



THE IMPACT OF MONETARY POLICY ON NIGERIA'S ECONOMIC GROWTH: A TIME SERIES ANALYSIS (1995-2015)

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ABSTRACT: *This study investigates the impact of monetary policy on Nigeria's economic growth over the period 1995-2015. Using time series data sourced from the Central Bank of Nigeria, the study applies multiple regression analysis to examine the relationship between real GDP (as the proxy for economic growth) and key monetary policy variables: broad money supply (M2), exchange rate (EXR), and liquidity ratio (LR). Findings reveal that broad money supply and exchange rate significantly influence economic growth, while the liquidity ratio does not exhibit a meaningful impact. Based on these results, the study recommends that the Central Bank of Nigeria continues to fine-tune monetary instruments to create an enabling environment for both domestic and foreign investment, thereby stimulating sustainable economic growth.*

KEYWORDS: Monetary Policy, Economic Growth, Nigeria, Broad Money Supply, Exchange Rate, Liquidity Ratio.



INTRODUCTION

Monetary policy is a crucial tool for managing economic growth and stability. In Nigeria, the Central Bank (CBN) has been actively employing monetary measures since its establishment in 1959, targeting inflation, exchange rates, and liquidity to influence economic outcomes (Fasanya, Onakoya & Agboluaje, 2013). Despite these efforts, the Nigerian economy has continued to experience volatility, including high inflation, unemployment, and currency depreciation. This study seeks to evaluate the effectiveness of Nigeria's monetary policy between 1995 and 2015 in fostering economic growth.

LITERATURE REVIEW

Monetary policy has been widely recognized as a key driver of economic performance. According to Keynesian theory, changes in money supply affect interest rates and investment, which in turn influence output and employment (Jhingan, 2010). Monetarists, led by Friedman (1963), argue that long-term economic growth is primarily determined by the growth rate of money supply. Empirical studies on Nigeria have shown mixed results; while some identify significant positive relationships between monetary policy instruments and growth (Ajisafe & Folorunso, 2002; Okoro, 2013), others highlight structural challenges that undermine policy effectiveness (Balogun, 2007).

METHODOLOGY

The study adopts a quantitative research design using secondary data from the Central Bank of Nigeria's statistical bulletin. The model specifies real GDP as the dependent variable and broad money supply (M2), exchange rate (EXR), and liquidity ratio (LR) as the independent variables:

$$RGDP = b_0 + b_1(M2) + b_2(EXR) + b_3(LR) + \mu$$

where b_0 is the intercept, b_1 - b_3 are coefficients, and μ is the error term. Multiple regression analysis was conducted using SPSS software to determine the impact of the explanatory variables on economic growth.

RESULTS

Descriptive statistics show significant variability in Nigeria's GDP, exchange rates, and money supply over the study period. The regression analysis reveals the following:

- Broad money supply (M2) has a positive and statistically significant impact on GDP ($p < 0.05$).
- Exchange rate (EXR) also shows a positive and significant relationship with GDP ($p < 0.05$).
- Liquidity ratio (LR), while positive, is statistically insignificant ($p > 0.05$).



The model explains 96.5% of the variation in Nigeria's GDP ($R^2 = 0.965$), indicating a strong fit.

DISCUSSION

The findings suggest that Nigeria's monetary policy has been moderately effective, particularly through money supply expansion and exchange rate adjustments, in driving economic growth. However, the insignificant effect of liquidity ratio points to potential inefficiencies in banking sector liquidity management. Aligning monetary policy with broader structural reforms could enhance policy transmission and economic outcomes (Chimobi & Uche, 2010).

CONCLUSION AND RECOMMENDATIONS

This study concludes that broad money supply and exchange rate are significant levers for Nigeria's economic growth, while liquidity ratio plays a less decisive role. To sustain and amplify these gains, the Central Bank of Nigeria should:

- Implement policies that stabilize exchange rates and encourage foreign investment.
- Strengthen the financial sector to improve liquidity management.
- Create a conducive environment for private sector growth through appropriate monetary instruments.

Further research could explore the role of fiscal policy and structural factors in moderating the impact of monetary policy on growth.

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