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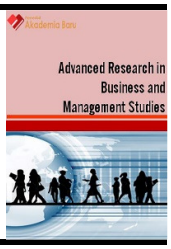

Monetary Policy and Inclusive Growth: Evidence from Nigeria

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ABSTRACT

The growing importance of monetary policy to governments has made an investigation of the relationship between money supply and inclusive growth in Nigeria necessary with the VAR framework employed to analyze the linkage between them. The results provided evidence that exchange rate and money supply have a significant impact on growth through unemployment and that ineffective monetary policy to stem the volatility in the exchange rate, as well as macroeconomic shocks, is responsible for non–inclusiveness of the growth experienced in the economy over the years. The economy's absorptive capacity is so low that the economic growth experienced in the economy could not trickle down to improve the lots of the people. Therefore, it is recommended that there should be harmony between fiscal and monetary policies as expansionary monetary and fiscal policies in the past tend to worsen exchange rate depreciation. Further, monetary and fiscal policies need be coordinated appropriately and harmonized to achieve macroeconomic stability especially whereby monetary policy adjusts passively to the expansionary fiscal operations of the government. Since government spending has a direct relationship with the exchange rate, it is necessary to rationalize and restructure government expenditure towards productive activities and significantly discourage fiscal deficits.

Keywords:
Monetary policy, Inclusive growth, Exchange rate, Fiscal policies, Nigeria

1. Introduction

Monetary policy is one of the key drivers of economic growth through its impact on economic variables. Economic growth is essential in an economy as it reduces poverty as well as improving livelihoods. The growing importance of monetary policy has made its effectiveness in influencing economic growth a priority to most governments. Despite the lack of consensus among economists on how monetary policy works and on the magnitude of its effect on the economy, there is a remarkably strong agreement that it has some measure of effects on the economy [1].

Monetary policy is seen as a combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the expected level of economic activity [2]. For

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most economies, the objectives of monetary policy include price stability, maintenance of a balance of payments equilibrium, promotion of employment and output growth, and sustainable development [22]. The pursuit of price stability invariably implies the long pursuit of other objectives such as economic growth, which can only take place under conditions of price stability and allocative efficiency of the financial markets. Monetary policy aims at ensuring that money supply is at a level that is consistent with the growth of real income which is non-inflationary. Monetary policy is used as inflation is generally considered as purely a monetary phenomenon. Monetary policy influences economic growth through aggregate spending. Changes in money supply and interest rates influence consumer spending as well as investment decisions. Consequently, aggregate demand changes in response to monetary policy adjustments.

Nigerian economy has however over the years experienced poor inclusive growth. Wellbeing indicators suggest that the little growth experienced by the economy has not trickled down to improve the life of the citizens. It has also been suggested in the literature that macroeconomic stability and low inflation rates through a sound monetary policy have positive effects on growth and reduction of inequality Asongu [3]. This can only be achieved through rapid financial inclusion occasioned by an appropriate monetary policy. Thus, financial inclusion has become an increasingly important agenda in various development dialogues and has become the common objective of policymakers in most emerging economies like Nigeria. Easing access to financial assistance through appropriate monetary policy for the underprivileged is now viewed as an essential step in battling poverty. Financial inclusion through appropriate monetary policy is therefore essential because it is a necessary condition for sustaining equitable growth. It can also contribute to job creation both directly and indirectly by allocating more credit to consumers and firms that have limited access to financial services [4]. However, jobless growth seems prevalent in Nigeria despite some growth recorded in the time past. This could be as a result of non-inclusiveness of the growth as well as poor access to financial services occasioned by inappropriate monetary policy. Furthermore, research has shown that Nigeria is currently experiencing high rising level of inequality.

Therefore, the research question which this paper aims to address is how has monetary policy contributed to inclusive growth by expanding and stabilizing employment in Nigeria? This paper intends to provide answer to this pertinent question. It is imperative for the monetary authority to implement monetary policy that is consistent with achieving higher employment to address rising inequality and to attain inclusive growth. It is in this regards that this paper aims at examining the impact of Nigerian monetary policy shocks on employment.

2. Literature Review and Theoretical Issues

There are two extreme cases of theoretical literature regarding the ability of monetary policy in influencing economic growth. The Keynesians propose that “money does not matter,” hence money is unable to have an impact on economic growth. They propose that the link between the financial sector and the real sector of the economy is fragile, and therefore suggest that there is an indirect link [5]. On the other hand, the Monetarists believe that “money matters,” thereby advocating for the use of monetary policy in influencing economic growth. They argue that there is a direct link between the financial sector and the real sector of the economy.

The link between the financial sector and the real economic sector ensue through the transmission mechanism. Two steps are involved in the transmission mechanism. First, an increase in real balances generates portfolio disequilibrium [6]. If the money supply increases, there will be disequilibrium in the money market caused by excess money supply. To correct this disequilibrium, consumers will purchase other financial assets such as bonds thereby bidding their prices up. Due to

the negative relationship between bond prices and interest rates, increases in bond prices will lead to decreases in the interest rate. Consequently, the second stage of the transmission mechanism will be activated. Lower interest rates will positively affect aggregate demand thereby increasing output. Monetary policy through changes in money supply thus functions by stimulating interest-responsive components of aggregate demand, primarily investment spending.

Conflicting views between the Keynesians and the Monetarists economists concerning the impact of monetary policy on economic growth build up from the explanation of the transmission mechanism presented above. The Keynesians propose a situation whereby the portfolio imbalance does not lead to a decrease in interest rate. If increases in the money supply do not lead to a reduction rate in interest rates, a situation known as the liquidity trap will result in Khabo [5]. A liquidity trap is experienced when the prevailing interest rates are close or equal to zero, and the monetary authority is unable to stimulate the economy through the monetary policy. Money supply can become insensitive to interest rate changes if interest rates are meager such that further decreases will not motivate investors to purchase bonds since their rate of return will be low. Investors would instead hold on to money, thereby making money demand insensitive to interest rate changes. The Keynesians therefore, argue that monetary policy will be ineffective in impacting on economic growth, but advocate on fiscal policy to bring about changes in economic growth [7].

Monetarists again support their argument of the effectiveness of monetary policy in impacting on economic growth using the equation of exchange proposed by Irvin Fisher. They do convert this equation of exchange into a quantity of money theory, which is stated as follows:

$$MV = PY \tag{1}$$

Where M denotes the supply of money over which the Central Bank of Nigeria (CBN) has some control over, P denotes the price level, Y denotes the level of output and V denotes velocity of circulation. Monetarists assume that velocity is constant, and when V is constant equation (2.1) indicates a one-to-one relationship between changes in the stock of money and changes in the value of national income. As a result, equation (2.1) will be transformed into equation (2.2) below, where k represents a constant.

$$M = kPY \tag{2}$$

According to equation (2) changes in output can only be brought through changes in money supply. Therefore the direct link between the monetary sector and the real sector of the economy comes from the argument of constant velocity. This explains the basis for the monetarist's argument that changes in monetary policy will impact economic growth. Nevertheless, monetarists do also acknowledge that the economy may not always be operating at the full employment level of real GDP. Monetarists, therefore, believe that in the short-run, expansionary monetary policies may increase the level of real GDP by increasing aggregate demand. However, in the long-run when the economy is operating at the full employment level, they consent that the classical quantity theory remains a reasonable approximation of the link between the supply of money, the price level, and the real GDP.

The Keynesians conversely hold that the link between the money stock and the level of national income is weak. Keynes detects a significant error in the theory by assuming that changes in the quantity of money have a direct influence on the level of prices without affecting other variables [10]. Although Keynesians admit that this might be true in the long run, they, however, the Keynesians state that what is experienced in reality is that variations in the quantity of money do bear upon the

way people use money and banks and on the employment of reserves by banks. Keynes rejects the notion that the economy is always at or near the natural level of real GDP so that Y (output) in the equation of exchange can be regarded as fixed. They also decline the assumption that velocity is constant as proposed by the classical. As a result, changes in the stock of money cannot lead to changes in output. As a result, the Keynesians argue that there is an indirect link between the money supply and real GDP.

The literature on the relationship between monetary policy and the growth of the economy has generated much debate both at the theoretical and empirical levels, especially, inclusive growth. For instance, Khabo [5] evaluated the impact of monetary policy on a small and open economy in the case of the South Africa for the period 1960-1997. He used M3 to measure monetary policy. The ordinary least square (OLS) method was employed, as well as the Augmented Dickey-Fuller test to check for stationarity. Results of the study indicate that economic growth is significantly influenced by money supply. Starr [11] used the Granger causality test to investigate the relationships between monetary-policy variables and both output and prices in the post-stabilization period, in four core CIS countries (Russia, Ukraine, Kazakhstan and Belarus) using quarterly data from 1995 to 2003. Results of the study provide little evidence of real effects of monetary policy in the four core CIS countries with the notable exception that interest rates have a significant impact on output in Russia. The findings complement the study of Uhlig [12] whose findings show that contractionary monetary policy shocks have no apparent effect on real GDP in the United States.

The study of Berument and Dincer [13] measured the effects of monetary policy for Turkey through structural VAR (SVAR) technique covering the period 1986-2000. Empirical results show that tight monetary policy has a temporary effect on output, causing the output to decline for three months in a statistically significant fashion. The findings confirm the work of previous studies Sousa and Zaghini [14]; Sims, [15]; Eichenbaum and Evans, [16]. Employing the same estimation technique, Bhuiyan [17] examined the effects of monetary policy shock in Canada by using the overnight target rate as the monetary policy instrument. Using monthly data from 1994-2007, findings of the study indicate that the transmission of the monetary policy shock to real output operates through both the interest rate and the exchange rate.

Using money supply as a measure of monetary policy, Nouri and Samimi [18] examined the impact of monetary policy on economic growth in Iran adopting ordinary least squares (OLS) technique and data covering the period 1974- 2008. A positive and significant relationship between money supply and economic was established in the study. In a related study, Fasanya, Onakoya, and Agboluaje [19] examined the impact of monetary policy on economic growth using time series data covering the period 1975-2010. The effects of stochastic shocks of each of the endogenous variables were explored using Error Correction Model (ECM). Findings of the study reveal a long run relationship among the variables. Also, the core finding of the study shows that inflation rate, exchange rate, and external reserve are significant monetary policy instruments that drive growth in Nigeria.

In a related study, Adeoye and Saibu [20] analyzed the effects of monetary policy shocks using changes in various monetary policy instruments on exchange rate volatility in Nigeria. The results from the paper show that both real and nominal exchange rates in Nigeria have been unstable during the period under review. In short, the variation in the monetary policy variable explains the movement/ behavior of exchange rate through a self-correcting mechanism process with little or no intervention from the monetary authority [23]. It was concluded that inflation rate, reserves, interest rate and money supply depreciate and cause volatility in the nominal exchange rate which further reinforces other findings that monetary policy is crucial to exchange rate management in Nigeria [24-25].

Literature is inconclusive regarding the impact of monetary policy on economic growth. The Keynesians proponents argue that monetary policy is ineffective in impacting on economic growth, while the Monetarists are of the view that changes in monetary policy will impact economic growth. Various studies presented different results due to differences in the country(s) of study, period and methodology used [13,18,11].

3. Research Methodology

This study addressed the research question stated earlier by using Vector Autoregressive (VAR) approach. The variables used in the empirical analysis to study the effect of monetary policy on employment and economic growth are per capita income growth (aggregate demand), exchange rate, and unemployment rate. These macro variables have typical characteristics of bi-directional causality to each other. Therefore, a VAR model was estimated, and impulse response functions were used to analyze the effect of policy rate on employment and growth.

This study employed the VAR framework to analyze the linkage between monetary policy and inclusive growth in the Nigerian economy. A VAR framework constitutes a convenient framework to assess the interrelationships within a system of variables when the imposition of strong a-priori restrictive assumptions cannot be derived by economic theory. The model is formulated based on reviewed empirical and theoretical studies. The study employs quantitative and descriptive analyses. This model framework and specification employed is also similar to the one used by Sims (1980)14. Therefore, the model in the form of VAR function employed to replicate the scenario of the connections among money supply to GDP growth (MSGDP), exchange rate (EXR), per capita income growth (PCIG) and the unemployment rate (UEMR) in the Nigerian economy is stated as thus:

$$\Delta Y_t = \tau(L)\Delta Y_t + \epsilon_t \tag{3}$$

where; vector (Y_{it} = $MSGDP_t$, EXR_t, $PCIG_t$, $UEMR_t$), L = the lag operator, τ (L)= the matrix of estimated parameters, t = years and ϵ_t = the error term assumed to be serially uncorrelated. The variables denoting the vector Y_t are money supply to the percentage of GDP growth (MSGDP), exchange rate (EXR), per capita income growth (PCIG) and the unemployment rate (UEMR). The VAR models for individual variables are as follows

$$MSGDP = c_1 + \sum_{i=1}^{p}\eta_{11}MSGDP_{t-i} + \sum_{i=1}^{p}\eta_{12}EXR_{t-i} + \sum_{i=1}^{p}\eta_{13}PCIG_{t-i} + \sum_{i=1}^{p}\eta_{14}UEMR_{t-i} + \mu_{1,t} \tag{3.2}$$

$$EXR = c_2 + \sum_{i=1}^{p}\eta_{21}EXR_{t-i} + \sum_{i=1}^{p}\eta_{22}MSGDP_{t-i} + \sum_{i=1}^{p}\eta_{23}PCIG_{t-i} + \sum_{i=1}^{p}\eta_{24}UEMR_{t-i} + \mu_{2,t} \tag{3.3}$$

$$PCIG = c_3 + \sum_{i=1}^{p}\eta_{31}PCIG_{t-i} + \sum_{i=1}^{p}\eta_{32}MSGDP_{t-i} + \sum_{i=1}^{p}\eta_{33}EXR_{t-i} + \sum_{i=1}^{p}\eta_{34}UEMR_{t-i} + \mu_{3,t} \tag{3.4}$$

$$UEMR = c_4 + \sum_{i=1}^{p}\eta_{41}UEMR_{t-i} + \sum_{i=1}^{p}\eta_{42}MSGDP_{t-i} + \sum_{i=1}^{p}\eta_{43}EXR_{t-i} + \sum_{i=1}^{p}\eta_{44}PCIG_{t-i} + \mu_{4,t} \tag{3.5}$$

Furthermore, impulse response function and forecast error variance decomposition (FEVD) is used in analyzing the interrelationships among the variables chosen from equation (3.2) to equation (3.5). The impulse response functions are responses of all variables in the model to a one unit structural shock to one variable in the model. The impulse responses are plotted on the Y-axis with the period from the initial shock on the X-axis. The FEVD measures the proportion of movement in a

sequence attributed to its shock to distinguish it from movements attributable to shocks to another variable. The scope of analysis spans from 1981 to 2014.

4. Empirical Result and Discussion

4.1 Trends of Macroeconomic Variables

The trends of the macroeconomic variables that go into the model are captured in Figures 1 to 4. A cursory look at the graphs clearly shows some level of volatility and fluctuations in the macroeconomic variables, especially interest and exchange rates.

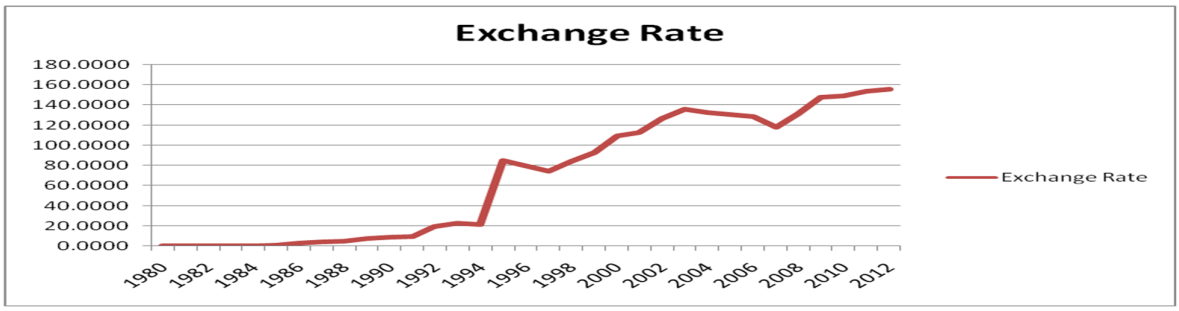

Fig. 1. Graph of Exchange rate movement in Nigeria

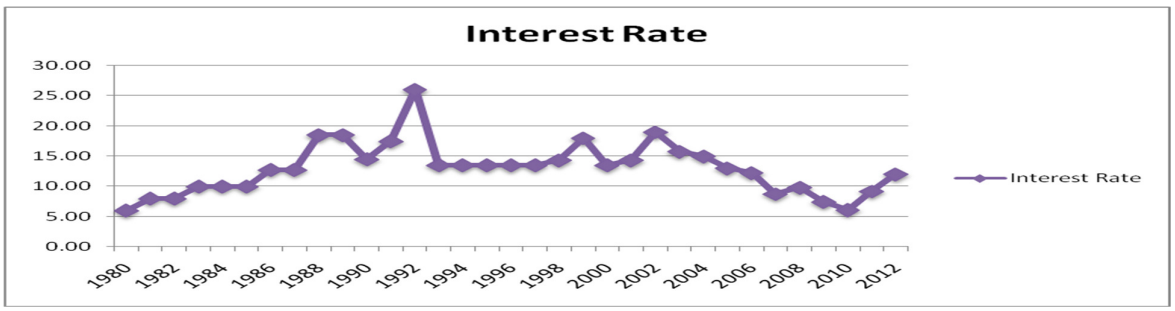

Fig. 2. Graph of Interest rate movement in Nigeria

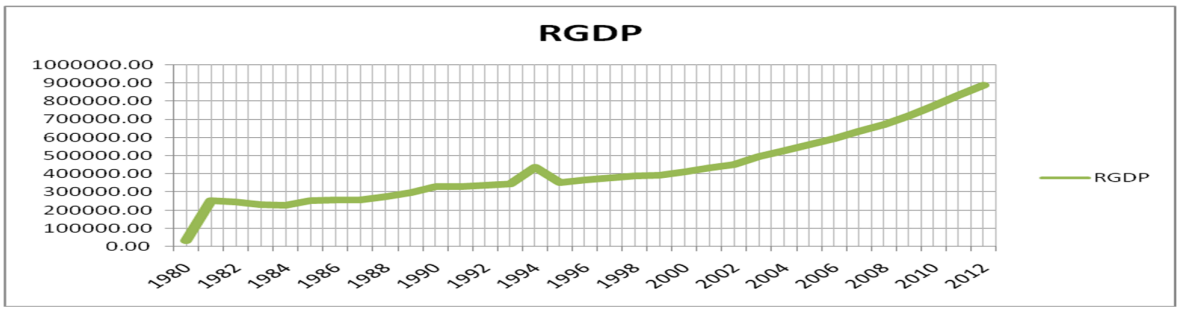

Fig. 3. Graph of Real GDP movement in Nigeria

Fig. 4. Graph of the Unemployment rate in Nigeria

For instance, it is clear from the graphs that the volatility in exchange rate started to increase in 1990s, unemployment rate also exhibited the same trends soaring higher up to about 27 percent in 2013. More interestingly, the growth in real GDP also increased during these periods. However, it is ironical to see that as the real GDP increases, the unemployment rates keeps rising. This is an indication that the monetary policy over the years are not designed to bring about growth that will be inclusive. An inclusive growth will create jobs, reduce unemployment rate as well as the level of poverty. This submission will be further verified using empirical analysis.

4.2 Unit Root Test

This section reports the conventional ways of computing unit root and stationarity tests. For this study, the conventional method employed is the Augmented Dickey-Fuller (ADF). Table 1 below reports the two methods used for the study, as thus:

Table 1
Unit Root Test Results

Variable	Intercept	Order of Integration
MSGDP	-5.210253*(0) [-2.957110]	1
EXR	-5.377029*(0) [-2.957110]	1
PCIG	-8.357915*(0) [-2.957110]	1
UEMR	-6.809714*(0) [-2.957110]	1

*Note: * significant at 1%.*

The unit root tests result using the Augmented Dickey-Fuller (ADF) confirmed that all the series are stationary at first difference, i.e. I(1) at 1% significance level. This implies that money supply as a percentage of GDP, exchange rate; unemployment rate and per capita income growth is stationary after first differencing. It should be noted that the lag length for ascertaining this stationarity level of our variables as well as the unit-root test is automatic and optimally chosen by the Schwarz Bayesian Information Criterion (SBC)

4.3 Co-integration Test Results

Tables 2a and 2b present the co-integration results, both the trace statistics and the maximum - eigen statistics. The Trace statistics indicate that there are no co-integration at 5% significance level. Hence, no long-run equilibrium relationship exists between the variables. The Maximum-eigen value test also confirms the same that no co-integration exist at the 5% significance level. This implies that we can employ the VAR model to estimate our regression.

Table 2a
Co-integration Result (Trace Statistic)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.554578	42.07663	47.85613	0.1566
At most 1	0.341325	16.19719	29.79707	0.6984
At most 2	0.075748	2.836384	15.49471	0.9738
At most 3	0.009818	0.315729	3.841466	0.5742

Table 2b
Co-integration Result (Maximum Eigen Statistic)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.554578	25.87944	27.58434	0.0813
At most 1	0.341325	13.36081	21.13162	0.4196
At most 2	0.075748	2.520655	14.26460	0.9734
At most 3	0.009818	0.315729	3.841466	0.5742

4.4 VAR Model Results

The VAR model result is presented in Table 3 below. Generally, the model performed well with over 90 percent of the dependent variable, that is, the measure of growth inclusiveness is adequately explained by movement in exchange rate and monetary policy framework. The model does not suffer any econometric problem such as autocorrelation since the value of Durbin-Watson statistics of 1.8 is within the acceptable region.

The result captures the effect of an unemployment rate that is used to explain and measure the inclusiveness of economic growth. The assumption is that if growth is inclusive, it will trickle down to increase the absorptive capacity of the economy and bring about job availability. Besides, it has been promised that an inclusive growth leads to welfare improvement of the people.

A cursory look at the table reveals that movement in the exchange rate is a critical macroeconomic variable that affects the level of unemployment in Nigeria. Over the years, the exchange rate has been volatile. The volatility in exchange rate has affected all other macroeconomic variables in the economy. Therefore, there is a clear indication that the high level of exchange rate volatility and the unemployment rate in the economy has made it difficult for inclusive growth to be achieved.

Also, the monetary policy variable, the money supply appears to be a significant factor influencing the unemployment. The lagged value of the coefficient of money supply as a ratio of GDP which captures financial deepening is significant. This is an indication that the monetary policy put in place by the monetary authority affects the inclusiveness of economic growth in Nigeria. Similarly, output performance has not been impressive. Growth in domestic output declined considerably in the review period, indicating that monetary policy did not impact positively on output even in the face of increased income from oil exports. For instance, from 2.2 percent in 1995, domestic output rose sluggishly to 3.8 percent in 2000 CBN [21]. This has been the trend since 2000 to date. These growth rates were far below the projected targets over the years.

It is essential to deduce from the evidence provided by this result that the success of the monetary policy depends on the operating economic environment, the institutional framework adopted, and the choice and mix of the instruments used. In Nigeria, the design and implementation of monetary policy is the responsibility of the Central Bank of Nigeria (CBN). However, the current

monetary policy framework focuses on the maintenance of price stability while the promotion of growth and employment are the secondary goals of monetary policy.

Table 3
VAR Model Results Dependent Variable: (UEMR)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
(EXR(-1))	0.186116	0.027294	6.818880	0.0000
(EXR(-2))	-0.146670	0.032755	-4.477774	0.0002
MSGDP(-1))	0.154018	0.073109	2.106687	0.0463
MSGDP(-2))	-0.056258	0.073583	-0.764551	0.4523
PCIG(-1))	-0.087137	0.057318	-1.520240	0.1421
PCIG(-2))	-0.094388	0.058399	-1.616252	0.1197
(UEMR(-1))	0.502562	0.140514	3.576612	0.0016
(UEMR(-2))	0.255598	0.130715	1.955382	0.0628
Constant	-2.288144	1.590879	-1.438290	0.1638
R-squared	0.952592	Mean dependent var		10.25625
Adjusted R-squared	0.936102	S.D.dependent var		7.688783
S.E. of regression	1.943579	Akaike info criterion		4.399197
Sum squared resid	86.88246	Schwarz criterion		4.811436
Log likelihood	-61.38716	Hannan-Quinn criter.		4.535843
F-statistic	57.76827	Durbin-Watson stat		1.819795
Prob(F-statistic)	0.000000			

4.5 Impulse Responses Analysis

Figure 5 below presents the contemporaneous response of unemployment rate to monetary policy shocks. As revealed in the figure, unemployment rate exhibited a concave response from the first to seventh period due to shocks on money supply to the percentage of GDP, while the rest periods were almost flat. The response of per capita income to shocks on money supply shows a convex shape in the negative region for the first four periods, as the remaining periods were at a level rate. As shocks in per capita income arise, the response of unemployment rate was negative for the first three periods and later reacts positively in the latter periods at a slow rate. The response of per capita income to shocks in unemployment rate reports a negative slope for the first two periods, rise slightly in the third period which later sloped approximately at a low level rate. More so, the response of per capita income was negative for the first three periods due to its shocks, rises in the fourth period, and slopes downward through the fifth and sixth period but at a level rate for the remaining periods. On the contrary, the shocks of the unemployment rate on itself report negative throughout the periods of varying magnitude.

It can be deduced from the above analysis that the response of unemployment rate to monetary policy shocks was negative in most of the periods covered by the study. Even when the positive response was recorded, it was very slow. The implication of this is that unemployment rate in Nigeria did not respond to growth recorded over the years occasioned by the monetary policy put in place by the monetary authorities. This is in line with what was obtained under trend and graphical analysis. It is clear that the growth experienced in Nigeria is not inclusive enough to create new jobs. This further indicates that the potency of our monetary policy is very low. In essence, it is an indication that the growth recorded in the economy is not inclusive since it failed to promote and propel employment opportunities in the economy. However, this might be as a result of the ineffectiveness of the monetary policy to stem the volatility of exchange rate in the economy.

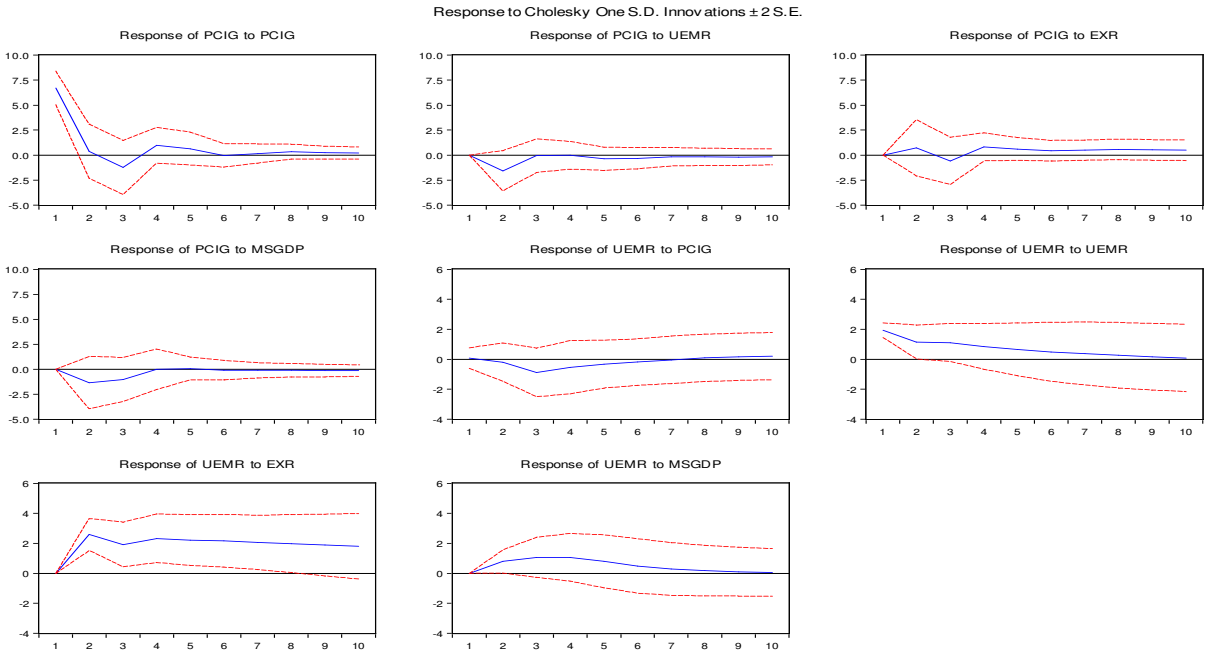

Fig. 5. Impulse Response Plot of Inclusive Growth from Monetary Policy Shocks

4.6 Variance Decomposition Analysis

This sub-section presents the variance decomposition, which separates the variation in an endogenous variable into the component shocks of the VAR model. Table 4 below presents the summary of the variance decomposition of inclusive growth proxied by unemployment rate to innovation shocks on the exchange rate, per capita income and money supply. It is important to note that the variance decomposition separates the variation in an endogenous variable into the component shocks of the model. Thus, the variance decomposition provides information about the relative importance of each random innovation in affecting the variables in the model.

Table 4
Variance Decomposition of UEMR in Nigeria

Period	S.E.	EXR	MSGDP	PCIG	UEMR
1	1.94	0.91	0.68	0.01	98.40
2	3.53	54.62	5.46	2.53	37.39
3	4.40	52.42	10.58	7.55	29.45
4	5.19	56.66	12.49	7.76	23.09
5	5.74	60.50	12.41	7.44	19.66
6	6.18	64.12	11.51	7.10	17.27
7	6.53	67.18	10.57	6.68	15.57
8	6.83	69.77	9.74	6.23	14.25
9	7.09	71.85	9.08	5.84	13.23
10	7.32	73.54	8.53	5.50	12.42

It is clearly shown on the table that exchange rate and money supply shocks formed the more significant proportion of the total variation in the unemployment rate. This implies that the volatility in the exchange rate, as well as the behaviour of the monetary policy, determines the growth pattern and the absorptive capacity of the economy. One can infer from the result that fluctuation and instability in the exchange rate over the years is responsible for the non-inclusion of the GDP growth

rate. In fact, this premise is strongly supported by the result on Table 4a. The result shows that the growth experienced by the economy over the years could not trickle down to reduce the unemployment rate in the economy. This is due to high volatility in the primary macroeconomic variables in the economy.

5. Conclusion and Policy Recommendations

The study has among other things investigated the relationship between monetary policy and inclusive growth in Nigeria via the effects of monetary policy on unemployment generating growth. This study employed the VAR framework to analyze the linkage between monetary policy and inclusive growth in the Nigerian economy. The results provided evidence that monetary policy variables have significant impacts on growth. Moreover, there are indications from the results that the monetary policy over the years is weak to generate the needed inclusive growth that will bring about a reduction in the unemployment rate. Therefore, the economy's absorptive capacity is so low such that the economic growth experienced in the economy could not trickle down to create new jobs and improve the lots of the people.

Based on the findings of the study, it is recommended that there should be effective coordination and harmony between fiscal and monetary policies. Expansionary monetary and fiscal policies in the past tended to worsen exchange rate depreciation. It is, therefore, essential that monetary and fiscal policies be coordinated and harmonized to achieve macroeconomic stability. The situation should be avoided whereby monetary policy adjusts passively to the expansionary fiscal operations of the government. As government spending has a direct relationship with the exchange rate, it is necessary to rationalize and restructure government expenditure towards productive activities and reduce the fiscal deficits significantly.

Also, the government should embark on other measures besides monetary policy to promote inclusive growth. Such policies include increasing government spending on the productive sectors of the economy to promote economic growth, encouraging foreign direct investment (FDI) to boost domestic investments among others. To add on, monetary policies should be used to create a favorable investment climate that attracts both domestic and foreign investments thereby promoting sustainable economic growth.

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