Asymmetric Effects of Fiscal and Monetary Policies on Output in Developing Countries: The Case of Nigeria

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11th OxMetrics Users Conference
March 15-16, 2012
Washington, DC, USA

ABSTRACT

We assess the asymmetric effects of fiscal and monetary policy shocks depending on the state of the Nigerian economy from 1964-2008. Our methodological approach differs from previous studies in three ways. First, we focus on both fiscal and monetary asymmetry with no a priori monetary transmission channel (interest rate or the money and lending view) in mind. Second, we estimate the output cyclical component rather than employing actual or observed output. Finally we employ two different filtering techniques, the first of which is the output the residual from the PVECM and the second the CDR originated by Beaudry and Koop (1992) and Bradley and Jansen (1997). Data analysis suggests that these series behavior are consistent with Nigeria's business cycle dynamics and appear to better replicate historical data. There is support for non-Keynesian effects and evidence of asymmetric effects of fiscal policy irrespective of the choice of output cyclical component. Expansionary fiscal shocks were more common than adverse fiscal shocks and are highly procyclical. On the monetary transmission side, it appears that the credit view is more effective and the extent of its allocation has important implications across the business cycle. It appears that lending conditions may affect the business cycle in Nigeria more significantly than central bank rates.

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