



Inflation and Monetization of Fringe Government Benefits - The Nigeria Experience

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Abstract: *This paper examined the relationship between inflation and monetization of fringe benefits in Nigeria. The focus of the paper is on the impact of monetization on inflation the paper examines two periods which are the period before monetization (1990 – 2002) and period under monetization (2003 – 2015) Ex-post-facto design was used. Recurrent Expenditure (REX), consumption Expenditure (COEX) and Compensation of Employees (COMP) are the proxies for fringe benefits. Using ordinary least square it was found that monetization has not influenced inflation in Nigeria the insignificant relationship between recorded expenditure, money supply, consumption expenditure and compensation expenditure with inflation could be as a result of the CBN policy of inflation targeting. Therefore, the paper recommends that government needs to ensure high level of fiscal discipline in its monetization policy while excessive spending should be minimized to cut-down the volume of money in circulation.*

Key words: *monetization, fringe benefits, financial implication*

1.0 Introduction

The issue of inflation in economies has remained a source of national and international debates with varying opinions on causes and the actual effect. In this end, inflation is rise in the price of goods and services. Going by the definition of Umaru and Zubairu (2012), inflation is the persistence rise in the general price level of broad spectrum of goods and services in a country over a long period of time.

To Solomon (2016), inflation is not only a sign of instability; it is also a sign of more money pursuing fewer goods. Inflation is considered harmful to economic growth and welfare (Desta, 2016). When there is inflation, the currency loses purchasing power, that is, the purchasing power of a given amount of naira will be smaller over time when there is inflation in the economy. Inflation has been apparent in Nigeria from the outset of our national life. Inflation does not just appear from the moon, it is caused by varying factors as indicated by

various studies (Masha, 1995; Itua, 2000; Bayo, 2005; Orji, Onyeze, & Edeh, 2014). Although, there are numerous literatures and studies in government expenditure or financial size as a determinant of inflation in Nigeria, there is however insignificant literature on the relationship between inflation and monetization of fringe benefits especially in Nigeria.

In 2003, the government of President Olusegun Obasanjo revisited the monetization policy. Conceptually, monetization as a policy has been very difficult to define in concrete terms. To Amuwo (1991), monetization is the conversion of benefits previously available in kinds to public officers into cash payments, a view supported by Mobolaji (2003) who views the policy as government initiative involving systematic cash payments for benefits previously available in kinds to public officers. Monetization is a form of monetary policy which means benefits being enjoyed by public servants would be paid enbloc (monetized) (Saka, 2012).

Fringe benefits on the other hand are costs of keeping an employee other than salary and these benefits rates are typically calculated using fixed percentages that vary depending on the employee's classification and often change from year to year" (Ebru, 1995; & Adeleke, 2010). Chukwu (2006) posit that monetization of fringe benefits entails the use of cash to settle non-cash benefits i.e. the conversion of hitherto, non-cash benefits to cash; consequently, they cease to appear in the overhead cost of government.

Ekaette (2003) & Ramachandran (2003) documented that the purpose of the policy as contained in the government white paper is to remove: the burden of providing basic amenities for public officers who have contributed significantly to the continuous increase in government recurrent expenditure, leaving very little for capital development; it is further argued that it will encourage efficient allocation of resources and equity in the provision of amenities for public officers; it will reduce the high cost of accommodation fee since the policy would encourage civil servants to build their own houses.

To Adeleke (2010), monetization policy which was formally introduced into the Nigerian Public Service in 2005 led to monetization of those physical benefits which were added to the basic salary of workers. She stressed further that the exercise of monetization of fringe benefits of workers is simply an addition to the salary of workers.

Fayemi (2013) notes that the main components of Monetization Policy as it affects the fringe benefits of the public servants according to the Policy Act 2002 include residential accommodation, furniture allowance, utility allowance, motor loan, transport allowance, medical allowance, leave grants, medical subsidy and entertainment allowances. The computations of these components are based on the percentage of the annual basic salaries of workers.

It is evident from the review of literature that there is dearth of studies on the link between monetization of fringe benefits and inflation, hence the essence of this study.

Monetization of fringe benefits may seem as a laudable policy by the government by its effect have become a source of debate. Monetization policies not only increase recurrent expenditure over capital expenditure, it also implies that government has to spend more on overhead which is an ingredient for more money into the economy. While most studies have tried to find its associate impact of Monetization on economic growth, few studies have made attempt to find

out its relationship with inflation. Based on this, there is therefore little knowledge on the relationship between monetization policy and inflation hence the reason for this study.

The aim of this study is therefore to find the relationship between inflation and monetization of fringe benefits in Nigeria.

2.0 Conceptual Framework

The Glossary of Current Industrial Relations and Wage Terms (1968) defined fringe benefits as “supplement to wages received by workers at a cost to employers. The terms encompasses a number of benefits such as paid vacation, pension, health and insurance plans, etc which usually add up to something more than a “fringe” and is sometimes applied to a practice that may constitute a dubious benefits for workers”. Also, the International Labour Organization (1950) has defined it as “wages augmented by special cash benefits in kind that form part of the wages for expenditure on the goods and services. In addition, workers commonly receive such benefits as holidays with pay, low-cost meals, low-rent housing, etc.”

Saka (2012) listing some of benefits opined that they include leave grant, meal subsidy, entertainment allowance, duty tour allowances for domestic servants, residential accommodation, provision of vehicles (including fueling and maintenance), provision of medical treatment, utilities (electricity, water and telephone) and personal aides. To Saka, the idea of monetization of fringe benefits in the public service is intended to cut costs, because over the years capital projects which is the main driving force of the economy towards achieving sustainable growth and development have not been implemented due to high cost of running political, public and judicial office holders. Stressing further, he stated that the government is implored to pay an amount that would be equal to the workers benefits in terms of material item which should have been at their disposal in the course of performing government functions.

2.1 Theoretical Framework

The idea of monetization can best be explained by the Keynesian Theory and the Pigou effect theory. Keynes in 1934 proposed a policy which allows government intervene in the capitalist economy and by so doing uses such policy as fiscal tools to direct the economy. He explains that increasing spending can help the economy during depression while reduction in spending can help the economy during inflated economy.

Thus, it is therefore in the light of the above, one needs to examine the relationship between monetization of fringe benefits and inflation.

2.3 Monetization and its Financial Implication to Nigeria Economy

Writing on the economic implications of the monetization policy in Nigeria, Bakare (2011) believes that the policy did not contribute to an increase in gross domestic output, that the positive benefits of the policy are disputable, that the policy did not fulfill its goals and targets; therefore, the monetization policy is a failure. Mimiko (2003) submitted that the monetization

policy was precipitate of government concern with the continued escalation of the cost of running the machinery of government as a result of the huge bureaucracy with which the economy is delivered. In his contribution, Saka (2012) view the monetized fringe benefit as an innovation in the public sector in Nigeria is envisaged to improve productivity and efficiency in resource allocation since the country is inching towards full economic liberalization.

It is argued that if the workers' interests were not taken into due consideration in the execution of the policy, public servants might feel that the programme was designed to short change them. The amount of monetized benefits should be commensurate with the property or other materials expected to be enjoyed by the public servant as his benefits. Thus, there has to be a balance in the execution of the monetization policy so that we do not send any counterproductive or destructive psychological signal to the minds of the public servant who might feel he is being cheated by this policy.

Fasoranti (2008) viewed monetization policy in Nigeria as a socially worthwhile initiative. He opined that the cash payment of benefits may act as an incentive to the employee to work harder. For example, the provision of a personal car for a civil servant has implications on his social status that can motivate him to work harder since there will be no need for him to look for loans to acquire this asset.

Ogugua (2009) argued that the challenges of monetization policy are how well the policy could be implemented. He suggested that sizable resources required to fulfill monetization policy should be mobilized for it to be effective. In addition to this, he advised that the government should create positive atmosphere that will allow public servants, whose involvement were not always market driven, the opportunity to successfully bid for and own the government asset to be traded in monetization policy .

In order to establish the financial implication of the monetization programme for the 996,744 Nigerian public workforces, it arrived at using salary grade level 5 step 8 of each worker. The calculation came to the estimation of N300 – N350 billion of Nigerian currency. One wonders how the Government could raise such a colossal amount to fund the policy. In order to overcome this great challenge, the government took the following steps to finance the programme as documented by Fayemi (2013):

- a. To spread the monetized benefits over the 12 calendar months of a year, instead of the earlier decision to pay it en-bloc to the workers.
- b. The transport loan of 350% of the annual basic salary of each worker in the monetization agenda was struck out, and directed that only worker who desire vehicle loan should arrange it with his/her bank while the interest payment is pegged at one digit number.
- c. Utilize revenue accruable from the outright sale of the government property like houses and vehicles which have been monetized for workers.
- d. Government parastatals that were self-financing or not drawing from the government annual budget were directed to service the payment of the monetization of benefits of their staff i.e. the National Maritime Authority (NMA), Nigerian National Petroleum Corporation (NNPC), Central Bank of Nigeria (CBN).

- e. Mass retrenchment of workers that are tagged as “outsourcing” that were lower cadre of salary Grade Levels 01 - 07 such as gardeners, cleaners, drivers, clerical assistants etc while other criteria were used to ease out other cadres of Grade Level 08 and above from the public service of Nigeria.”

2.4 Monetization and its Relationship with Inflation in Nigeria

Most studies have indicated that monetization of fringe benefits raises recurrent expenditure as that is the channel through which government makes allocation for such policies since it has to do with wages, salaries and overhead cost (Bakare, 2011; & Saka, 2012). From the foregoing, it can be said monetization increases the level of recurrent expenditure.

Mehrara, Soufiani & Rezaei (2016) using the dynamic system showed more detailed analysis on the relationship between inflation and higher government expenditure by stating that if government expenditure increases, this increase makes the budget situation worse and leads to deficit. They stated further that increasing government debt to central bank (as a source of monetary base) will bring increase in monetary base, and will lead to increase money supply and with regard to the positive relationship between the general level of prices and liquidity, increasing the money supply will lead to an increase in inflation. As documented by

Fayomi (2013), the major thrust of the policy was the government’s resolve to dispose the government houses being occupied by workers before the policy to the occupants of such houses unfortunately these residential houses were offered to workers at outrageous cost beyond their reach. In his study, Fawoyi notes that initially workers were asked to pay 10% of the cost of such houses for commitment while subsequent payments would be directly deducted from the workers’ salaries for between 10 to 15 years period. Against this expectation, the government directed the house occupiers to private Finance Houses for mortgage loans with the Finance houses and mortgage banks paying en-bloc the costs of the houses to the Government. In his study he stressed further that the fate of the workers were left in the hands of the Finance Houses who were now paying through their noses because of high interest rate, administrative cost and other charges and had been mandated to move their salary accounts from the conventional banks to the various finance and mortgage banks.

The policy document on monetization expected that the policy would reduce waste, cost of government and corruption in the public administration. Findings by Fayomi (2013) indicated that the cost of governance and corruption was still on the high side. From the above, one can therefore say that increasing government expenditure as a result of higher recurrent expenditure has contributed to the growth of inflation.

For the few years past in Nigeria, government expenditure has kept a rising profile and the trend of inflation rate appears to be on the path of increase. Central Bank of Nigeria’s Statistical Bulletin shows percentage innovations in aggregate government size as 9.52, -9.66, 20.59, 6.90 and -9.42 for 1981, 1991, 2001, 2010 and 2015 respectively with inflation rates responding as follows: 7.7 for 1981, 5.72 for 1991, 18.87 for 2001, 13.72 and 9.42 for 2015.

2.5 Empirical Review

Early studies such as Akinifesi (1984) cited in Egbe (2015) identified factors such as increase in government expenditure financed by monetization policy and credit from the banking system has been responsible for the expansion of money supply which in turn with a lagged-in-effect contributed immensely to inflationary tendencies.

Okpara (1988) in his study on government expenditure, money supply and prices in Nigeria, found a very poor and insignificant relationship between government expenditure and prices. He concluded that inflation in Nigeria is a monetary phenomenon.

Han & Mulligan (2002) investigated the relationship between inflation and the size of government. They found that inflation is significantly and positively related to the size of government mainly when periods of war and peace are compared. Also they show a weak positive peacetime time series correlation between inflation and the size of government and a negative cross-country correlation of inflation with non-defense spending.

A study by Ezirim & Muoghalu (2006), suggested that the magnitude of government size as a proportion of gross domestic product (GDP) reflects the level of taxation in the economy. They were of the view that when the size of the public sector (measured by the share of expenditure on GDP) exceeds a certain threshold, incentives to produce are discouraged (because of high tax burden). According to them, this will lead reduction in aggregate supply, scarcity of goods and services making for excess of demand over supply. The net effect of such a bad adjustment between demand and supply is an inflationary spiral.

Ezirim, Muoghal & Elik (2008) studied the relationship between public expenditure growth and inflation in the U.S using the co integration analysis and Granger Causality Model applied to time series annual data from 1970 – 2002. The results indicate that public expenditure and inflation have a long-run equilibrium relation between them. Inflation significantly influences public expenditure decisions in the U.S. Public expenditure growth aggravated inflationary pressures in the country, where reduction in public expenditure tends to reduce inflation.

Mohammad, Wasti, Lal & Hussain (2009) tried to find out long run relationship among M2, inflation, government expenditure impact and economic growth in case of Pakistan. For this purpose they have used Johnson co integration and Granger causality test to find out long run association and causality. They found a negative relation between public expenditure and inflation. They attempted to explain that most of public expenditure is non-development and inflation is due to adverse supply shock (cost push inflation) in case of Pakistan.

Magazzino (2011) examined the nexus between public expenditure and inflation for the Mediterranean countries during the period 1970-2009, using a time-series approach. He found a long-run relationship between the growth of public expenditure and inflation for some countries. Furthermore, Granger causality tests results show a short-run evidence of a directional and bidirectional relationship from expenditure to inflation for all countries.

Olaiya, Nwosa & Amassoma (2012) examined the causal relationships among economic growth, government expenditure and inflation rate in Nigeria over the period 1970 to 2010. Using the Augmented Dickey-Fuller (ADF) and the Philip Pearson tests it found that in the short run a unidirectional causality existed from economic growth and government expenditure to

inflation rate while no feedback from inflation rate was observed. Based on these findings, this study recommends that government should implement policies that would moderate government spending in order to reduce inflation rate.

Ogbonna (2014) using co-integration and vector error correction model (VECM) methods to determine the correlation between government size and developments in consumer price index in Nigeria indicates a long run equilibrium relationship between consumer price index and government size in Nigeria but concludes that in the short run changes in inflation.

Oniore, Obumneke & Torbira (2015) in their study using Augmented Dickey-Fuller (ADF) Unit Root test, Johansen Co-integration test and the Granger Causality test to determine the causal relationship existing between public expenditure growth and inflation in Nigeria found that there is no statistically discernible relationship between the variables.

Mehrara, Soufiani, & Rezaei (2016) based their study on nonlinear relationship between inflation and government spending using quarterly data over the period of 1990-2013. The study used Smooth Transition Regression Model for a two regime model by using inflation, government expenditure growth, GDP growth and liquidity growth with findings indicating a lag of liquidity as transition variable. It also showed that in regime of tight money or low growth of liquidity, government expenditure is not inflationary.

3.0 Research Methodology

3.1 Design

The focus of this study is on the impact of monetization on inflation; in order to achieve this, the study examines two periods which are the period before monetization (1990-2002) and period under monetization (2003-2015). The ex post de facto research design was therefore adopted since the data are already in existence and comprise data from 1990-2015. This study employed data obtainable from the Central Bank of Nigeria (CBN) Statistical Bulletin from 1990 to 2015.

3.2 Model Specification

The model specifications indentified in the hypotheses are:

Inflation =F (fringe benefits)i

Fringe benefits is proxy by recurrent expenditure (REX), consumption expenditure (COEX) and compensation of employees (COMP) since monetization reduces wastage and reduction in recurrent expenditure and consumption expenditure while also leading to higher payment of compensation to laid off staff. The model can therefore be restated as

INF= F (RCEX, COEX, COMP, BMS)

BMS is money supply as an exogenous variable since increase in recurrent expenditure as a result of sales of government assets leads to increase in money supply.

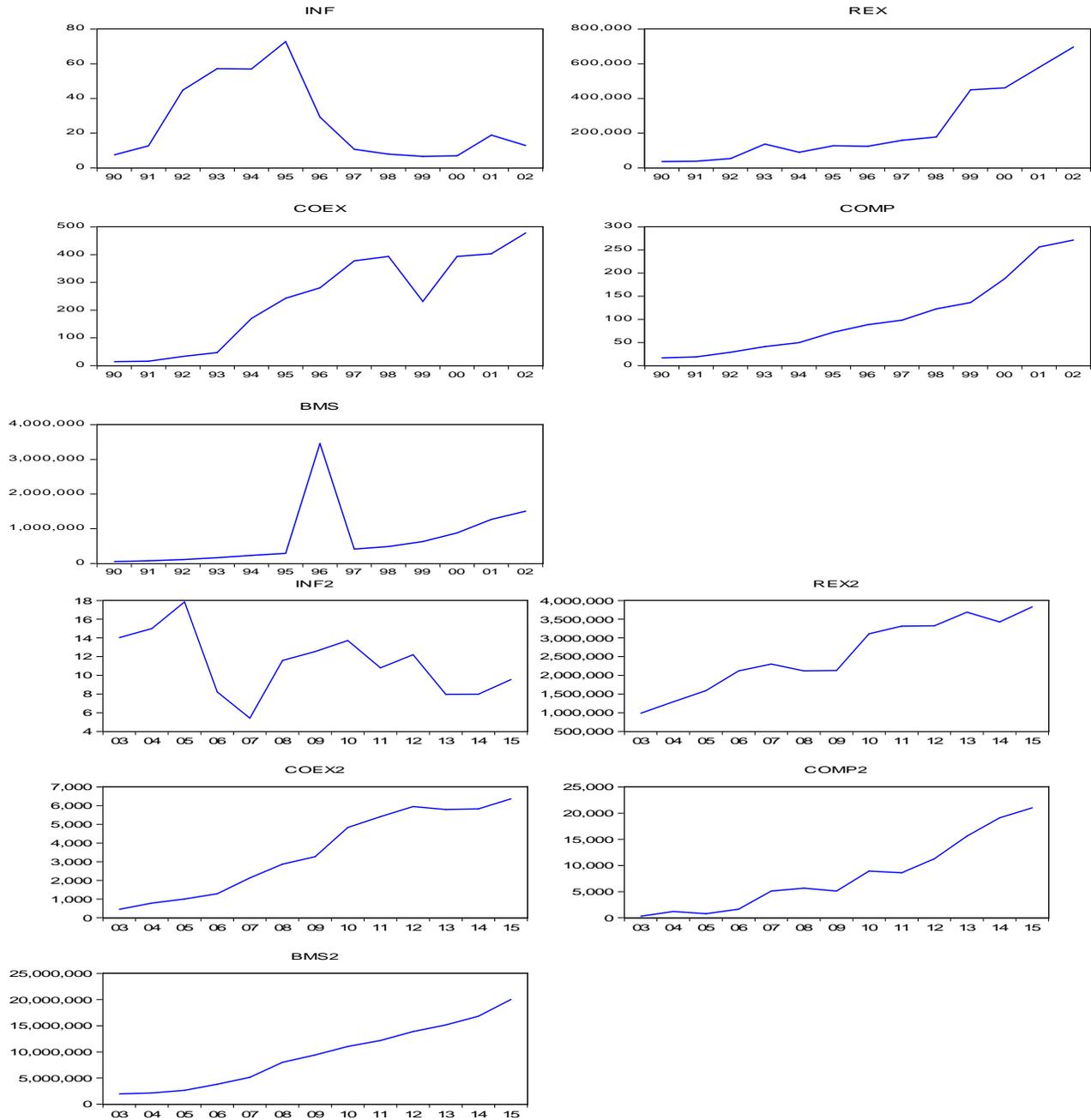
Therefore, $INF = b_0 + b_1REX + b_2COEX + b_3COMP + b_4BMS$

$INF > 0$ implies a positive relationship between the variables; $INF < 0$ implies a negative relationship between the variables.

4.0 Data Analysis and Discussion

The figure 1-2 above shows that trend to movement in the same line direction.

Figure 2 which is the period of monetization shows that REX2, COEX, COMP2 and BMS2 witnessed upward trend which is an indication that monetization policy actually raised the amount spent on recurrent expenditure, consumption expenditure, and compensation expenditure and therefore there is no evidence of less wastage. Rather, wastage remained high during monetization policy. Moreover, there is also evidence of increased money supply within this period and the line of the inflation moving in almost the same direction with recurrent expenditure is evidence that monetization may influence money supply.



YEAR	INF	REX	COEX	COMP	BMS	
1990	1990	7.500	36219.6	13.97739	16.56198	52857.02
1991	1991	12.700	38243.5	15.90481	18.78358	75401.18
1992	1992	44.800	53034.1	33.11511	28.73336	111112.30
1993	1993	57.200	136727.1	46.79650	40.97642	165338.70
1994	1994	57.000	89974.9	169.6692	49.64731	230292.60
1995	1995	72.800	127629.8	242.7375	72.30291	289091.10
1996	1996	29.300	124491.3	280.3800	88.56976	3458554.00
1997	1997	10.700	158563.5	377.7790	98.30061	413280.10
1998	1998	7.862	178097.8	393.5472	122.8075	488145.80
1999	1999	6.618	449662.4	231.2920	136.2556	628952.20
2000	2000	6.938	461600.0	393.5472	188.3937	878457.30
2001	2001	18.869	579300.0	403.1043	256.5279	1269322.00
2002	2002	12.883	696800.0	478.2933	271.7081	1505964.00

YEAR2	INF2	REX2	COEX2	COMP2	BMS2	
2003	2003	14.033	984300.0	450.4901	296.0386	1952921.
2004	2004	15.001	1290202.	785.8194	1203.620	2131819.
2005	2005	17.856	1589270.	1003.104	770.4849	2637913.
2006	2006	8.218	2117362.	1283.403	1639.624	3797909.
2007	2007	5.413	2300194.	2131.811	5104.100	5127401.
2008	2008	11.581	2117362.	2871.376	5654.272	8008204.
2009	2009	12.543	2127972.	3269.928	5118.411	9411112.
2010	2010	13.720	3109379.	4832.148	8918.569	11034941
2011	2011	10.800	3314513.	5412.006	8597.129	12172490
2012	2012	12.200	3325156.	5953.206	11283.45	13895389
2013	2013	7.960	3689061.	5796.440	15614.73	15158622
2014	2014	7.980	3426898.	5826.893	19097.02	16818487
2015	2015	9.550	3831947.	6365.602	21018.96	20029831

CBN 2015

Regression analysis

Table 1: Pre-monetization (1990-2002)

Dependent Variable: INF
 Method: Least Squares
 Date: 01/20/17 Time: 11:58
 Sample: 1990 2002
 Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	38.44099	12.91718	2.975959	0.0177

REX	-3.59E-05	0.000173	-0.207657	0.8407
COEX	-0.022588	0.124431	-0.181528	0.8605
COMP	0.018465	0.611037	0.030219	0.9766
BMS	1.96E-07	9.36E-06	0.020908	0.9838
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R-squared	0.166039	Mean dependent var	26.55154	
Adjusted R-squared	-0.250942	S.D. dependent var	23.32595	
F-statistic	0.398192	Durbin-Watson stat	0.748086	
Prob(F-statistic)	0.804966			

Source: E-view version 8.0

Table 2: Post-monetization (2003-2015)

Dependent Variable: INF2
 Method: Least Squares
 Date: 01/20/17 Time: 12:09
 Sample: 2003 2015
 Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.79121	5.307813	3.917095	0.0044
REX2	-7.18E-06	3.89E-06	-1.846858	0.1020
COEX2	0.002902	0.002680	1.082848	0.3104
COMP2	-0.000296	0.000627	-0.472253	0.6494
BMS2	1.04E-07	1.21E-06	0.085847	0.9337
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R-squared	0.507079	Mean dependent var	11.29654	
Adjusted R-squared	0.260618	S.D. dependent var	3.440979	
F-statistic	2.057444	Durbin-Watson stat	1.805550	
Prob(F-statistic)	0.178777			

Source: E-view version 8.0

In table 1, it was observed that REX and COEX have negative relationship with INF, that is the higher the variables the lower the inflation rate. COMP and BMS have positive relationship with INF, that is, the higher the variables the higher the inflation. However, the independent variables have no significant impact on inflation.

Table 2 analysis which shows the period of monetization indicates that REX2 (-7.18E-06) and COMP2 (-0.000296) have negative relationship with inflation, that is, the higher the recurrent expenditure and compensation, the lower the inflation. Furthermore, COEX2 (0.002902) and BMS2 (1-04E-07) have positive relationship with inflation, that is, the higher the consumption expenditure and money supply, the higher the inflation. Recurrent expenditure has a prob value of 0.1020 indicating that it has less impact on inflation. Consumption expenditure has a prob value of 0.3104 which also indicates an insignificant influence on inflation. Compensation has a prob. Value of 0.6494, an indication that it has no significant

effect on inflation while broad money supply which has a prob. Value of 0.9337 is an insignificant determinant of inflation.

The policy implication of the result tends to show that despite the graph indicating almost the same direction of movement among the variables, the analysis provides that there is insignificant relationship between the monetization variables and inflation which may not be unconnected to the policy of the CBN over the years aimed at tackling inflationary trend in the economy. The money supply growth rate for the period of monetization points that monetization influences money supply.

5.0 Conclusion and Recommendations

From the foregoing, the essence of monetization of fringe benefits in the public sector was aimed to reduce cost of governance, expenses, and wastages and make the public and civil servants live a better life after retirement. But the macroeconomic effect of this policy has been the focus of this study. The macroeconomic variable in particular was inflation. Empirical analysis shows that monetization has not influenced inflation in Nigeria but it moves in the same direction with money supply which is an ingredient for inflation. The insignificant relationship between the recurrent expenditure, money supply, consumption expenditure, compensation expenditure with inflation could be as result of the CBN policy of inflation targeting. From all indication, monetization policy seems a welcomed development but its long term effect needs to be checked since inflation reduces the value of currency in the future. That is, the value of money worth today may be less under a growing inflation rate tomorrow. Workers may then be worst off as they may have to pay more and receive little value for what they are saving for.

Therefore the problem of inflation should remain the topmost agenda of the government and Central Bank of Nigeria. Government needs to also ensure fiscal discipline in its monetization policy while excessive spending should be minimized to reduce the volume of money in circulation. This can be done by investing in assets that are beneficial to the workers, while amortization of the assets should be spread and done in way not to increase too much money in the hands of financial institutions.

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