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MONETARY POLICY AND ECONOMIC GROWTH IN NIGERIA: AN EMPIRICAL ANALYSIS OF POLICY TRANSMISSION AND MACROECONOMIC PERFORMANCE

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Abstract

This study examines the effect of monetary policy on economic growth in Nigeria over the period 1994–2024. The persistent macroeconomic challenges facing the Nigerian economy, including inflationary pressures, exchange rate instability, and fluctuating output growth, have raised concerns regarding the effectiveness of monetary policy as a tool for promoting sustainable economic development. The study specifically investigates the influence of the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Bank Interest Rate (BINT) on Real Gross Domestic Product (RGDP). Annual time-series data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and other official publications were analyzed using descriptive statistics, the Augmented Dickey–Fuller (ADF) unit root test, correlation analysis, and the Ordinary Least Squares (OLS) estimation technique. The empirical findings reveal that all variables were stationary after first differencing, indicating integration of order one. The regression results indicate that the Monetary Policy Rate and Cash Reserve Ratio exert positive and statistically significant effects on economic growth, whereas the Bank Interest Rate exhibits a negative and statistically significant effect on Real Gross Domestic Product. The model explains approximately 67 percent of the variations in economic growth, suggesting that the selected monetary policy

Keywords: Monetary Policy, Economic Growth, Monetary Policy Rate, Cash Reserve Ratio, Interest Rate.

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instruments play a substantial role in influencing macroeconomic performance in Nigeria. The study concludes that monetary policy remains an important instrument for stimulating economic growth when implemented effectively and consistently. It recommends that the Central Bank of Nigeria adopt a balanced monetary policy framework that promotes investment through moderate interest rates while maintaining adequate liquidity and price stability. Furthermore, monetary policy should be effectively coordinated with fiscal policy and broader structural reforms to enhance sustainable economic growth and macroeconomic stability in Nigeria.

Introduction

In developing economies such as Nigeria, where structural constraints, inflationary pressures, exchange rate volatility, and external shocks frequently challenge economic performance, monetary policy assumes a strategic role in stabilizing the economy and creating an environment conducive to investment and productivity (Mishkin, 2022).

Monetary policy remains one of the most important macroeconomic policy instruments used by central banks to influence economic activities, maintain price stability, and promote sustainable economic growth. By regulating the supply, availability, and cost of money and credit, monetary authorities seek to create a stable economic environment that encourages investment, increases productivity, and supports long-term development. In both developed and developing economies, the effectiveness of monetary policy has become increasingly important in addressing macroeconomic challenges such as inflation, unemployment, exchange rate volatility, and sluggish economic growth.

In Nigeria, the Central Bank of Nigeria (CBN) has consistently relied on various monetary policy instruments—including the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), Open Market Operations (OMO), Liquidity Ratio (LR), and interest rate adjustments—to achieve its primary objectives of price stability, financial system stability, and sustainable economic growth. These policy instruments are expected to influence aggregate demand, investment decisions, and credit availability, thereby stimulating productive economic activities. However, the extent to which these monetary policy tools have contributed to Nigeria's economic growth remains an issue of considerable academic and policy debate.

Despite numerous monetary policy reforms introduced over the past three decades, Nigeria continues to experience persistent macroeconomic instability characterized by high inflation, exchange rate depreciation, rising unemployment, low industrial

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productivity, and slow economic growth. These challenges have been exacerbated by external shocks such as fluctuations in global crude oil prices, financial crises, and the economic disruptions associated with the COVID-19 pandemic. Consequently, questions continue to arise regarding the effectiveness of monetary policy in achieving its intended macroeconomic objectives.

The relationship between monetary policy and economic growth has attracted substantial empirical attention. While monetarist economists argue that changes in money supply significantly influence output and economic performance, Keynesian economists emphasize the transmission of monetary policy through interest rates, investment, and aggregate demand. Empirical evidence from both developed and developing economies remains inconclusive, with some studies reporting positive effects of monetary policy on economic growth, while others document weak, insignificant, or even negative relationships. These divergent findings suggest that the effectiveness of monetary policy is largely dependent on country-specific institutional structures, financial market development, policy credibility, and prevailing macroeconomic conditions.

Within the Nigerian context, previous empirical studies have produced mixed results regarding the effects of monetary policy instruments on economic growth. While some studies found that monetary policy rate and money supply positively influence economic performance, others reported that high lending rates and restrictive monetary policies suppress investment and economic expansion. Furthermore, many existing studies focused on earlier periods and therefore did not adequately capture the implications of recent monetary policy reforms, exchange rate adjustments, and post-pandemic economic recovery initiatives implemented by the Central Bank of Nigeria.

Against this background, this study investigates the effect of monetary policy on economic growth in Nigeria using annual time-series data covering the period 1994–2024. Specifically, the study examines the influence of the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Bank Interest Rate (BINT) on Real Gross Domestic Product (RGDP). The study employs the Ordinary Least Squares (OLS) estimation technique, complemented by descriptive statistics, correlation analysis, and Augmented Dickey–Fuller (ADF) unit root tests, to evaluate the nature and magnitude of the relationship between monetary policy instruments and economic growth.

The study contributes to the existing literature by extending the period of analysis to 2024, thereby incorporating recent monetary policy developments and macroeconomic reforms in Nigeria. The findings are expected to provide empirical evidence that will assist policymakers, monetary authorities, researchers, and development practitioners in designing appropriate monetary policy strategies capable of promoting sustainable economic growth while maintaining macroeconomic stability. Ultimately, the study seeks to deepen understanding of the role of monetary policy in supporting Nigeria's long-term

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economic development within an increasingly dynamic and uncertain global economic environment.

Nigeria's economy presents a unique environment for evaluating monetary policy effectiveness because it has experienced multiple episodes of macroeconomic instability despite continuous monetary policy interventions. Over the past four decades, the country has witnessed persistent inflation, exchange rate depreciation, banking sector reforms, oil price volatility, fiscal imbalances, and recurrent economic recessions, including the 2016 recession induced by declining global oil prices and the economic contraction associated with the COVID-19 pandemic in 2020. These events prompted the Central Bank of Nigeria to adopt both conventional and unconventional monetary policy measures to stimulate economic recovery while maintaining price stability (International Monetary Fund [IMF], 2024).

Empirical evidence on the relationship between monetary policy and economic growth in Nigeria remains inconclusive. While several studies report that monetary policy variables such as money supply, interest rates, inflation, and exchange rates significantly influence economic growth, others argue that weak financial intermediation, structural rigidities, policy inconsistencies, and fiscal dominance reduce the effectiveness of monetary policy transmission. Differences in methodologies, sample periods, econometric techniques, and selected variables further contribute to the mixed findings reported in the literature (Adeniran et al., 2014; Nwosa & Saibu, 2012).

Conceptual Review

Monetary policy constitutes one of the principal macroeconomic instruments employed by central banks to regulate money supply, credit conditions, and interest rates with the objective of achieving sustainable economic growth and macroeconomic stability. According to the Central Bank of Nigeria (CBN, 2011), monetary policy involves deliberate actions undertaken by the monetary authority to influence the quantity, availability, and cost of money and credit in an economy. These actions are intended to maintain price stability, promote employment, stabilize exchange rates, and foster long-term economic growth. In developing economies such as Nigeria, monetary policy also serves as a mechanism for managing inflationary pressures, stimulating investment, and strengthening financial sector stability.

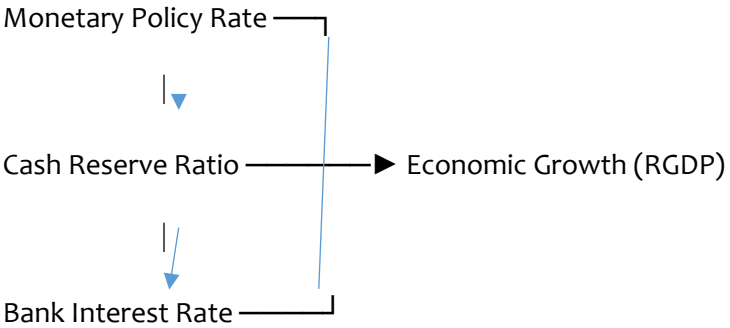
Economic growth refers to the sustained increase in the production of goods and services within an economy over time and is commonly measured by the growth rate of Real Gross Domestic Product (RGDP). Barro and Sala-i-Martin (2010) describe economic growth as the expansion of an economy's productive capacity, leading to higher income, improved living standards, and enhanced welfare. Sustainable economic growth is fundamental to poverty reduction, employment generation, industrial development, and improved fiscal

performance. Consequently, governments rely on sound macroeconomic policies, particularly monetary policy, to create an enabling environment for investment and productive economic activities.

The transmission mechanism of monetary policy explains how changes in policy instruments influence macroeconomic outcomes. An increase in the Monetary Policy Rate (MPR), for instance, raises commercial banks' lending rates, thereby increasing the cost of borrowing, reducing private investment, and slowing aggregate demand. Conversely, a reduction in policy rates lowers borrowing costs, stimulates investment and consumption, and encourages economic expansion. Similarly, adjustments in the Cash Reserve Ratio (CRR) directly affect the volume of funds available for commercial banks to extend credit to the private sector. A higher reserve requirement restricts liquidity and credit creation, whereas a lower reserve ratio expands lending capacity and supports economic activities. Bank interest rates equally influence investment decisions, savings behaviour, and capital accumulation, making them critical determinants of economic growth.

Although monetary policy is expected to stimulate economic growth through these transmission channels, its effectiveness depends on several institutional and structural factors, including financial market development, policy credibility, fiscal discipline, and the responsiveness of the banking sector. In economies characterized by structural rigidities, weak financial intermediation, and persistent inflationary pressures, the impact of monetary policy on output may be considerably constrained.

Conceptual Framework



Theoretical Review

This study is anchored primarily on the Monetarist Theory developed by Milton Friedman (1967). The theory argues that changes in the money supply constitute the principal determinant of economic activity and that monetary policy is more effective than fiscal policy in stabilizing the economy. According to Friedman, excessive growth in money supply eventually leads to inflation, whereas an appropriate expansion of money supply promotes investment, employment, and output growth. The theory emphasizes the

responsibility of central banks in maintaining stable monetary conditions capable of supporting sustainable economic development. The Monetarist perspective provides an appropriate framework for this study because the selected monetary policy instruments—Monetary Policy Rate, Cash Reserve Ratio, and Bank Interest Rate—are direct instruments through which the Central Bank of Nigeria influences liquidity and economic performance.

The Keynesian Theory also provides important theoretical justification for the relationship between monetary policy and economic growth. Keynes (1936) argued that monetary policy affects economic activity primarily through the interest rate channel. According to the theory, lower interest rates reduce the cost of borrowing, stimulate private investment, increase aggregate demand, and ultimately raise national output and employment. Conversely, higher interest rates discourage investment and consumption, thereby slowing economic growth. The Keynesian framework is particularly relevant for developing economies where investment financing depends significantly on the cost and availability of bank credit.

Another theoretical foundation is the Fisher Effect Theory, which explains the interaction between inflation and nominal interest rates. Fisher (1930) posited that nominal interest rates adjust in response to expected inflation, while real interest rates remain relatively stable in the long run. Consequently, inflationary expectations influence borrowing costs, investment decisions, and overall economic performance. This theory underscores the importance of maintaining price stability through effective monetary policy.

Empirical Review

Empirical evidence on the relationship between monetary policy and economic growth remains mixed across countries and periods. Brown-West (2013) examined the impact of monetary policy on Nigeria's economic growth using interest rate, cash reserve ratio, liquidity ratio, exchange rate, and monetary policy rate as explanatory variables. Employing the Ordinary Least Squares (OLS) technique, the study found that exchange rate, cash reserve ratio, and monetary policy rate positively influenced Gross Domestic Product, whereas interest rate and liquidity ratio exerted negative effects. The study recommended effective implementation and proper timing of monetary policy interventions to achieve macroeconomic stability.

Chipote and Makhetha-Kosi (2014) investigated the impact of monetary policy on economic growth in South Africa using the Johansen Cointegration and Error Correction Model. The findings established the existence of a long-run relationship among the variables and revealed that the cash reserve ratio significantly influenced economic growth, whereas money supply and exchange rate were statistically insignificant.

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Adigwe, Echekoba, and Onyeagba (2015) assessed the effect of monetary policy on the Nigerian economy using annual data from 1980 to 2010. Their findings indicated that money supply exerted a positive effect on economic growth but contributed negatively to inflation. The authors concluded that the effectiveness of monetary policy depends largely on the macroeconomic objective being pursued.

Ajibola and Adeyemi (2018) examined the influence of monetary policy instruments on economic growth using money supply, exchange rate, interest rate, and liquidity ratio as explanatory variables. Employing an Error Correction Model, the study found that money supply and exchange rate had positive but statistically insignificant effects on economic growth, while interest rate and liquidity ratio negatively affected economic performance. The authors further established the existence of a long-run equilibrium relationship between monetary policy variables and economic growth.

More recently, Nyeche (2024) investigated the effects of monetary policy on price stability in Nigeria using the Autoregressive Distributed Lag (ARDL) approach. The study reported that monetary policy rate positively and significantly affected inflation, while exchange rate exerted a negative and significant influence on consumer prices. The study emphasized the importance of exchange rate stabilization and export diversification in strengthening monetary policy effectiveness.

Overall, previous empirical studies reveal inconsistent findings regarding the effectiveness of monetary policy instruments in promoting economic growth. While some studies report positive effects of monetary policy variables on output, others document weak or negative relationships. These inconsistencies suggest that the impact of monetary policy depends on prevailing macroeconomic conditions, institutional quality, financial sector development, and the specific policy instruments employed.

Research Gap: Despite the substantial body of literature on monetary policy and economic growth, important gaps remain. First, many previous studies concentrated on earlier periods and therefore did not adequately capture recent monetary policy reforms, post-COVID-19 recovery measures, exchange rate unification, and inflation-targeting initiatives implemented in Nigeria. Second, earlier studies frequently included broad monetary aggregates while paying limited attention to the combined influence of the Monetary Policy Rate, Cash Reserve Ratio, and Bank Interest Rate on economic growth. Third, empirical findings remain inconclusive, with evidence varying between positive, negative, and insignificant relationships across different studies.

This study addresses these gaps by examining the effect of key monetary policy instruments on Nigeria's economic growth over the period 1994–2024 using updated data and econometric techniques. By extending the period of analysis and focusing on major policy instruments currently employed by the Central Bank of Nigeria, the study provides more recent empirical evidence capable of informing monetary policy decisions and

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contributing to the existing literature on macroeconomic management in developing economies.

Methodology

Research Design: This study adopted an ex post facto research design to examine the effect of monetary policy on economic growth in Nigeria. The design is appropriate because it relies on historical macroeconomic data that cannot be manipulated by the researcher. It enables the investigation of causal relationships between monetary policy instruments and economic growth using observed time-series data. The study covers the period from 1994 to 2024, a timeframe that captures major monetary policy reforms, financial sector developments, and macroeconomic fluctuations in Nigeria.

Data Sources

The study utilized annual secondary data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, complemented by data from the National Bureau of Statistics (NBS) where necessary. These sources provide reliable and consistent macroeconomic data widely used in empirical economic research. The variables selected for the analysis include Real Gross Domestic Product (RGDP), Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Bank Interest Rate (BINT).

Model Specification

The study investigates the relationship between monetary policy and economic growth by specifying Real Gross Domestic Product (RGDP) as a function of selected monetary policy instruments. Following the modified models of Udude (2013) and Chipote and Makhetha-Kosi (2014), the empirical model is specified as:

$$RGDP = ß_0 + ß_1MPR + ß_2CRR + ß_3BINT + \varepsilon$$

Where = RGDP = Real Gross Domestic Product (proxy for economic growth), MPR = Monetary Policy Rate, CRR = Cash Reserve Ratio, BINT = Bank Interest Rate, $ß_0$, $ß_1$, $ß_2$, $ß_3$ = parameters, ε = Error term

Measurement of Variables

Variable	Measurement	Expected Sign
Real Gross Domestic Product (RGDP)	Proxy for economic growth	Dependent Variable
Monetary Policy Rate (MPR)	Central Bank policy interest rate (%)	±ve
Cash Reserve Ratio (CRR)	Percentage of deposits held as reserves (%)	±ve
Bank Interest Rate (BINT)	Commercial banks' lending interest rate (%)	–ve

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Although theoretical expectations suggest that MPR and CRR may exert either positive or negative effects depending on prevailing macroeconomic conditions, higher lending interest rates are generally expected to reduce investment and economic growth.

Estimation Technique

The study employed the Ordinary Least Squares (OLS) estimation technique to estimate the relationship between monetary policy instruments and economic growth. OLS was selected because it provides Best Linear Unbiased Estimators (BLUE) under the assumptions of the Classical Linear Regression Model (CLRM). It is widely used in macroeconomic studies due to its efficiency, consistency, and ease of interpretation. Prior to estimating the regression model, descriptive statistics were computed to summarize the characteristics of the variables. Pearson correlation analysis was also conducted to examine the degree of association among the variables and to identify possible multicollinearity issues. To avoid spurious regression results associated with non-stationary time-series data, the Augmented Dickey–Fuller (ADF) unit root test was employed to determine the order of integration of each variable. Variables were considered stationary when the absolute value of the ADF test statistic exceeded the corresponding critical value at the 5 percent significance level.

The statistical significance of the estimated coefficients was evaluated using the t-test, while the overall significance of the regression model was assessed using the F-statistic. The explanatory power of the model was determined by the coefficient of determination (R^2) and the adjusted R^2. In addition, the Durbin–Watson statistic was used to examine the presence of autocorrelation in the residuals. All estimations and statistical analyses were performed using EViews econometric software.

A Priori Expectations

The effects of the Monetary Policy Rate and Cash Reserve Ratio on economic growth may be either positive or negative depending on macroeconomic conditions and policy implementation, whereas the Bank Interest Rate is expected to have a negative relationship with economic growth because higher lending rates discourage investment, reduce aggregate demand, and slow economic expansion.

Table 1. Descriptive Statistics of Study Variables

Variable	Mean	Std. Dev.	Minimum	Maximum
RGDP	10.496	0.525	9.751	11.236
MPR	18.466	4.371	9.250	29.800
CRR	7.396	2.504	3.105	10.859
BINT	18.547	16.086	5.400	72.800

Source: Author's computation (2026)

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Table 1 presents the descriptive statistics of the variables used in the study. Real Gross Domestic Product (RGDP) recorded a mean value of 10.4963, with a minimum of 9.7509 and a maximum of 11.2357, indicating moderate fluctuations in Nigeria's economic growth over the study period. The standard deviation of 0.5245 suggests relatively low volatility in economic growth compared to the monetary policy variables. The Monetary Policy Rate (MPR) averaged 18.4655 percent during the study period, reflecting the Central Bank of Nigeria's use of monetary tightening to control inflation and maintain macroeconomic stability. The Cash Reserve Ratio (CRR) recorded a mean value of 7.3960 percent, while the Bank Interest Rate (BINT) averaged 18.5474 percent, indicating relatively high lending costs within the Nigerian banking system. The skewness and kurtosis statistics indicate that most variables exhibit acceptable distributional properties. Overall, the descriptive statistics reveal substantial variations in the monetary policy instruments, suggesting active monetary policy adjustments throughout the study period.

Table 2. Correlation Matrix

Variables	RGDP	MPR	CRR	BINT
RGDP	1.000			
MPR	-0.665	1.000		
CRR	-0.513	-0.665	1.000	
BINT	-0.612	-0.513	0.612	1.000

Source: Author's computation (2026)

The Pearson correlation coefficients indicate that Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Bank Interest Rate (BINT) are negatively associated with Real Gross Domestic Product (RGDP). Specifically, MPR, CRR, and BINT recorded correlation coefficients of –0.665, –0.513, and –0.612, respectively. These negative relationships suggest that tighter monetary policy conditions are associated with lower levels of economic activity. Higher policy rates and lending rates increase the cost of borrowing, discourage private investment, and reduce aggregate demand. Likewise, increases in the Cash Reserve Ratio reduce banks' capacity to create credit, thereby limiting private-sector investment and economic expansion. Although correlation analysis does not establish causality, the results provide preliminary evidence of an inverse relationship between restrictive monetary policy and economic growth in Nigeria

Table 3. Unit Root Test (ADF)

Variable	ADF Statistic	Order of Integration	Decision
RGDP	-6.0159	I(1)	Stationary
MPR	-7.7020	I(1)	Stationary

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Variable	ADF Statistic	Order of Integration	Decision
CRR	-4.3084	I(1)	Stationary
BINT	-10.0532	I(1)	Stationary

Source: Author's computation (2026)

To avoid spurious regression results, the Augmented Dickey–Fuller (ADF) unit root test was conducted to determine the stationarity properties of the variables. The findings indicate that Real Gross Domestic Product (RGDP), Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Bank Interest Rate (BINT) are all non-stationary at their levels but become stationary after first differencing. The results therefore confirm that all variables are integrated of order one, I(1), satisfying the statistical requirement for time-series regression analysis. Consequently, the variables were considered appropriate for estimating the regression model using the Ordinary Least Squares (OLS) technique.

Table 4. OLS Regression Results

Variable	Coefficient	t-value	p-value	Decision
Constant	7.5525	2.827	0.0077	Significant
MPR	0.5298	2.868	0.0069	Positive and Significant
CRR	0.0208	2.921	0.0039	Positive and Significant
BINT	-0.3371	-3.292	0.0018	Negative& Significant

Model Summary

Statistic	Value
R^2	0.669
Adjusted R^2	0.576
F-statistic	12.623
Prob(F-statistic)	0.000002
Durbin-Watson	1.961

Source: Author's computation (2026)

The Ordinary Least Squares estimation produced a statistically significant regression model with an F-statistic of 12.6228 ($p < 0.01$), indicating that the explanatory variables jointly explain variations in economic growth. The coefficient of determination (R^2) is 0.6692, implying that approximately 67 percent of the variations in Real Gross Domestic Product are explained by the selected monetary policy instruments, while the remaining 33 percent are attributable to other macroeconomic factors not included in the model. The adjusted R^2 of 0.5764 further confirms the robustness of the estimated model. In addition, the Durbin–Watson statistic of 1.9615 suggests the absence of serious autocorrelation in the residuals.

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The estimated coefficients reveal that the Monetary Policy Rate (MPR) has a positive and statistically significant effect on economic growth ($\beta = 0.5298$; $p < 0.01$). This finding implies that improvements in monetary policy implementation, reflected through appropriate adjustments in the policy rate, are associated with increased economic growth during the study period. The result suggests that effective monetary policy may improve macroeconomic confidence and strengthen investment activities.

Similarly, the Cash Reserve Ratio (CRR) exerts a positive and statistically significant influence on Real Gross Domestic Product ($\beta = 0.0208$; $p < 0.01$). This finding indicates that appropriate reserve requirement policies contribute to financial system stability and improve monetary policy effectiveness, thereby supporting economic growth. Although higher reserve requirements generally reduce commercial banks' lending capacity, the result suggests that maintaining adequate banking sector liquidity and stability can enhance overall macroeconomic performance. Conversely, the Bank Interest Rate (BINT) exhibits a negative and statistically significant relationship with economic growth ($\beta = -0.3371$; $p < 0.01$). This indicates that rising lending rates discourage borrowing, reduce private investment, increase production costs, and ultimately constrain economic growth. The finding reinforces the conventional view that persistently high lending rates constitute a major obstacle to private-sector development and sustainable economic expansion in Nigeria.

Discussion of Findings

The empirical findings demonstrate that monetary policy remains an important determinant of economic growth in Nigeria. The positive effect of the Monetary Policy Rate suggests that an appropriately managed policy rate can improve macroeconomic stability and enhance investors' confidence. This result is consistent with the findings of Nkamare and Emori (2014), Adigwe, Echekoba, and Onyeagba (2015), and Ovat et al. (2022), who reported that effective monetary policy contributes positively to economic performance through improved monetary management and financial stability.

The positive influence of the Cash Reserve Ratio indicates that reserve requirement policies may strengthen banking sector resilience and improve the transmission of monetary policy. Although conventional economic theory suggests that higher reserve requirements reduce credit availability, the Nigerian experience during the study period appears to reflect the stabilizing role of prudent liquidity management in supporting macroeconomic performance.

In contrast, the negative effect of the Bank Interest Rate supports both Keynesian theory and previous empirical evidence that high lending rates discourage investment and reduce aggregate demand. Elevated borrowing costs increase the financial burden on businesses and households, thereby slowing capital formation, production, and

employment. This finding agrees with Ajibola and Adeyemi (2018), Ufoeze et al. (2018), and Daniel and Inim (2020), who concluded that excessive lending rates constitute a significant constraint to economic growth in Nigeria.

Overall, the results suggest that while monetary policy can effectively support economic growth, its success depends on achieving an appropriate balance between inflation control and investment promotion. Monetary authorities should therefore pursue policy measures that maintain macroeconomic stability without imposing excessive borrowing costs on productive sectors of the economy. Furthermore, monetary policy should be complemented by sound fiscal policies and structural reforms aimed at improving financial intermediation, increasing private-sector credit, and enhancing the overall business environment.

Conclusion and Policy Recommendations

This study examined the effect of monetary policy on economic growth in Nigeria using annual time-series data covering the period 1994–2024. Specifically, it investigated the influence of the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Bank Interest Rate (BINT) on Real Gross Domestic Product (RGDP). Employing the Ordinary Least Squares (OLS) estimation technique, complemented by descriptive statistics, correlation analysis, and the Augmented Dickey–Fuller (ADF) unit root test, the study provides empirical evidence on the role of monetary policy in Nigeria's economic performance.

The findings indicate that the selected monetary policy instruments significantly explain variations in economic growth during the study period. The regression results reveal that the Monetary Policy Rate and Cash Reserve Ratio exert positive and statistically significant effects on Real Gross Domestic Product, suggesting that prudent monetary management and effective liquidity regulation contribute to macroeconomic stability and growth. In contrast, the Bank Interest Rate exhibits a negative and statistically significant relationship with economic growth, implying that persistently high lending rates discourage private investment, reduce productive activities, and constrain economic expansion.

Overall, the study concludes that monetary policy remains an important instrument for promoting sustainable economic growth in Nigeria. However, its effectiveness depends on the appropriate calibration of policy instruments, institutional credibility, and coordination with complementary macroeconomic policies. Achieving sustainable growth therefore requires a balanced monetary policy framework that simultaneously promotes price stability, financial sector resilience, and increased investment in productive sectors of the economy.

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Policy Recommendations

Based on the empirical findings, the following policy recommendations are proposed:

1. **Maintain a balanced monetary policy stance.** The Central Bank of Nigeria should pursue a monetary policy framework that effectively controls inflation while ensuring that policy rates remain supportive of productive investment and economic expansion. Monetary tightening should be implemented cautiously to avoid suppressing private-sector activities.
2. **Review lending interest rates to encourage investment.** Given the significant negative effect of bank interest rates on economic growth, measures should be introduced to reduce the cost of borrowing, particularly for productive sectors such as manufacturing, agriculture, and small and medium-sized enterprises (SMEs). Lower lending rates would stimulate private investment, employment creation, and output growth.
3. **Strengthen liquidity management through prudent reserve requirements.** The Cash Reserve Ratio should be adjusted strategically to maintain financial system stability without unnecessarily restricting commercial banks' lending capacity. A well-calibrated reserve policy can enhance credit availability while safeguarding macroeconomic stability.
4. **Improve monetary policy coordination with fiscal policy.** Monetary policy alone cannot achieve sustainable economic growth. The Central Bank of Nigeria should work closely with fiscal authorities to ensure policy consistency, improve public investment efficiency, strengthen infrastructure development, and create an enabling environment for private-sector investment.
5. **Enhance monetary policy transmission mechanisms.** Efforts should be directed toward deepening financial markets, improving banking sector efficiency, strengthening financial inclusion, and expanding access to affordable credit. These measures will improve the effectiveness of monetary policy in stimulating investment and accelerating economic growth.
6. **Promote economic diversification and structural reforms.** To reduce vulnerability to external shocks and improve the effectiveness of monetary policy, policymakers should intensify efforts to diversify the economy beyond the oil sector. Supporting non-oil exports, industrialization, technological innovation, and agricultural productivity will strengthen the resilience of the Nigerian economy and sustain long-term growth.

In conclusion, while monetary policy has demonstrated significant influence on Nigeria's economic growth, its success depends on sound implementation, institutional effectiveness, and complementary structural reforms. A coordinated policy approach that

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combines prudent monetary management with supportive fiscal and structural policies will enhance macroeconomic stability and promote inclusive and sustainable economic development.

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