THE IMPACT OF MONETARY POLICY ON ECONOMIC GROWTH IN NIGERIA

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CERTIFICATION

I hereby ceretity that the project was carried out by Ogunsefunmi Bamitale Omolewa with Matriculation Number 18012203014, under my supervision in the school of Arts and Social Science, Tai Solarin College of Education, Omu-Ijebu, Ogun State.

DEDICATION

This project is dedicated to my lovely father Mr. Ogunsefunmi M, and Mrs. Ogunsefunmi, U for their moral and unlimited case throughout my course of study.

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CHAPTER ONE

BACKGROUND OF THE STUDY

1.1. Introduction

Monetary policy is a deliberate action of the monetary authorities to influence the quantity, cost and availability of money credit in order to achieve desired macroeconomic objectives of internal and external balances (CBN, 2011). This action is carried out through changing money supply and/or interest rates with the aim of managing the quantity of money in the economy.

Since the expositions of the role of monetary policy in influencing macroeconomic objectives like economic growth, price stability, equilibrium in balance of payments and host of other objectives, monetary authorities have been saddled with the responsibility of using monetary policy to grow their economies.

Economic growth could be defined as the increase in the amount of goods and services in a given country at a particular time. This of course indicates that when the real per capita income of a country increases over time, economic growth is taking place. A growing economy produces goods and services in each successive time period, showing that the economy's productive capacity is at increase. Broadly, economic growth implies raising the standard of living of the people and reducing inequalities of income distribution (Jhingan, 2004).

In Nigeria, monetary policy has been used since the Central bank of Nigeria (CBN) was saddled with the responsibility of formulating and implementing monetary policy by the Central Bank Act of 1958. This role has facilitated the emergence of active money market where treasury bills, a financial instrument used for open market operations and raising debt for government, have grown in volume and value becoming a prominent earning asset for investors and source of balancing liquidity in the market.

Over the years, the major goals of monetary policy have often been the two later objectives. Thus, inflation targeting and exchange rate policy have dominated

CBN's monetary policy focus based on assumption that these are essential tools of achieving macroeconomic stability (Ajayi, 1999). Monetary policy has two fundamental goals to promote maximum sustainable output and employment and to maintain sustainable price level in the economy. The job of stabilizing output in the short run and promoting price stability in the long run involves several steps. First, the central bank tries to estimate how the economy is doing now and how it is likely to do in the medium term, then, it compares this estimates to its goals for the output and the price level, if there is a gap between the estimates and the goals, the CBN have to decide on how forcefully and swiftly act to close the gap. Estimate of the current economic conditions are not as even as the most up-to-date data on key variables like employment, growth, productivity etc, largely reflect condition in the past. So to get a reasonable estimate of the current and medium term economic conditions, the central bank tries to find out what the most relevant economic developments are such as government spending, economic conditions abroad, financial conditions at home and abroad and the use of new technologies that boost productivity.

1.2. Statement of the Problem

"Monetary policy is known to be a vital instrument that a country can deploy for the maintenance of domestic price and exchange rate viability, as a critical condition for the achievement of a sustainable economic growth and external viability"(Amasomma et al, 2011). On a yearly basis, the monetary authority formulate guidelines geared towards the enhancement and development of policy variable designed to ensure optimal performance of the banking industry and ultimately to advise the macroeconomic goals or objectives but in the implementation of such policy variable, certain conflicting issues are to be addressed ranging from the ability to comply with various monetary policy guidelines as well as satisfying depositors and shareholders (Chimezie, 2012). CBN uses various instruments to achieve its stated objective and these include:

open market operation (OMO), required reserve ratio (RRR), bank rate, liquidity ratio, selective credit control and moral suasion. There are various regimes of monetary policy in Nigeria. Sometimes, monetary policy is tight and at other times it is loose, mostly used to stabilize prices. The economy has also witnessed times of expansion and contraction but evidently, the reported growth has not been a sustainable one as there is evidence of growing poverty among the populace.

1.3. Objective of the Study

The main objective of the study is to:

(i) Investigate the effect of monetary policy on economic growth in Nigeria while the specific objective is to (ii) Examine the effects of monetary policy rate, money supply, exchange rate, interest rate and investment on GDP in Nigeria.

1.4. Research Questions

1. What is the effect of monetary policy on the economic growth in Nigeria?
2. Does monetary policy affect money supply, exchange rate, interest rate and GDP in Nigeria?

1.5 Research Hypotheses

H_1- There is no significant effect of monetary policy on economic growth of Nigeria.

H_2- There is no significant effect of money supply, exchange rate, monetary policy and investment on economic growth in Nigeria.

1.6. Significance of the Study

Studies show the effect of monetary policy as a tool for economic growth and development in Nigeria. More specifically, among the studies in Nigeria, this is the study that considers only the monetary market-based investigation of the effect of monetary policy on economic growth. Thus, this study clearly explained the effect of monetary policy on growth from the point of view of a liberalized economy.. The study show that monetary policy is one of the tools of controlling money supply in an economy of a nation by the monetary authorities in order to achieve a

desirable economic growth. Governments try to control the money supply because most governments believe that its rate of growth has an effect on the rate of inflation.

1.7. Justification of the Study

Economic growth is an important issue in economics and is considered as one of the necessary conditions to achieve better outcomes on social welfare, which is the main objective of economic policy. It is thus an essential ingredient for sustainable development. Economic growth in a country is proxied by Gross Domestic Product (GDP). Thus, GDP is the monetary value of all goods and services produced in an economy over a specified period of time and it is usually one year.

1.8. Scope of the Study

This research work examines to what extent does monetary policy impact on economic growth of Nigeria and the main objective of the study is to examine the effectiveness of monetary policy in the Nigerian economy. Economic growth is a sustained rise in the output of goods, services and employment opportunities with the sole aim of improving the economic and financial welfare of the citizens with the specific objective of assessing the impact of monetary policy instruments on economic growth of Nigeria. Nigeria is the country of focus. The period covers 1990 to 2018.

CHAPTER TWO

LITERATURE REVIEW

2.1. **Conceptual Review**

2.1.1. **Concept of monetary policy**

Monetary policy is the deliberate use of monetary instruments (direct and indirect) at the disposal of monetary authorities such as the Central Banks in order to achieve macroeconomic stability. Monetary policy is essentially the tool for executing the mandate of monetary and price stability. Monetary policy is essentially a programme of action undertaken by the monetary authorities, generally the central bank, to control and regulate the supply of money with the public and the flow of credit with a view to achieving predetermined macroeconomic goals (Dwivedi, 2020).

Monetary policy is one of the tools of controlling money supply in an economy of a nation by the monetary authorities in order to achieve a desirable economic growth. Governments try to control the money supply because most governments believe that its rate of growth has an effect on the rate of inflation. Hence, monetary policy comprises those government actions designed to influence the behaviour of the monetary sector. Monetary policies are effective only when economies are characterized by well-developed money and financial markets like in the developed economies of the world. This is where a deliberate change in monetary variables influences the movement of many other variables in the monetary sector.

Monetary policy has thus been known to be a vital instrument that a country can deploy for the maintenance of domestic price and exchange rate stability as a critical condition for the achievement of a sustainable economic growth and external viability [Adegbite & Alabi, 2018]. Monetary policy may be inflationary or deflationary depending upon the economic condition of the country. Contractionary policy is enforced to squeeze down the money supply to curb

inflation and expansionary policy is to stimulate economic activity to combat unemployment in recession (Shane Hall, 2018).

Monetary policy consists of a government's formal efforts to manage money in its economy in order to realize specific economic goals. Three basic kinds of monetary policy decisions can be formulated (1) the amount of money in circulation; (2) the level of interest rate; and (3) the functions of credit markets and the banking system (Ogunjimi, 2019). The combination of these measures is designed to regulate the value, supply and cost of money in an economy, in line with the level of economic activity. Excess supply of money will result in an excess demand for goods and services; prices will rise and balance of payments will deteriorate. The challenge of monetary policy management rest wholly on monetary authorities, which have over the years been committed to its effective control. The performance of monetary policy has improved greatly in recent times – inflation has remained at moderate levels accompanied by high growth of domestic output. To sustain the efforts, there is need for appropriate collaboration with the fiscal authorities, as well as the development of confidence in inter-bank market and the necessary financial market infrastructure is still relevant.

2.1.2. Concept of Economic Growth

Economic growth is a sustained rise in the output of goods, services and employment opportunities with the sole aim of improving the economic and financial welfare of the citizens (Ogbulu & Torbira, 2012). Hardwick, Khan and Langmead (2017) have defined economic growth as an increase in a country's productive capacity, identifiable by a sustained rise in real national income.

The economic growth is an important issue in economics and is considered as one of the necessary conditions to achieve better outcomes on social welfare, which is the main objective of economic policy. It is thus an essential ingredient for sustainable development. Economic growth in a country is proxies by Gross Domestic Product (GDP). Thus, in this study, it is conceptualized as the monetary

value of all goods and services produced in an economy over a specified period, usually one year.

2.2. Theoretical Review

Monetary theory has undergone a vast and complex evolution since the study of the economic phenomenon first came into limelight. It has drawn the attention of many researches with different views on the role and dimensions of money in attaining macro-economic objectives.

Consequently, there are quite a number of studies aimed at establishing relationship between monetary policy and other economic aggregates such as inflation and output.

This section takes a look at the different schools of thought, their views of the role of money in attaining policy objectives alongside the necessary literature relating to this study.

2.2.1. The Classical Monetary Theory

The classical school evolved through concerted efforts and contribution of economists like Jean Baptist Say, Adam Smith, David Ricardo, Pigou and others who shared the same beliefs. The classical model attempts to explain the determination of savings and investment with respect to money. The classical model of Say's law markets which states that "supply creates its own demand". Thus classical economists believe that the economy automatically tends towards full employment level by laying emphasis on price level and on how best to eliminate inflation .The classical economists decided upon the quantity theory of money as the determinant of the general price level. Theory shows how money affects the economy. It may be considered in terms of the equation of Exchange.MV= PT

Two very similar quantity theory formulations were used to explain the level of price viz; the transaction formulation or the Cambridge equation.

In the transaction version – associated with Fisher and Newcomb, some assumptions were made: that the quantity of money (m) is determined independently of other variable, velocity of circulation (V) is taken as constant, the volume of transactions (T) is also considered constant.

Thus of price (P) and the assumption of full employment of the economy, the equation of exchange is given as; MV = PT, which can readily establish the production that – the level of price is a function of the supply of money. That is, P = M which implies that, any change in price changes money supply. In cash balances version – associated with Walras, Marshell, Wicksell and Pigou, the neoclassical school (Cambridge school), changed the focus of the quantity theory of without changing its underlying assumptions. This version focuses on the fraction (K) of income, held as money balances. The Cambridge version can be expressed as:

M= kPY

Where k = fraction of income,

M =Quantity of money,

P= price level,

Y=value of goods and services

The k in the Cambridge equation is merely inversion of V, the income velocity of money balances, in the original formulation of quantity theory. This version directs attention to the determinants of demand for money, rather than the effects of changes in the supply money (Anyanwu, 1993).

2.2.2. Keynesian Theory

The Keynesian model assumes a close economy and a perfect competitive market with fairly price-interest aggregate supply function. The economy is also assumed not to exist at employment equilibrium and also that it works only in the short run because as Keynes aptly puts

it ‘’ In the long run, we also will be dead’’. The Keynesian theory is rooted on one notion of price rigidity and possibility of an economy setting at a less than full employment level of output, income and employment. The Keynesian macro economy brought into focus the issue of output rather than prices as being responsible for changing economic conditions. In other words, they were not interested in the quantity theory per say.

From the Keynesian mechanism, monetary policy works by influencing interest rate which influences investment decisions and consequently, output and income via the multiplier process. Thus, the Keynesian theory is a rejection of Say's Law and the notion that the economy is self regulating.

2.2.3. The Monetary Theory

The monetarist essentially adopted Fisher’s equation of exchange to illustrate their theory, as a theory of demand for money and not a theory of output; price and money income by making a functional relationship between the quantities of real balances demanded a limited number of variables.

Monetarists like Friedman emphasized money supply as the key factor affecting the wellbeing of the economy. Thus, in order to promote steady growth rate, the money supply should grow at a fixed rate, instead of being regulated and altered by the monetary authorities. Friedman equally argued that since money supply is substitutive not just for bonds but also for many goods and services, changes in money supply will therefore have both direct and indirect effects on spending and investment respectively such that demand for money will depend upon the relative rates of return available or different competing assets in which wealth can be ascertained.

2.3 Empirical Review

The impact of monetary policy on growth has generated large volume of empirical studies with mixed findings using cross sectional, time series and panel data. Some

of these studies are country-specific while others are cross-country. Few of the studies are selected for review as follows:

Onyeiwu (2017) examines the impact of monetary policy on the Nigerian economy using the Ordinary Least Squares Method (OLS) to analyse data between 1981 and 2008. The result of the analysis shows that monetary policy presented by money supply exerts a positive impact on GDP growth and balance of payments but negative impact on rate of inflation. Furthermore, the findings of the study support the money-prices-output hypothesis for Nigerian economy.

Amassoma et. al (2017) examined the effect of monetary policy on macroeconomic variables in Nigeria for the period 1986 to 2009 by adopting a simplified Ordinary Least Squared technique and they found that monetary policy had a significant effect on exchange rate and money supply while monetary policy was observed to have an insignificant influence on price instability.

Ajisafe and Folorunso (2020) examined the relative effectiveness of monetary and fiscal policy on economic activity in Nigeria using co-integration and error correction modelling techniques and annual series for the period 1970 to 1998. The study revealed that monetary rather than fiscal policy exerts a greater impact on economic activity in Nigeria and concluded that emphasis on fiscal action by the government has led to greater distortion in the Nigerian economy.

Adeolu et al (2018) assessed how fiscal and monetary policies influence economic growth and development in Nigeria. The paper argues that curbing the fiscal indiscipline of Government will take much more than enshrining fiscal policy rules in our statute books. This is because the statute books are replete with dormant rules and regulations. It notes that there exist a mild long run equilibrium relationship between economic growth and fiscal policy variables in Nigeria.

The paper suggest that for any meaningful progress towards fiscal prudence on the part of government to occur, some powerful pro-stability stakeholders strong enough to challenge government fiscal recklessness will need to emerge.

Hameed et. al (2017) presented a review on how the decisions of monetary authorities influence the macro variables like GDP, money supply, interest rates, exchange rates and inflation. It asserts that the foremost objective of monetary policy is to enhance the level of welfare of the masses and it is instrumental to price stability, economic growth, checking BOP deficits and lowering unemployment. The method of least square OLS explained the relationship between the variables under study. Tight monetary policy in term of increase interest rate has significant negative impact on output. Money supply has strong positive impact on output, likewise is inflation but negatively correlated to output. Exchange rate also has negative impact on output which is shown from the values.

Chukuigwe (2018) analyze the impact of monetary and fiscal policies on non-oil exports in Nigeria from 1974 to 2003. Using Ordinary Least Squares estimation, the study revealed that both interest rate and exchange rate, being proxies for monetary policy, negatively affect non-oil exports. Budget deficits – proxy for fiscal policy also had a negative effect on non-oil exports.

Based on the findings, the study recommended that there is need to formulate a new strategy to address the identified challenges. This would be anchored on macroeconomic stability, export promotion, rationalization of the role of government, fortification of infrastructural facilities and stimulation of demand for goods and services since it would create an enabling investment climate. .

In summary, the overall findings of the works reviewed so far indicate that there is somehow a general consensus that there is a direct relationship between monetary policy and economic growth. However, while the robustness of most of the works reviewed could be widely acclaimed, it will be noteworthy that there are some flaws inherent in some others which could somehow hinder the robustness of their results and which this work is intended to correct.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

The purpose of this study is to investigate the effect of monetary policy on economic growth in Nigeria. And also to examining the effects of money supply, exchange rate, interest rate and investment on GDP in Nigeria.

3.1. Design of the Study

Since this study sought to explore whether there existed significant effect between money supply, exchange rate, interest rate and investment on GDP in Nigeria. The quantitative approach was the most appropriate design for this kind of investigation. The investigation will be reductionistic in nature, reducing the ideas into variables to be tested. Knowledge is gained through observing and measuring phenomena in the world.

3.2. Population of the study

The estimation covered the period between 1990 and 2018 while the secondary data was obtained from Central Bank of Nigeria (CBN) Statistical Bulletin (2020) and World Development Indicators (WDI, 2021) and was analysed using E-View 7 econometric package.

The present study modified both models to include money supply in order to capture the main tools of monetary policy that influences all other monetary policy targets. The study also replaced external reserves and output of industrial production with investment because investment is theoretically postulated to have direct influence from interest rates (lending and deposit rates), which the CBN monetary policy rates directly influence.

3.3. Model

The model of this study is thus:

GDP = f (MS, INTRATE, INF, EXCH, , DCPS) ……. (1)

Where:

GDP = Gross Domestic Product at current market prices

MS = Money supply proxied by the broad money supply (M_2)

EXCH = Real exchange rate

INTRATE = Interest rate proxied by bank lending rate.

INV = Investment to the productive sector proxied by credit to the private sector DCPS).

The equation of the model in logarithmic form is thus:

$LnGDP = \beta_0 + \beta_1 M_2 + \beta_2 LnINTRATE + \beta_3 INF + \beta_4 EXCH + \beta_5 LnDCPS + \mu$

……. (2)

Based on the expansionary assumption, the expected *a priori* is that:

$\beta_1 > O$, $\beta_2 < 0$, $\beta_3 < 0$, $\beta_4 < 0$, $\beta_5 > 0$.

Ln = Natural Logarithm of the variables used to smoothen possible scholastic effect from variables at level. β_0 is the constant while $\beta 1 - \beta_5$ are the coefficients of the relationships between the independent variables and the dependent variable. μ is the stochastic error term for the time period covered by the study.

The study follows the arguments set out in the standard Mundell-Fleming-Dornbush model, which assumes *a priori*, that expansionary monetary policy reduces interest rates, depreciates the real exchange rate and increases prices (i.e. inflation), money supply and the level of real output (Rafiq and Mallick, 2008). Econometric regression estimation was performed to investigate the effect of monetary policy on economic growth.

3.4. Method of Data Analysis

In the course of this work, the research design employed is time series research design. The researcher adopted the multiple regression analysis based on the classical linear regression model, otherwise known as Ordinary Least Square (OLS) technique.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESULTS

4.0 Introduction:

This chapter will present estimates from the regression carried out on the impact of monetary policy on the economic growth of Nigeria. The data collected for the study were presented in the appendix in line with the research questions and hypotheses. The variables considered in this research work are:

Gross Domestic Product (GDP) at current basic prices (dependent variable) and the independent variables include: money supply (M2), interest rate (INTRATE), exchange rate (EXR), and inflation rate (INF) and investment proxied by Domestic Credit to private sector (DCPS). The empirical results are presented below:

4.1 Presentation of Results

Log(gdp) = 4.515 + 0.8747M_2 – 0.4279INTRATE + 0.0092INF + 0.1319EXCH + 0.4695DCPS

(0.856)	(0.063)	(0.263)	(0.052)	(0.086)	(0.017)
(5.276)	(13.88)	(-1.624)	(0.176)	(1.535)	(2.709)

R-squared	0.992184
Adjusted R-squared	0.990484
F-statistic	583.9040
Durbin-Watson stat	1.694029

From the OLS result presented above, the coefficient of the constant term is 4.515 implying that at zero performance of the various explanatory variables used, Gross Domestic Product (GDP) will stand at 4.515 units.

The coefficient of M_2 is 8.747. This implies that a unit increase in M_2 will bring about an increase in GDP by 8.747 units. The coefficient INTRATE is 0.428 implying that a unit increase in interest rate will bring about a 0.428 unit increase in GDP.

Similarly, the coefficient of INF is 0.0092 implying that a unit increase in inflationary rate will bring about a 0.0092 unit increase in GDP. EXCH has a coefficient of 0.1319 meaning that a unit increase in exchange rate will bring about a 0.1319 unit increase in GDP. Finally, investment proxied by DCPS has a coefficient of 0.4695 showing equally a positive relationship with GDP. Hence, a unit increase in investment will bring about a 0.4695 unit increase in GDP.

The above result indicates that the R_2 is 0.99 indicating that the explanatory variables virtually explain 99% of the total variations in GDP during the period under consideration.

From the OLS equation above, it will be seen that it is only the coefficient of M_2, INTRATE and INVT that are statistically significant at 1 percent level of significance while the coefficients of other variables EXCH and INF ratio were not statistically significant. This is judged by their p-values given in the equation.

4.2 Implication of the Study

It is expected that the higher the level of M_2 in the economy, the higher the level of economy activities which could ultimately translate into higher economic growth and the findings from this study supported the hypothesis. Equally, from a priori, the result presented above shows that GDP has a negative relationship with INTRATE and a positive relationship with INF, EXCH and DCPS. Only the relationship between GDP on one hand and M2 and DCPS conforms to a priori expectation while that between GDP and EXCH does not conform to the a priori

expectation. GDP ought to have negative relationship with both exchange rate and interest rate but findings reveal that the reverse was the case in respect of exchange rate which turned out to be positively related to gross domestic product. Hence only the coefficient of money supply (M2) and DCPS conforms to priori expectations.

4.3 TEST OF HYPOTHESIS

Monetary policy instruments have significant impact on economic growth in Nigeria. To test for this hypothesis, we take a look at the relationship between the various instruments of monetary policy and economic growth of Nigeria from the OLS result. From the result, it was observed that the coefficients of M2 and DCPS conforms to expectation since it had positive relationship with GDP, From the above fact, none of the other variables was significant at the 1 % level of significance, we therefore reject the null hypothesis and conclude that monetary policy instruments have significant impact on economic growth in Nigeria for the period reviewed.

1. There is causality between monetary policy rate and economic growth in Nigeria.
2. Money supply causes economic growth in Nigeria.
3. There is no causality between exchange rate and economic growth in Nigeria.
4. Economic growth (GDP) causes interest rate in Nigeria.
5. Investment causes economic growth in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study investigated empirically the relationship between monetary policy and economic growth of Nigeria for the period between 1990 and 2018 employing various techniques of econometric analysis. In the course of the study, the main objective was to determine empirically the impact of monetary policy instruments on economic growth in Nigeria.

The OLS test which was used to determine the impact of the independent variables (M2, INTRATE, EXCH, INF and DCPS) on the dependent variable (GDP) showed that broad money supply, INTRATE and DCPS have the right signs and significantly related to GDP. INF and EXCH rate have positive relationship with GDP contrary to economic reasoning.

5.2. Conclusion

The role of the Central bank in regulating the liquidity of the economy which affects some macroeconomic variables such as the output, employment and prices cannot be over-emphasised. This study applied ordinary least square (OLS) to determine the impact of monetary policy in the Nigeria's economic growth for the period 1990-2018. It is evident from the result that monetary policies have significant impact on economic growth of Nigeria within the period under review. This study concludes therefore that the inability of monetary policies to effectively maximize its policy objective most times is as a result of the shortcomings of the policy instruments used in Nigeria as such limits its contribution to growth.

5.4 Recommendations

Based on the findings, the following recommendations are made:

1. For effective operation of the monetary policy measures in the Nigerian economy, the Central Bank of Nigeria should be granted full autonomy on its monetary policy functions. Partial autonomy should be replaced with full

autonomy for the central banks in the developing economies at large which is invariably subjected to government interference and its politics.

2. Commercial banks and other financial intermediaries must be forced to ensure compliance with the stipulated prudential guidelines. Any deviation from the set regulations should be punished to serve as a deterrent to others.

3. Finally, since Global experience has indicated that monetary policy must work in random to create the right macroeconomic framework, in other word monetary policy to a great extent depends on coordination with fiscal policy; these two phenomena should be articulated in order to bring out effective results.

4. The connection between monetary expansions and real economic growth capitalizes on imperfections in the public's information about prices. People respond inefficiently in the sense that under perfect information, they would not have altered their behaviour. At best, one party gains at another's expense. A central bank may periodically exploit this connection, but frequent attempts, as some seem to advocate, may ultimately distort the allocation of resources from productive uses to protective enterprises. Countries with high inflation rates tend to have larger financial sectors relative to GDP, not faster rates of economic growth In the long-run, money growth seems to translate only into proportionally higher inflation; it does not foster real economic growth or employment. Ultimately, a central bank can best contribute to a nation's economic health by eliminating the price uncertainties associated with inflation. However, if the central bank restrains from interventions, sharp fluctuations may result in the market.

5. Monetary policies should be used to create a favourable investment climate by facilitating the emergency of market based interest rate and exchange rate regimes that attract both domestic and foreign investments, create jobs, promote non-oil export and revive industries that are currently operation far below installed capacity. In order to strengthen the financial sector, the Central Bank has to

encourage the introduction of more financial instruments that are flexible enough to meet the risk preferences and sophistication of operators in the financial sector.

6. For monetary policy to have a desired impact on the real economy and inflation, which is the fundamental objective of monetary policy, it is essential that changes in the short-term market interest rate should ultimately transform into changes in other interest rates in the economy (that is, interest rate changes are passed through to retail interest rates for loans and deposits), which then influence the overall level of economic activity and prices.

7. It is therefore prudent that in seeking to promote economic growth, Nigeria's banks should be committed to the mission of price stability, as well as improving the regulatory and supervisory frameworks to secure a strong financial sector for efficient intermediation.

Therefore, the execution of monetary policy through its techniques requires effective and prudent management on the part of the monetary authorities.

Economic growth is characterized by increased GDP, increase in disposable income available to its citizens which is reflected in terms of the per capita income available to them.

However, when sufficient revenue is generated, it leads to a beehive of economic activities which ultimately leads to growth in terms of volume of businesses, trade and industry as well as investment opportunities. But this is not always the case as several factors lead to slow economic growth including dwindling revenue base of the nation

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APPENDICES

Dependent Variable: GDP

Method: Least Squares

Date: 02/02/22 Time: 05:22

Sample: 1990 2018

Included observations: 29

Variable	Coefficient	Std. Error	t-Statistic	Prob.
M2	0.874722	0.063023	13.87941	0.0000
INTRATE	-0.427915	0.263391	-1.624638	0.0009
INF	0.009193	0.052324	0.175694	0.8621
EXCH	0.131919	0.085935	1.535096	0.1384
DCPS	0.469491	0.173279	2.709450	0.0005
C	4.515715	0.855803	5.276584	0.0000

R-squared	0.992184	Mean dependent var	9.544892
Adjusted R-squared	0.990484	S.D. dependent var	1.703968
S.E. of regression	0.166219	Akaike info criterion	-0.569029
Sum squared resid	0.635462	Schwarz criterion	-0.286141
Log likelihood	14.25092	Hannan-Quinn	-

		criter.	0.480432
		Durbin-Watson stat	1.694029
F-statistic	583.9040		
Prob(F-statistic)	0.000000		

Obs	GDP	M2	INTRATE	INF	EXCH	DCPS
1990	6.203838	4.229203	3.238678	1.996658	2.084216	1.598990
1991	6.380224	4.471637	2.996232	2.565486	2.293493	1.607915
1992	6.809072	4.860475	3.394508	3.797484	2.850615	2.100666
1993	7.136622	5.290684	2.907993	4.045946	3.094011	1.937317
1994	7.478052	5.587042	3.044522	4.043607	3.090861	2.078708
1995	8.039233	5.764449	3.004692	4.288204	3.086270	1.870144
1996	8.315338	5.914404	2.982394	3.376505	3.085775	1.816581
1997	8.393603	6.063160	2.605833	2.143575	3.085849	1.947762
1998	8.477445	6.264612	2.906491	2.302223	3.085847	2.029291
1999	8.609290	6.550700	3.059646	1.889850	4.525457	2.098347
2000	8.862590	6.943199	2.889260	1.936335	4.622001	2.106370
2001	9.016087	7.182253	2.906491	2.937767	4.711611	2.286773
2002	9.350228	7.377443	3.212858	2.555410	4.792298	2.088158
2003	9.514656	7.593471	3.030617	2.641325	4.861535	2.185704
2004	9.804996	7.724706	2.953868	2.707919	4.889507	2.134286
2005	10.04853	7.942663	2.887590	2.882759	4.877289	2.131239
2006	10.32138	8.301001	2.848392	2.107205	4.857108	2.093224
2007	10.45380	8.667306	2.829530	1.684176	4.834758	2.594362
2008	10.59549	9.123347	2.717038	2.449372	4.775475	2.921717

2009	10.67963	9.285506	2.943956	2.530116	5.003141	2.975710
2010	10.92359	9.352320	2.867082	2.618869	5.012617	2.599677
2011	11.06215	9.495782	2.773920	2.383246	5.036059	2.400813
2012	11.19272	9.647359	2.820802	2.502892	5.059425	2.359858
2013	11.30233	9.660222	2.816775	2.137218	5.058229	2.444469
2014	11.40909	9.846150	2.806289	2.087222	5.066087	2.587028
2015	11.46350	9.904978	2.824258	2.198267	5.259786	2.570086
2016	11.53835	10.06865	2.825438	2.752089	5.535332	2.680830
2017	11.65181	10.09165	2.866762	2.804786	5.722899	2.547668
2018	11.76824	10.14514	2.816606	2.492770	5.723859	2.320377