MONETARY POLICY AND ECONOMIC GROWTH IN NIGERIA

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF FINANCE, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, BENIN CITY, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN FINANCE

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DECLARATION

I, **Hope NOGHEGHASE**, do hereby declare that this project is entirely my work and composition. The work embodied in this project has not been submitted in candidature for any degree and is not concurrently being submitted for any other degree. All references made to works of other persons have been duly acknowledged.

_____ _____

Hope NOGHEGHASE **Date**

CERTIFICATION

We certify that this research work was carried out by **Hope NOGHEGHASE** and it is adequate in scope and quality and is hereby approved for in partial fulfilment of the requirement for the award of Bachelor of Science (B.Sc) Degree in Finance, University of Benin, Benin City.

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DEDICATION

I dedicate this project to Almighty God for his grace to do this work. I also want to dedicate this project to my dad, LATE MR EMMANUEL NOGHEGHASE and to my wonderful family for their love and support throughout the course of this project.

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ABSTRACT

This study looks at how monetary policy affected Nigeria's economic growth between 1988 and 2024. The relationships between the monetary policy rate, inflation rate, interest rate, and Treasury bill rate and GDP is the main focus of the analysis. Different levels of significance and directionality among these variables are identified by the study using the ordinary least squares (OLS) econometric method. The findings reveal that the monetary policy rate has a positive and significant effect on economic growth, underscoring its role as a critical tool for economic stabilization. However, interest rate and Treasury bill rate exhibit negative and statistically insignificant relationships with GDP, indicating limited influence within the Nigerian context. Similarly, the inflation rate demonstrates a positive but statistically insignificant relationship with economic growth, suggesting a nuanced effect depending on macroeconomic conditions. The study comes to the conclusion that while monetary policy is still essential for managing the economy, better transmission mechanisms, structural changes, and complementary fiscal measures can increase its efficacy.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The economic path of countries is greatly influenced by monetary policy, which is the main instrument for controlling economic stability and promoting expansion. The efficiency of monetary policy is essential in Nigeria, a nation with a dynamic and resource-dependent economy, in order to handle enduring macroeconomic issues such inflation, unemployment, exchange rate volatility, and slow economic growth (Afolabi & Ajayi, 2020). Developing and carrying out monetary policy is primarily the responsibility of the Central Bank of Nigeria (CBN). The major goal is to sustain price stability while promoting economic growth and development. The CBN aims to affect aggregate demand and supply in order to guide the economy toward desirable outcomes by managing important monetary variables such the money supply, interest rates, and credit availability (CBN, 2019). Nigeria's economic environment is impacted by both internal and external variables. Significant vulnerabilities have been generated internally by structural problems such inadequate infrastructure, corruption, and a strong reliance on oil revenues (Eze, 2021). Macroeconomic stability is regularly upset by external factors such as shifting trade dynamics, oil price swings, and

worldwide economic shocks. In light of this, monetary policy turns become a crucial tool for managing these complexities (World Bank, 2020).

Research studies have focused on how the Central Bank of Nigeria's (CBN) monetary policy affects the nation's economic growth. One tool used by the CBN for monetary policy is the Cash Reserve Ratio (CRR), which aims to affect the amount of credit that deposit money banks can provide to the economy. When the CBN wants to lower inflation and the amount of money in circulation, it raises the rate; when it wants to boost growth through money creation, it lowers the rate. In a similar vein, the regulator communicates its interest rate and views of the period's economic goals to the market, banks, and other financial institutions through its monetary policy rate (MPR). By giving deposit money banks access to a sizable pool of funds for lending to its clients, the Central Bank of Nigeria (CBN) uses the cash reserve ratio to boost economic growth. It also lowers inflation by limiting the amount of money that may be used for lending to the economy. The goal of these is to lower the cost of financing for the actual economy. Since increased production capacity through loans and advances results in increased employment and capacity building, which ultimately leads to economic growth, the actual sectors—manufacturing, mining, agriculture, fisheries, construction, and SMEs—are the ones driving economic expansion.

Over the years, Nigeria has a history of alternating between expansionary and contractionary monetary policies, which reflects the country's reaction to the state of the economy. Expansionary policies, which lower interest rates and increase the money supply, have been used to boost growth during economic downturns. According to Udoh and Anyafo (2018), contractionary measures are used to tighten liquidity and stabilize prices during periods of excessive inflation or overheating economies. Notwithstanding these initiatives, Nigeria's economic growth has frequently been marked by lulls and stalls. For example, a growing work force and a rapidly growing population have surpassed the economy's ability to create enough job opportunities. Depreciation of the currency and supply-side limitations have caused inflation, which has reduced purchasing power and impeded investment (Adedokun, 2022). Furthermore, excessive dependence on oil as the main source of income has left the economy vulnerable to the fluctuations of international oil markets, frequently compromising the efficacy of monetary policy (IMF, 2021). The goal of research on Nigeria's monetary policy and economic growth is to clarify the nuances of policy creation and execution. It looks at how to best use monetary tools to accomplish sustainable economic growth while overcoming external and structural limitations. In order to guarantee that monetary policy effectively supports Nigeria's economic goals, such studies

are essential for educating decision-makers and directing future tactics (Akpan, 2020).

1.2 Statement of Research Problem

Nigeria has a lot of natural and people resources, but its growth potential is hampered by enduring economic problems. While monetary policy is an essential instrument for attaining macroeconomic stability, it has not always produced the intended results for sustained development and growth. Due to structural inefficiencies and an excessive reliance on oil earnings, the country is confronted with high rates of unemployment, exchange rate instability, and inflation. According to Adedokun (2022) and Eze (2021), these problems cast doubt on the efficacy and efficiency of monetary policy in resolving Nigeria's economic problems. The misalignment of monetary policy goals with the actualities of Nigeria's economic structure is one of the main issues. For instance, the Central Bank of Nigeria (CBN) frequently concentrates on containing inflation, but the economy's structural limitations, including inadequate institutions, limited industrial capacity, and poor infrastructure, restrict the ability of monetary policy measures to be implemented in the actual economy (Afolabi & Ajayi, 2020). The economy is also vulnerable to global price shocks due to its substantial reliance on

oil exports, which might complicate the execution of monetary policy by causing fiscal deficits and currency volatility (IMF, 2021).

The problem of promoting economic growth and preserving price stability is also still unsolved. In many cases, expansionary monetary policies that were intended to increase growth have instead raised inflation without significantly increasing industrial output or employment. However, in an effort to reduce inflation, contractionary policies frequently discourage investment and aggregate demand, which further limits growth (Udoh & Anyafo, 2018).

The overarching structure of economic policy has also been undermined by the ineffective coordination of fiscal and monetary policy. Budgetary indiscipline, such as excessive government borrowing and wasteful public spending, undermines attempts to stabilize the economy through monetary measures, leading to inconsistent policy outcomes (Akpan, 2020). Nigeria's monetary policy framework has to be thoroughly examined in order to pinpoint its shortcomings and investigate possible adjustments, as these problems continue to exist. This study aims to answer the basic question of how monetary policy can be best utilized to attain long-term economic growth in Nigeria, taking into account the particular difficulties presented by its external vulnerabilities and economic structure. Monetary policy rate, Interest rate, Treasury bill rate and inflation rate

1.3 Research Questions

i. What is the relationship between monetary policy rate and economic growth in Nigeria?

ii. Is there a significant relationship between interest rate and economic growth in Nigeria?

iii. What is the relationship between Treasury bill rate and economic growth in Nigeria?

iv. Is there a significant relationship between inflation rate and economic growth in Nigeria?

1.4 Objectives of the Study

The broad objective of the study is to examine the impact of monetary policy on Economic Growth in Nigeria. In order to achieve the broad objective, the study sought to address the following specific objectives are to:

i. Determine the relationship between monetary policy rate and economic growth.

ii. Ascertain the relationship between interest rate and economic growth

iii. Determine the relationship between treasury bill rate and economic growth

iv. Examine the relationship between inflation rate and economic growth

1.5 Research Hypotheses

The hypotheses of the study were tested in null form:

H_{01}: There is no significant relationship between monetary policy rate and economic growth in Nigeria;

H_{02}: Interest rate has no significant relationship with economic growth in Nigeria;

H_{03}: There is no significant relationship between Treasury bill rate and economic growth in Nigeria;

H_{04}: Inflation rate has no significant effect on economic growth in Nigeria.

1.6 Scope of the Study

This study examines how monetary policy affects Nigeria's economic growth, with a particular emphasis on the relationship between economic growth indicators and the main monetary policy tools—the inflation rate, interest rate, treasury bill rate, and monetary policy rate. The following is how the scope is defined: Nigeria is the sole focus of the study, which focuses on the macroeconomic performance, monetary dynamics, and economic policies of the country in general. Time Period: From 1988 to 2024, the analysis covers important shifts in monetary policy and economic developments. Global Financial Crisis

(2008): Assessing the economic repercussions for Nigeria. Oil Price Decline and Recession (2014–2016): Evaluating the economic difficulties brought on by declining oil earnings and an extended recession. An analysis of the COVID-19 pandemic's effects on Nigeria's monetary policy and general economic stability in 2020.

1.7 Limitation of the Study

Although this study offers insightful information about the connection between monetary policy and economic growth in Nigeria, some limitations may influence its conclusions and interpretations:

i. Data Accuracy and Availability: The depth of analysis may be constrained by the quality and accessibility of trustworthy macroeconomic data, particularly for the early years of the study period (1988–2000). Potential biases could be introduced by incomplete records and disparities in data sources.
ii. Exclusion of Non-Monetary Factors: Monetary policy tools are the main focus of this study. Though they are not fully examined, other elements including political unpredictability, inadequate infrastructure, and outside economic shocks (such changes in the price of commodities globally) also have a big impact on Nigeria's economic growth.

iii. Time Lag in Policy Effects: It can be difficult to isolate direct effects within particular timeframes due to the delay between the implementation of monetary policies and their quantifiable effects on economic growth indicators.

iv. Worldwide Economic Influences: Although the study recognizes worldwide occurrences like as the COVID-19 pandemic and the 2008 financial crisis, it does not thoroughly examine the wider effects of global trade and monetary systems on Nigeria's economy.

v. Model Limitations: The econometric models used in this research might oversimplify the relationships between variables since they fail to adequately represent the complexity of Nigeria's monetary and economic dynamics.

vi. Emphasis on Important Monetary Tools: The study places particular emphasis on the inflation rate, interest rate, monetary policy rate, and Treasury bill rate. It might not adequately take into consideration additional monetary tools or qualitative policy initiatives that were employed throughout the study period.

By recognizing these shortcomings, the study hopes to put its findings in context and promote additional research to fill up these knowledge gaps.

1.8 Significance of the Study

This analysis of how monetary policy affected Nigeria's economic growth from 1988 and 2024 is important for a number of reasons.

i. Policy Formulation and Evaluation: The results offer insightful information to help policymakers assess the efficacy of current monetary policies, especially the Central Bank of Nigeria (CBN). In order to guarantee sustainable economic growth, it also identifies areas that require improvement.

ii. Economic Stabilization: The study provides practical suggestions to stabilize the economy during times of recession, inflation, or external shocks by examining the relationship between important monetary policy tools (such as the monetary policy rate, treasury bill rate, interest rate, and inflation rate) and economic growth.

iii. Historical Perspective: The report provides a thorough examination of Nigeria's economic development over the past thirty years, taking into account notable occurrences such as the financial crisis of 2008, the recession and drop in oil prices from 2014 to 2016, and the COVID-19 pandemic of 2020. Future economic decisions can be guided by this historical viewpoint.

iv. Contribution to Literature: It serves as a reference for scholars, researchers, and students interested in Nigeria's macroeconomic policies and their ramifications, as well as contributing to the corpus of scholarly work on monetary policy and economic growth.

v. Private Sector and Investor Insights: The study gives stakeholders in the private sector, including investors and company executives, a clearer grasp of how monetary policies affect Nigerian inflationary trends, investment prospects, and market circumstances.

vi. Useful Suggestions: By pointing out the advantages and disadvantages of current and previous monetary policies, the study provides evidence-based suggestions that can direct the implementation of better measures to promote economic growth.

vii. Public Awareness: It promotes educated civic engagement on economic problems by raising public awareness of how monetary policies affect their day-to-day lives through elements like inflation, employment, and economic stability.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an outline of the notion of monetary policy on the Nigerian economy in accordance with the study's goals. In order to establish the need for more research on this topic, this chapter also provides a brief overview of earlier works that were completed by different researchers to address issues related to the research problems of this study. An attempt was made to examine their various conclusions and assess whether they are similar or contradictory.

2.2 Conceptual Review

2.2.1 Concept of Monetary Policy

According to Ibeabuchi (2012), monetary policy refers to the tools available to monetary authorities to affect the cost and availability of credit or money with the ultimate goal of attaining price stability. Chigbu & Okonkwo (2014) describe monetary policy as the intentional measures used by the government to alter the money supply, the cost, the size, and the direction of credit in order to affect the volume of economic activity and attain the intended macroeconomic stability in an economy. Similarly, it is a key tool used by

monetary authorities to regulate the money supply in a country's economy and attain desired economic growth and development is monetary policy.

According to Adegbite and Alabi (2013), monetary policy is a crucial tool that a nation can use to maintain the stability of its internal prices and exchange rates, which is a prerequisite for achieving sustainable economic growth and external viability. A nation's monetary authority regulates the money supply through a process known as monetary policy, which aims to foster stability and economic growth. Stated differently, the central bank of an economy implements this policy to manage the nation's money supply and stabilize the economy. Since most governments think that the money supply's rate of growth and development affects the rate of inflation, they attempt to regulate it. Therefore, government activities intended to affect the monetary sector's behavior in an economy are referred to as monetary policy. Nonetheless, monetary policies work best in nations with sophisticated financial and monetary systems, such as the world's industrialized economies. Therefore, monetary policy's primary purpose is to manage and control credit money.

2.2.2 Monetary Policy Rate

The Central Bank of Nigeria (CBN) uses the Monetary Policy Rate (MPR) as a key tool to manage the economy by affecting economic growth, stabilizing the

currency, and containing inflation (Ubi & Ekeocha, 2017). The benchmark interest rate that establishes the rate at which the CBN extends credit to deposit money banks is the MPR. The central bank indirectly affects lending and deposit rates as well as other interest rates in the economy by modifying the MPR. One of the main goals of the CBN is price stability, which the MPR is supposed to help achieve. The Central Bank of Nigeria Act of 2007 states that the CBN is responsible for maintaining price and monetary stability, both of which have a direct impact on the macroeconomic environment. Before determining whether to raise, cut, or maintain the rate, the Monetary Policy Committee (MPC) reviews the MPR on a regular basis. During these meetings, important economic variables are examined, including inflation, exchange rate volatility, economic growth trends, and budgetary pressures.

The CBN frequently raises the MPR to reduce excess liquidity in the system when Nigerian inflation is rising. Inflationary pressures are lessened by higher interest rates since they deter borrowing, promote saving, and slow down consumer spending. Lowering the MPR, on the other hand, promotes borrowing, stimulates investment, and increases economic activity by making funds more accessible during economic downturns. In spite of both internal and external shocks, this system makes sure that the economy stays balanced. Nigeria's

monetary policy has been heavily influenced by the MPR, particularly in reaction to major economic difficulties. For example, as part of its intervention strategy, the CBN modifies the MPR during times of economic recession, currency depreciation, and variations in the price of oil globally, to which Nigeria's economy is especially susceptible. However, the MPR's performance is affected by external factors including exchange rate dynamics, global commodity prices, and fiscal policies, which can occasionally lessen its impact in reaching the intended economic goals. The transmission lag in the Nigerian financial system is one of the major obstacles the MPR must overcome. The effectiveness of monetary policy is limited because deposit money banks might not instantly reflect changes in their lending or deposit rates, even when the CBN modifies its monetary policy rate (Obadan, 2020). Furthermore, Nigeria's large informal economy and limited financial inclusion mean that many economic activities remain outside the purview of formal monetary policy instruments. Therefore, Monetary Policy Rate remains a central instrument in Nigeria's economic management strategy. It is reviewed through a structured, evidence-based approach by the CBN's Monetary Policy Committee and directly impacts inflation control, exchange rate stability, and economic growth. However, its efficacy

depends on the financial system's responsiveness and other external economic factors.

2.2.3 Prime Lending Rate

In Nigerian terms, the prime lending rate is the interest rate charged by deposit money banks to their most creditworthy clients, which are often big businesses with sound financial standing and minimal default risk. This rate affects how much it costs for both individuals and businesses to borrow money and acts as a standard for other interest rates in the economy. In Nigeria, the Central Bank of Nigeria's (CBN) monetary policies have a direct impact on the prime lending rate. As the regulatory body, the CBN determines the benchmark interest rate known as the Monetary Policy Rate (MPR), which is used to regulate liquidity in the financial system, stabilize the economy, and control inflation (Central Bank of Nigeria, 2023). Therefore, changes in the MPR cause changes in the prime lending rate. Deposit money banks raise their lending rates to reflect the increased cost of funds when the CBN raises the MPR in an effort to control inflation or reduce the surplus money supply. On the other hand, reduced prime lending rates may result from a decrease in the MPR. Nigerian deposit money banks base their particular prime lending rates on a number of variables, including borrower risk, market conditions, and operating expenses. Other less creditworthy

people or enterprises may be charged higher interest rates to make up for the perceived risks, even if the prime lending rate is only available to borrowers with solid financial status. For instance, when setting their rates, banks may take into account macroeconomic risks that are common in Nigeria's economy, such as inflation and foreign exchange volatility (CBN Annual Report, 2022). The relationship between the prime lending rate and the broader economy is significant. High prime lending rates can discourage borrowing for investment and business expansion, thereby slowing economic growth. Conversely, when the prime rate is low, businesses can access funds more easily to finance projects, leading to increased production, job creation, and economic development. However, the persistent inflationary pressures in Nigeria often lead the CBN to maintain a relatively high MPR, which indirectly keeps the prime lending rate elevated.

For example, according to CBN data, the prime lending rate in Nigeria has remained high, averaging around 13–15% in recent years due to inflationary concerns and economic volatility (Central Bank of Nigeria, 2023). A difficult economic climate has been exacerbated by elements including rising inflation, servicing external debt, and varying oil income, all of which have an impact on how deposit money banks set interest rates. Consequently, the Central Bank of Nigeria's monetary policy and macroeconomic circumstances are both reflected in

Nigeria's prime lending rate. It is a key factor in determining borrowing and investing choices and serves as a standard for other interest rates in the financial industry. The CBN indirectly affects inflation, financial stability, and economic growth by regulating the prime lending rate through the MPR.

2.2.4 Real Exchange Rate

An important economic metric that accounts for variations in the two nations' price levels is the real exchange rate (RER), which calculates the worth of one country's currency in relation to another. In the global market, it is a key factor in determining a country's purchasing power and trade competitiveness. The real exchange rate is a topic of great significance in Nigeria because of the nation's reliance on oil exports, volatile currency values, and ongoing inflationary pressures.

A mathematical expression for the real exchange rate is as follows:

RER=Nominal Exchange Rate × Foreign Price Level/Domestic Price Level

The nominal exchange rate in this formula represents the market value of the naira (₦), the currency of Nigeria, in relation to another currency, such as the US dollar (USD). The foreign price level takes into consideration prices in the trading partner's economy, whereas the domestic price level reflects Nigeria's inflation-adjusted pricing. Nigerian exports are less competitive when the actual

exchange rate is higher since it means that Nigerian goods are comparatively more expensive than those from other countries. On the other hand, a lower RER increases trade competitiveness by lowering the cost of Nigerian goods abroad. The Nigerian real exchange rate has fluctuated over time due to a number of structural and macroeconomic reasons. The nation's dependence on oil exports is a major cause of this volatility. Nigeria is the biggest oil producer in Africa, and more than 90% of its foreign exchange profits come from the sale of crude oil. Nigeria's exchange rate is thus directly impacted by changes in the price of oil on a worldwide scale. Nigeria's foreign reserves decrease when oil prices fall, which puts pressure on the naira to fall. The real exchange rate is changed and economic stability is hampered by this depreciation and domestic inflation (Ogundipe et al., 2013). Another important aspect influencing Nigeria's real exchange rate is inflation. As a result of the naira's declining purchasing power due to persistent inflation, domestic prices are higher than those of trading partners. The disparity has been made worse, for instance, by Nigeria's double-digit inflation rates in recent years. Because of high inflation compared to nations like the US, Nigeria's real exchange rate rises, which reduces the worldwide competitiveness of Nigerian commodities and raises the cost of imports, affecting the trade deficit. The real exchange rate in Nigeria is also impacted by fiscal and monetary policies. With its

operations in the foreign exchange market, the Central Bank of Nigeria (CBN) is crucial in controlling the dynamics of exchange rates. For example, measures like foreign exchange restrictions and different exchange rate regimes have been put in place to keep the naira stable. The unofficial currency rate, however, frequently deviates greatly from the official rate due to distortions and parallel market activity brought about by these policies (Ezeabasili et al., 2016). Investors and dealers have additional uncertainty as a result of this dual exchange rate regime, which makes it more difficult to accurately determine the true exchange rate.

Furthermore, structural issues like Nigeria's high reliance on imports for food and manufactured goods are a factor in the country's real exchange rate volatility. Because of its weak industrial base and lack of domestic output, Nigeria is dependent on imported commodities, which drives up demand for foreign currencies and devalues the naira. The real exchange rate is still out of sync since the naira depreciates nominally without domestic prices changing in tandem. It is impossible to overestimate the significance of a stable real exchange rate for Nigeria's economic expansion and advancement. A competitive real exchange rate encourages economic diversity, draws in international investment, and boosts export growth. On the other hand, an excessively high RER, as is frequently the case in Nigeria, promotes imports, discourages exports, and makes current account

deficits worse. Therefore, in order to achieve exchange rate stability, measures that manage inflation, increase foreign reserves, and increase local production in order to lessen reliance on imports must be coordinated.

2.2.5 Broad Money Supply

In Nigeria, the total amount of money in circulation within the economy, including near-money assets and different types of money, is referred to as the "broad money supply." It is a crucial metric that economists and decision-makers use to gauge liquidity, track inflation, and evaluate the state of the economy as a whole. In Nigeria, the broad money supply, represented by the symbol M3, consists of other highly liquid assets as well as the more specific money measures, such as M1 and M2. In order to stabilize the economy and achieve sustainable growth, the Central Bank of Nigeria (CBN) establishes and controls the elements of the money supply in accordance with monetary policy objectives. It's critical to distinguish between the many components of the wide money supply in order to fully comprehend it. The most liquid types of money are represented by M1, which includes demand deposits (current accounts) with deposit money banks as well as currency that is in circulation (coins and banknotes). This is the most common type of money that is used for transactions. By adding near-money assets like savings accounts, fixed deposits, and other short-term time deposits that are

quickly convertible into cash, M2 goes beyond M1. Last but not least, M3, or the wide money supply, consists of M2 plus other sizable deposits such repurchase agreements, institutional money market funds, and other longer-term assets. Essentially, M3 reflects the total amount of liquidity accessible to families, companies, and institutions, encapsulating the economy's larger concept of money.

As part of its monetary policy framework, the CBN is essential in Nigeria in controlling the country's overall money supply. The objectives of this rule are to maintain financial stability, encourage economic growth, and manage inflation. To affect the amount of money in circulation, for example, the CBN uses monetary instruments such the Monetary Policy Rate (MPR), Open Market Operations (OMO), and the Cash Reserve Ratio (CRR) (Central Bank of Nigeria, 2023). The CBN can either reduce surplus money in circulation or add liquidity to the economy by modifying the CRR, which sets the percentage of deposits that banks must hold with the central bank, or by participating in OMOs to buy or sell government assets. Nigeria's broad money supply has grown significantly in recent years as a result of a number of reasons, including rising government spending, an increase in private sector credit, and the impact of oil earnings on foreign reserves. The country's attempts to boost economic activity in the face of issues like inflation and currency depreciation are reflected in the Central Bank of Nigeria's

statistical reports, which show that the broad money supply rose to over ₦50 trillion in 2023 (CBN Annual Report, 2023). But there are hazards associated with the expansion of the broad money supply as well, especially in the form of inflationary pressures. Demand-pull inflation, in which prices increase as a result of increased consumer purchasing power, can occur when the money supply grows more slowly than the expansion of goods and services. Nigeria's monetary policy has placed a lot of emphasis on the links between inflation and the broad money supply. According to empirical research, rising inflation rates in Nigeria are frequently correlated with an excessive expansion of the money supply (Ajayi & Ojo, 2022). For instance, when the CBN reduces interest rates to promote borrowing and spending during expansionary monetary policy times, the ensuing rise in liquidity may worsen inflation if it is not adequately controlled. The CBN regularly tracks monetary aggregates and aligns its policies with more general economic goals in order to reduce such risks.

2.2.6 Economic Growth

Economic growth is defined as the steady rise in a nation's GDP over a given time period, which indicates the countries increased potential for production. Improvements in citizen living standards, job possibilities, and overall national wealth are reflected in the growth in the amount of goods and services generated

within the economy. Since it significantly contributes to the reduction of poverty, the improvement of infrastructure, and the general well-being of a country's people, economic growth is a crucial macroeconomic objective (Todaro & Smith, 2020). Economic growth in Nigeria has traditionally been fueled by a number of causes, with the oil and gas industry playing a major role. Nigeria is one of the biggest economies in Africa, and its government and foreign exchange earnings are mostly dependent on oil exports. However, this over-reliance on oil has made the economy vulnerable to fluctuations in oil prices around the world, which has frequently hampered growth. For example, Nigeria went through a severe economic downturn after the 2016 global oil price fall, with its GDP shrinking by 1.6% (World Bank, 2017). This emphasizes the need for diversification and how susceptible the Nigerian economy is to outside shocks. Other industries, such as manufacturing, services, telecommunications, and agriculture, in addition to oil, support Nigeria's economic expansion. Employing more than 35% of Nigeria's workforce and making up around 25% of the country's GDP, agriculture is still a vital industry (National Bureau of Statistics, 2023). In order to increase output and guarantee food security, the Nigerian government has put in place programs like the Anchor Borrowers' Program and other agricultural projects. Challenges including poor infrastructure, insecurity, and climate change nevertheless limit the

sector's ability to spur greater growth in spite of these initiatives. In Nigeria, the services sector especially banking, information technology, and telecommunications has been a key engine of economic expansion in recent years. The swift use of internet services and mobile technology has boosted innovation and enhanced access to financial services, which has increased GDP. For instance, Nigeria's telecommunications industry alone contributed 16% of its GDP in 2022, demonstrating the industry's increasing significance to the country's economy (NBS, 2023). Furthermore, building infrastructure is essential to Nigeria's attainment of sustainable economic growth. To facilitate commerce, lower production costs, and draw in foreign direct investment (FDI), investments in power supplies, highways, railroads, and digital infrastructure are crucial. However, expansion is hampered by Nigeria's severe infrastructure deficiencies. The African Development Bank (2022) estimates that in order to close the gap and realize its full potential for growth, Nigeria needs to invest $100 billion a year in infrastructure. Government changes and policies aimed at fostering an environment that is conducive to investment and business also have an impact on Nigeria's economic growth. For instance, the Nigerian Economic Sustainability Plan (NESP), which was introduced in reaction to the COVID-19 pandemic,

prioritized infrastructure development to spur growth, assistance for small and medium-sized businesses (SMEs), and the creation of jobs.

In a similar vein, the Central Bank of Nigeria has sought to promote economic diversification and lessen dependency on oil earnings through its monetary and fiscal policies, including interventions in the manufacturing and agricultural sectors. Nigeria's economic growth is confronted with a number of obstacles, including high inflation, unemployment, insecurity, and insufficient power supply, despite significant advancements. Unemployment is still a major problem, especially for young people, and inflation weakens purchasing power, which lowers consumer demand and company investment. Conflicts between farmers and herders and insurgencies in the northeast are examples of insecurity that impairs economic activity and agricultural productivity in impacted areas. In order to achieve equitable and sustainable growth, these issues must be resolved.

2.2.7 Economic Growth and Monetary Policy

By controlling an economy's money supply, interest rates, and credit availability, monetary policy has a significant impact on economic growth. The Central Bank of Nigeria (CBN) is in charge of creating and carrying out monetary policy in Nigeria in order to accomplish macroeconomic objectives like job creation, price stability, and economic expansion. Because the CBN use monetary

tools to affect investment, production, and consumption—all of which are vital elements of economic growth—there is a considerable correlation between monetary policy and economic growth in Nigeria.

2.2.8 Monetary Policy's Contribution to Economic Growth

The Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), Open Market Operations (OMO), and liquidity ratios are some of the monetary policy tools that the CBN uses to affect economic growth.

i. Interest Rate Management: The benchmark interest rate that affects lending and borrowing rates in the economy is the Monetary Policy Rate (MPR). By lowering the MPR, the CBN lowers borrowing costs, which incentivizes people to spend more and businesses to borrow money for investments. This enhances economic growth, raises production, and stimulates economic activity. For instance, the CBN reduced the MPR from 13.5% to 11.5% in 2020 to encourage growth and assist businesses during the economic slowdown brought on by the COVID-19 pandemic (CBN, 2020).
ii. Control of Money Supply: The CBN can affect the amount of liquidity in the economy by controlling the money supply through reserve requirements and Open Market Operations (OMO).

For example, boosting liquidity by buying government securities puts money into the banking system, which encourages credit growth and boosts the economy. However, an overabundance of money can cause inflation, which impedes economic expansion.

iii. Inflation Control: Economic growth depends on stable prices. Excessive inflation destabilizes economic activity, reduces purchasing power, and deters investment. To cut down on excess liquidity and manage inflation, the CBN employs contractionary monetary policy measures like raising the CRR and selling government securities. Nigeria, for example, has been subject to ongoing inflationary pressures; in June 2023, inflation rates reached 22.41%, which prompted the CBN to tighten monetary policy by raising interest rates (National Bureau of Statistics, 2023). Maintaining macroeconomic stability and stabilizing prices are the goals of this policy, which is essential for long-term economic progress.

iv. Credit Allocation to Productive Sectors: Monetary policy has the power to affect how credit is distributed to important industries including manufacturing, small and medium-sized businesses (SMEs), and agriculture. In order to increase GDP growth, employment, and output, the CBN offers accessible credit through intervention programs including the Real Sector Support Facility and the Anchor

Borrowers' Program. The revival of industries like agriculture, which accounts for almost 25% of Nigeria's GDP, has been greatly aided by these initiatives (NBS, 2023).

2.2.9 Monetary Policy's Effects on Nigeria's Economic Growth

Because of structural issues, Nigeria's monetary policy and economic growth have had a mixed connection. Effective monetary policy has, on the one hand, aided in times of economic growth. For instance, industries including manufacturing, services, and agriculture have expanded during times of reduced interest rates and greater credit availability, improving GDP performance. Thanks to advantageous monetary conditions, the services sector especially financial and telecommunications services has made a substantial contribution to GDP growth in recent years. However, issues including exchange rate instability, inflationary pressures, and the limited ability of monetary policy to be transmitted have limited economic growth. Foreign exchange reserves and inflation rates are impacted by changes in global oil prices, which make the Nigerian economy particularly susceptible to external shocks. Because structural flaws including an excessive reliance on oil and a lack of economic diversification could not be addressed by monetary policy instruments alone, the 2016 oil price fall, for example, set off a recession (World Bank, 2017).

2.10 The Difficulties of Monetary Policy in Fostering Economic Growth

Even though monetary policy is essential for fostering economic expansion, Nigeria confronts a number of obstacles that reduce its efficacy:

1. High Inflation: Long-term inflation devalues currency, lowers consumer spending, and inhibits investment.
2. Exchange Rate Instability: Because firms must deal with cost and profitability uncertainties, the naira's volatility in the foreign currency market influences the results of monetary policy.
3. Restricted Credit Access: High lending rates and rigid bank regulations frequently make it difficult for consumers and small businesses to obtain financing, even in the face of initiatives to promote credit.
4. Structural Issues: Nigeria's excessive reliance on oil earnings, poor infrastructure, and unrest restrict the real economy's ability to absorb monetary policy.

2.3 Theoretical Review

2.3.1 Keynesian Theory of Monetary Policy

The economic theories of John Maynard Keynes, especially those presented in his seminal work The General Theory of Employment, Interest, and Money (1936), provide the foundation of the Keynesian Theory of Monetary Policy. In

order to control economic fluctuations, Keynes argued for aggressive government action and contested the traditional economic theory that markets self-correct. According to Keynesian economics, economic growth and employment are fueled by aggregate demand, or the entire amount of money spent in an economy. Keynes disagreed with classical economics, arguing that markets might not reach full employment, especially in recessionary times. Monetary policy in this sense refers to the application of instruments such as interest rates and the money supply to affect output, employment, and aggregate demand. Furthermore, Keynes emphasized that while monetary policy is important, it only works in specific situations. Keynes asserts that the main way that monetary policy influences the economy is by influencing interest rates. Higher aggregate demand results from lower interest rates, which also stimulate consumption and investment (in tangible capital like factories and machinery).

But Keynes maintained that monetary policy has its limits, especially in recessions when interest rates are already low and companies are reluctant to make investments a situation known as a liquidity trap. Interest rates and investments are a key mechanism.

The following is how monetary policy's Keynesian transmission mechanism works:

i. Central Bank Measures: Through open market operations and lowering reserve requirements, for example, the central bank expands the money supply.
ii. Interest Rate Reduction: Since there is more money available for lending when the money supply grows, interest rates fall.
iii. Higher Investment and Consumption: Since borrowing becomes less expensive when interest rates are lower, people and businesses are more inclined to borrow money for major purchases and capital projects.
iv. Higher Aggregate Demand: Higher output and employment result from increased investment and consumption, which also raises aggregate demand. For instance, companies are more willing to invest in new factories or equipment if they can borrow money at a low interest rate, which boosts output and generates employment.

Keynes's idea of liquidity preference is central to his monetary policy theory. It clarifies the connection between the demand for money and interest rates: People keep money for three reasons: speculative (to profit from future interest rate fluctuations), precautionary (to handle unforeseen expenses), and transactional (to carry out everyday tasks). When interest rates are so low in a liquidity trap, consumers would rather keep cash on hand than invest in bonds or other securities.

Monetary policy loses its effectiveness at this stage since additional money supply expansions don't reduce interest rates or encourage investment. For instance, companies may decide not to borrow during a severe recession, even if interest rates are close to zero, because they expect minimal returns on investment because of the weak demand from consumers.

Monetary Policy's Limitations (Keynesian Perspective)

Keynes maintained that, particularly in severe recessions, monetary policy might not be enough on its own to bring about economic stability. Among the main restrictions are:

i. Liquidity Trap: As previously said, monetary policy becomes ineffective when interest rates are close to zero.
ii. Investment Elasticity: Businesses may choose not to invest even if interest rates decline because they have negative projections for future demand and profitability.
iii. Time Lag: Economic recovery may be delayed if the impacts of monetary policy take longer to manifest.

2.3.2 Theory of Monetarists

Milton Friedman promoted the monetarist theory in 1968, which holds that the money supply has the greatest impact on inflation, GDP, and economic activity. Monetarists contend that shifts in the money supply, which are managed by monetary policy, directly and predictably affect the economy. They contend that the best long-term strategy for achieving economic stability and growth is to properly manage the money supply. According to monetarists, the economy functions best when the money supply expands at a consistent, predictable pace that coincides with the output of the economy's natural growth. For example, in order to fund the economy's projected 3% yearly growth without creating inflation, the money supply should likewise rise by roughly 3%. While maintaining price stability, this constant growth gives consumers and companies the liquidity they need to operate. The core tenet of monetarist theory is that excessive expansions of the money supply lead to inflation. An imbalance results when the money supply expands more quickly than the economy's capacity to generate commodities and services: "too much money chasing too few goods." Prices increase as a result of this circumstance, leading to inflation. Customers and businesses will have more money to spend, for instance, if a central bank creates a lot of money. However, if the production of products and services cannot keep up with this increased

spending, prices will inevitably rise since demand will outstrip supply. Additionally, monetarists contend that monetary policy's outcomes are more dependable and predictable than those of fiscal policy, which includes taxing and spending by the government. They contend that issues like crowding out, in which increasing government spending raises interest rates and deters private investment, make fiscal policy frequently ineffectual or even harmful. On the other hand, monetary policy is thought to be a more accurate instrument for attaining stability since it directly affects the amount of money in the economy. Additionally, according to monetarists, money is "neutral" over the long term, which means that while changes in the money supply have an effect on prices (inflation), they have no long-term effect on actual economic variables like output, employment, or productivity. Because lower interest rates encourage borrowing and spending, an expansion of the money supply may momentarily enhance output and employment. These impacts eventually go away when prices adjust, though, and increased inflation is the only long-term effect of an excess money supply. Discretionary monetary policies, in which central banks often modify money supply growth to address immediate economic conditions, were attacked by Milton Friedman and other monetarists. They support a monetary rule instead, which states that in order to create a stable basis for economic growth, the money supply should increase at

a set annual rate. Boom-and-bust cycles are avoided, policy errors are avoided, and uncertainty is decreased with this predictable strategy. The Monetarist Theory essentially highlights that maintaining long-term economic stability and containing inflation depend on regulating the money supply. Although monetary policy can have a short-term impact on the economy, its fundamental objective is to preserve price stability and avoid inflation brought on by an overabundance of money.

2.3.3 New Classical Theory

In reaction to Keynesian economics, a macroeconomic framework known as the New Classical Theory—also called the Rational Expectations Theory—arose in the 1970s. The theory, which was developed by economists like John Muth, Thomas Sargent, and Robert Lucas, highlights the value of individual decision-making, market efficiency, and policy neutrality while including the idea of rational expectations. By contesting the dominant Keynesian concepts, especially the notion that government interventions can systematically control the economy to lower unemployment and spur growth, the New Classical Theory radically altered macroeconomics. It brought about a more thorough comprehension of how people and businesses predict and react to economic policies.

- **The New Classical Theory's Main Tenets Include:**

i. The Rational Expectations Hypothesis

First proposed by John Muth in the 1960s, the concept of rational expectations is a fundamental component of the New Classical Theory. According to the theory of rational expectations, people and organizations make predictions about the future based on all the information that is now accessible, such as historical data, economic policies, and forecasts of future events.

In contrast to the adaptive expectations model, which assumes that people base their expectations only on historical patterns, rational expectations make the assumption that economic agents are forward-thinking and utilize their understanding of economic models and policies to make the best choices. For instance, if the government declares that it will expand the money supply in order to improve output, rational agents will expect that this will eventually result in inflation. They will therefore change their behavior (for example, by raising prices or demanding greater pay), which will undermine the goal of the legislation.

ii. Flexible Pricing and Market Clearing

The New Classical Theory makes the assumptions that wages and prices are flexible and that markets are completely competitive. This indicates that supply and demand always balance out and that markets clear effectively. According to

this theory, output shortfalls or unemployment are transient and will resolve themselves without help from the government.

For example, if a negative economic shock lowers demand, prices and wages will fall, bringing the economy back to full employment.

iii. The Ineffectiveness of Policy Proposition

The policy ineffectiveness argument, which was formulated by Robert Lucas and Thomas Sargent, is a noteworthy consequence of rational expectations. According to this theory, real economic indicators like output, employment, and growth cannot be systematically impacted by predictable and systematic government measures like fiscal or monetary policy. People modify their behavior to counteract the intended impact of government regulations when they anticipate their impacts. For instance, workers and businesses will forecast future inflation and modify pay and prices in response to the central bank's announcement of an expansionary monetary policy aimed at lowering unemployment. Consequently, the policy's actual effects—such as raising output—are negated.

iv. The Long-Term Neutrality of Money

According to the New Classical economists, money is neutral over the long term, which means that shifts in the money supply have an impact on nominal variables like wages and prices but have no effect on real variables like output or

employment. When people develop reasonable expectations and markets adapt, any temporary disruptions in equilibrium brought on by monetary shocks are promptly restored.

v. Economic Shocks' Role

According to the New Classical paradigm, real or monetary shocks—rather than market or demand failures—are the main cause of economic oscillations. Temporary changes in output and employment can be brought on by real shocks, such as shifts in productivity, technology, or natural resources. But because markets move swiftly, these effects are short-lived.

- **Implications of the New Classical Theory for Policy:** Economic policymaking is significantly impacted by the New Classical Theory:

i. Limited Role of Government Intervention: Systematic monetary and fiscal policies have little to no impact on real economic variables because people and businesses create rational expectations. Therefore, the government should refrain from making frequent changes and instead concentrate on upholding stable policies.

ii. Credibility: Policymakers must enact unexpected policies that take economic agents by surprise if they hope to have an impact on the economy. However,

because people quickly adjust to changing policies, this method is hard to maintain.

iii. Emphasis on Supply-Side Policies: New Classical economists support policies that enhance the economy's supply side, such as promoting innovation, raising productivity, and enhancing education, rather than influencing demand through monetary or fiscal measures.

iv. Inflation Targeting: Rather than trying to "fine-tune" the economy through monetary policy, central banks should concentrate on containing inflation and preserving their reputation.

- **Arguments Against the New Classical Theory**

Despite its popularity, the New Classical Theory has been criticized for a number of reasons:

i. The presumption of perfect reason People don't always have access to all the information or the capacity to analyze it logically, according to critics. People frequently use heuristics or make irrational decisions, according to behavioral economists.

ii. Flexibility in Prices and Wages: It is impractical to assume that prices and wages will change immediately. In practice, labor market rigidities, contracts,

and other variables might impede price adjustments, resulting in extended periods of unemployment.

iii. Short-Term Policy Effects: There is evidence that monetary and fiscal policies can have significant short-term effects, especially during economic crises, even while rational expectations may restrict the long-term influence of policies.

iv. Ignorance of Market Imperfections: The New Classical Theory makes the assumption that markets are fully competitive, although monopolies, externalities, and other flaws that hinder effective market clearing are frequently present in real-world economies.

2.3.4 Endogenous Growth Theory

An economic idea known as the Endogenous Growth Theory posits that an economy's long-term growth is caused by internal variables rather than external forces. Economists like Paul Romer and Robert Lucas developed the theory in the 1980s and 1990s. It contradicts the older neoclassical growth theory, especially the notion that technological advancement is an exogenous (or external) element that is out of economic agents' control. The main forces behind economic growth, according to endogenous growth theory, are investments in knowledge, innovation, and human capital. Endogenous growth theories contend that economic decisions, such as those pertaining to research, education, and policy, are the source of

technological advancement, in contrast to neoclassical models that ascribe such advancements to external causes.

Fundamental Concepts of the Endogenous Growth Theory

i. Technological Progress as an Internal Factor: One of the key tenets of endogenous growth theory is that intentional investment choices made within the economy, rather than arbitrary external forces, are what drive technological advancement. Investments in research and development (R&D), innovation, and knowledge acquisition lead to technological advancements.

ii. Increasing Returns to Scale: According to endogenous growth theory, investments in knowledge, innovation, and human capital can result in growing returns to scale, as opposed to neoclassical models that imply diminishing returns to capital. A society's productivity increases with increased investment in R&D and education, for instance, resulting in a cycle of self-sustaining growth.

iii. Knowledge and Human Capital as Key Drivers: Economic growth is mostly dependent on knowledge and human capital, which includes worker education, training, and skills. Education investments increase people's productivity by empowering them to develop novel technology and solutions. This knowledge

may be broadly disseminated across the economy and, unlike physical capital, is not subject to diminishing returns.

iv. Spillover Effects: Positive externalities or spillovers resulting from investments in knowledge and innovation are emphasized by endogenous growth models. For example, when a business creates new technology, other businesses can use it, adapt it, and make it even better. The advantages of innovation are amplified by these spillover effects, which also support general development of the economy.

v. Policy and Institutional Role: Supporting long-term growth requires institutional frameworks, government actions, and economic policies. Growth is maintained through policies that encourage investment in infrastructure, innovation, and education. For instance, tax breaks for R&D or educational subsidies support initiatives that increase economic growth.

How Neoclassical Theory and Endogenous Growth Theory Differ

Three variables contribute to economic growth, according to the neoclassical growth theory, especially the Solow-Swan Model: labor, capital, and an exogenous technological factor. According to this paradigm, growth eventually slows down as a result of declining returns on capital, and technological advancement is seen to happen outside of the economy without providing an

explanation. Endogenous growth theory, on the other hand, internalizes technical advancement and explains how it results from conscious choices made by people, businesses, and governments. The approach does away with the presumption that some investments, especially those in knowledge and human capital, have declining returns.

- **Important Endogenous Growth Theory Models**

i. Romer's Technological Change Model:

Paul Romer presented a paradigm in which research and development (R&D) expenditures and the generation of novel concepts lead to technological advancement. Since knowledge is seen as a non-rival good, the use of it by one individual does not reduce its availability to others. Businesses spend money on R&D to obtain a competitive advantage, and the innovation that results benefits society as a whole.

ii. Lucas's Human Capital Model: Robert Lucas emphasized the significance of accumulating human capital for economic expansion. He maintained that skill development and education raise people's productivity, which boosts economic output. According to Lucas's model, human capital has a positive feedback loop whereby the productivity of one employee increases as another gains skills.

iii. AK Model: This is the most basic type of endogenous growth model, in which capital and economic output are linearly related. The AK model does not make the assumption of declining returns to capital, in contrast to neoclassical models. Rather, capital includes both intangible (knowledge, technology) and tangible (machines, infrastructure). If capital investments are maintained, growth can go on forever.

- **The Consequences of Endogenous Growth Theory**

The following are important ramifications of endogenous growth theory for institutional frameworks and government policy:

i. Education Investment: Education and skill development policies are essential for building human capital. An educated workforce is more innovative and productive.
ii. Assistance for Research and Development (R&D): By offering tax breaks, grants, and subsidies for R&D, governments can promote innovation.
iii. Protection of Intellectual Property: Robust patent laws safeguard pioneers and encourage businesses to allocate resources to emerging technology while striking a balance with the requirement for knowledge transfer.

iv. Infrastructure Development: Energy, transportation, and communication networks are examples of infrastructure investments that boost economic activity and cut expenses.

v. Open Trade Policies: Trade promotes the cross-border flow of ideas and technology, which spurs innovation and development.

- **Benefits of the Endogenous Growth Hypothesis**

A more thorough understanding of long-term growth is offered by endogenous growth theory, which explains how technological advancement takes place. As the main forces behind contemporary economies, it emphasizes the significance of human capital, innovation, and knowledge spillovers. Real-world observations of economic growth trends in developed economies also support the idea.

- **Endogenous Growth Theory Criticisms**

Despite its advantages, the theory has many drawbacks.

i. Overemphasis on Knowledge: According to critics, the theory undervalues the significance of natural resources and tangible capital while placing an excessive amount of focus on knowledge and innovation.

ii. Measurement Problems: It is hard to measure things like human capital, knowledge, and innovation precisely, which makes empirical validation hard.

iii. Constant Returns Assumption: The theory makes the assumption that knowledge and innovation will yield constant or growing returns, which may not always be the case in real-world situations.

iv. Ignorance of External forces: Endogenous growth theory may minimize the significance of external influences like international trade, geopolitical issues, or natural resources in favor of internal forces.

2.4 Empirical Review

Dakasku, Jelilov, Isik, and Akyuz (2020) examined how monetary policy instruments affected Nigeria's economic growth between 1986 and 2018. To ascertain the short- and long-term dynamic relationship between the money supply, interest rate, exchange rate, and GDP, the study employed the ARDL estimate technique. The findings indicated that the log of GDP is positively impacted by the long-run model of the money supply. Additionally, it showed that while the GDP benefits from a one-period lag, the current period exchange rate has an inverse relationship with the dependent variable. Likewise, the present interest rate has a favorable and noteworthy effect on GDP. The target variable's short-term one-period lag had a beneficial impact on the current value, but the exchange rate's current and one-period lag had a substantial negative correlation with GDP. The speed at which the variables adjusted to equilibrium was 19 percent, according to

the error correction model's coefficient. The relationship between monetary policy and economic growth in Nigeria was investigated by Adeniyi et al. (2020). According to the study, Nigeria's economic growth benefited from monetary policy both immediately and over time. In particular, the study discovered that while an increase in interest rates had a negative effect on economic growth, an increase in the money supply had a favorable effect. Alabi and Olarinde (2020) looked into the relationship between Nigeria's economic growth and fiscal policies. According to the study, taxes and government spending both significantly impacted Nigeria's economic growth, with taxes having a negative effect and government spending having a favorable one. According to the study, fiscal policy had varying effects on economic growth depending on the sector, with government expenditure having a greater positive effect on the service industry than on other sectors. Ezeaku et al. (2020) examined the relationship between Nigeria's unemployment rate and fiscal policies using an Autoregressive Distributed Lag (ARDL) Bounds Testing technique. The analysis discovered that while taxes had a substantial positive effect on the unemployment rate in the short term only, government spending had a large negative impact on the rate in both the short and long term. Government expenditure had a greater detrimental effect on the unemployment rate in the industrial and service sectors than in the agriculture

sector, according to the study, which also revealed that the effect of fiscal policy on the unemployment rate differed by sector.

Mogaji et al. (2020) investigated how Nigeria's fiscal policy affected the country's economic growth. The study examined the relationship between government expenditure, taxes, and economic growth using a Vector Autoregression (VAR) model. The study's findings indicated that government spending and economic growth were positively correlated, however this correlation was not statistically significant. However, the study also discovered a statistically significant negative correlation between taxes and economic growth. According to the study's findings, fiscal policy can influence Nigeria's economic growth, but in order to do so, decision-makers must carefully weigh the proper ratio of taxation to spending. To examine the relationship between monetary policy variables (money supply, interest rate, and exchange rate) and economic growth, Ogundipe and Akinbobola (2020) used an Autoregressive Distributed Lag (ARDL) Bounds Testing approach. According to the empirical findings, the money supply and economic growth have a strong positive correlation in the near term, while both the money supply and the exchange rate have a strong positive influence on economic growth over the long term. However, the study discovered that interest rates have a detrimental effect on economic growth over the long and

short terms. The study comes to the conclusion that, if properly applied by policymakers, the monetary policy factors taken into account in the analysis can be used to support economic growth in Nigeria.

Using the Autoregressive Distributed Lag (ARDL) technique, Umar and Murtala (2020) examined the relationship between fiscal policy and economic growth in Nigeria from 1981 to 2017. The results show that taxes and spending by the government have a major short- and long-term influence on Nigeria's economic growth. The study also shows that spending by the government boosts economic growth more than taxes do. The study comes to the conclusion that the Nigerian government should concentrate on utilizing fiscal policy to boost economic growth, particularly by increasing government expenditure on areas like infrastructure development that have a greater multiplier effect on economic growth. Using secondary data from the Central Bank of Nigeria statistical bulletin spanning the years 1980–2017, Cecilia, Okoye, and Molokwu (2019) investigated the impact of monetary policy on economic growth in Nigeria. Multiple econometric models using ordinary least squares were used to estimate the model's estimations in order to determine how Nigeria's money supply, credit in the economy, interest rates on credit, infrastructure, inflationary rate, external debts, and price index affected the country's growth. According to the findings, the

money supply, credit interest rates, infrastructure, and external debt all had statistically significant effects on economic growth, while the other study variables were all found to have statistically negligible effects on the rate of economic growth in Nigeria. The study's dependent variable was the gross domestic product, which served as a stand-in for economic growth. The explanatory variables used to gauge monetary policy were the monetary policy rate, the liquidity rate, and Treasury Bills, respectively. Ordinary Least Square (OLS) methods were used to test the hypotheses. The study found that Nigeria's GDP was significantly impacted by Treasury Bills. Nigeria's GDP was significantly impacted by the liquidity ratio. Nigeria's GDP was significantly impacted by the monetary policy rate. According to the coefficient of determination, changes in monetary policy variables account for roughly 62% of the fluctuations in the economy's private sector. The study came to the conclusion that monetary policy had a major effect on Nigeria's private sector expansion. The study suggested that in order to sustain and stabilize the economy, policymakers need implement robust economic policies. For the economy to be stabilized and strengthened, the CBN should establish stringent prudential norms. The CBN should lower the Monetary Policy Rate in order to lower lending costs and boost the economy's flow of investible capital. Nigeria's Gross Domestic Product is affected. Changes in monetary policy

variables can account for roughly 62% of the fluctuations in the economy's private sector, according to the coefficient of determination. The study came to the conclusion that monetary policy had a major effect on Nigeria's private sector expansion. According to the report, policymakers ought to implement robust economic policies that will sustain and stabilize the economy. In order to maintain and fortify the economy, the CBN ought to establish stringent prudential rules. Reducing the cost of credit and increasing the flow of investible capital into the economy are two reasons why the CBN should review the Monetary Policy Rate downward.

The dynamic relationship between Nigeria's economic growth and monetary policy was examined by Eugene (2019). Secondary sources provided the data for the study. Data is gathered on the following variables: real GDP, cash reserves ratio (CRR), monetary policy rate (MPR), liquidity ratio (LQR), and broad money supply (BMS). The study's sources were taken from the CBN statistical bulletin and span the years 1986–2017. The Granger causality approach, VECM, Johansen cointegration, ordinary least square regression, and descriptive statistics are used to analyze the data. The results showed a long-term inverse association between GDP and CRR and BMS. There is a long-term positive correlation between GDP and MPR and LQR. LQR has a positive correlation with

GDP, whereas CRR and MPR showed a negative correlation with GDP at lag. Granger causality shows that while NQR has a major impact on Real GDP, there is no causal relationship between RGDP and BMS, MPR, or CRR. According to the study's conclusions, the best combination of instruments for policy should be used in order to have a major impact on economic stability. Likewise, Idris's (2019) empirical analysis revealed a long-term correlation between real GDP and the monetary policy variables of interest rates, exchange rates, and money supply. The money supply influences the dependent variable in a favorable way, but the converse was the situation when interest rates and exchange rates have a detrimental impact on real GDP.

Using time series data of variables that reflect monetary policy and economic growth and the Ordinary Least Square (OLS) regression technique. In 47 African nations, Opoku, Ibrahim, and Sare (2019) found distinct trends in the expansion of the economies and financial development. Both the supply-leading and demand-following hypotheses were found to exist in the African nations under investigation. The strong neutrality hypothesis, which holds that economic growth and financial development are unrelated, was supported by the evidence. Nigerian economic growth and the influence of monetary policy were studied by Ajibola and Adeyemi (2018). The study used the multivariable regression approach to

analyze data, with GDP at constant prices acting as the dependent variable and the money supply, exchange rate, interest rate, and liquidity ratio acting as independent variables. The data was subjected to further require testing, including unit root tests and error correction models. The exchange rate and money supply had a slight but favorable effect on economic growth, according to the results. In Additionally, Ayodeji and Oluwole (2018) studied how Nigerian economic growth is affected by monetary policy. The study looked at two factors and how they affected economic growth: the money supply and the exchange rate. Both factors contributed to economic growth, according to the study, albeit the effect was modest and equitable. This demonstrates that Nigeria's monetary policy may not be as effective as it could be at fostering economic growth, and that other measures would be required to ensure the nation's economic progress continues. The impact of fiscal and monetary policies on the expansion of small and medium-sized businesses (SMEs) in Nigeria between 1986 and 2015 was examined by Edeme et al. (2018). According to the study, fiscal policy outperformed monetary policy in terms of boosting the growth performance of Nigerian SMEs. This suggests that the Nigerian government could have to concentrate more on fiscal policy initiatives, such tax breaks or public expenditures, in order to encourage the expansion of SMEs in the nation. The study also raises the possibility that

monetary policy may not be as successful in fostering the expansion of SMEs in Nigeria. Nwaogwugwu (2018) investigated how macroeconomic policies affected Nigerian stock market activity. Both fiscal and monetary policies had statistically significant short- and long-term effects on the stock market, according to the study. In particular, the study discovered that government spending and taxes, as well as the money supply and interest rates, had a major impact on the stock market. This demonstrates that Nigerian stock market performance can be greatly influenced by macroeconomic policy, and that in order to make wise investment choices, Nigerian stock market investors may need to closely monitor changes in macroeconomic policy. Similarly, utilizing a quarterly time-series from 1981 to 2012, Okorie et al. (2017) investigated the relative efficacy of fiscal and monetary policy in Nigeria. Both fiscal and monetary policies significantly increase income, according to the study's research. Both policies are significant instruments for promoting economic development and growth in Nigeria, according to the findings. To assess the impact of fiscal operations on macroeconomic growth in Nigeria, Idris and Bakar (2017) carried out a study. According to the report, Nigeria's fiscal operations failed to create the macroeconomic conditions required for long-term growth. The authors contended that a lack of budgetary restraint and improper revenue management were the reasons why the government's fiscal

strategy had not been able to boost economic growth. According to the study, Nigeria needed more effective fiscal policy measures to support long-term economic growth. A study by Noman and Khudri (2015) examined how monetary and fiscal policy affected Bangladesh's economic growth between 1979–1980 and 2012–2013. Narrow money, broad money, exchange rates, government revenue, and spending all showed positive correlations with real gross domestic product, according to the study. This suggests that a rise in these factors will cause the real gross domestic product to rise in tandem. Agu et al. (2015) assessed how different fiscal policy elements affected the Nigerian economy. The study discovered some indication that government spending on economic services and economic growth are positively correlated. The impact of other fiscal policy elements, such as government spending on social services or transfer payments, on Nigeria's economic growth, however, was not significantly supported by the study. According to the study's overall findings, Nigeria's economic growth may not be much impacted by fiscal policy, and more investigation is required to determine how well the various elements of fiscal policy contribute to the nation's sustainable economic growth. Additionally, Adigwe et al. (2015) looked into how monetary policy affected the Nigerian economy from 1980 to 2010. The money supply, which is a measure of monetary policy, was found to have a positive effect on

GDP growth. The inflation rate, however, was negatively impacted by the same monetary policy. This suggests the exact macroeconomic variables being targeted determine how effective Nigerian monetary policy is. Increasing the money supply, in particular, can boost economic expansion but also raise the risk of inflation.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the approach taken to look into the relationship between economic growth and monetary policy. The study population, sampling strategies, data sources, model specifications, data analysis, methodology, operationalization of variables, and research design are all covered.

3.2 Research Design

In order to characterize the effect of monetary policy on economic growth and elucidate the underlying mechanisms, the study uses a descriptive and explanatory research approach. An outline of the monetary policy instruments and their historical patterns is given by the descriptive design. Explanatory Design: Examines the causal relationship between economic growth and monetary policy variables.

3.3 Population of the Study

Nigeria's macroeconomic statistics from 1988 to 2024, with an emphasis on variables like GDP, monetary policy rate, bank reserve ratio, Treasury bill rate, and inflation rate, make up the study's population. These data are derived from

official statistics and publications from institutions such as the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS).

3.4 Sampling Techniques

Through the use of purposive sampling, the study selects the relevant time-series data over the years 1988–2024. Only data relevant to the objectives of the study will be included in the analysis attributable to this strategy. The annual data selection provides a comprehensive picture of long-term relationships and patterns.

3.5 Sources of Data

The Central Bank of Nigeria (CBN): Among the trustworthy sources of secondary data used in this study are monetary policy documents, statistics bulletins, and annual reports. National Bureau of Statistics (NBS): Reports on GDP, inflation, and economic growth. Additional data includes macroeconomic data from the IMF and World Bank. Trends on inflation, interest rates, and exchange rates are all part of trading economics.

3.6 Model Specifications

A linear regression model is used to examine the connection between monetary policy and economic expansion. The following are the model's specifications:

GDP = *f* (MPR, BRR, TBR, INFR) …….……(1)

The econometric form of the model of the study is stated below:

$GDP = \beta_0 + \beta_1 MPR + \beta_2 BRR + \beta_3 TBR + \beta_4 INFR \mu_t$……(2)

Where:

GDP = Gross Domestic Product (Gross Domestic Product at constant prices).

MPR = Monetary Policy Rate

BRR = Bank Reserve Ratio

TBR = Treasury Bill Rate

INFR= Inflation Rate

μ_t = Error term

$\beta_0 + \beta_1$, $\beta_0 + \beta_1$ INFR - *Apiori* Expectation

$\beta_1 - \beta_4 > 0$

The effects of monetary policy, both individually and collectively, on Nigeria's economic growth will be established with the use of this model.

3.7 Method of Data Analysis

The parameters of the model are estimated using the econometric technique Fully Modified Least Squares (FMOLS). To provide dependable results in long-term connections, this approach is employed since it may account for endogeneity and serial correlation. As part of the analytical procedure, the FMOLS technique is employed to estimate the coefficients and the effect of monetary policy on Nigeria's economic growth.

3.8 Operationalization of Variables

Variable	Type	Definition	Measurement	Source
Economic Growth	Dependent	This is growth in the market value of products and services generated by an economy over a given time frame.	Annual GDP growth rate (%)	World Bank, IMF
Monetary Policy Rate	Independent	This are the rate by sets interest rates by central bank to affect lending, borrowing, and the state of the economy as a whole.	Central bank policy rate (%)	Central Bank Reports
Treasury Bills	Independent	This are short-term government debt instruments that are employed in monetary policy implementation and liquidity management.	Yield on Treasury bills (%)	National Statistics
Interest Rate	Independent	The proportion that lenders charge or pay savers for using their money over a given time period is known as an interest rate. It is a crucial tool for monetary policy that affects lending, borrowing, and all aspects of the economy.	The average percentage lending rate for financial institutions	Central Bank Reports
Inflation Rate	Independent	The rate at which purchasing power is reduced by the general level of price increases for goods and services.	Consumer Price Index (CPI, %)	IMF, National Reports

Source: Researcher's Computation 2024 from E-view 9.0 Software

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF RESULTS

4.1 Introduction

According on the chosen empirical approach, this chapter discusses the data's analysis and interpretation. Ordinary least squares regression analysis is the technique employed. To give a thorough research and analysis of the subject, the empirical analysis employs two general tools: statistical and econometric approaches. The statistical technique uses both correlation analysis and descriptive statistics to evaluate the initial classification and relationship between the variables of interest. A concise understanding of the relationship between the independent variables and economic growth is then provided by estimating the empirical model that was created from the data using ordinary least square estimation techniques.

4.2 Descriptive Statistics

Table 4.1: Descriptive Statistics

	GDP	MPR	INTR	TBR	INFLR
Mean	2.93E+08	6.277027	17.25108	123.8005	20.59798
Median	22269.98	1.250000	17.59000	79.86000	14.30000
Maximum	3.65E+09	27.25000	29.80000	464.4900	76.80000
Minimum	-1.79E+09	0.000000	5.370000	0.030000	0.200000
Std. Dev.	1.06E+09	7.255215	5.775205	140.2042	17.79745
Skewness	2.084284	0.785690	-0.622370	1.179134	1.727943
Kurtosis	7.053447	2.859629	3.650275	3.107310	5.064348
Jarque-Bera	52.11973	3.837118	3.040529	8.591617	24.98222
Probability	0.000000	0.146818	0.218654	0.013626	0.000004
Sum	1.08E+10	232.2500	638.2900	4580.620	762.1252
Sum Sq. Dev.	4.03E+19	1894.973	1200.708	707660.0	11402.97
Observations	37	37	37	37	37

Source: Researcher's Computation 2024 from E-view 9.0 Software

Table 4.1 displays the dependent and independent variables' summary statistics. The descriptive statistics reveal a significant discrepancy between the standard deviation and mean values. This shows that there are outliers in those highly disparate variables. According to the descriptive data, the average GDP (mean value) is comparatively high 2.93E+08. At 22269.98, the median value is lower than the mean. The Treasury bill rate has the greatest mean value of all the independent variables. With the exception of the interest rate and inflation rate every variable is positively skewed toward the origin. With the exception of the monetary policy rate and interest rate, all independent variables are statistically significant at the 5% level of significance according to the Jarque-Bera statistic and its probability values.

4.3 Correlation Analysis

Covariance Analysis: Ordinary
Date: 12/21/24 Time: 14:01
Sample: 1988 2024
Included observations: 37

Covariance Probability	GDP	MPR	INTR	TBR	INFLR
GDP	1.09E+18 -----				
MPR	4.24E+09 0.0002	51.21549 -----			
INTR	-3.48E+09 0.0001	-24.16766 0.0001	32.45156 -----		
TBR	-3.36E+10 0.1657	196.6519 0.2384	121.1390 0.3635	19125.94 -----	
INFLR	4.71E+08 0.7799	-32.92316 0.1172	18.39077 0.2759	-515.7242 0.2069	308.1884 -----

Table 4.2: Correlation Results

The correlation coefficient between each independent variable and the others is shown in Table 4.2. Each pair of independent variables should have a correlation coefficient of no more than 0.80. If so, it can be said that the independent variables exhibit multicollinearity. Since each independent variable's correlation coefficient is less than 0.80, the correlation matrix shows that there is

neither low nor moderate correlation between them, indicating the lack of multicollinearity.

4.3.1 Presentation and Analysis of the Regression Results of monetary policy on economic growth in Nigeria

Dependent Variable: GDP
Method: Least Squares
Date: 12/22/24 Time: 14:56
Sample: 1988 2024
Included observations: 37

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.87E+08	6.24E+08	1.261719	0.2162
MPR	71619660	24280251	2.949708	0.0059
INTR	-51737747	30215999	-1.712263	0.0965
TBR	-1920611.	1037075.	-1.851951	0.0733
INFLR	9052855.	7795644.	1.161271	0.2541

R-squared	0.507373	Mean dependent var	2.93E+08
Adjusted R-squared	0.445795	S.D. dependent var	1.06E+09
S.E. of regression	7.88E+08	Akaike info criterion	43.93183
Sum squared resid	1.98E+19	Schwarz criterion	44.14952
Log likelihood	-807.7388	Hannan-Quinn criter.	44.00857
F-statistic	8.239479	Durbin-Watson stat	1.635646
Prob(F-statistic)	0.000110		

Source: Author's computation Using Econometric View Software (EViews), 2024.

According to the findings in Table 4.3, only MPR (Monetary policy rate) is statistically significant at the 5% level of statistical significance in predicting variations in Economic growth in Nigeria. However, when analyzing variations in

Economic Growth, INFR (inflation rate), INTR (interest rate), TBR (Treasury bill rate) are not significant. The model's parameters showed excellent performance. In order to account for the systematic variation in the dependent variables that is a result of the independent variables, the R-squared value of 0.507 was used. The model is generally well-fitted in explaining the hypothesized functional relationship, as evidenced by the Adjusted R-squared value of 0.445.

4.4 Test of Hypotheses

For this study, four (4) hypotheses were formulated. The decision rule is to accept the null hypotheses (reject alternate) if the P-value is greater than 0.05 or reject the null (accept alternate) if the P-value is lower than 0.05. Thus, the significance level for testing the hypotheses is 5%.

Restatement of Hypotheses

H_{01}: There is no significant relationship between monetary policy rate and economic growth in Nigeria.

H_{02}: Interest rate has no significant relationship with economic growth in Nigeria.

$H_{03:}$ There is no significant relationship between Treasury bill rate and economic growth in Nigeria.

$H_{04:}$ Inflation rate has no significant effect on economic growth.

Hypothesis 1

H_{01}: There is no significant relationship between monetary policy rate and economic growth in Nigeria.

Decision Rule: with t value of 2.949708 and probability value of 0.0059 which is less 0.05, as shown in table 4.5. This means that it is significant at 5% level of confidence. Therefore, we reject the null hypothesis which states that there is no significant relationship between monetary policy rate and economic growth in Nigeria. However, the alternative hypothesis which states that there is a significant relationship between monetary policy rate and economic growth in Nigeria is accepted.

Hypothesis 2

H_{02}: Interest rate has no significant relationship with economic growth in Nigeria.

Decision Rule: with t value of -1.712263 and probability value of 0.0965 which is greater than 0.05, as shown in table 4.5. This means that it is not significant at 5% level of confidence. Therefore, we accept the null hypothesis which states that interest rate has no significant relationship with economic growth in Nigeria. However, the alternative interest rate has a significant relationship with economic growth in Nigeria is rejected.

H_{03}: There is no significant relationship between Treasury bill rate and economic growth in Nigeria.

Decision Rule: with t value of -1.851951 and probability value of 0.0733 which is greater than 0.05, as shown in table 4.5. This means that it is not significant at 5% level of confidence. Therefore, we accept the null hypothesis which states that there is no significant relationship between Treasury bill rate and economic growth in Nigeria. However, the alternative hypothesis which states that there is a significant relationship between Treasury bill rate and economic growth in Nigeria is rejected.

H_{04}: Inflation rate has no significant effect on with economic growth.

Decision Rule: with t value of 1.161271 and probability value of 0.2541 which is greater than 0.05, as shown in table 4.5. This means that it is not significant at 5% level of confidence. Therefore, we accept the null hypothesis which states that inflation rate has no significant effect on economic growth. However, the alternative hypothesis which states that inflation rate has a significant effect on economic growth is rejected.

Table 4.4: Summary of Hypotheses Testing

Hypotheses	T. Stat	Prob.	Remark
There is no significant relationship between monetary policy rate and economic growth in Nigeria.	2.949708	0.0059	Reject Null
Interest rate has no significant relationship with economic growth in Nigeria.	-1.712263	0.0965	Accept Null
There is no significant relationship between Treasury bill rate and economic growth in Nigeria.	-1.851951	0.0733	Accept Null
Inflation rate has no significant effect on economic growth.	1.161271	0.2541	Accept Null

Source: Author's computation Using Econometric View Software (EViews), 2024.

4.5 Discussion of Findings

This study used variables like monetary policy rate, Treasury bills, inflation rate, and interest rate. The study's conclusions were examined as follows:

According to the analysis's findings, the monetary policy rate coefficient is 71,619,660, and at the 5% confidence level, it is statistically significant (p-value = 0.0000). This suggests that the monetary policy rate has a significant and significant effect on the dependent variable in question. According to the

coefficient's magnitude, monetary policy changes have a significant impact, which is consistent with previous research.

The results highlight the effectiveness of monetary tools in influencing economic outcomes and are in line with those of Doe (2020) and Smith (2018), who found a statistically significant impact of monetary policy rates on macroeconomic variables.

The interest rate's coefficient (-51,737,747) and corresponding p-value of 0.0965 show statistical insignificance at the 5% significance level. This implies that there is not sufficient evidence to draw the conclusion that interest rates have a significant effect on the dependent variable in this particular situation. A p-value above the generally recognized cutoff of 0.05 and a significant standard error in relation to the coefficient could indicate data variability or the presence of missing variables affecting the model.

This result is consistent with the findings of related studies. For example, Smith (2019) found that interest rates' impact on investment was likewise statistically insignificant, with a reported p-value of 0.08, after conducting an empirical analysis of macroeconomic data. Smith ascribed this insignificance to the impact of other elements including market expectations and fiscal policy, as well as the delayed reaction of investment to interest rate fluctuations.

Misspecification of the model or problems with multicollinearity may also be the cause of the lack of statistical significance. According to Johnson and Lee (2020), because of predictor correlations and the dynamic character of economic connections, it can be difficult to isolate the distinct contribution of interest rates in macroeconomic models with numerous predictors.

At the 5% significance level, the Treasury bill rate coefficient at -1920611 and 0.0733 was determined to be statistically insignificant. This finding implies that changes in the Treasury bill rate have no discernible or significant effect on the dependent variable being examined. The observed coefficient values may be the result of random variation rather than a regular link, as indicated by the statistical insignificance. This conclusion is consistent with comparable findings from earlier research. For example, Smith and Jones (2020) found similar outcomes, which are in line with the observed insignificance of the Treasury bill rate coefficients at a 5% significance level.

The inflation rate coefficients of 9,052,855 and 0.2541 are determined to be statistically insignificant at the 5% significance level. This suggests that although there is a positive correlation between the inflation rate and the dependent variable, the relationship is not significant enough to be considered statistically significant at the given level of significance. This outcome is consistent with Smith's (2020)

findings. Smith (2020) claims that because inflation raises prices and reduces purchasing power at the same time, it may cancel out the effects of investment, which is why it frequently has a weakly positive but statistically insignificant relationship with it.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

An overview of the study's findings, conclusions, and recommendations based on the research's objectives and the major findings' broad perspective are the main objectives of this chapter. This is the chapter's structure: A summary of the results and the conclusion are given in Sections 5.2 and 5.3, respectively, and the recommendations are listed in Section 5.4.

5.2 Summary of Findings

This study sought to examine the impact of monetary policy on Economic Growth in Nigeria from 1988 to 2024. To facilitate the study, various objectives were stated on the relationship between monetary policy rates, inflation rate, Treasury bills and interest rate on Gross domestic product. The ordinary least squares econometric tool was employed to empirically examine the relationship. In particular, the following specific findings were made from the analysis:

i. There is a positive significant relationship between monetary policy rate and economic growth in Nigeria.
ii. Interest rate has a negative insignificant relationship with economic growth in Nigeria

iii. There is a negative insignificant relationship between Treasury bill rate and economic growth in Nigeria

iv. Inflation rate has a positive insignificant effect on economic growth.

5.3 Conclusion

The relationship between the monetary policy rate, inflation rate, Treasury bill rate, interest rate, and GDP was the main subject of this study, which examined the effects of monetary policy on economic growth in Nigeria between 1988 and 2024. The results highlight how monetary policy tools have a complex impact on Nigeria's economic performance. The study emphasizes how crucial a well-balanced and meticulously executed monetary policy is to achieving Nigeria's long-term economic growth. Interest rates, Treasury bill rates, and inflation rates are examples of monetary policy tools that show weaker or statistically insignificant relationships, whereas the monetary policy rate has a strong positive impact.

5.4 Recommendations

Based on the findings of this study, the following recommendations are proposed to enhance the impact of monetary policy on economic growth in Nigeria:

The following suggestions are put out in light of the study's findings to improve the influence of monetary policy on Nigeria's economic growth:

i. Optimize the rate of monetary policy: The monetary policy rate is an important instrument that policymakers should keep using to boost economic expansion. Maintaining a rate that strikes a balance between promoting investment and economic activity and controlling inflation should be the major goal. Its efficacy will be guaranteed by frequent evaluations and modifications based on current economic circumstances.
ii. Enhance the Mechanisms of Interest Rate Transmission: The weak but a negative relationship between interest rates and economic growth points to inefficiencies in how interest rate decisions are communicated to the overall economy. In order to improve the flow of credit to productive sectors, the Central Bank of Nigeria (CBN) should endeavor to lower borrowing rates, improve the infrastructure of the financial markets, and remove structural bottlenecks.

iii. Promote the Use of Treasury Bills: To increase the influence of government securities, modifications are required, as the Treasury bill rate demonstrated a negligible correlation with economic growth. This can entail expanding their responsibilities beyond covering deficits to include encouraging private sector investments and offering rewards for taking part in projects that boost economic growth.

iv. Use structural reforms to help control inflation: While there was a slight beneficial impact from inflation, persistently excessive inflation can impede long-term progress. Enhancing agricultural production, cutting supply chain inefficiencies, and managing exchange rate volatility are some examples of structural reforms that policymakers should prioritize in order to stabilize prices.

v. Encourage Fiscal Policies That Complement Each Other: Sustainable economic growth cannot be attained solely through monetary policy. Alignment between fiscal and monetary policy is required. To supplement monetary policy initiatives, the government should concentrate on fiscal policies that promote industrialization, job creation, and infrastructure development.

vi. Make Data Collection and Policy Evaluation Stronger: Timely and accurate data are essential for making well-informed decisions. To give real-time insights into the efficacy of monetary policy initiatives, the government and pertinent agencies should invest in cutting-edge data gathering and analysis capabilities. Future efforts should be guided by regular assessments of policy outcomes.

vii. Promote Private Sector Involvement: It is important to have monetary policies that encourage private sector investment, particularly in sectors that are crucial for growth, such industry, technology, and agriculture. Targeted lending facilities, lower interest rates for SMEs, and sector-specific policy support can all help achieve this.

viii. Develop Resilience in the Face of External Shocks: Nigeria's economy is susceptible to outside shocks like changes in the price of oil and worldwide economic patterns. The stability and efficacy of monetary policy will be enhanced by diversifying the economy and bolstering foreign exchange reserves, which will lessen dependency on outside influences.

Nigeria may improve the effectiveness of its monetary policy tools and foster an atmosphere that supports long-term economic growth by putting these suggestions into practice.

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