeria. Since the 1970s the price of services as well as goods has continued to increase without any correct systems of curbing the circumstances. Under a nationwide condition of increasing costs of services and goods, such situation traditionally invites unemployment. Also high charges in service in almost every area of the economy. With such conditions leading to a high fee in obtaining loans, low living standard, high education fees, high living expenses, devalued currency, limited savings as well as difficulties in payments balance.

The central bank of Nigeria is a pinnacle financial institution which among other functions it executes the regulation of the monetary policy and sees to its execution. Monetary policy refers to "a combination of measures which are designed to regulate the value, the supply and the cost of money in an economy in harmony with the degree of economic stability." For many economies, the objective of financial strategy comprise stable prices, preservation of balance of payment parity, promoting jobs and output development and lasting progress in the nation.

The aforementioned objectives are obligatory to reach a degree of domestic and foreign balance of payment and the stimulation of long-term economic advancement. Stable cost is important because variation hurts business and policy makers may find it difficult to reach set goals due to variation of prices thereby difficult to attain aims of macroeconomics. That price variation overrides the function which money play as a stock of market price and consequently deprive venture and improvement in the economy. The

CBN operates the managed float rate system and in Sub-Sahara Africa, according to (Hajj, Dufrenot, Sugimoto, & Wolf, 2013), “both South Africa and Ghana are the only countries that have truly adopted inflation targeting.” Under an unstable situation or market in which prices are uncertain, the regulation of policies becomes more ineffective, therefore making macroeconomic policies critical. When prices of goods and services are stable, both investors and consumers may predict or forecast accurately during the times when inflation is high like the one we are experiencing in Nigeria now the inflation hedges including real estates and currency speculation. Inflation rate hits 18.3%, the highest in three years, this inflationary pressure in Nigeria’s economy upstaging major monetary policies of the Central Bank of Nigeria. A report released (Statistics, 2016) indicated that “inflation recorded a significant up stick with the headline index increasing by some percentage year-on-year with some percentage points higher from what was recorded at the beginning of the year.” This situation was confirmed by Komolafe (2016), “according the Central Bank of Nigeria CBN has reported that economic activities declined faster in June, confirming that the nation’s economy formally came into recession in the second quarter of the year, 2016.”

Inflation and unemployment as well as exchange rates have always been Nigeria’s macroeconomic trouble for which solutions have never been found for many years. The federal government and the Central Bank of Nigeria (CBN) at several times has taken different actions for eliminating or minimizing inflation to minimum levels which could be accommodated by citizens, yet the policies seems ineffective in curbing the situation. All main commercial sectors went into recession: production, construction, trade, transportation, hotels and restaurants, finance and insurance, real estate and government. With only agriculture and telecommunications making good standing.



Figure 1 Nigeria GDP 2006 – 2016
 (Source: <https://tradingeconomics.com/nigeria/gdp>)

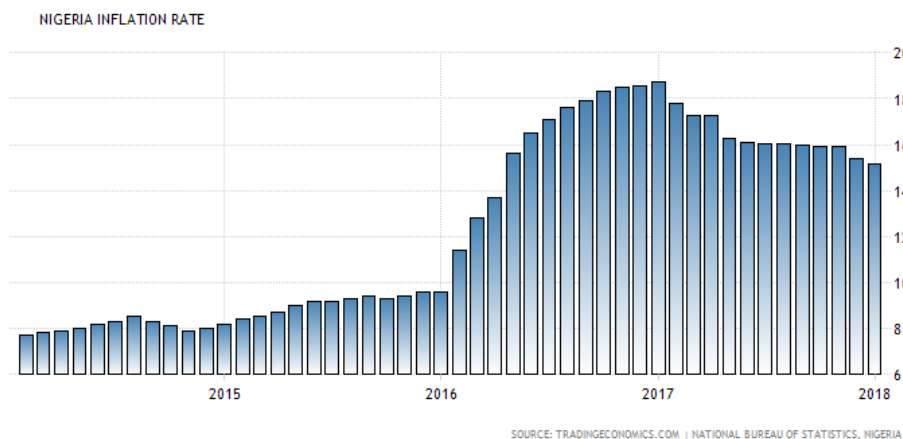


Figure 2 Nigeria inflation rate 2015 – 2018
 (Source: <https://tradingeconomics.com/nigeria/employment-rate>)



Figure 3 Nigeria employment rate 2014 – 2018
(Source: <https://tradingeconomics.com/nigeria/employment-rate>)

Various roles are performed by the CBN among which are the issuing of currency notes and coins, the nation's overseas reserve maintenance, the promotion of financial matters and maintaining stability of money and efficient system of operations, rules formulation and regulations guiding the financial industry. They also act as bankers as well as tender of last resort to banks and advises on money matters, banker to governments and banks. The CBN coordinate other obligations in addition to those customary and major tasks. In the area of economic development, the bank performs a very vital role, as most of the roles performed are upon CBN as top authority in the financial setting industry, whereas others are offshoots from customary functions. The occupation of CBN are developmental in nature, the money market development and capital market development. By this, the setting up and stimulation of some crucial financial institutions are done by the CBN. For example is the Securities and Exchange Commission (SEC), also the encouragement and promoting of export finance of small and medium-scale enterprise (SMEs). With this action, the bank advocated the creation of the Nigerian Export and Import Bank (NEXIM), (Igweike, 2005).

The provision and management of the circulation of currency is done by the top bank, bad notes are exchanged for new notes as well as see to the destruction of the unacceptable notes. This is done to ensure monetary and price stability in the country. The central bank also preserves overseas funds for the country in order to protect international worth of the legal tender currency for the country. The CBN is also involved in the guidance of the country's debt as well as the country's foreign exchange control. This is created to set up purchase and selling of overseas currencies. According to Olisadebe (1991), also, "equilibrium exchange rate can be described as the real exchange rate that help in the promotion and achieving of foreign balance through a mean which is in correspondence together with other economic policy targets." An exchange rate is described as a "strong tool for the assessment of the performance in a nation's economy, also described as among the variables which shows the strength and weakness of an economy at the macroeconomic level" (Asinya & Takon, 2014).

2. Objectives

Under a situation where economy is in crisis, there should be some specific reasons which are definitely the causes of the situations and economic woes. The purpose of monetary policy is the regulation as well the checkmating the level of circulation of currency so as to achieve stability both in the political arena as well as economic. Efforts must come from several areas in achieving the set objectives which must be connected through different sectors, the various sectors activities somehow either directly or indirectly affect the effectiveness or ineffectiveness of monetary policy. It is not possible to ignore the area of production and expect monetary policy to be effective. Also institutions, different organizations, financial institutions as well as individuals in power of authority.

Based on the aforementioned reasons therefore, the major objectives of this paper is to ascertain the relationship between monetary policy and Nigerian economy as well as monetary policy and unemployment in Nigeria.

3. Research Question

1. What are the relationships between the Nigerian economy and monetary policy of the CBN?
2. How are the recent massive unemployment related to the monetary policy, and how is this failure related to the performance of the CBN?

3.1 Methodology

A descriptive research approach was used in this study in which descriptions always depends on the perceptions, inclinations, sensitivities, and sensibilities of the describer. This method is an effective way to obtain information used in devising a hypothesis and proposing associations. This method cannot test or verify: analytic research is needed to evaluate a hypothesis or ascertain cause and effect (Monsen & Van Horn, 2007). Both primary and secondary sources were applied in obtaining information.

The primary source of information was through the use of sample surveys involving the administration of interviews which were used to obtain information between November and December 2017 for the analysis of the research. Regarding this study, it is designed to cover the Nigerian economy, therefore ten respondents out of a total 30 different banks operating in Nigeria were randomly selected consisting of Commercial Banks, Labor Unions, The Nigerian Association of Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA), Importers and Exporters and other stakeholders. All respondents are top managers in each of the agencies and their consent were taken before the interview of which a promise of confidentiality of their responses was given. Respondents included four females and six males were contacted and they all participated in the study. One respondent each was drawn from the Bank of Industry Ltd, Abuja, Guaranty Trust Bank PLC, Enugu, Nigerian Labor Congress, Lagos, Delta State University, Nigeria, Africa Youth Collation against Hunger Abuja, Embassy of Nigeria, Bangkok, Thailand, SLADA Shoes Ltd, Bangkok, Thailand and Market Women Association, Warri, Central Bank of Nigeria, Uyo, and Debt Management Office, Abuja.

The secondary approach took the advantage of available literature as well as published literature from various sources and other information that regularly originate from the regulatory agencies of the CBN, government publications and associated institutional publications.

3.2 Result and Analysis

A qualitative analysis framework of theory was applied. Data collected was evaluated. Also applying analytical review to investigate each piece of information obtained. The analysis form a part of the findings and lead to the conclusion and recommendation. The result of study can answer the two objective of this study was presented below:

3.2.1 Relationship between Monetary policy and Nigerian economy

The result of this question shows that all the participants agreed that there are ways Central Bank of Nigeria monetary measures can affect economic conditions in Nigeria, as it is used to ensure price stability, and it is short term measure to correct the economic maladjustment, and it is used regularly by the CBN to regulate the economy. The first participant believes CBN monetary measure can lead to inflation, recession if not well handled, while about four of the respondents believe that monetary measure determines the lending rate (interest rate) which affects the level of investment in the economy, two of the participants opine that the CBN monetary measure can influence the behavior of economic agents in the system. The economic agents include the government, the bankers and the general public. Finally, two of the respondents believed that monetary measures affect the level of credit in the system and that it is indispensable to the Nigerian economy.

The study found that monetary measures in Nigeria have strong relationships with the Gross National Product of Nigeria. From the findings, it is obvious that there is a relationship between the Nigerian economy and monetary policy. The CBN through its monetary policy committee, regulates money supply in the economy. Money is a vital commodity used as a means of exchange. The effective use of monetary policy tools can either reduce or increase the volume of money in circulation. The supervisory role of CBN ensures that the Commercial Banks and other financial institutions adheres to the monetary stance so that the macro- economic objective of the CBN can be achieved.

The assertion finding resulted from interviewing participants to support this objective showed some of them as the below written:

1. Monetary policy cannot achieve meaningful stability without adequate structure in the real sector: from the responses of the respondents as indicated in the interview response, it can inferred that

the monetary policy committee has been effective and that the instability in the system is not caused by the ineffectiveness of the monetary policy committee. About seven of the respondents attest to this fact, while the rest three have contrary views with the seven. With these, we can conclude that the instability in the system has much to do with political class than the monetary policy committee of the Central bank of Nigeria.

2. Increase GNP by encouraging export and lower interest rates: from the responses of the respondents, all the participants except one person agreed that monetary measures have a relationship with the gross national product (GNP) of Nigeria. Though one of the participants opined that the relationship is just in principle but not in practice.

3. Government economic policies give's monetary policy direction: from the responses of the entire participants for this study on if the government economic policies affect the CBN monetary policy, it can be inferred that the government economic policy affects the monetary policy of the CBN as all the respondents attest.

3.2.2 Relationship between Monetary policy and Unemployment in Nigeria

This research question was explored using a qualitative technique of data collection and analysis. The researcher used this method because it will enable the researcher to have an in-depth description and understanding of the actions of the participants as well as assisting to decode, describe, analyze and interpret accurately the meaning of certain phenomena. Relevant literature related to the area of study were reviewed which informed the method applied for this study. Based on the interview response obtained from ten (10) participants who are key players in the Nigeria economy, relevant findings were made as presented below:

The responses from participants can be inferred that there is a relationship between monetary policy and unemployment in Nigeria. Monetary policy on inflation, interest rate, and exchange rate have great effects on the unemployment rate in Nigeria just as it expected.

The result indicate that the high rate of unemployment in Nigeria is caused by lack of planning, lack of industries, corruption, lack of infrastructural facilities, poor educational system, high cost of doing business in Nigeria, the recent political tension cause by the over hyped war against corruption in Nigeria, population increase, lack of entrepreneurial skills, and the mono-cultural nature of the Nigerian economy and not necessary a failure of monetary policy in Nigeria. The high rate of unemployment in the Nigerian economy is alarming due to several reasons as mentioned, but not necessarily as a result of the failure of monetary policy.

The assertion finding resulted from interviewing participants to support this objective showed some of them as the below written:

1. Government ineptitude and coordination: from the response of the participants on this question of the major cause of the high rate of unemployment in Nigeria, the majority of the respondents believe that the high rate of unemployment in Nigeria is caused by lack of planning, lack of industries, corruption, lack of infrastructural facilities, poor educational system, high cost of doing business in Nigeria, the recent political tension cause by the over hyped war against corruption in Nigeria, population increase, lack of entrepreneurial skills, and the mono-cultural nature of the Nigerian economy.

2. Monetary policy decides the level of inflation and interest rates: again from the responses of the respondents for this study, it can be inferred that there is "a relationship between monetary policy and unemployment" in Nigeria, majority of the Respondents attest to this and "they believe that the monetary policy on inflation, interest rate, exchange rate have great effects on the unemployment rate in the system."

3. Over- dependence on foreign goods: from the responses of the majority of the participant, it can be concluded that Nigerians are too dependent on foreign goods and that has led to the high rate of unemployment in the nation. Most of the participants believe that since there is high dependency on foreign goods, it will definitely discourage local production of goods and services and affects the unemployment level in the system. .

4. Oil boom and unemployment rate: from the responses of the participants, we can infer that based on the opinion of the majority of the respondents that "the oil boom period is not the major cause of high rate of unemployment" in Nigeria. One of the respondents opined that the oil boom did not contribute to the unemployment, "that it's a matter of poor political leadership." One the respondents also opined that political leaders are busy syphoning and looting the wealth of the nation instead of utilizing the

funds properly. Another respondent also opined that “the nation’s dysfunctional federal system of government contributed to the current high rate of unemployment.” And that the top-heavy federal system that Nigeria operates is anchored more on distribution of oil revenue than on productivity. Hence, all 36 states go cap-in-hand to the federal government for their own share “national cake” instead of going into massive non-oil generation.

3.3 Discussion of Findings

The monetary policy is meant to determine the tide of economic activities in the economy, and seems to be at the very heart of every economy as its role can’t be undermined.

In view of this, one of the questions of this study was to find out if there is a relationship between the Nigerian economy and the monetary policy of CBN, which in agreement, there ought to be a strong relationship between the economy and monetary policy. The result of the study indicates that the monetary measures have a strong relationship with the gross national product of Nigeria. Also from the responses of the participants for this study, it can be inferred that there is a relationship between monetary policy and unemployment in Nigeria, as the majority of the respondents attest to this and they believe that the monetary policy on inflation, interest rate, exchange rate have great effects on the unemployment rate in the system. These results are in tandem with the economic expectation and many other empirical works reviewed earlier in the study.

The second major question of this study was to find out if unemployment in Nigeria is a result of the monetary policy and the participants for the study agreed that the high rate of unemployment in Nigeria is affected from the monetary policy. It is caused by lack of planning, lack of industries, corruption, lack of infrastructural facilities, poor educational system, high cost of doing business in Nigeria, the recent political tension caused by the hyped war against corruption in Nigeria, population increase, lack of entrepreneurial skills, and the mono-cultural nature of the Nigerian economy. However, it is not necessarily a failure of monetary policy in Nigeria.

4. Conclusion

This study aimed to address two research questions using a qualitative technique of data collection and analysis. Based on the response of interviewee obtained from ten (10) participants who are key players in the Nigeria economy, the relevant findings were made which can be concluded that 1) there is a relationship between the monetary policy and Nigerian economy, and 2) there is a relationship between the monetary policy and unemployment in Nigeria. However, it was observed that there is need to expand the study to cover the fiscal measures of the federal government in order to understand the main reason behind the massive increasing unemployment rate. Based on the findings, the following recommendations were made that both the CBN monetary policy and the Nigerian economy are strongly related both in the short run and in the long run as agreed by virtually all the participants for this study. Thus, policy makers will be waste a whole lot of time implementing economic policies that is intended to boost the economy without proper recourse to the monetary policy committee. The government should always carry CBN along in all her policies to ensure agreement and to make sure that none is lagging behind to ensuring a stable economy for Nigeria and Africa in general.

5. Recommendations

Finally, the paper suggests that the government should always carry CBN along in all her policies to ensure agreement. Also, more proactive measures should be adopted to reflect the nature of our society. Likewise, emphasis should be placed on more healthy domestic structural reforms.

6. References

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