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International Monetary Fund (IMF) Loan Policy and The Growth of The Nigerian Economy

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ABSTRACT
This study investigated the impact of International Monetary Fund (IMF) loan policy on the growth of the Nigerian economy, using secondary time series data covering the period 1986 to 2018.Data of the study variables International Monetary Fund loans (IMFL), total national savings and real gross domestic product were obtained from the Central Bank of Nigeria Statistical Bulletin and database of the Debt Management Office of Nigeria for the period covered. The statistical tools employed for data analysis include vector auto-regression (VAR) and unit root tests. The VAR result revealed ARCH effects of IMF loan conditionality on economic growth. The result suggests that IMF loan policy significantly and negatively affects economic growth in Nigeria. Given the findings of the study, it was recommended that the Nigerian Debt Management Office should put in place, sophisticated mechanisms aimed at monitoring the utilization of IMF loans as well as setting maximum benchmark of external borrowings that could be permitted on stipulated conditions. In addition, Federal Government of Nigerian, especially the responsible financial authorities such as the Federal Ministry of Finance and the Central Bank of Nigeria, should relentlessly pursue the process of diversification of the economy; as this will result in resilient and healthy economy, which will diminish the desire for IMF loans or other forms of external borrowings to the barest minimum.

Keywords: *Economic growth, International Monetary Fund,Loan policy, National savings.*

INTRODUCTION

The international monetary fund (IMF) is a global corporation of the one hundred and eighty-nine (189) member nations set up to augment the health of world economies. The IMF annual report [1] provides that IMF works in order to foster global monetary cooperation, safeguard financial stability, augment global trade, high employment, sustainable growth, and shrink poverty around the globe. Consequently, it is considered that IMF oversees the global monetary system so as to ensure effective operations, promote exchange rate stability as well as facilitating expansion and balanced-growth of international trade in all member countries [2].

Predominantly, the support from IMF is given in form of credit; the notion is that the credit should be paid back, but since the beginning of the 1980s, this has not been the case for numerous developing nations of the world, including Nigeria [3,4, and 5]. However, there has been a debate that the IMF has not been able to realize the mission of fostering exchange rate stability, expansion and balanced-growth of global trade, particularly in developing nations like Nigeria. This debate is rooted in issues that have been left unresolved for too long and government, citizens and researchers alike are of the view whether IMF loan policy conditionality promotes economic growth.

More worrisome is the fact that global debt is at an all-time astronomical given the use of loans obtained from global bodies like IMF, World Bank among others. Astronomical debt also limits the proficiency of policymakers to augment spending or cut taxes in order to offset feeble economic growth, particularly if it is an adverse reaction from financial markets or destabilizes long-term health of public finances; in other words, debt reduces a nation's fiscal space [6,7]. IMF effort to assist low-income nations address undue and rising debt susceptibility have continued swiftly.

In order to address this, a new low-income-nation debt sustainability framework was initiated in July 2018. Yet, there are still cases of high debt, coupled with the fact that public debt (domestic and external) have deepened, and impaired private balance sheets alongside with weak payment discipline, which has continued to pose significant susceptibilities on economic growth in Nigeria [8,5]. In the light of this, the study seeks to assess the impact of IMF loan policy on Nigerian economic growth. The remaining part of this paper is sectioned as follows: review of related literature, materials/methods, results/discussions, conclusion and recommendations.

REVIEW OF RELATED LITERATURE

Conceptual Clarifications

IMF and Economic Growth:

The International Monetary Fund (IMF) was set up in 1944 with the sole purpose of promoting economic and monetary stability and fostering of economic growth around the globe. Since then, IMF provided financial aids (in form of loans or credits) to both developed and developing nations, including, recently, a number of superficial European nations like Hungary, Greece and Portugal [9,1]. However, the economic effects of IMF loan policy have been a subject

of an on-going and significant controversial debate in government circles, publics and among researchers. The debate stems from the fact that IMF loans should augment economic growth both directly and indirectly; but the opposite has been the case for most nations of the world, including Nigeria.

Starting with the 1970s, IMF placed increasing emphasis on economic growth as a policy goal and as such, growth became predominantly the prominent objective in the 1980s. Whether IMF loan policy indeed influences economic growth has been a subject to enormous number of studies. According to Axel [4], three approaches have been utilized to evaluate the influence of IMF loan policy on economic growth. *First*, before-after analysis compares economic growth before IMF loan has been approved with its value after the program period. *Second*, to evaluate the impact of IMF on growth has been to compare growth rates in program nations with development of growth in control group (with-without approach).

The third method is regression approach– it has been used by most recent studies. When endogeneity of IMF-related metrics are carefully taken into cognizance, this approach seems to be the most promising one. However, this study adopted the regression approach in solving the endogeneity problem of whether IMF loan policy influences economic growth in Nigeria.

Brief Perspectives of Nigeria's Economic Growth:

Nigeria is a middle-income and mixed economy with an emerging capital market in West Africa. The economy of the nation is alienated into manufacturing, financial, service, communications, technology and entertainment sectors and is categorized as the 21st biggest economy in the world in area of nominal GDP and 20th biggest in terms of purchasing power parity (PPP). With respect to debt-to-GDP-ratio, it recorded 11%, which is 8% below the 2018 ratio [10]. One of the major hindrances to the nation's growth and its capital market is tied to mismanagement and ineffective economic reforms of the past decade coupled with high debt profile from global organizations like IMF and World Bank [11,10]
The country produces only about 2.7% of the world's oil supply when compared to other oil producing nations like Saudi Arabia (12.9%), Russia (12.7%) and the United States of America (8.6%). The decline in the economic landscape of the country is attributable to dwindling exchange rates and surmounting debt profile. This and many others, led to the decline in economic growth of Nigeria. No doubt, due to the shift from oil to agriculture, it is expected that the Nigerian economy will become resilient to underdevelopment.

Theoretical Framework

In this paper, the theoretical framework is anchored on the Harrod-Domar theory of growth. Capital accumulation and savings according to Hacche [12] are vital dynamics in the process of economic growth. The theory emphasized that capital accumulation in form of net investment has a dual function to play in economic growth, given the fact that it generates income as well as increases production capacities of the economy.

Consequently, the choice of metrics for assessing IMF loans and economic growth encompassed IMF loan, savings and gross domestic product (GDP). This theory sees savings as macroeconomic metrics that augments output (GDP). Again increase in IMF loans and savings can only result to economic growth when there is adequate demand and use to absorb output. Nevertheless, these oppose the policy condition of IMF where beneficial government is likely to augment value added tax and lessen government expenditure.

Moreover, increase in value added tax will augment the general prices of goods and services which will diminish disposable income of citizens. Additionally, reduction in the disposable income will result to decrease in savings and investment and at long run result to upsurge in the levels of unemployment and poverty [8]. Consequently, the choice of dependent variable (gross domestic product: GDP) is premised on the Harrod –Domar theory of growth.

Past Empirical Studies

There is scarcity of empirical studies on the international monetary fund (IMF) loan policy and economic growth in Nigeria while there is robust empirical literature on the subject in other nations. However, this section of the study reviewed prior studies on IMF, external borrowings and economic growth. In Canada, Rodwan and Erick [13] evaluated economic development and the World Bank using instrumental variables analysis to control for endogeneity between program participation and economic growth during the period 1999–2009. Findings of the study showed that loans from the World Bank contributed to economic development.

In Nigeria, Amakor, Ndubuisi-Okolo and Okonkwo [8] assessed the adjustments of gross domestic product, gross fixed capital formation and national savings reaction to IMF conditionality during the period 1986-2016. The conditionality metrics include decrease in government expenditure, deflation of local currencies and trade openness. Granger causality and ordinary least square results indicated that IMF conditionality has significant impact on gross domestic product, gross fixed capital formation and national savings. However, the deflation of local currency is the utmost IMF conditionality exerting significant negative effect on economic growth.

Ahmed and Sukar [5] evaluated the impact of IMF reforms and policies on economic growth in the United States of America. Data of IMF loans and economic growth were used and results from descriptive statistics revealed that there is a positive relationship between IMF loans and economic growth. Udeh, Ugwu and Onwuka [14] ascertained the effect of external debt on economic growth in Nigeria by adopting ex-post facto design. Data on gross domestic product, external debt stock and external debt service payment were gotten from World Bank international debt statistics and the Central Bank of Nigeria statistical bulletin during the period 1980-2013. The ordinary least square and diagnostic tests revealed that external debt had a positive link with gross domestic product on the short run, but a negative link on the long run while external debt service payment had negative link with gross domestic product, exchange rate had a positive link with it.

Fidrmuc and Kostagianni [15] explored the effects of IMF assistance on economic growth in 213 countries from 1971-2009 using unbalanced panel data. The 2-stage least square result revealed that the contemporaneous effect of IMF assistance is insignificant while the lagged effect is positive. Angahar, Ogwuche and Olalere [16] researched the link between foreign borrowing and economic growth in Nigeria. Ordinary least square, augmented dickey-fuller unit root, Johansen co-integration and error correction estimation techniques were employed. Findings revealed that there is an aggregate long run relationship between foreign borrowing from IMF and economic growth in Nigeria.

Yang [17] evaluated the effects of IMF long-term concessional lending programs on economic growth in 44 selected countries of sub-Saharan Africa during the period 1986-2011. The two-sampled t-test and regression results revealed that structural adjustment facility and extended structural adjustment facility statistically and insignificantly affect economic growth in the short and long terms. However, poverty reduction and growth facility and extended credit facility showed a larger and strong positive relation with growth rate in short run, and immaterial effect in long run.

Ajayi and Oke [18] investigated the impact of external debt burden from IMF on economic growth in Nigeria. Data of national income, debt service payment, interest rates and external reserves were obtained from the CBN statistical bulletin and regression analysis was adopted. Findings of the study revealed that external debt burden had an adverse effect on national income. In United States of America (USA), Randall [19] investigated the politics of IMF on conditionality from 1992 to 2002 so as to determine the degree of IMF autonomy. The study utilized probability of participation to test for impact of bargaining on conditionality design. Findings suggested that IMF does not impose a one-size-fit all conditionality to borrowers. Also, it was revealed that the bargaining between IMF and the borrowing members can be antagonistic.

Axel [4] examined the effects of IMF programs, loans, and compliance with conditionality on economic growth. By means of panel data for 98 nations obtained during the period 1970-2000 and fixed and random effects regression analysis, the study found that the IMF programs decreases growth rates when their endogeneity is accounted for. Besides, the study showed that weak compliance with conditionality lessens the negative effect of IMF loans on economic growth. Arneberg [3] explored the theory and practice in World Bank and IMF economic policy models in Mozambique during the period 1987-1994. The descriptive results revealed that Mozambique authorities have followed World Bank prescribed policy; however, the outcome of World Bank and IMF economic models has not at all been in harmony with the Mozambique projections as a result of reduction in exports and inflation.

In Nigeria, Ibenta [20] studied the effect of IMF supported structural adjustment programme on economic growth. Macroeconomic metrics such as exchange rates, external reserves and balance of payment and gross domestic product were used. Findings showed that structural adjustment programme has not contributed significantly to growth of the Nigerian economy at large.

METHODOLOGY

This study utilized secondary time series data in investigating the international monetary fund (IMF) loan policy conditionality on economic growth in Nigeria. Data used comprised of IMF loans (IMFL), total national savings (TNSV) and real gross domestic product (RGDP) during the period 1986-2018. The data was obtained from various issues of Central Bank of Nigeria (CBN) Statistical Bulletin; and the Vector Auto-regression (VAR) and unit root test were employed as the methods of data analysis. The study adapted the frameworks of Amakor, *et al*, [8] and Etale and Edoumiekumo [21]. The empirical model of the study is stated as:

$RGDP = f(IMFL, TNSV)$

For ease of analysis, the above model was translated into an econometric as stated below:

$RGDP = \beta_0 + \beta_1 IMFL + \beta_2 TNSV + e$ Equation (1)

Where:

RGDP = Real gross domestic product (the measure of economic growth in Nigeria);
TNSV = Total national savings in the country;
IMFL = International Monetary Fund (IMF) loans granted to Nigeria;
e = Error term of the equation;
β_0 = Intercept or constant;

β_1 and β_2= Coefficients of the independent variables to be determined.

RESULTS OF ANALYSIS AND DISCUSSION OF FINDINGS

Table 1: Result of Unit Root Test

Variable	Variable at level form				Variable at difference form				Order of integration
Variable	*ADF Stat.*	*Lag*	*5%*	*10%*	*ADF Stat.*	*Lag*	*5%*	*10%*	
RGDP	-0.318	0	-2.986	-2.624	-1.440	0	-2.992	-2.626	I[1]
IMFL	-0.255	0	-2.986	-2.624	-0.543	0	-2.992	-2.626	I[1]
TNSV	-1.041	2	-2.986	-2.624	0.821	2	-2.992	-2.626	I[1]

Source: Researcher's Computation with E-views

The result of the unit root test is presented in table 1. The result showed that all the variables in the model have unit root problem when considered at level forms, but became stationary after first difference. This was ascertained via the comparison of augmented dickey fuller (ADF) statistics of each variable with their corresponding critical values. However, all the variables in their ADF statistics were less than corresponding critical values at 5 percent and 10 percent levels of significance. Contrarily, when the ADF statistics of the variables at first difference were matched with that of critical values, they were discovered to be greater at 5 percent and 10 percent. Despite that the variables are not stationary, there is still tendency that the linear combination of variables will be meaningful. Thus, we expect a long-run equilibrium relation between the dependent and independent variables.

Table 2: Long-run Effect of IMF Loan Conditionality on Nigerian Economic Growth

	Coefficient	Standard Error	t-statistics	Probability value
RGDP	.5223195**	.2014607	2.59	0.017
IMFL	-.24481080*	.2253385	1.09	0.289
TNSV	-2117049**	.2133943	1.99	0.033
C	34.7418**	3.116739	3.64	0.001

Source: Researcher's Computation with E-views

Table 2 captures the long-run effect of IMF loan conditionality on Nigerian economic growth. The result showed a long-run impact of IMF loan and total national savings (TNSV*)* on the Nigerian economy using gross domestic product (RGDP). The result implies that in the long-run, IMF loans and *tns* had negative effect on Nigerian economy. Thus, an increase in IMFL and TNSV will signal a decline in economic growth.

Table 3: VAR Effect of IMF Loan Conditionality on Nigerian Economic Growth

Sample: 1986 - 2018 Number of obs = 33
Distribution: Gaussian Wald chi2(2) = 738.37
Log likelihood = -331.9559 Prob> chi2 = 0.0000

	OPG Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
RGDP						
IMFL	1.239262	.0667821	-18.56	0.000	1.108372	1.370153
TNSV	.0089801	.0445583	0.20	0.840	-.0783525	.0963128
C	554.1723	300.8549	1.84	0.065	-35.49253	1143.837
ARCH						
LM.	1.587568	.7589057	2.09	0.036	.1001402	3.074996
C	99175.37	301391.2	0.33	0.742	-491540.5	689891.3

Source: Researcher's Computation with E-views

Table 3 shows the VAR effect of IMF loan conditionality on Nigerian economic growth using the ARCH family regression estimators. The ARCH(1) parameter for IMFL is .1.239; the LM test shows a p-value of 0.0000, which is below 0.05. Thus, we reject the null hypothesis of no ARCH(1) effects. This shows ARCH effect of IMF loan conditionality on Nigerian economic growth (Walchchi2(2) = 738.37). This implies that there is significant relationship between IMF loan policy and economic growth in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study investigated the impact of IMF loan policy on economic growth in Nigeria during the period 1986-2018. Given the VAR result, the study showed ARCH effect of IMF loan conditionality on economic growth in Nigeria. Thus, IMF loans are necessary to meet shortfall in internal revenues in order to stimulate economic growth. More importantly, IMF loan must be properly used in order to avoid severe consequences, as indicated by the negative sign attached to

IMFL. As a matter of fact, IMF loan policy is not the most vital issue but the use to which the fund is deployed. On the overall, we concluded that IMF loan policy significantly and negatively affects the Nigerian economy. Findings of this study corroborated the findings of the past studies conducted by Udeh, Ugwu and Onwuka [14]; and Randall [19]. However, the finding of this study contradicted the study findings of Ahmed and Sukar [5]; and Fidrmuc and Kostagianni [15].

In view of the findings of the study, it was recommended that the Nigerian Debt Management Office should put in place a sophisticated mechanisms aimed at monitoring the utilization of IMF loans as well as setting maximum benchmark for external loans that could be permitted on stipulated conditions. In addition, Federal Government of Nigerian, especially the responsible financial authorities such as the Federal Ministry of Finance and the Central Bank of Nigeria, should relentlessly pursue the process of diversification of the economy; as this will result in resilient and healthy economy, which will diminish the desire for IMF loans or other forms of external borrowings to the barest minimum.

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