

IMPACT OF MONETARY AND FISCAL POLICIES ON ECONOMIC GROWTH IN NIGERIA (1985-2025)

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ABSTRACT

This study examined the role of monetary and fiscal policies on the economic growth in Nigeria from 1985-2025. Secondary data was sourced from the 2025 World Development Indicators. Data was analyzed using ARDL model. Results from the study showed stationary variables in monetary policy rates (MPR), Public Capital Expenditure (PEX), and Tax Revenue (TRV). The study found that monetary and fiscal policies had positive impact on Nigeria economic growth in the time period reviewed. Furthermore, the study recommended the Nigerian fiscal authority should also prioritize and enhance tax revenue generation as a means to financing economic development. This should involve implementing strategies to improve tax compliance by streamlining tax laws and regulations to make them more efficient and user-friendly, invest in technology and infrastructure to improve tax collection and enforcement, implement measures to reduce tax evasion and avoidance

Keywords: Monetary policy, Fiscal Policy, Economic Growth, Unit Root, ARDL.

1.0 Introduction

The introduction of economic policies such as the Structural Adjustment Programme (SAP) by the administration of General Ibrahim Babangida in 1986 marked the beginning of economic reforms that opened up the Nigerian economy. The economy became more liberalized for the production of goods and services because the policy sought, among other objectives, to strengthen the agricultural sector and attract foreign investment (Atiman, 2023). Monetary policy measures such as increases in money supply, variations in interest rates, and currency devaluation were major components of SAP that brought significant changes to Nigeria's economic growth trajectory.

One of the primary objectives of any government around the world is to achieve economic growth and development for its citizens. This objective is often reflected in improved welfare, increased production of goods and services, higher employment levels, and reduced inflation.

According to Oseni and Oyelade (2023), monetary policy is primarily implemented by a country's central bank with the objective of promoting high, stable, and sustainable economic growth. Monetary policy involves the central bank's efforts to regulate the supply of money in circulation and the cost of borrowing through interest rate adjustments. In Nigeria, monetary policy has been utilized since the establishment of the Central Bank of Nigeria (CBN) through the Central Bank of Nigeria Act of 1958. Until the introduction of Open Market Operations (OMO) in 1993, the CBN relied largely on various direct instruments of monetary control. These instruments included credit ceilings, sectoral credit allocation, interest rate controls, special deposit requirements, moral suasion, movement of government deposits, stabilization securities, and exchange controls.

Similarly, Onyeiwu (2012) argues that monetary policy, as a tool of economic management, has been employed by nations to influence the behavior of key macroeconomic aggregates. In Nigeria, monetary policy has been in operation since the Central Bank of Nigeria was empowered by the CBN Act of 1958 to manage monetary affairs, thereby facilitating the development of an active money market in the country.

Fiscal and tax reforms have also played a crucial role in shaping Nigeria's economic landscape, evolving through different historical periods. From the complex tax systems of pre-colonial societies to the comprehensive reforms of the twenty-first century, Nigeria's fiscal policies have undergone significant transformations, reflecting changes in governance structures, economic strategies, and global economic trends (Olarinde, 2024).

For instance, following the challenges faced by the Nigerian economy in 2020 as a result of the twin shocks of declining oil prices and the COVID-19 pandemic, the

Nigerian government implemented several fiscal policy interventions. These included a ₦2.3 trillion stimulus package focused on job-intensive projects, an emergency loan of \$3.4 billion from the International Monetary Fund (IMF) to support economic recovery, the enactment of the Finance Act 2020, and the proposed establishment of an infrastructure company dedicated to financing critical infrastructure investments across the country (Obi, 2020).

Furthermore, the 2024 Appropriation Act amounted to ₦28.78 trillion, representing an increase of ₦1.28 trillion from the initially proposed budget of ₦27.5 trillion. The budget consists of non-debt recurrent expenditure of ₦8.76 trillion, debt servicing of ₦8.27 trillion, capital expenditure of ₦9.99 trillion, and statutory transfers of ₦1.70 trillion. The budget is expected to be financed through non-debt revenue estimated at approximately ₦19.6 trillion and a fiscal deficit of ₦9.18 trillion, representing about 31.9 percent of total expenditure. The key assumptions and macroeconomic framework underpinning the 2024 federal budget indicate notable changes from the 2023 budget framework. These changes have resulted in increased government expenditure and greater allocations to critical sectors of the economy.

Statement of the Problem

Economic growth remains one of the most important macroeconomic objectives of governments across the world because it is closely associated with improved living standards, employment creation, poverty reduction, and sustainable development. In pursuit of these objectives, governments utilize various policy instruments, particularly monetary and fiscal policies, to influence aggregate demand, investment, production, and overall economic performance. In Nigeria, monetary policy is implemented by the Central Bank of Nigeria (CBN) through instruments such as money supply regulation, interest rate adjustments, reserve requirements, exchange rate management, and open market operations. Fiscal policy, on the other hand, is executed through government expenditure, taxation, public borrowing, and budgetary allocations. The effective coordination of these policies is expected to stimulate economic activities and promote sustainable economic growth.

Despite the extensive use of monetary and fiscal policy instruments over the years, Nigeria's economic performance has remained characterized by recurring macroeconomic instability. Since the introduction of the Structural Adjustment Programme (SAP) in 1986, successive governments have implemented numerous monetary and fiscal reforms aimed at achieving economic diversification, price stability, employment generation, and sustainable growth. These reforms have included exchange rate adjustments, financial sector liberalization, tax reforms, expansionary government spending, public investment programmes, and various economic recovery initiatives. However, the outcomes of these policy interventions have remained mixed and often inconsistent.

Nigeria continues to face significant economic challenges, including high inflation rates, persistent unemployment, exchange rate volatility, rising public debt, low industrial productivity, and overdependence on crude oil revenue. Although government expenditure has increased substantially over the years, accompanied by various monetary policy adjustments, economic growth has not been sufficiently robust to address the country's developmental needs. For instance, periods of expansionary fiscal spending have often coincided with rising inflation and increasing fiscal deficits, while restrictive monetary policies intended to stabilize prices have sometimes constrained private sector investment and economic expansion. This situation raises concerns regarding the effectiveness of monetary and fiscal policy measures in stimulating sustainable economic growth in Nigeria.

Furthermore, the Nigerian economy has experienced several external and domestic shocks that have complicated the effectiveness of macroeconomic policy interventions. These include fluctuations in global oil prices, foreign exchange shortages, economic recessions, insecurity, the COVID-19 pandemic, and disruptions in global supply chains. In response to these challenges, the government and monetary authorities have introduced various fiscal stimulus packages, monetary easing measures, and economic recovery programmes. Nevertheless, the extent to which these policies have contributed to economic growth remains a subject of considerable debate among policymakers, economists, and researchers.

Empirical studies on the relationship between monetary policy, fiscal policy, and economic growth in Nigeria have produced conflicting and inconclusive findings. While some studies report that monetary policy variables such as money supply and interest rates significantly influence economic growth, others find weak or insignificant effects. Similarly, evidence regarding the impact of fiscal policy variables such as government expenditure, taxation, and budget deficits remains mixed. Some scholars argue that expansionary fiscal policy promotes growth by stimulating aggregate demand and infrastructure development, whereas others contend that excessive government spending and borrowing may crowd out private investment and hinder economic performance. These inconsistencies in the empirical literature suggest that the relationship between monetary policy, fiscal policy, and economic growth in Nigeria is far from settled.

Another important concern is that many existing studies have focused on either monetary policy or fiscal policy in isolation, thereby failing to capture the potential interaction and coordination effects between the two policy instruments. Yet, economic theory suggests that sustainable economic growth is more likely to be achieved when monetary and fiscal policies complement one another. A lack of policy coordination may weaken the effectiveness of macroeconomic management and limit the ability of policymakers to achieve desired economic outcomes. Consequently, there is a need for further empirical investigation into how monetary and fiscal policies jointly influence economic growth in Nigeria.

Moreover, recent developments in the Nigerian economy, including increasing fiscal deficits, rising debt service obligations, exchange rate reforms, and persistent inflationary pressures, have renewed interest in understanding the effectiveness of macroeconomic policy interventions. Given the changing economic environment and evolving policy framework, there is a need to provide updated empirical evidence on the relationship between monetary policy, fiscal policy, and economic growth.

It is against this backdrop that this study seeks to examine the impact of monetary and fiscal policies on economic growth in Nigeria from 1985 to 2025. The specific objectives are to: examine the impact of monetary policy on economic growth in

Nigeria from 1985 to 2025; assess the effect of fiscal policy on economic growth in Nigeria from 1985 to 2025; evaluate the combined effect of monetary and fiscal policies on economic growth in Nigeria from 1985 to 2025.

2.0 Literature Review and Theoretical Framework

Monetary and fiscal policies have been widely utilized by both developed and developing countries as important macroeconomic tools for regulating the level of money supply, controlling inflation, promoting economic stability, and achieving other macroeconomic objectives. Through appropriate adjustments in monetary and fiscal policy instruments, governments seek to stimulate economic growth, maintain price stability, increase employment opportunities, and foster sustainable development. Against this backdrop, this chapter reviews relevant literature related to the study under three major headings: the conceptual review, theoretical framework, and empirical review. This review provides a comprehensive understanding of the existing body of knowledge on monetary and fiscal policies and their implications for economic growth, while also identifying gaps that justify the present study.

Conceptual Review

Economic Growth

Economic growth refers to an increase in the inflation-adjusted market value of goods and services produced by an economy over time. It is conventionally measured by the percentage rate of increase in real Gross Domestic Product (GDP), which represents the total value of goods and services produced within an economy after adjusting for inflation. Measuring growth in real terms helps eliminate the distorting effects of inflation on the prices of goods and services, thereby providing a more accurate assessment of an economy's productive performance. However, like GDP itself, this measure possesses both strengths and limitations. Economic growth across countries is commonly compared using GDP per capita, which relates total output to population size and provides an indication of average income and living standards (Bjork, 1999). In simple terms, economic growth can be defined as a sustained increase in a country's production of goods and services over a given period.

Max (2021) viewed that, economic growth is an increase in the production of economic goods and services in one period compared with a previous period. It can be measured in nominal or real (adjusted to remove inflation) terms. Traditionally, aggregate economic growth is measured in terms of gross national product (GNP) or gross domestic product (GDP), although alternative metrics are sometimes used.

Monetary Policy

According to Kimberly (2020) monetary policy is central bank's actions and communications that manage the money supply. The money supply includes forms of credit, cash, checks, and money market mutual funds. The most important of these forms of money is credit. Credit includes loans, bonds, and mortgages. Monetary policy increases liquidity to create economic growth. It reduces liquidity to prevent inflation. Central banks use interest rates, bank reserve requirements, and the number of government bonds that banks must hold. All these tools affect how much banks can lend. The volume of loans affects the money supply.

Empirical Review

A number of empirical studies have examined the effectiveness of monetary and fiscal policies in influencing economic performance over the years. For instance, Oluwabukola, Babatunde, Habeebulahi, and Olamide (2024) investigated the effects of monetary and fiscal policies on economic growth in Nigeria from 1986 to 2020. The study employed the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests to examine the stationarity properties of the variables. Given the mixed order of integration among the variables, the Autoregressive Distributed Lag (ARDL) Bounds Cointegration approach was used to test for the existence of a long-run relationship. Subsequently, the ARDL model was employed for estimation. The findings revealed the existence of both short-run and long-run relationships between monetary and fiscal policy variables and economic growth in Nigeria. Based on these findings, the authors recommended a review of the Central Bank of Nigeria's monetary policies to align them with the prevailing socio-economic challenges facing the country.

Similarly, Nse, Enang, Etim, and Udoh (2024) examined the causal relationship between monetary and fiscal stabilization policies and economic growth in Nigeria. The study utilized data obtained from the Central Bank of Nigeria Statistical Bulletin (2022) and adopted the Granger Causality technique for analysis. The Augmented Dickey-Fuller test was employed to determine the stationarity properties of the time series data at the 5 percent significance level. The results indicated that none of the variables was stationary at level, confirming the presence of non-stationarity. However, stationarity was achieved after first and second differencing. Furthermore, a cointegration test was conducted to ascertain the existence of a long-run equilibrium relationship among the variables. The findings confirmed the presence of a long-run relationship and revealed that both monetary and fiscal policies are important instruments for influencing the economic performance and stability of the Nigerian economy.

Okey, Rimamtanung, Malachy, and Eugene (2022) evaluated the effect of the Monetary Policy Rate (MPR) on Nigeria's economic growth using annual data covering the period from 2006 to 2020. The study employed a simultaneous equation model estimated using the Two-Stage Least Squares (2SLS) technique. The variables included broad money supply as a ratio of GDP ($M2/GDP$), credit to the private sector as a ratio of GDP (CPS/GDP), cash reserve ratio (CRR), liquidity ratio (LQR), and lending interest rate (LIR). Preliminary unit root tests indicated that the variables became stationary after first differencing. The findings revealed that the Monetary Policy Rate had a negative but significant effect on economic growth. Similarly, the real exchange rate exhibited a significant inverse relationship with economic growth, while inflation had a negative but insignificant effect on economic growth. The study concluded that monetary policy instruments significantly influence economic growth in Nigeria.

In addition, Iyere and Bello (2019) investigated the impact of public expenditure on economic growth in Nigeria over the period 1961-2014. Public expenditure was proxied by administrative services, social and community services, and economic services, while Gross Domestic Product (GDP) served as the measure of economic growth. The study utilized secondary data obtained from the Central Bank of Nigeria

Statistical Bulletin and adopted an ex post facto research design. Descriptive statistics were employed alongside the Phillips-Perron unit root test and Ordinary Least Squares (OLS) regression technique for data analysis. The results revealed a significant relationship between public expenditure on administrative services, social and community services, economic services, and economic growth in Nigeria.

Furthermore, Uruakpa (2019) examined the impact of money market reforms on Nigeria's economic growth using data obtained from the Central Bank of Nigeria Statistical Bulletin covering the period 1990-2017. The study employed unit root tests, Ordinary Least Squares (OLS), cointegration analysis, and variance decomposition techniques. The findings showed that the variables were non-stationary at level but became stationary after first differencing. The cointegration results indicated the existence of a long-run relationship among the variables. The OLS estimates revealed that money market value exerted a positive and significant effect on Gross Domestic Product, while treasury bill outstanding had a positive but insignificant effect. Conversely, treasury bill rate was found to have a negative and significant effect on GDP. The F-statistic further indicated that the money market variables jointly exerted a significant influence on economic growth, suggesting that the money market remains an important component of Nigeria's financial system and economic development.

Theoretical Framework

This study is anchored on the Endogenous Growth Theory, which emerged in the 1980s as a response to the limitations of the neoclassical growth model. The theory was principally developed by Paul Romer (1986, 1990) and Robert Lucas (1988), who argued that long-run economic growth is primarily determined by factors internal to an economy rather than by exogenous technological progress. Unlike the neoclassical growth theory, which assumes that technological advancement occurs outside the economic system, the Endogenous Growth Theory maintains that economic growth is generated through deliberate investments in human capital, innovation, research and development (R&D), technological progress, and knowledge accumulation.

The central proposition of the theory is that government policies can significantly influence long-run economic growth by creating an enabling environment for

productivity enhancement and technological advancement. According to the theory, investments in education, infrastructure, research, innovation, and human capital development generate positive externalities that increase productivity and stimulate sustained economic growth. As knowledge and innovation expand, economies experience increasing returns to scale, which promote continuous growth rather than convergence to a steady state as suggested by the neoclassical model.

The Endogenous Growth Theory assigns a crucial role to both monetary and fiscal policies in the growth process. Monetary policy contributes to economic growth by ensuring macroeconomic stability, controlling inflation, maintaining a stable financial system, and promoting access to credit for productive investments. A stable monetary environment encourages savings, investment, entrepreneurship, and technological innovation, all of which are essential drivers of economic growth. Through instruments such as money supply regulation, interest rate adjustments, reserve requirements, and open market operations, monetary authorities can influence the level of investment and productive activities within the economy.

Similarly, fiscal policy plays an important role in promoting growth through government expenditure and taxation policies. Government spending on infrastructure, education, healthcare, technology, and research enhances the productive capacity of the economy and improves human capital development. Appropriate tax policies can also stimulate investment, increase productivity, and encourage private sector participation in economic activities. According to the theory, productive public expenditure generates long-term benefits that extend beyond the immediate impact of spending by increasing the economy's capacity to produce goods and services.

The relevance of the Endogenous Growth Theory to this study lies in its recognition that economic growth can be influenced by policy decisions and institutional arrangements. The theory suggests that well-designed monetary and fiscal policies can stimulate investment, innovation, capital accumulation, and productivity growth, thereby enhancing overall economic performance. Conversely, ineffective policy implementation, macroeconomic instability, and inadequate investment in productive sectors may hinder economic growth.

In the context of Nigeria, successive governments have implemented various monetary and fiscal policy measures aimed at promoting economic growth, achieving price stability, increasing employment opportunities, and fostering economic diversification. These policy interventions include adjustments in money supply, interest rates, government expenditure, taxation, and public investment programmes. The Endogenous Growth Theory therefore provides an appropriate framework for examining how monetary and fiscal policy actions have influenced economic growth in Nigeria between 1985 and 2025. The theory supports the proposition that sustained economic growth can be achieved through effective policy measures that enhance productivity, encourage investment, and promote technological and human capital development.

3.0 Methodology

The study utilized secondary data obtained from the World Development Indicators (WDI) 2025 database. The dataset comprised annual time-series observations covering the study period and included variables relevant to the objectives of the research. To ensure the reliability and validity of the empirical analysis, the data were subjected to appropriate econometric procedures.

The analytical techniques employed in the study included the Unit Root Test and the Autoregressive Distributed Lag (ARDL) estimation technique. The Unit Root Test was conducted to determine the stationarity properties of the variables and to ascertain their order of integration. Subsequently, the ARDL approach was adopted because of its suitability for analyzing both short-run and long-run relationships among variables that are integrated at different orders, provided none is integrated beyond the first difference.

The results obtained from the econometric analysis are presented and discussed in the subsequent sections of the study.

Model Specification

Functional Form of the Model

$$GDP_t = f(MPR_t, TBR_t, PEX_t, TRV_t, DBT_t, INF_t) \quad (1)$$

Where:

GDP= Gross Domestic Product at Current Market Price (proxy for Economic Growth)

MPR= Monetary Policy Rate

TBR= Treasury Bills Rate (Proxy for Open Market Operations)

PEX= Capital Public Expenditure

TRV= Tax Revenue

DBT= Debt-to-GDP Ratio

INF= Inflation Rate

Linear Econometric Model

$$GDP_t = \beta_0 + \beta_1 MPR_t + \beta_2 TBR_t + \beta_3 PEX_t + \beta_4 TRV_t + \beta_5 DBT_t + \beta_6 INF_t + \varepsilon_t \quad (2)$$

Where:

β_0 = Constant term

$\beta_1 - \beta_6$ = Long-run coefficients

ε_t = Stochastic error term

ARDL Model Specification

The general ARDL ($p, q_1, q_2, q_3, q_4, q_5, q_6$) model is specified as:

$$\begin{aligned} GDP_t = & \alpha_0 + \sum_{i=1}^p \alpha_i GDP_{t-i} + \sum_{j=0}^{q_1} \beta_j MPR_{t-j} + \sum_{k=0}^{q_2} \gamma_k TBR_{t-k} \\ & + \sum_{l=0}^{q_3} \delta_l PEX_{t-l} + \sum_{m=0}^{q_4} \phi_m TRV_{t-m} + \sum_{n=0}^{q_5} \theta_n DBT_{t-n} \\ & + \sum_{r=0}^{q_6} \psi_r INF_{t-r} + \varepsilon_t \end{aligned} \quad (3)$$

Where:

p = lag length of the dependent variable

$q_1 - q_6$ = lag lengths of the explanatory variables

$\alpha_i, \beta_j, \gamma_k, \delta_l, \phi_m, \theta_n$, and ψ_r are parameters to be estimated.

ARDL Bounds Testing (Unrestricted Error Correction Model)

For cointegration testing, the ARDL Bounds Model is specified as:

$$\begin{aligned}\Delta GDP_t = & \alpha_0 + \sum_{i=1}^{p-1} \alpha_i \Delta GDP_{t-i} + \sum_{j=0}^{q_1-1} \beta_j \Delta MPR_{t-j} + \sum_{k=0}^{q_2-1} \gamma_k \Delta TBR_{t-k} \\ & + \sum_{l=0}^{q_3-1} \delta_l \Delta PEX_{t-l} + \sum_{m=0}^{q_4-1} \phi_m \Delta TRV_{t-m} + \sum_{n=0}^{q_5-1} \theta_n \Delta DBT_{t-n} \\ & + \sum_{r=0}^{q_6-1} \psi_r \Delta INF_{t-r} + \lambda_1 GDP_{t-1} + \lambda_2 MPR_{t-1} \\ & + \lambda_3 TBR_{t-1} + \lambda_4 PEX_{t-1} + \lambda_5 TRV_{t-1} + \lambda_6 DBT_{t-1} + \lambda_7 INF_{t-1} + \varepsilon_t\end{aligned}\quad (4)$$

The null hypothesis of no long-run relationship is:

$$H_0: \lambda_1 = \lambda_2 = \lambda_3 = \lambda_4 = \lambda_5 = \lambda_6 = \lambda_7 = 0$$

Against the alternative:

$$H_1: \lambda_1 \neq 0, \lambda_2 \neq 0, \lambda_3 \neq 0, \lambda_4 \neq 0, \lambda_5 \neq 0, \lambda_6 \neq 0, \lambda_7 \neq 0$$

Error Correction Representation of the ARDL Model

Since cointegration is established, the short-run dynamics are estimated using the Error Correction Model (ECM):

$$\begin{aligned}\Delta GDP_t = & \alpha_0 + \sum_{i=1}^{p-1} \alpha_i \Delta GDP_{t-i} + \sum_{j=0}^{q_1-1} \beta_j \Delta MPR_{t-j} + \sum_{k=0}^{q_2-1} \gamma_k \Delta TBR_{t-k} \\ & + \sum_{l=0}^{q_3-1} \delta_l \Delta PEX_{t-l} + \sum_{m=0}^{q_4-1} \phi_m \Delta TRV_{t-m} + \sum_{n=0}^{q_5-1} \theta_n \Delta DBT_{t-n} + \sum_{r=0}^{q_6-1} \psi_r \Delta INF_{t-r} \\ & + \pi ECT_{t-1} + \varepsilon_t\end{aligned}\quad (5)$$

Where:

ECT_{t-1} = Error Correction Term lagged one period.

π = Speed of adjustment coefficient, expected to be negative and statistically significant.

$\alpha_i, \beta_j, \gamma_k, \delta_l, \phi_m, \theta_n$, and ψ_r represent short-run coefficients.

4.0 Results and Discussions

Unit Root Test Result

The variables of the study were subjected to unit root tests using the Augmented Dickey-Fuller (ADF)

able 1: ADF Unit Root Test Result

Variables	ADF Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value	Prob.	Order of Integration
ΔGDP	-3.700168	-3.600987	-2.935001	-2.605836	0.0000	I(1)
ΔMPR	-7.926332	-3.596616	-2.933158	-2.604867	0.0000	I(1)
ΔTBR	-3.215165	-3.653730	-2.957110	-2.617434	0.0094	I(1)
ΔDBT	-4.564464	-3.596616	-2.933158	-2.604867	0.0007	I(1)
ΔPEX	-3.579715	-3.653730	-2.957110	-2.617434	0.0069	I(1)
ΔTRV	-4.450795	-3.610453	-2.938987	-2.607932	0.0000	I(1)
ΔINF	-3.063923	-3.592462	-2.931404	-2.603944	0.0370	I(0)

Source: Author's Computation using E-Views (2025)

The results of the Augmented Dickey-Fuller (ADF) unit root test presented in Table 1 indicate that most of the variables, including manufacturing gross domestic product (MGDP), monetary policy rate (MPR), treasury bill rate (TBR), public capital expenditure (PEX), and tax revenue (TRV), were non-stationary at their levels but became stationary after first differencing. These variables were therefore integrated of order one, denoted as I(1). However, inflation (INF) was found to be stationary at level and was consequently integrated of order zero, denoted as I(0). To further validate the stationarity properties of the variables, the Phillips-Perron (PP) unit root test was conducted. The results of the Phillips-Perron test are presented in Table 2.

Table 2: Phillips-Perron Unit Root Test Result

Variables	ADF Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value	Prob.	Order of Integration
ΔGDP	- 5.799666	-3.596616	-2.933158	-2.604867	0.0000	I(1)
ΔMPR	-7.979782	-3.596616	-2.933158	-2.604867	0.0000	I(1)
ΔTBR	-3.140573	-3.600987	-2.935001	-2.605836	0.0005	I(1)
ΔDBT	-4.564464	-3.596616	-2.933158	-2.604867	0.0007	I(1)
ΔPEX	-4.820785	-3.600987	-2.935001	-2.605836	0.0003	I(1)
ΔTRV	-5.731517	-3.596616	-2.933158	-2.604867	0.0000	I(1)
ΔINF	-3.994339	-3.592462	-2.931404	-2.603944	0.0434	I(0)

Source: Author's Computation using E-Views 9.0 Version (2025)

The results of the Phillips-Perron unit root test presented in table 2 further confirmed that, the first difference of most of the variables were taken before they became stationary thus they are integrated of order 1; that is, I(1). However, inflation (INF) was found to be stationary level, thus it is integrated of order zero, that is, I(0). The result of P-P has validated the result of the ADF unit root test that variables are integrated of mixed order justifies the reason for the choice of Autoregressive Distributed Lag (ARDL) Bound test method for co-integrating and long-run coefficients of the study.

Table 3: ARDL Bound Test to Co-integration

Test Statistic	Value	K
F-statistic	8.935365	6
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.12	3.23
5%	2.45	3.61
2.5%	2.75	3.99
1%	3.15	4.43

Source: Author's Computation using E-Views (2025)

Table 3 shows ARDL Bound test Co-integration was estimated to determine the existence of a long-run relationship between the dependent and explanatory variables. The rule of ARDL Bounds test to co-integration states that; the null hypothesis of no long-run relationships existing among the variables be rejected, if the value of the computed F-statistic is greater than the upper bounds (I1 Bound) pesaran critical value, and accepted if the F-statistic is less than the lower bounds (IO Bound) pesaran critical value. The ARDL co-integration test will be said to be inconclusive should the computed F-statistic falls between the lower and upper bound. The estimated result of ARDL Bound test presented in table 4 indicated the rejection of the null hypothesis since computed F-statistic of 8.935365 is greater than the upper bound critical value at 10%, 5%, 2.5% and 1% level of significance. This implies that, there is a long-run relationship between the endogenous and the exogenous variables.

Table 4: ARDL Short-Run Dynamics

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP(-1))	0.316	0.211	1.497	0.1859
LOG(GDP(-2))	0.853	0.139	6.151	0.0008
LOG(GDP(-3))	-0.592	0.169	-3.513	0.0126
MPR	-0.016	0.002	-6.882	0.0005
MPR(-1)	-0.028	0.005	-5.985	0.0010
MPR(-2)	-0.012	0.006	-1.909	0.1048
MPR(-3)	-0.0002	0.003	-0.083	0.9364
MPR(-4)	-0.005	0.003	-1.933	0.1014
LOG(TBR)	-0.041	0.053	-0.783	0.4635
LOG(TBR(-1))	0.272	0.054	4.999	0.0025
LOG(TBR(-2))	-0.178	0.066	-2.705	0.0353
LOG(TBR(-3))	0.127	0.051	2.514	0.0456
DBT	0.044	0.098	0.447	0.6704
DBT(-1)	0.761	0.162	4.710	0.0033
DBT(-2)	-0.546	0.203	-2.690	0.0360
DBT(-3)	1.024	0.164	6.262	0.0008
DBT(-4)	-0.307	0.144	-2.138	0.0764
LOG(PEX)	0.069	0.021	3.372	0.0150
LOG(PEX(-1))	0.025	0.021	1.220	0.2681
LOG(PEX(-2))	-0.010	0.021	-0.489	0.6416
LOG(PEX(-3))	-0.116	0.022	-5.319	0.0018
LOG(PEX(-4))	0.042	0.032	1.309	0.2385
LOG(TRV)	0.095	0.033	2.868	0.0285

LOG(TRV(-1))	0.033	0.033	0.986	0.3621
LOG(TRV(-2))	0.038	0.056	0.684	0.5193
LOG(TRV(-3))	-0.146	0.055	-2.641	0.0385
LOG(TRV(-4))	0.274	0.052	5.315	0.0018
INF	0.004	0.001	3.504	0.0128
INF(-1)	-0.0004	0.0006	-0.793	0.4577
INF(-2)	-0.0006	0.0009	-0.698	0.5115
INF(-3)	-0.002	0.0007	-2.265	0.0641
INF(-4)	0.0009	0.0007	1.395	0.2124
CointEq(-1)	-0.424	0.106	-3.998	0.0071

Source: Author's Computation using E-Views (2025)

The short-run coefficients of the ARDL model presented in table 4 showed that, first and second lag GDP has positive effect, while first lag GDP effect was found to be statistically insignificant; the second lag GDP indicated statistically significant effect. This suggests that the impact of past GDP on the current period unfolds with a time delay. In other words, the positive effect of GDP is not immediate but emerges with a one-period lag. However, third lag GDP has negative and statistically significant effect. This implies that, the economy's current GDP is negatively impacted by the GDP three periods (or years) in the past. Specifically, this suggests that a higher GDP from three periods ago is associated with a lower current GDP. This could indicate various factors, including the effects of past policy decisions, economic shocks, or structural changes within the economy.

5.0 Conclusion and Recommendations

The study examined the impact of monetary and fiscal policies on economic growth in Nigeria using annual time-series data covering the period 1985-2025. To ensure the reliability of the estimated results and avoid spurious regression, the data were subjected to stationarity tests using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests. Furthermore, the Autoregressive Distributed Lag (ARDL) Bounds Testing approach was employed to investigate both the long-run relationship and the impact of monetary policy rate, open market operations, public capital expenditure, and tax revenue on economic growth in Nigeria.

The results of the ARDL long-run estimates revealed that the monetary policy rate exerts a negative and statistically significant effect on economic growth.

Specifically, a one percent increase in the monetary policy rate was found to reduce economic growth by approximately 0.14 percent in the long run. The findings further indicated that open market operations and tax revenue have positive and statistically significant effects on economic growth. A one percent increase in open market operations and tax revenue was associated with an approximate increase of 0.43 percent and 0.70 percent, respectively, in economic growth. However, public capital expenditure was found to exert a positive but statistically insignificant effect on economic growth in the long run.

Based on these findings, the study recommends that monetary authorities should carefully manage the monetary policy rate to avoid excessive tightening that could hinder economic growth and investment activities. In addition, the Nigerian fiscal authorities should prioritize and strengthen domestic revenue mobilization through improved tax administration and enhanced tax compliance. This can be achieved by simplifying tax laws and regulations, making the tax system more transparent and user-friendly, investing in digital technologies and infrastructure to improve tax collection and monitoring, and implementing effective measures to reduce tax evasion and avoidance. Such initiatives would enhance government revenue generation and provide sustainable financing for economic development and growth-oriented public investments.

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