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Monetary Policy and Economic Growth in Nigeria

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ABSTRACT: The study examines the impact of monetary policy on economic growth in Nigeria between 1985 – 2023. The study employed the Autoregressive Distributed Lag for both short and long run for the analysis on a time series data. The data were sourced from the central bank of Nigeria (CBN) Statistical Bulletin, 2023. The findings suggest that Money supply has a negative and insignificant impact on economic growth in both short-run and long run, Interest rate has negative and statistically significant impact on economic growth in both short-run and long-run, Inflation rate has positive and significant impact on economic growth in both short-run and long-run and Balance of payment has a positive relationship with economic growth with only the long-run being statistically significant. Based on the findings, the study recommends that for the Nigerian stock market to grow at the desired rate, monetary policy particularly the interest rate management should receive considerable attention of relevant authorities in order to influence strongly and positively on the Nigerian Stock market.

Keywords: Monetary Policy and Economic Growth.

1.0 INTRODUCTION

Monetary policy is one of the drivers of economic growth through its impact on economic variables. The advancement of monetary policy has made its effectiveness in influencing economic growth a priority to most governments. Nkoro (2005) opines that despite the lack of consensus among economists on how monetary policy operates and the magnitude of its effect on the economy, there is a remarkable agreement that it has some measure of effects on the economy. Prior to the structural adjustment programme (SAP), there was an undue emphasis on the use of fiscal policy at the expense of monetary policy which was frequently breached (Oseni & Oyelade, 2023). It was in 1987, after the structural adjustment programme (SAP) that emphasis shifted to monetary policy in the wake of deregulation of money market which prevents money from becoming a major source of disturbance in the Nigerian economy. Today, fiscal and monetary policies are inextricably linked in macroeconomic management as developments in one sector directly affect developments in the other. Moreover, there is consensus among the economists that monetary and fiscal policies are either jointly or individually affecting the level of economic activities but the degree and relative potency of these policies have been the subject of debates and controversies between the Keynesian and the Monetarist (Balogun, 2021).

John Maynard Keynes recommends fiscal policy by stimulating aggregate demand in order to curtail unemployment and alleviating it in order to control inflation. Nevertheless, there are several studies on the debates

between monetarists and Keynesians in advanced countries and only fragmented evidence has been provided in Nigeria on these issues (Frank & Ogoja, 2020; Aniefor, Nduka, Ananwude & Ezeaku, 2021). The monetarists vehemently believe that monetary policy exact greater impact on economic activity as unexpected change in the stock of money affects growth and output. The volume of money must increase unanticipatedly for Central Bank to promote economic growth. The monetarists are of the opinion that an increase in government expenditure would crowd out private sector and such can outweigh any short-term benefits of an expansionary fiscal policy (Frank & Ogoja, 2020; Ogunewe, Ananwude & Nduka, 2020). The relationship between monetary policy and economic growth in Nigeria is a source of intense interest and controversy among policymakers, economists, and academicians. Whereas monetary policy has the potential to stimulate economic growth by influencing investment, consumption, and overall economic stability, its effectiveness in Nigeria is frequently hampered by structural issues such as a sizable informal sector, low financial inclusion, and external shocks such as global oil price fluctuations. The essence of monetary policy execution is to achieve macroeconomic objectives. However, concerns such as high inflation, a volatile exchange rate, high interest rates, which discourage entrepreneurs from borrowing for manufacturing purposes to increase economic growth, a high incidence of unemployment, and so on, continue to have a detrimental impact on Nigeria's economic growth (Khaysy and Gang, 2017; Nduka, Ananwude & Osakwe, 2019). Therefore, the focus of this study is to examine the impact of monetary policy on economic growth in Nigeria.

Despite numerous studies, monetary policy and economic growth remains an unresolved issue in the growth of the Nigerian economy. Ovat et al, (2022), Ogundipe and Akinbobola, (2020), Oseni and Oyelade (2023), Victor, Iheukwuemere and Ogonda (2022), Adeniyi, Omotosho and Akanbi (2020), Alabi and Olarinde (2020), Ezeaku, Nwanna and Okafor (2020), Nduka, Atueyi, Osakwe & Mbanefo (2021) and Umar and Murtala (2020) examined the effectiveness and impact of monetary policy on economic growth using the gross domestic product (GDP) as a measure (proxy) for economic growth in Nigeria. The studies did not take cognizance of the gross domestic product growth rate (GDPGR) which is the most important indicator of economic growth. More so, previous studies such as Alabi and Olarinde (2020), Khaysy and Gang (2017) and Ogundipe and Akinbobola (2020) examined the impact of monetary policy on economic growth in Nigeria using variables such as money supply, interest rate, inflation rate, monetary policy rate and so on, but did not take cognizance of the balance of payment variable as one of the components of monetary policy variables. Therefore, this current study examine the impact of monetary policy on economic growth in Nigeria. In the extant literature, such inadequacies in the empirical evidence on the relationship between monetary policy variables and gross domestic product growth rate provide justification for this study. Therefore, this study seeks to fill this gap in knowledge.

2.0 LITERATURE REVIEW

Monetary Policy

Several researchers such as Al-Mukit and Shafiullah, 2012; Chatziantoniou, Duffy and Filis, (2013), stipulated that as a part of the financial market, Stock markets have a multidimensional role to play in economic development and in connection with monetary policy decision making. Odior and Nwaogwugwu (2016) stated that monetary policy is a measure designed to control the supply of money and credit, to adjust interest rate with the objective of influencing the

overall level of economic activity. Monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in an economy. It can be described as the art of controlling the direction and movement of credit facilities in pursuance of stable price and economic growth in an economy (Busari, Omoke, & Adesoye, 2022; Anusi & Nduka, (2022). Monetary Policy refers to the actions of the Central Bank to regulate the money supply which could be through discretional monetary policy instruments such as the Open Market Operation (OMO), discount rate, reserve requirement, moral suasion, direct control of banking system credit, and direct regulation of interest rate (Oseni and Oyelade, 2023; Ekwunife, Nduka & Ogini, 2022). Monetary policy covers the monetary aspect of the general economic policy, which requires a high level of co-ordination between monetary policy and other instruments of economic policy of the country.

Economic growth

Economic growth refers to the increase in the output of goods and services within an economy over a given period, often measured by the gross domestic product (GDP). It reflects the economy's ability to expand its productive capacity, create employment, improve income levels, and enhance living standards. Economic growth is a vital indicator of macroeconomic health, guiding policymakers in assessing national progress and development potential (World Bank, 2023). There are two broad dimensions to understanding economic growth: quantitative and qualitative. The quantitative dimension involves the increase in the market value of final goods and services produced within an economy, typically measured through metrics such as GDP or gross national product (GNP). On the other hand, the qualitative dimension focuses on structural changes, such as improvements in technological capacity, institutional frameworks, workforce productivity, and sectorial diversification. These qualitative aspects ensure that growth is not only rapid but also inclusive, sustainable, and resilient over the long term (IMF, 2022; Demirgüç-Kunt et al., 2022).

Theoretical Review

Classical Theory

Because of its neutral impact on the economy, money is viewed by classicalists as a shroud. It does nothing more than influence the level of prices. The money supply is directly correlated with price levels only; actual income, interest rates, and the degree of real economic activity are unaffected by increases in the money supply. Their view of monetary policy is based on the quantity theory of money and sees money primarily as a medium of exchange. According to this, the amount of money in circulation determines the price level. An algebraic expression for this relationship would be MV = PT. Where, M denotes the supply of money; V denotes the velocity of circulation which is the average number of times a currency is spent on final goods and services over the course of a year; P denotes the price level; T denotes the volume of transactions (or real total output). The above equation tells us that the total money supply MV equals the total value of output PT in the economy. Assuming V (velocity of money) and T (the total output) are held constant, a change in the supply of money (M) causes a proportional change in the price level (P).

The classical theorist held the opinion that the economy was always experiencing full employment. On the other hand, they acknowledged the possibility of unemployment in the case of money wages becoming rigidly downward. The only way to address this predicament is to implement an expansionary monetary policy. According to Nwosu and Saibu (2012), contractionary monetary policy can only result in deflation of

the price level while expansionary monetary policy is effective in restoring full employment.

Keynesian Theory

John Maynard Keynes's economic theories provide the foundation of the Keynesian theory of monetary policy. The theory placed a strong emphasis on how aggregate demand affects employment and economic output. According to Keynesian theory, factors including the rate of interest, aggregate demand, employment level, production, and income may all be permanently altered by altering the money supply. Keynes thought that there was an equilibrium in unemployment. This suggests that a rise in the money supply may result in long-term gains in output. The money supply's final impact on the level of prices is determined by how it affects both aggregate demand and the elasticity of the supply of total output. Keynes supported the cheap money policy when there was unemployment. Thus, an increase in the money supply initially affects the rate of interest, which generally declines. Because of the marginal efficiency of capital, investment will rise in response to a decrease in interest rates. Through the multiplier effect, the additional investment will improve effective demand, increasing income, output, and employment.

Empirical Review

To highlight the relationship between monetary policy variables and their application in the economy, Oleka, Okolie, and Chukwuani (2017) set out to investigate the relevance of monetary policy in the Nigerian economy. The study's time frame is from 2000 to 2015. The nature and direction of causation between the variables and the gross domestic product (GDP) are examined in this study. This study's overarching goal is to investigate how monetary policy affects GDP to address this. The other objectives are to find out how the money supply affects GDP, how interest rates affect GDP, how much inflation affects GDP, and so on. The ex post facto design was used in the study. To assess the purpose of assessing the link, information on monetary policy, interest rates, exchange rates, money supply, inflation rate, and GDP was gathered. A pairwise Granger causality test was used to ascertain the causal link between the variables. The outcome demonstrated a causal association between the variables, ranging from inflation to interest rate. The study's overall conclusions showed a clear connection between monetary policy and economic expansion.

The dynamic relationship between monetary policy and economic growth in Malaysia from 1980 to 2015 was studied by Yien, Abdullah, and Azam (2017). It argued that size distortion and erroneous conclusions in the ADF model result from the existence of a structural break in the data generating process. The study examined for stationarity characteristics that take structural breaks into account. This study found no evidence of a causal relationship between money supply and price level or between inflation and output. Interest rate Granger affected growth per capita, money supply, inflation, unemployment, and foreign direct investment, according to VAR Granger Causality results. Khaysy and Gang (2017) used annual time series data from 1989 to 2016 to investigate how monetary policy affected economic development. The results of the unit root test indicate that all variables are stationary at first difference, hence the relationship between the variables was examined using the Johansen Cointegration and Error Correction Model. The results demonstrate that only the real exchange rate has a positive sign over the long term, while the money supply, interest rate, and inflation rate all have as a negative impact on real GDP per capita. The results of

the error correction model show that there is a short-term causal relationship between the money supply, real exchange rate, and real GDP per person. The relationship between monetary policy and economic growth in Nigeria was investigated by Adeniyi, Omotosho, and Akanbi (2020). The study discovered that monetary policy positively impacted Nigeria's economic growth over the short and long terms. The study concluded, in particular, that economic growth was positively impacted by an increase in the money supply and negatively impacted by an increase in interest rates. The relationship between Nigeria's fiscal policies and economic growth was examined by Alabi and Olarinde (2020). The study discovered that taxes and government spending, with the former having a negative effect and the latter a favourable one, had a considerable influence on economic growth in Nigeria. The study also discovered that different sectors experienced different effects from fiscal policy on economic growth, with the service sector benefiting more from government spending than other sectors.

The relationship between Nigeria's unemployment rate and fiscal policy was examined by Ezeaku, Nwanna, and Okafor (2020) using an Autoregressive Distributed Lag (ARDL) Bounds Testing method. According to the study, taxes only had a substantial positive impact on the unemployment rate in the short term, while government spending had a considerable negative impact on it over the long term. The study additionally discovered that the effects of fiscal policy on the unemployment rate differed by industry, with government spending having a greater detrimental effect on the rate in the industrial and service sectors than in the agriculture industry.

The effect of fiscal policy on economic growth in Nigeria was studied by Mogaji, Adetula, and Olaoye (2020). The relationship between taxation, spending by the government, and economic growth was examined using a Vector Autoregression (VAR) model in this study. The study's findings indicated that although there was a positive correlation, it was not statistically significant, between government spending and economic growth. It was discovered, however, that taxes and economic growth had a statistically significant negative association. The study concludes that fiscal policy can affect Nigeria's economic growth, but to do so, decision-makers must carefully weigh the right proportion of taxation and spending.

Ogundipe and Akinbobola (2020) examined the association between monetary policy variables (money supply, interest rate, and exchange rate) and economic development using an Autoregressive Distributed Lag (ARDL) Bounds Testing technique. The empirical findings point to a strong positive correlation between the money supply and economic growth in the short term, and a strong positive association between the money supply and exchange rate and economic growth over the long term. Conversely, the research indicates that interest rates have an effect on economic growth over the short and long terms. The study concludes that, if implemented properly by policymakers, the monetary policy factors taken into consideration in the analysis can be used to foster economic growth in Nigeria. Using an Autoregressive Distributed Lag (ARDL) technique, Umar and Murtala (2020) examined the effects of fiscal policy on economic development in Nigeria from 1981 to 2017. The results show that taxes and government spending have a big short- and long-term effects on Nigeria's economic growth. The study also shows that government expenditure has a more pronounced beneficial effect on GDP expansion as opposed to taxation. The study

concludes that the Nigerian government should concentrate on using fiscal policy to boost economic growth, particularly by increasing expenditure on areas like infrastructure development that have a stronger multiplier effect on economic growth.

Victor, Iheukwuemere, and Ogonda (2022) examined how monetary policy affected Nigeria's economic expansion between 1981 and 2021. To conduct its analysis, this study employed secondary data from the Central Bank of Nigeria Statistical Bulletin (2021). The study estimated the short- and long-term effects of the monetary policy on economic growth in Nigeria using Autoregressive Distributed Lag (ARDL) bound co-integration, which revealed a long-term link. Additional estimation results indicated that Nigeria's economic growth was influenced by monetary policy. Using a range of economic variables, Oseni and Oyelade (2023) looked into how fiscal and monetary policies affected economic growth in Nigeria. The results demonstrated that lending interest rates, gross capital formation, total employment, and the size of the money supply all play important roles in determining Nigeria's economic growth. The study discovered that the lending interest rate has a considerable negative impact on GDP, but gross capital formation, total number of employees, and wide money supply all positively and significantly affect GDP.

3.0 METHODOLOGY

The study adopted the ex-post facto research design. The data for this study was sourced from the Central Bank of Nigeria Statistical Bulletin, 2023 on the following indicators or variables of monetary policy such as money supply, interest rate, inflation rate and balance of payment. The data is essentially measured on annual basis from 1995 –2023. However, the Focus of the study is to explain impact of monetary policy on economic growth in Nigeria.

Theoretical Framework

The theoretical framework focuses on the Solow growth model which is often used to analyse the long run economic growth. The Solow growth model is an improvement over the Harrod-Domer model. Solow (1956) model as elaborated and augmented by Romer (1992), estimated the version of GDP growth as:

$$Y_{it} = \alpha_0 + \alpha_i + \mu_i + \beta X_{it} + \mu_{it}$$

Where Y_{it} is the real per capital GDP growth of the country in period t, X is the vector of determinants in the GDP growth of interest. The α_0 α_i μ_i and β are the parameters and a vector of parameters to be estimated. The X_{it} consist of the money supply- GDP ratio used to represent, inflation rate, interest rate and balance of payments. The GDP growth rate is used to proxy economic growth in Nigeria. The equation is a general model incorporating country specific fixed and random effects.

Since this study examines the impact of monetary policy on economic growth in Nigeria, we will therefore consider McCollum (1991) who came up with the functional and linear equations. The approach is to modify the model by specifying a multiple regression equation made up of gross domestic product (GDP) growth rate, as a function of the independent variables i.e. Money supply, Interest rate, Inflation rate and Balance of Payments.

Model Specification

This study builds on the works and various contributions to the model of long-run economic growth of Solow (1956) and (Domar, 1957) and Romer (1992) who augmented and elaborated the Solow (1956)

model. However, in presenting the final specification of the model, McCollum (1991) is used to present the functional form of our model below:

The Functional form of the regression model is:

$$GDPGR = f(M_S, INTR, INFR, BOP)$$

Meanwhile, the econometric form of the model is:

$$GDPGR = \beta_0 + \beta_1 Ms + \beta_2 INTR + \beta_3 INFR + \beta_4 BOP + \mu$$

Where

GDPGR = Gross Domestic Product Growth Rate
M_S = Money Supply
INTR = Interest Rate
INFR = Inflation Rate
BOP = Balance of payment
μ = Error term

GDPGR is the dependent variable while M_S, INTR, INFR, and BOP are the independent variables.

Theoretical Expectations between the Dependent and Independent Variables

β_0 is to take care of the constant variable, β_1 is the coefficient of money supply (M_S) which is greater than zero ($\beta_1 > 0$) because it is expected to be positively related to gross domestic product growth rate (GDPGR) in Nigeria. β_2 is the coefficient of interest rate (INTR) which is expected to be less than zero ($\beta_2 < 0$) that is, a negative relationship with the gross domestic product growth rate (GDPGR) is expected. β_3 is the coefficient of inflation rate (INFR) which is expected to be less than zero ($\beta_3 < 0$) that is a negative relationship with the gross domestic product growth rate (GDPGR) is expected. Finally, β_4 is the coefficient of balance of payment (BOP) which is expected to be greater than zero ($\beta_4 > 0$) due to the likely positive influence of oil revenue on balance of payments.

Meanwhile, the mathematical representation of the parameters of the model will be:

$\beta_1 > 0$; $\beta_2, \beta_3 < 0$; $\beta_4 > 0$.

4.0 RESULTS AND DISCUSSION

Table 4 shows that the average performance of monetary policy for the period is 25.46094 which indicates that the growth of the Nigerian economy performed considerably during the period of study (1985 - 2023). The median value of 17.43201 depicts that the gross domestic product growth rate (GRPGR) (our proxy for economic growth) is not generally similar across the section or within the time period. The standard deviation of GDPGR of 24.63953 was relatively low in term of the mean value. The disparity in economic growth ranged from 0.013171 minimum values for some monetary policy components to a maximum value of 118.6185. This implies a slight disparity among the monetary indicators. The skeweness coefficient of -0.457575 indicates that the GDPGR characteristics among the variables of monetary policy generally centred to the left of the mean value. From table 4, it can be observed that money supply (MS), interest rate (INTR), inflation rate (INFR) and balance of payment (BOP) have an average mean of 1423.49, 13.94812, 19.67121 and 4319.096 of (1985-2023). However, the Jargue-Bera statistics of GDPGR is 103.2690 with probability value of 0.000000. The null

hypothesis of the Jargue-Bera statistics is that the variable is not normally distributed. Since the probability is greater than 0.05 level of significance, we accept the null hypothesis and conclude that Jargue-Bera is not normally distributed.

Table 4: Descriptive Statistics

	GDPGR	MS	INTR	INFR	BOP
Mean	25.46094	14283.49	13.94812	19.67121	4319.096
Median	17.43201	2042.370	13.50000	14.12192	2266.581
Maximum	118.6185	74631.21	26.00000	76.75887	44731.20
Minimum	0.013171	22.29924	6.125000	0.223606	-19488.70
Std. Dev.	24.63953	22637.07	3.652239	17.77103	10230.12
Skewness	2.474306	1.584721	0.572234	1.811729	2.435446
Kurtosis	9.382300	4.011134	4.808913	5.344371	11.45707
Jarque-Bera	103.2690	17.52395	7.254791	29.49041	150.8087
Probability	0.000000	0.000157	0.026585	0.000000	0.000000
Sum	967.5159	542772.8	530.0286	747.5058	164125.6
Sum Sq. Dev.	22462.94	1.90E+10	493.5374	11684.95	3.87E+09
Observations	39	39	39	39	39

Unit Root Tests

The Augmented Dickey Fuller test (ADF) is employed to test the stationarity properties of the data set in levels and the outcome of the result is presented in Table 4.1, panel 1. The result obtained revealed that all ADF tests (except those of GDPGR) have values that are less than the 95 percent critical ADF value (in absolute values). The implication of this is that these time series variables are non-stationary in their levels. However, the result of the unit root test on these variables in first differences is presented in panel 2. From the result, it is seen that the ADF test statistic for each of the variables is greater than the 95 percent critical ADF values (in absolute values). With these result, these variables are adjudged to be stationary. This implies that the variables attained stationarity after the first differences of the variables and are integrated of order one (i.e. I[1]).

Table 4.1 Unit Root Test for Variables in Levels

(Panel 1)	**At Levels**			**(Panel 2)**	**At First**	**Difference**
Variable	ADF Test Statistic	95% Critical ADF Value	Remark	ADF Test Statistic	95% Critical ADF Value	Remark
GDPGR	-7.194573	-2.912631	Stationary	-6.533217	-2.913549	Stationary
MS	-1.874858	-2.911730	Non-Stationary	-7.650174	-2.912631	Stationary
INTR	0.041977	-2.911730	Non-Stationary	-6.675364	-2.912631	Stationary
INFR	-1.203245	-2.911730	Non-Stationary	-6.958936	-2.912631	Stationary

BOP	-0.077053	-2.911730	Non-Stationary	-7.531982	-2.912631	Stationary

Source: Author's Compilations (2025)

Bound Test for Cointegration

The bound test result (for cointegration) is carried out in order to test for existence of a long run relationship among the variables. Accordingly, the null hypothesis under this bounds test is that no levels relationship exist. Therefore, if the calculated *F*-statistic is greater than the critical value for the upper bound *I(1)*, then we can conclude that there is cointegration (i.e there is long-run relationship); but if it falls below the lower bound I(0), no cointegration exist. Thus, the results from Table 4.5shows that the *F*-statistic value of 19.33134 is greater than the upper bound *I(1)*value of 3.38 at the 5% significance level. Thus, we conclude that there is a long run relationship among the hypothesized variables in the model.

Table 4.2: Bounds Test for Cointegration Result

Test Statistic	Value	Significant	I(0)	I(1)
F-statistic	19.33134	10%	2.08	3
K	5	5%	2.39	3.38
		2.5%	2.7	3.73
		1%	3.06	4.15

Source: Author's Compilations (2025)

The ARDL Results

The ARDL Error Correction Regression Result (Short Run Result)

The short-run behaviour of monetary policy in the light of economic growth in Nigeria is captured within an error correction model (ECM). The Autoregressive Distributed Lags (ARDL) approach is used for the ECM. The R-Bar squared criterion was used for the selection of the parsimonious equation. The results showed a strong diagnostic outcome; the R-squared value of 0.81 is very high and it indicates that over 81 percent of the systematic variation in economic growth over the short term is explained by short term movements in the explanatory variables including the ECM. Even the R-Bar squared value of 0.74 is also very high. In terms of the individual coefficients, it is seen that the coefficients of money supply (MS) and Interest Rate (INTR) is negatively signed and also significant at the 1 percent level. This simply suggests that the use of money supply (MS), Balance of Payment (BOP), Interest Rate (INTR) and Inflation Rate (INFR) in the country are significant determinants of economic growth in Nigeria. However, the negative signs suggest that in the short run, any increases in the use of MS and INTR reduces economic growth in Nigeria by approximately -0.000100 and -4.890813 percents respectively. However, the lag value of interest rate has significant negative relationship with economic growth, suggesting that previous values of INTR does not have significant impact on economic growth in Nigeria than the current values.

The coefficients of inflation rate and balance of payment have positive relationship with economic growth in Nigeria in the short run; with only inflation rate being statistically significant. By implication, the results suggest that increases in the use of use of inflation rate in the short run brings about 0.612452 corresponding increase in the level of economic growth in Nigeria. Hence, inflation rate is a major determinant of economic growth in the country and which should not be downplayed by regulators and policy makers.

The coefficient of money supply (MS) has an insignificant negative relationship with economic growth in Nigeria, as it failed the 5 percent significant level. This suggests that in the short run, the level of money supply does not play any significant role in economic growth in Nigeria. Thus, monetary authority should endeavor to sustain current policy on money supply in order to continuously checkmate the current wave of monetary supply in the country where prices of goods and services are constantly on the increase daily. The DW statistic value of 2.11 shows the absence of autocorrelation problem in the model.

Table 4.3. ARDL ECM Results

ECM Regression			
Case 2: Restricted Constant and No Trend			
Variables	**Coefficient**	**T-Statistic**	**Prob.**
GDPGR(-1)*	-1.921731	-7.912773	0.0000
MS**	-0.000100	-0.694542	0.4935
INTR(-1)	-4.890813	-4.057781	0.0004
INFR(-1)	1.758661	5.172295	0.0000
BOP**	0.000309	0.997945	0.3275
C	83.56992	5.195721	0.0000
D(GDPGR(-1))	0.401231	2.852883	0.0084
D(INTR)	-0.739108	-0.635646	0.5306
D(INFR)	0.612452	2.368409	0.0256
D(INFR(-1))	-0.744953	-2.373127	0.0253
$R^2 = 0.81$	$\bar{R}^2 = 0.74$		D.W.= 2.11

Source: Author's Compilations (2025). Note: **Sig at 1% level.

4.3.2 ARDL Long Run Results

Since the bound test result for cointegration earlier conducted in Table 4.2 indicated the existence of a long run relationship among the variables, we therefore conduct the ARDL long run test. The result is presented in Table 4.4. A close examination reveals that the coefficient of inflation rate had a significant positive relationship with economic growth in Nigeria; the variable passed the 5% level of significance. This means that in the long run, the inflationary t rend in the country is a significant determinant of economic growth in Nigeria. Indeed, the results demonstrated that a unit increase in inflation rate increases, overall economic activities in the country.

The coefficient of money supply (MS) also had a strong negative relationship with economic growth in Nigeria, the variable was insignificant. This suggests that MS is not a potent factor in the determination of economic growth in Nigeria in the long run. However, the negative sign suggests that as the usage of MS reduces, economic growth in Nigeria.

The coefficient of interest rate (INTR) had a significant negative relationship with economic growth in Nigeria. It was significant at the 5% level, meaning that the variable is a significant determinant of the level of economic growth in the country in the long run. However, the negative sign suggests that a unit rise in the level of Interest rate reduces the overall general economic performance by approximately -3.97E-05% in Nigeria within the investigating period.

Furthermore, the coefficient of Balance of Payment (BOP) is seen to have significant

positive impact on economic growth in Nigeria; the variable was significant at the 1 percent level. This means that, balance of payment usage is a significant determinant of economic growth in Nigeria in the long run. Indeed, it is seen that as the use of BOP increases, the general level of economic activities is enhanced by approximately 0.000161%. For this reason, policymakers are urged to sustain current policy on payment system in the country and also ensure its expansion so that it can have more meaningful impact on economic growth in Nigeria.

Table 4.4: ARDL Long Run Result

Levels Equation			
Case 2: Restricted Constant and No Trend			
Variables	**Coefficient**	**T-Ratio**	**Prob.**
MS	-5.21E-05	-0.699461	0.4895
INTR(-1)	-2.545004	-4.105186	0.0003
INFR(-1)	0.915144	6.263118	0.0000
BOP	0.000161	0.984675	0.3324
Constant	43.48680	5.720736	0.0000

Source: Author's Compilations (2025). Note: **Sig at 1% level; *Sig at 5% level.

4.4 Discussion of Findings

From the analysis, we found that the short-run and long-run impact of interest rate on GDPGR is negative with the short-run interest rate being statistically significant which confirms the theoretical expectations and findings from Akinbobola (2020). The implication is that interest rate and its lag have a pervasive and strong impact particularly in the short-run on economic growth. Secondly, the analysis found that balance of payment has a positive but not statistically significant impact on economic growth rate in the short-run and long-run. This agrees with our theoretical expectation but contrary to the findings from Umar and Murtala (2020). This happens when a nation is able to pay for essential import or service its debts repayment. More so, the analysis found that inflation rate has positive and significant impact on GDPGR in both the short-run and long-run relationship as against the negative theoretical expectation for inflation and confirms the findings from Oleka, Okolie and Chukwuani (2017). This suggests that the inflationary trend has expansionary impact on the economy.

Finally, in the analysis we found that the money supply has a positive but not statistically significant impact on GDP growth rate both short run and long run. The short run result confirms the theoretical expectation and findings from Akinbobola (2020). This implies that money supply contributes positively to GDP growth rate in both short-run and long-run.

5. CONCLUSION

The study shows that money supply has a negative and insignificant impact on economic growth in both short-run and long run. Interest rate has negative and statistically significant impact on economic growth in both short-run and long-run. Inflation rate has positive and significant impact on economic growth in both short-run and long-run. Balance of payment has a positive relationship with economic growth with only the long-run being statistically significant. In conclusion, these results strongly suggest that inflation rate and interest rate have significant impact on economic growth in both short and

long-run in Nigeria within the period (1985-2023). Furthermore, the results also suggest that money supply has significant impact on economic growth particularly in the long-run. From the findings of the study, the following recommendations are offered:

1) For the Nigerian economy to grow at the desired rate, the indices of monetary policy such as the money supply should receive considerable attention by relevant authorities in order to impact strongly and positively on the growth of the economy.
2) Inflation Rate as the major indices of monetary policy should receive careful attention of government to ensure that excess money supply does not lead to significant long-run dislocation in the economy.
3) Balance of payment as a measure of monetary policy should be properly regulated by monetary authorities in order to ensure stability in the payment system.

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