Relative impact of Fiscal and Monetary Policy on the Growth of Small and Medium Scale Enterprises in Nigeria

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Abstract

In order to determine the influence of fiscal and monetary policies on the growth of SMEs in Nigeria, this study employed time series data for the period 1986-2015, adopting the OLS estimation technique. The result suggests that fiscal policy is more effective in stimulating the growth performance of Nigeria SMEs comparing to monetary policy. Hence, the suggestion that government should pay more attention to fiscal policy. A combination of both policies is also recommended for optimal performance of the SMEs sector in the Nigerian economy.

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INTRODUCTION

Rapid and persistent productivity growth of the domestic economy of Nigeria has since the political independence in 1960 been of great importance to succeeding governments in the country. Consequently, governments have since implemented numerous national development plans and programmes aimed at boosting productivity, as well as, diversifying the domestic economic base and emphasizing on the small and medium scale (SMEs) production. Awoniyi (2010) asserts that for any developing country to grow and develop economically, greater attention and concentration must be given to SMEs sector. The SMEs sector is a viable and important means to utilize the locally available resources, develop local technology for production for domestic consumption and export trade. SMEs development in the area of agriculture is a means of sustainable food production, employment generation and the combat of food shortage in developing countries.

However, the influential role played by SMEs notwithstanding its development is everywhere constrained by insufficient ease of access to funds and infrastructure. Dada (2014) argues that due to some challenges in Nigeria, the SMEs sector finds it very difficult to effectively play its role. Some of these constraints include unhealthy competition, poor infrastructural facilities, outrageous taxes, poor managerial and marketing skills and inadequate finance. Also, poor economic conditions which imply poor finance and inadequate infrastructures have been identified as the most crucial factors. As a result of these, the Nigerian government has embarked on various policy programmes to address this issue. Some of the policies involved the use of monetary and fiscal policies. But with the above perception one may be tempted to conclude that the use of monetary and fiscal

policies variables in Nigeria seems not to have led to the desired level of growth of SMEs given the dismal performance of the sector in recent years. Monetary policy on the one hand is one of the macroeconomic instruments a monetary authority in a country employs in the management of their economy to attain desired objectives. It entails those actions initiated by the Central Bank which aim at influencing the cost and availability of credits (Nwankwo, 1991). Fiscal policy on the other hand is one of the macroeconomic instruments which government in a country employed in the administration of its country's economy to attain desired objectives. It entails those actions initiated by the government which aim at influencing the budget in order to induce effective demand by various economic units. For most economies, the fundamental objectives of fiscal and monetary policies include price stability, maintenance of balance of payments equilibrium, and promotion of employment, output growth and sustainable development.

However, in the last five decades, the effectiveness of the two policies has been a major concern for economist and policy makers with advocacies ranging from monetarists, fiscalists and both policy coordination. Monetarists on the one hand, are those economists who believe that monetary policy is a more powerful tool when used for macroeconomic stabilization. They include (Elliot, 1975; Rahman, 2005; Senbet, 2011) On the other hand are the fiscalists/Keynesians whose policy faith is much in government expenditure and tax changes than in monetary policy. This group is led by Kaynes. These policy stands have motivated extensive research on the relative effectiveness of fiscal and monetary policies (Chowdhury, 1986; Ajisafe & Folorunso, 2002; Adefeso & Mobolaji, 2010; Mohammad, Afaque, Amanat, & Faiz-Ur-Rehman, 2010).

The broad goals of economic activity such as growth in small and medium scale enterprises (SMEs) can be pursued through the application of either fiscal or monetary policies or the simultaneous utilization of the two as mutually complementary economic policies. The fact that both monetary and fiscal policies, individually or jointly affect the level of economic activity has remained undisputed among economists, but the degree and relative superiority of one of these policy measures over the other in influencing economic activity has been a subject of heated debate among economists and policy makers alike. It is in reaction to this issue that this study evaluates the relative potency of the impact of fiscal and monetary policies on the growth performance of Nigerian SMEs.

The impact of monetary and fiscal policies on economic activities has been one of the most debated and contested issues in economics. Despite the voluminous empirical literature investigating the relative effectiveness of fiscal and monetary policies and their influence on the economic activities in both developed and developing countries, the results are mixed. Monetary policy is concerned with the changes in the supply of money and credit. It refers to the policy measures undertaken by the government or the Central Bank to influence the availability, cost and use of money and credit with the help of monetary techniques to achieve specific objectives (Sanni, 2005). It is the management of the expansion and contraction of the volume of money in circulation for the explicit purpose of attaining a specific objective. It is also 'the exercise of the Central Bank's control over the money supply as an instrument for achieving the objectives of economic policies (Sanni, 2005). It is a discretionary action undertaken by the authorities designed to influence the supply of money, cost of money or rate of interest and availability of money and all these variables affect SMEs performance.

Folawewo & Osinubi (2006) see monetary policy 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. For most economies, the

objectives of monetary policy include price stability, maintenance of balance of payments equilibrium, promotion of employment and output growth, and sustainable development. These objectives are necessary for the attainment of internal and external balance, and the promotion of long-run economic growth. Sanni, Amusa & Agbeyangi (2012) posit that the techniques of monetary policy includes bank rate, open market operations, variable cash reserve requirements and selective credit controls. Some of the objectives which monetary policy is set to achieve are: neutrality of money, exchange stability, price stability, full employment and economic growth.

Fiscal policy is the budgetary policy of the government relating to taxes, public expenditure, public borrowing and deficit financing. The objectives of fiscal policy are similar to those of monetary policy and both can also be used to curtail inflation. The major anti-inflationary fiscal measures include increase in taxation, reduction in public expenditure, increase in public borrowing and control of deficit financing (Sanni, Amusa & Agbeyangi, 2012). Fiscal policy involves the use of government spending, taxation and borrowing to influence the pattern of economic activities and also the level and growth of aggregate demand, output and employment. Fiscal policy entails government's management of the economy through the manipulation of its income and spending power to achieve certain desired macroeconomic objectives (goals) amongst which is economic growth. Longe (2005) claimed that government can reduce poverty, income distribution and enhance economic activity through its expenditure and the changes in the composition of its expenditure indicate the manner in the allocation of resources by the government in the economy.

Aluko (2002) defines SMEs as those enterprises employing up to fifty workers or less than excluding household enterprises. Small business is a business that is privately owned and operated with a small number of employees and relatively low volume of sales. Small-scale businesses are normally owned corporation, partnerships or sole proprietorship. The legal definition of ''small'' varies historically, by country and by industry but generally has fewer than 100 employees. Kadiri (2012) argues that SMEs serve as catalyst for employment generation, national growth, poverty reduction and economic development. SMEs world over can boast of being the major employers of labour if compared to the major industries including the multinationals. Ali, Irum & Ali (2008) empirically investigate the comparative effect of fiscal and monetary policies in case of four South Asian countries - Pakistan, India, Sri Lanka and Bangladesh for the period 1990-2007 and conclude that monetary policy is more powerful than fiscal policy in enhancing economic growth in South Asian economies. In the same way, Senbet (2011) investigates the influence of monetary and fiscal policies on the U.S. real economic activity, using quarterly data between 1959:1 and 2010:2 and employing Granger causality tests and VAR models. The results obtained from both models suggest that monetary policy affects the real output relatively better than fiscal policy.

Biljana & Tamara (2013) argued that the results of numerous empirical studies of the relative effectiveness of monetary and fiscal policies are inconclusive, suggesting that none of the policies can be thought of as superior to the other and their relative effectiveness in any economy depends on the prevailing economic and political conditions at any point in time. In order to determine the influence of fiscal and monetary policies on the economic activity in Serbia, they employed unit root and co-integration tests, as well as the regression analysis on the series of quarterly data for the period 2003-2012. The results obtained showed that monetary policy is more effective in stimulating economic growth compared to fiscal policy and

concluded that government should pay more attention to the fiscal policy to improve its efficiency in the future.

Jawaid, Arif & Naeemullah (2010) investigate the effectiveness of fiscal and monetary policy on economic growth in Pakistan using annual time series data. Although the co-integration results indicated that both policies have significant and positive effect on economic growth, the greater coefficient of monetary policy implied that monetary policy is more effective than fiscal policy in enhancing economic growth in Pakistan. Younus (2012) investigates the relative importance of monetary and fiscal policies in altering real output growth in Bangladesh. Broad money supply (M2) and government consumption expenditure have been used as a proxy for monetary and fiscal policies while GDP growth at constant prices is used as proxy for real output growth. Estimating Anderson & Jordan (1968) St. Louis equation using econometric techniques such as correlation, granger causality test, co-integration and vector error correction approach, the results showed that both monetary and fiscal policies have significant and positive impact on real output growth in Bangladesh with varying degree and the outcomes of the study demonstrate that monetary policy has relatively stronger impact than that of fiscal policy in altering output growth in Bangladesh. This support the view of the proponents of St. Louis Model that avowed monetary policy is relatively more effective than fiscal policy in stimulating real economic activity. However, opposing results were obtained by Chowdhury (1986) in his research on the influence of monetary and fiscal actions on economic activity in Bangladesh. He made use of the OLS technique in his empirical investigation to test the impact of money supply, government expenditures and exports on the nominal income growth rate. The obtained results suggests greater impact on economic activity by fiscal actions compared to monetary actions, thus supporting the argument that impacts of fiscal policy on nominal income are more expectable than monetary impact.

Chingarande (2013) examines the impact of monetary and fiscal policies on economic activity in Zimbabwe by employing a modified St Louis equation for the period 1981:4 to 1998:3. The main objective was to determine the relative effectiveness of monetary and fiscal policies on the economic growth process in Zimbabwe using the new econometric techniques of time series, co-integration and error correction approach on data collected from secondary data of various publications. The regression results suggest that the monetary influence is relatively stronger and more predictable than fiscal policy in determining economic activity and suggested that monetary policy can be relied on as a successful macroeconomic stabilization tool in Zimbabwe and fiscal policy should be streamlined as it is found to have an insignificant impact on economic activity. Mutuku & Koech (2014) explore the relative potency of the monetary and fiscal policies in altering real output in Kenya using a recursive vector autoregressive (VAR) framework. The analysis of variance decomposition and impulse response functions revealed that the fiscal policy has a significant positive impact on real output growth in Kenya while monetary policy shocks are completely insignificant.

Ajisafe & Folorunso (2002) examine the relative effectiveness of monetary and fiscal policy on economic activity in Nigeria for the period 1970-1998. Employing co-integration and error correction modelling techniques estimate. The study found that monetary rather than fiscal policy exerts a great impact on economic activity in Nigeria and concluded that the emphasis on fiscal action of the government has led to greater distortion in the Nigerian economy and recommended that both monetary and fiscal policies should be complementary in the management of the Nigerian economy. Furthermore, Sanni, Amusa and Agbeyangi (2011) empirically investigated the use of fiscal policy and monetary

policy in controlling the economic activities in Nigeria for the period from 1960 to 2010. This was done with the aim of finding out which of the two policies is superior to another. Using Error Correction Mechanism (ECM) method of analysis, the findings showed monetary policy instruments exert more influence on the economic activity and concluded that a proper mix of the policies may enhance a better economic growth.

Ezeji & Michael (2013) investigated the impact of monetary and fiscal policies on Nigerian Economic Growth: 1990-2010. Employing econometric methodology of analysis of unit root test, co integration and VAR model, the study confirm that fiscal policy measures exert greater effect than monetary policy measures on the level of economic development in Nigeria. Similar results were obtained by Olaloye & Ikhide (1995) for the Nigerian economy.

The relative efficacy of monetary and fiscal policies has been extended to productivity in key sector of the economy. For instance, Unaimikogbo & Enoma (2001) evaluate the impact of monetary and fiscal policies on manufacturing industry in Nigeria with a simulation equation model from 1986 to 1997. Using Ordinary Least Square (OLS) estimation technique of data analysis, the study found that both policies contribute significantly to the growth of the manufacturing industry. They concluded that monetary variable is more effective and dependable than fiscal variable in affecting changes in economic activities. Uwubanmwen & Aisien (2002) investigated the relative impact of fiscal and monetary policies on agricultural productivity in Nigeria using co integration and error correction modelling techniques. The finding reveals that monetary policy is more potent at influencing productivity in the agricultural sector than the fiscal policy.

METHOD

Data used in this study were obtained from various issues of Central Bank of Nigeria (CBN) Statistical Bulletin from the period, 1986-2015. This gives a considerable degree of freedom to capture the relative effectiveness of fiscal and monetary policies on the growth of SMEs output in Nigeria. In this study the modified St. Louis Equation was employed. The equation considers how monetary and fiscal policy variables influence changes in output. However, in an attempt to overcome the problem of omitted variables, net exports and interest rate were included in the equation. Therefore the model is stated thus:

$$GDP = MP + FP + NEX + Ut \quad (1)$$

where GDP = output, MP= Monetary policy, FP= Fiscal policy, NEX= Net export Here, monetary policy is proxied by interest rate and broad money supply while fiscal policy is proxied by total government expenditure and budget deficit. Therefore, the model for this study is specified thus:

Aligning equation (1) with our study, the relationship between SMEs output, monetary and fiscal policy can be specified using two models as:

Model 1: The Monetary Policy Model

$$SMEQ = f (M2, INT, NEX) \quad (2)$$

where SMEQ= output of small and medium scale enterprises (proxied by wholesale and retail trade output as a ratio of GDP), M2 = broad money supply, INT = interest rate (lending), NET = net export .
This can be specified in linearly and in logarithm as:

$$LSMEQ = \beta_0 + \beta_1 LM2 + \beta_2 LINT + \beta_3 LNEX + Ut \quad (3)$$

Model 2: The Fiscal Policy Model

$$SMEQ = f \, (TGE, BD, NEX) \quad (4)$$

where TGE= total government expenditure, BD = budget deficit as a ratio of GDP
Linearly and in logarithmic form, equation (4) can be re-specified as:

$$l\_SMEQ = \beta_0 + \beta_1 l\_TGE + \beta_2 l\_BD + \beta_3 l\_NEX + Ut \quad (5)$$

Combining equations (3) and (5), we have a comprehensive model as:

$$SMEQ = f \, (M2, INT, TGE, BD, NEX) \quad (6)$$

This can be specified in operational form and in logarithm as:

$$l\_SMEQ = \beta_0 + \beta_1 l\_M2 + \beta_2 l\_INT + \beta_3 l\_TGE + \beta_4 l\_BDS + \beta_5 l\_NEX + Ut \quad (7)$$

In the use of time series data, the first is the test for stationarity of the time series data. Econometric studies have shown that most macroeconomic time series variable are non-stationary and using non-stationary variables in the model might lead to spurious regressions (Granger, 1969). The first or second differenced terms of most variables will usually be stationary. All variables are tested using Augmented Dickey Fuller (ADF) unit root test. Second, the variables are tested for co- integration, to find their convergence status. This is because variables that fail to converge in the long run may be hazardous to policy making (Engle & Granger, 1987). The selection criteria will also be examines to enable us to select the lag. Thirdly, we estimate the model to evaluate the performance of the monetary and fiscal policies on SMEs output. The estimation is carried out by using the ordinary least squares (OLS) technique. The estimation, presupposes that the variables possess desirable empirical properties of stationary and convergence (co-integration). However, if these desirable characteristics are not discernable we use the Error Correction specification to estimate the equation before using the ordinary least square technique.

RESULTS AND DISCUSSION
We regressed and analyzed the prediction equation results of the model which was specified in section three using E-view 9 econometric software package and the results of the estimation are presented below in the sub sections.

Unit Root Test
Granger and Newbold (1974), Granger (1986), have demonstrated that if time series variables are non-stationary, all regression findings with these time series will be at variance from the conventional theory of regression with stationary series. That is, regression coefficients with non-stationary variables will be spurious and deceptive. To get over this problem, we test for stationarity of the time series. Conventional method of Augmented Dickey Fuller (ADF) test was be used to investigate whether variables used in this study have a unit root or not. The results of the unit root test are presented in Table 1.

Table 1. Unit Root Test

Variable	ADF calculated value in Level	ADF calculated value at 1st Difference	McKinnon 5% Critical value	Order of Integration
l_BD	-3.2524	-	-2.9810	1(0)
l_INT	-4.4508	-	-2.9810	1(0)
l_M_2	-1.0007	-3.4891	-2.9862	1(1)
l_NEX	-1.8078	-5.2947	-2.9862	1(1)
l_SMEQ	-3.2022	-	-2.810	1(0)
l_TGE	-2.0229	-7.9290	-2.9862	1(1)

Source: Authors' Computation

In Table 1, total government expenditure, net export and broad money supply are stationary at first order difference 1(1), since the ADF value of each of the variables at first difference is greater than the McKinnon 5% critical values, while interest rate, SMEs output and budget deficit are stationary in level 1(0). Therefore, we can test for co-integration and estimate the long run model vis-à-vis the error correction model.

Johansen Co-integration Test Result
The result of Johansen co-integration test for the fiscal policy model, monetary policy model and comprehensive model is shown in Tables 2, 3 and 4 respectively.

Table 2. Co-integration Rank Test Assuming Linear Deterministic Trend for Fiscal Policy Model

Series: LTGE, LBD, LNEX,

Eigen value	Likelihood Ratio	5 Percent Critical Value	Hypothesized No. of CE(s)
0.6105	41.4621	29.7971	None *
0.4005	17.8921	15.4947	At most 1 *
0.1846	5.1016	3.8415	At most 2 *

Source: Authors' Computation
*(**) denotes rejection of the hypothesis at 5% significance level, L.R. test indicates 3 co-integrating equation(s) at 5% significance level.

Table 3. Co-integration Rank Test Assuming Linear Deterministic Trend for monetary Policy Model

Series: LM2, LINT, LNEX,

Eigen value	Likelihood Ratio	5 Percent Critical Value	Hypothesized No. of CE(s)
0.758917	48.67630	29.79707	None *
0.393904	13.11094	15.49471	At most 1
0.023442	0.593029	3.841466	At most 2

Source: Authors' Computation
Note: *(**) denotes rejection of the hypothesis at 5% significance level
L.R. test indicates 1 co-integrating equation(s) at 5% significance level

The result shows that there exist three (3) and one (1) co-integrating equations at 5% level of significance for fiscal, monetary and comprehensive model respectively as represent in tables 2, 3 and 4. This is because the likelihood ratio is greater than critical values at 5%. This further shows that there is long run relationship between fiscal policy and monetary policy variables and the growth

performance of Nigeria's SMEs. The result indicates that, in the long run; the dependent variables can be efficiently anticipated using the specified fiscal and monetary policies variables.

Table 4. Co-integration Rank Test Assuming Linear Deterministic Trend for Comprehensive Policy Model

Series: LM2, LINT, LNEX, LTGE, LBD

Eigen value	Likelihood Ratio	5 Percent Critical Value	Hypothesized No. of CE(s)
0.9167	106.5883	69.8189	None *
0.5355	44.4664	47.8561	At most 1
0.4477	25.2956	29.7971	At most 2
0.2999	10.4559	15.4947	At most 3

Source: Authors' Computation; Note: *(**) denotes rejection of the hypothesis at 5% significance level, L.R. test indicates 1 co-integrating equation(s) at 5% significance level

Long Run Statistic Regression of SMEs Output

Table 5. Summary of the Long Run Statistic Regression Results

	Fiscal policy Model	Monetary policy Model	Comprehensive Model
Independent Variable	Dependent Variable l_SMEQ	Dependent Variable l_SMEQ	Dependent Variable l_SMEQ
Constant	0.0575 (0.4398)	0.0427 (0.1580)	0.0302 (0.1400)
l_BD	-0.0512*** (-1.9286)		-0.0545** (-2.1880)
l_TGE	0.6678* (6.7016)		0.4577* (3.5398)
l_NEX	0.3175* (3.9414)	0.4631* (5.8112)	0.2816* (3.6841)
l_M2		0.4442* (5.0231)	0.2248 (2.3188)**
l_INT		0.14475 (0.8229)	0.0600 (0.4193)
R^2	0.9345	0.8922	0.9857
F-Statistic	140.1442	98.0272	97.4892
D Watson Statistic	1.9242	1.6471	1.6469

Source: Authors' Computation

Note: The values in parentheses are t-statistic, *,**,*** significant at 10%, 5% & 1 level of significance respectively

From Table 5, it could be observed that total government expenditure has direct and significant impact on SMEs output. As evidenced in the coefficient, one percent increase in government will lead to about 0.67 percent increase in Nigeria SMEs output. This supports the fact that in the long run increase in government expenditure on infrastructure will enhance the growth performance of the SMEs sector performance. This implies that government expenditure does not crowed out investment in SMEs. Budget deficit has a significant and inverse relationship with growth of SMEs which means that budgetary allocation to this sector has a robust relationship with the growth of the sector. The net export from the fiscal policy estimation has direct and significant effect on Nigeria SMEs output. The coefficient of determinations R^2 of 0.9345 indicates that about 93 percent of the total variations in Nigeria SMEs output are explained by the variations in the fiscal policy variables.

The F-statistic shows overall significance of the model. The F-statistic is significant at 5% level. The probability of its value (0.000) is less than the 0.05 critical levels.

On the part of monetary policy variables, the regression result displays an insignificant direct relationship between interest rate and SMEs output. The coefficient shows that a percentage increase in interest rate will lead bring about 0.44 percent increase in SMEs output. This result supports the fact that a well managed interest rate has the ability to induce the sector output in the long run. The insignificant nature of this variable is as a result of poor interest rate policy and the dominance of informal sector in granting credit facility to economic agents. The result further reveal that broad money supply has positive and significant relationship with SMEs output such that a percentage increase in broad money supply will lead to 0.04 percent increases in SMEs output. The implication of this finding is that expansionary broad money supply in terms of credit has the tendency to induce the growth of this sector in the long run. The net export also has direct and significant impact on SMEs output in the long run.

On the comprehensive estimation model, total government expenditure, budget deficit, broad money supply and net export have significant impact on the growth of SMEs output while interest rate has insignificant effect and the variables were able to explain about 98 percent of the variations in growth of SMEs output in Nigeria. This implies that an expansionary fiscal and monetary policy promotes output of SMEs sector. This may be attributable to the fact that government does not directly get involved in SMEs production in Nigeria but rather provide enabling environment through policies and provision of infrastructures. The result of the error correction representation of the selected lag model based on the selection criteria is reported in table 6.

Table 6: Error-Correction Model of Nigeria SMEs Output Equation D (LSMEQ) by OLS

Independent Variable	Fiscal policy Model Dependent Variable D(l_SMEQ)	Monetary policy Model Dependent Variable D(l_SMEQ)	Comprehensive Model Dependent Variable D(l_SMEQ)
C	0.0348 (1.6834)	0.0153 (0.5151)	0.0215 (0.7295)
D(l_TGE(-1))	0.3205** (2.3979)		0.2438** (2.0435)
D(l_BD(-1))	-0.0044 (-0.2365)		-0.0083 (-0.4245)
D(l_M$_2$(-1))		0.0.2624 (1.0654)	0.1549 (0.5964)
D(l_INT(-1))		-0.1123 (-1.0910)	-0.1265 (-1.2693)
D(l_NEX(-1))	-0.0341 (-1.0231)	-0.0265 (-0.8894)	-0.0133 (0.3758)
D(l_SMEQ(-1))	0.9516* (4.6557)	0.5946* (3.3860)	0.8488* (4.0570)
ECM(-1)	-0.4749** (-2.7792)	-0.1661*** (-1.6485)	-0.3887** (2.1628)
R^2	0.5376	0.5030	0.5818
R^{-2}	0.4159	0.3722	0.4167
F-Statistic	4.4178	3.8463	3.4495
D Watson Statistic	2.0524	2.1222	2.2920

Source: Authors' computation; Note: *,**,*** denotes significant at 10%, 5% & 1& level of significance respectively

The empirical evidence in Table 6 suggests that total government expenditure has direct and significant impact on the growth performance of SMEs in the short run. This is in tandem with the long run result earlier reported and also one year lag of growth of SMEs has a significant impact on SMEs output. Also budget deficit has indirect and insignificant effect on the SMEs output. This is in line with the neoclassical theory that budget deficit have a detrimental effect on economic performance. Net export has inverse and insignificant effect on SMEs output on the short run. The result indicates that the coefficient of ECM is negative -0.475 and significant. This shows that about 47 percent disequilibria in the growth of SMEs output in the previous years are corrected for in the current year. The significance of the ECM is an indication and a confirmation of the existence of a long run equilibrium relationship between growth of SMEs and the fiscal policy variables. The empirical evidence in Table 6 further shows that broad money supply has direct and insignificant impact on the growth performance of SMEs in the short run. The insignificant nature of this variable is attributed to poor supply of money to this sector compared to the demand in the short run where interest rate has inverse and insignificant effect on SMEs output. Meanwhile, net export has inverse and insignificant effect on SMEs output on the short run. The variables of both monetary and fiscal policies used in the comprehensive estimation shows that a percentage increase in government expenditure will lead to 0.24 percent increase on the growth of SMEs output. The one year lag of growth of SMEs has a significant impact on SMEs output while interest rate, money supply, net export and budget deficit has insignificant effect and the variable was able to explain 59 percent of the variation of growth of SMEs output in the Nigerian economy. This suggests that expansionary fiscal and monetary policies would promote the output of the SMEs sector.

CONCLUSION

This study has investigated the relative impact of fiscal and monetary policies on the growth of Nigeria's SMEs. The study found that selected fiscal and monetary policy variables have long run relationship with SMEs output performance. The result reveals that fiscal policy is more effective in stimulating the growth performance of Nigeria SMEs comparing to monetary policy. Hence, the suggestion that government should pay more attention to fiscal policy. This finding reported that fiscal policy is more effective in stimulating economic growth activities compared to the monetary policy. A combination of both policies is however recommended for optimal performance of the SMEs sector in the Nigerian economy.

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