

POLICY BRIEF

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Harnessing Fiscal and Monetary Policy Coordination for Macroeconomic Stabilization in Nigeria

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Executive Summary

Nigeria continues to grapple with persistent macroeconomic instability, characterised by high inflation, fluctuating exchange rates, rising public debt, and uneven economic growth. Fiscal and monetary policies remain essential tools for achieving macroeconomic stability. However, poor coordination between the Central Bank of Nigeria (CBN) and the Federal Ministry of Finance (FMF) has often led to conflicting policy directions, thereby undermining policy effectiveness. Notably, fiscal indiscipline amidst tight monetary conditions has contributed to stagflation, weak investor confidence, and an uncertain macroeconomic environment.

This policy brief examines the role of fiscal and monetary policy alignment in promoting internal and external macroeconomic balance in Nigeria. The key findings show that:

- Despite the existence of formal coordination platforms—such as the Fiscal Liquidity Assessment Committee (FLAC) and the Monetary and Fiscal Policy Coordinating Committee (MFPCC)—policy misalignment remains prevalent.
- The “Ways and Means” financing mechanism has been misused, raising con-

cerns over fiscal dominance and the erosion of CBN autonomy.

- Empirical analysis shows that Nigeria experienced higher episodes of uncoordinated fiscal and monetary policy stances, reflecting weak policy harmonisation.
- The Integrated Policy Framework (IPF), developed by the International Monetary Fund (IMF), offers a comprehensive model that can guide coordinated use of multiple policy tools to respond to domestic and external shocks in a complex, open economy like Nigeria.

The main policy prescriptions include:

- (1) Consolidating existing fiscal–monetary coordination committees into one formalised Policy Coordination Board tasked with joint policy planning, implementation and monitoring;
- (2) Broadening the scope of policy coordination to include capital flow management, macroprudential regulation, and foreign exchange interventions alongside traditional fiscal and monetary tools. Nigeria can better enhance macroeconomic stability by appropriately aligning fiscal and monetary policy within an integrated institutional framework.

1. Introduction

Fiscal and monetary policies are two significant tools developed and implemented by policymakers to attain desired macroeconomic objectives, including sustained economic growth, price stability, full employment, and a viable external balance. Both policies guide short-term economic stabilisation and ensure sustained medium- to long-term outcomes. Therefore, fiscal and monetary authorities, respectively, are tasked with setting appropriate policy targets that produce efficient outcomes in the economy.

Policy discourse has evolved in recent times from the debate over the relative effectiveness of fiscal versus monetary policy to the proposition that both are interdependent. This proposition reflects the view that the two policies interact on an ongoing basis and should be aligned to address macroeconomic problems (Oye, 2022). Externalities are assumed to exist between both policies, such that a change in one affects the stance and overall macroeconomic effect of the other (Niemann & Hagen, 2008). In other words, the effectiveness of fiscal (monetary) policy depends on the stance of monetary (fiscal) policy. For example, rising and uncontrolled budget deficits can constrain a central bank's ability to control inflation. There is therefore a need to determine the optimal fiscal and monetary policy mix in the macroeconomy. This provides the ideological basis for aligning fiscal and monetary policy.

Coordination between fiscal and monetary policy is thus predicated on the need to harmonise two separate policies and institutions in order to efficiently attain macroeconomic objectives. At times, the policy direction tak-

en by the central bank and fiscal authority conflicts, necessitating coordinated efforts to achieve macroeconomic targets. Such coordination enables policymakers to agree on policy direction, instruments, and targets when designing and implementing macroeconomic interventions (Oboh, 2017).

In Nigeria, policy coordination between the Central Bank of Nigeria (CBN) and the Federal Ministry of Finance (FMF) is imperative. The CBN and the FMF are two independent bodies responsible for conducting monetary and fiscal policies in Nigeria, respectively. The CBN Act of 2007 grants the Bank operational independence to conduct monetary policy using appropriate instruments such as policy rates and money supply, with the primary objective of maintaining price stability. Conversely, the FMF, alongside its adjunct parastatals such as the Debt Management Office (DMO), oversees fiscal policy using taxes and expenditure to drive sustained economic growth. The absence of effective coordination between these two policy authorities can threaten internal consistency in the macroeconomy, constrain policy effectiveness, and serve as a potential source of instability and sub-optimal macroeconomic performance.

This policy brief examines the role of fiscal and monetary policy coordination in promoting macroeconomic stability in Nigeria. Specifically, it outlines alternative strategies for strengthening policy coordination in Nigeria's current economic and institutional context.

2. Context

Macroeconomic stability is generally characterised by low and predictable inflation, stable real interest rates, sustainable debt levels and budget deficits, and a predictable exchange rate (United Nations, 2024).

The Nigerian economy has faced persistent macroeconomic instability since the 1980s, based on existing trends in relevant criteria for economic stability. The economy recorded an average growth rate of 2.85% in the 1960s, rising to 6.99% in the 1970s. However, growth declined sharply by 0.93% in the 1980s before rebounding to 2.31% and 7.66% in the 1990s and 2000s, respectively. Relative the average growth rate in the 2000s, growth rates declined to 3.65% and 2.28% in the 2010s and between 2020 to 2024 (World Development Indicators, 2024). This pattern suggests ups and downs in the growth cycle.

Inflation has remained predominantly in double digits since the 1990s, indicating persistent challenges for the Central Bank in achieving price stability. The exchange rate has been highly volatile, characterised by unstable and frequent changes in the value of the naira

against other international currencies, particularly the US dollar. The naira depreciated significantly, from about ₦165/USD in 2014 to over ₦300/USD by 2016. Following President Tinubu's announcement of a free float of the naira, the currency fell from ₦466/USD in May 2023 to ₦942.62/USD in November 2023 and further depreciated to over ₦1,500/USD by January 2025. Fiscal performance has also been weak, marked by persistent budget deficits and rising concerns over debt sustainability (Central Bank of Nigeria Statistical Bulletin, 2023).

Despite existing institutional arrangements intended to enhance fiscal and monetary policy coordination, empirical evidence points to weak coordination between fiscal and monetary policy in Nigeria (Englama, Tarawalie and Ahortor, 2013; Oboh, 2017). The empirical benchmark of policy coordination is when both fiscal and monetary policy adopt the same stance— for instance, when both policies take on a tight or loose stance (Nyamongo, Sichei and Mutai, 2008). However, data from 1981 to 2023 show that fiscal and monetary policies were uncoordinated in 30 out of 43 years (See Table 1). This reflects a weak form of alignment between the two policies.

Table 1: Policy Coordination in Nigeria for selected years (1981–2023)

Year	Overall Budget Deficit (as % of GDP)	Stance	Real Interest Rate (%)	Stance	Inference
1981	-2.8	Easy	-65.86	Easy	C
1990	-4.47	Easy	17.47	Tight	NC
2000	-1.47	Easy	-1.14	Easy	C
2010	-1.99	Easy	1.07	Tight	NC
2015	-1.64	Easy	13.6	Tight	NC
2016	-2.61	Easy	6.69	Tight	NC
2017	-3.14	Easy	5.79	Tight	NC
2018	-2.81	Easy	6.06	Tight	NC
2019	-3.35	Easy	4.52	Tight	NC
2020	-4.08	Easy	5.37	Tight	NC
2021	-4.04	Easy	1.23	Tight	NC
2022	-4.61	Easy	0.92	Tight	NC
2023	-5.28	Easy	1.23	Tight	NC
2024	-2.3	Easy	1.12	Tight	NC

Source: CBN Statistical Bulletin, World Bank’s MFMOD Database, World Bank’s World Development Indicators (2025)

Note: Policy is coordinated when fiscal and monetary policy are both tight or loose.

NC: Not coordinated; C: Coordinated.

Real interest rate is calculated as lending interest rate adjusted for inflation using the GDP deflator

For example, during the 2016 recession, the Nigerian economy contracted by -0.36 % and -2.06% in 2016Q1 and 2016Q2, respectively. The headline inflation rate rose to 17.6 % in August and 18.10 % by October 2016. The Central Bank, therefore, responded to the twin problem of negative output growth and rising inflation by tightening its stance. It raised the Monetary Policy Rate from 11 to 12 percent in March 2016. This was further increased to 14 percent in July 2016, in an effort to rein in the rising inflationary trend. The Federal Ministry of Finance, on the other hand, pursued an easy fiscal stance. In 2016Q1 and 2016Q2, the budget deficit stood at N548.42 billion and N1090.96 billion, respectively. Analysts concluded that the stagflation was aggravated by the conflicting and uncoordinated stances of both fiscal and monetary policy (Central Bank of Nigeria, 2017).

Weak policy coordination also manifests when a policy stance in one area places a burden on another and becomes unsustainable in the long run. For instance, an imprudent fiscal policy pressures the central bank to tighten monetary policy. In this case, the objective of the central bank to curb inflation by tightening monetary policy is undermined by unchecked fiscal spending. A member of the Central Bank of Nigeria's Monetary Policy Committee, Murtala Sagagi, noted in a newspaper correspondence that:

"The inability to control fiscal expenditure continues to undermine monetary policy measures, making inflation and exchange rate stability difficult to achieve. While the CBN had consistently introduced policies to stabilise prices and the foreign exchange market, the impact of these measures was being eroded by fiscal indiscipline. Therefore...without improved coordination between fiscal and monetary authorities, efforts

to rein in inflation and stabilise the naira would continue to fall short"

Sagagi called for stronger alignment between monetary and fiscal policies to prevent monetary tightening efforts from being weakened by unchecked spending (Tunji, 2025).

Since May 2022, the Central Bank of Nigeria has maintained a persistent tightening cycle to stabilise prices and reduce excess liquidity. The Monetary policy rate was raised from 13.9 percent in May 2022 to a peak of 27.5 per cent by September 2024, and remained unchanged until July 2025 (Central Bank of Nigeria, 2024). However, the tightening efforts may have undermined the efforts of the fiscal authority to consolidate economic growth within a fragile post-COVID recovery.

From a theoretical angle, monetary tightening raises borrowing costs for businesses and households, contracting overall economic activities. Several economic pundits believed that the interest rate hikes of the CBN were ineffective in curbing inflationary pressures (Kareem, 2023). For instance, despite continuous increases in MPR since May 2022, headline inflation rose from 17.71 per cent in May 2022 to 33.7 per cent by April 2024 (Agusto & Co, 2024). A plausible reason is that inflation is predominantly structural driven by supply-side bottlenecks susceptibility to external shocks (KPMG, 2024). Another reason is weak monetary policy transmission. A large amount of cash continues to circulate outside the banking system, which limits the CBN's ability to effectively use traditional monetary tools to curb inflation (Ezeja, 2025).

In essence, Nigeria's policy coordination challenge lies in the misalignment of fiscal and monetary measures, especially when the Central Bank of Nigeria seeks to tackle inflation and exchange rate distortions. It relates to the expansionary (indiscipline) fiscal intervention, even when the central bank is combating inflation with restrictive measures. Without efficient policy coordination, macroeconomic instability may persist, manifesting as high interest rates, exchange rate pressures, and rapid inflation, having adverse impacts on economic growth (Hanif et al., 2003).

3. Critical Analysis of Policy Options

Existing Policy Coordination Arrangements

1. There are existing institutional and operational frameworks for harmonising fiscal and monetary policies in Nigeria. These frameworks provide an avenue for joint decision-making between the Central Bank of Nigeria and the Federal Ministry of Finance through:

- (i) Bilateral engagements between the heads of both institutions. For instance, Francis and Emejo (2025) report a high-level meeting between the Minister of Finance and the Governor of the Central Bank of Nigeria (CBN) aimed at synchronising fiscal and monetary policy frameworks to enhance macroeconomic stability, enhanced investor confidence, and sustainable economic growth;
- (ii) Stipulated meetings of formal and informal committees such as the Fiscal Liquidity Assessment Committee (FLAC) of the CBN, the Monetary and Fiscal Policy Coordinating Committee (MFPCC) of the DMO, and the Cash Management Committee of the Federal Minis-

try of Finance.

Evaluation: The existence of the current institutional framework to enhance policy coordination provides initial steps to ensure the harmonisation of fiscal and monetary policy. However, despite its existence, evidence still points to weak policy alignment in the Nigerian economy. The effectiveness of the framework is undermined by overlapping mandates and a lack of coherence among the existing committees, leading to the formulation of multiple and sometimes conflicting policy goals.

2. In addition to committee meetings and information exchange between the policy institutions, there is also an institutional arrangement to limit the Central Bank's credit to the government. Credit to government is conducted through the Ways and Means instrument. The instrument allows the CBN to lend money to the federal government to cover budget shortfalls. The CBN can lend up to 5% of the previous year's actual collected revenue to finance short-term government budget deficits, which is expected to be repaid within the same fiscal year.

Evaluation: However, this facility has drawn criticism with respect to its implementation. There is an unsettled controversy regarding the Ways and Means advance under the Buhari Administration. It is claimed that the former CBN governor printed money amounting to N22.7 trillion under the Ways and Means without due process. Experts argue that the large amount of the Ways and Means facility is the main cause of the recent high inflationary episode. First, this raises the issue of fiscal dominance, where the central bank

is pressured to accommodate government spending, which can be detrimental to economic stability and undermines the independence and credibility of the Central Bank of Nigeria. Political interference has also become apparent, with the National Assembly contemplating a bill to increase the limits on Ways and Means loans from 5% to 10%.

4. Alternative Strategy of Policy Coordination

1. This policy brief proposes the consolidation of all numerous existing coordination committees into a single formal Policy Coordination Board, comprised of technocrats from the FMF, CBN, and relevant agencies. This board goes beyond information exchange to joint planning and strategy formulation, in a collaborative and unified manner. It would subsume existing committees to minimise redundancy and ensure coherence in macroeconomic policymaking. Recently, the Minister of State for Finance announced a new initiative called the Dis-Inflation and Growth Acceleration Strategy. It is a unified national framework that integrates both monetary and fiscal levers to drive non-inflationary growth and structural transformation (Nwachukwu, 2025). We acknowledge that this is a step in the right direction. However, more still needs to be done in terms of joint planning and strategy formulation by both the fiscal and monetary authority.

2. Policy coordination should also be based on a shared macroeconomic model and a unified vision for macroeconomic stability and sustained economic growth. Both policy institutions should rely on a common and comprehensive multi-sectoral economic model to guide the design and implementation of ap-

propriate policy measures and targets.

The Integrated Policy Framework (IPF)

The recommended policy coordination model is anchored on the Integrated Policy Framework– a unified framework developed to show the interactions among monetary policy, capital flow management measures, foreign exchange intervention and macroprudential measures needed to achieve macroeconomic and financial stability in the context of an open economy.

In an increasingly complex policy environment, characterised by multiple external and domestic shocks, a wide array of policy instruments and policy tradeoffs among competing macroeconomic objectives, the IPF provides a structured approach to design a coherent policy mix. In this instance, the IPF underscores the coordinated use of multiple policy instruments when an economy is destabilised by a myriad of multiple (external and domestic) shocks to ensure both internal and external macroeconomic balance. It aims to address the question: How can the appropriate policy mix be used to respond to different shocks using available policy instruments?

The IPF is relevant to Nigeria, which is a small, open and developing economy with the peculiarity of:

- A floating exchange rate regime and imperfect capital mobility
- A shallow and illiquid forex market,
- Exposure to volatile capital flows and reversals,
- Heavy dependence on oil exports for revenue

- Imported inflation, currency mismatches, financial frictions and fiscal dominance, among others.

The IPF asks: When, how and what policy tools should be deployed to achieve policy goals given a country's structural characteristics? These characteristics include: (i) dominant currency pricing paradigm; (ii) currency mismatches; (iii) borrowing constraints; and (iv) strength of the monetary policy transmission mechanism (Ramlogan et al., 2021).

The IPF is built on the assumptions that:

1. Policymakers seek to make welfare-maximising decisions
2. Private agents are rational optimisers
3. Financial frictions and borrowing constraints are present

It consists of 4 key building blocks:

1. The Intertemporal theory of the current account/external financing depicts that the supply curve of external financing intersects with the demand curve for imports to determine optimal level of household import consumption

2. Domestic credit markets- External financing rate affects domestic credit markets

3. Home consumption decisions- Households are assumed to optimize their relative consumption of imports and home goods which determined largely by the exchange rate.

4. Monetary policy rule- It determines how monetary policy rate should respond under different exchange rate regimes.

Importantly, the presence of financial frictions generates externalities that necessitate the adoption of additional policy tools beyond fiscal and monetary instruments. For developing countries like Nigeria:

1. Foreign exchange markets are shallow;
2. Domestic financial intermediaries face an external and internal borrowing constraint

The role of Fiscal policy in the IPF remains limited owing to medium-long-term lags and political constraints. It also signals the need for fiscal policy to play a passive role so as not to stifle monetary policy making. However, in the face of large shocks and crises, fiscal injections play a key role. Fiscal instruments used in the IPF are government purchase of imports, domestic goods, and transfer spending financed via lump-sum taxation.

Ultimately, the IPF highlights that addressing macroeconomic imbalances requires a comprehensive mix of fiscal, monetary, financial, and structural policies. Thus, coordination should extend beyond just fiscal and monetary alignment to include capital flow management, macroprudential regulation, and foreign exchange market development (Basu & Gopinath, 2024).

5. Policy Recommendations

The central theme underlying our recommendation is unification. This includes streamlining existing institutional structures into a single coordination body and adopting an integrated modelling framework to inform macroeconomic policy design. The specific recommendations include:

1. Institutional Unification: Consolidate policy coordination committees into a single unified body to eliminate duplication, institutional overlap, and conflicting objectives. This body should be mandated to jointly plan and monitor fiscal and monetary interventions. The unified body can be chaired by the Coordinating Minister of the Economy.

2. Transparency and Accountability: Strengthen information-sharing mechanisms between the Federal Ministry of Finance (FMF) and the Central Bank of Nigeria (CBN). Deliberations and decisions from coordination meetings should be transparently documented and made publicly accessible to enhance accountability and public trust.

3. Capacity building: Build technical capacity within the coordination body. This includes equipping committee members with the skills and tools required to develop and operate a comprehensive, unified macroeconomic model that supports joint decision-making and consistent policy formulation.

4. Integrated Policy Mix: Broaden the scope of policy coordination beyond fiscal and monetary policy, in line with the Integrated Policy Framework (IPF). Nigeria's policy mix should in-

corporate a range of instruments to better respond to shocks and maintain macroeconomic and financial stability.

5. Besides from unification, the alignment between fiscal and monetary policy can be strengthened by implementing proposals to reduce the Ways and Means limit. This measure will promote greater fiscal discipline at both federal and subnational levels.

The integrated policy mix should include the following:

Monetary policy	<ul style="list-style-type: none">• Enhance Central Bank independence• Improve monetary policy transmission mechanisms• Tackle inflation persistently through transparency
Exchange rate	<ul style="list-style-type: none">• Unify exchange rate windows• Improve market liquidity in the FX market
Foreign exchange Reserve	<ul style="list-style-type: none">• Save windfalls from oil price booms• Strengthen sovereign wealth fund• Diversify exports to reduce oil dependence
Capital flow management	<ul style="list-style-type: none">• Use CFMs as a temporary response to destabilising inflows or out-flows• Improve transparency and market confidence
Macroprudential policies	<ul style="list-style-type: none">• Tighten regulations to limit FX exposures in banks• Deepen domestic financial market• Enhance risk management practices for corporations
Fiscal policy	<ul style="list-style-type: none">• Ensure fiscal discipline across the tiers of government• Avoid excessive monetary financing of deficits• Improve public financial management to ensure value for money

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