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EFFECT OF CENTRAL BANK OF NIGERIA MONETARY POLICY ON ECONOMIC DEVELOPMENT OF NIGERIA

Mazadu Abdullahi Saifullahi

Department of Accounting, Nuhu Bamalli Polytechnic, Zaria, Nigeria

Tel: +2348033581343, +2348144990028

E-mail: hanan4dad@gmail.com; hanan0521@yahoo.com:

Shehu Usman Hassan PhD

Department of Accounting, Kaduna State University, Kaduna- Nigeria

Tel: +2348067766435, +2348057777085

Shehu.hassanus.usman@gmail.com

Aliyu Mohammed

Department of Accounting, Nuhu Bamalli Polytechnic, Zaria, Nigeria

Tel: +2348069177101,

E-mail: aliyumohdch@yahoo.com

Abubakar Mohammed Audi

Department of Accounting, Ahmadu Bello University, Zaria, Nigeria

Tel: +2348033690990

Abstract

The critics' key arguments revolve around low monetary policy transparency with regard to the real economy and the time lag between when the monetary policy changes were brought about and the time it takes to have a positive effect in the real economy. The primary objective of this study is to assess the effect of Central Bank of Nigeria monetary policy on the Nigerian economy. Correlational research design is adopted to capture the dependent and independent variables. The population of the study consists of all the quoted companies during the period under study from (1986 to 2015). The sample covers all the population using census sampling technique. A secondary source

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of data collection was used. In order to analyze the data with a view of resolving the problem and achieving the stated objectives of the study, the study used time series ordinary least square multiple regression technique. Findings of the study reveals that, exchange rate, money supply and interest rate are positively influencing economic development of Nigeria while, monetary policy rate was found to be insignificantly related to economic development of Nigeria. It is recommended that, Central Bank of Nigeria as the apex Bank should consider reducing the maximum exchange rate of the U.S dollar as against the Nigerian currency from 198.39 as found in this study within the periods of this study to ₦160.00 per \$1 dollar. The Central Bank of Nigeria should encourage and increase money supply. Finally, the regulators especially Central Bank of Nigeria (CBN) should direct all the Deposit Money Banks in Nigeria to reduce their interest lending rate by given directives of the maximum interest rate to be charged on borrowed fund.

Key Words: *Monetary policy, exchange rate , inflation, Central Bank off Nigeria*

Introduction

The apex financial institution in any economy is the Central Bank of that country and it plays a major role in the economic development process of that nation. De'kock (1998) defines a central bank as a bank which constitutes the apex of the of the monetary and banking structure of a country and which performs as best as it can be in the national economic interest the following functions of regulations of currency in accordance with the requirements of business and the general public, custodian of cash reserves of commercial banks, custodian and management of foreign exchange observes, lender of last resort, controller of credit clearing house for transfer and settlement and also acts as the banker, fiscal agent and adviser to the government.

In any economy, the conducts of both policies are normally rooted through banking institutions that play in the intermediation process. Therefore, monetary policy is important in its own right from the past view of monetary economists and policy maker's interns available to government for directing the cause of the economy. In Nigeria, the mission statement of the Central Bank of Nigeria (CBN) is to be proactive in providing a stable framework for economic development through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial system (CBN,2011). Monetary policy has emerged as one of the most critical government responsibilities; monetary policy is seen as providing a flexible and powerful instrument for achieving medium-term stabilization objectives, in that it can be adjusted quickly in response to macroeconomic developments (Philip 2010).

Macroeconomic variables like gross domestic product (GDP), inflation, exchange rate, federal fund rate, current account balance, unemployment rate, fiscal balance, money supply, interest rate are among the most frequently examined variables in the developed world. However, this study will focus on four of these variables (Monetary policy rate, exchange rate, money supply rate and interest rate) because it centers on a developing economy that is Nigeria and are good proxy of monetary policy shocks.

Ever since the CBN was established and mandated to take control of the financial sector of the economy (CBN core mandate 2007 as amended), the bank through its monetary committees and other committees, uses variety of control tools both direct and indirect in order to achieve the primary objectives of its establishment. Periodic amendments are made to the policy guidelines in the light of developments in the financial markets and performance of the economy during the period under review. Thus each time a communiqué is released, there are set of reactions to that effect with respect to the given macroeconomic variable in question. The adjustment made on either of the variables may have a direct effect on set of institutions and indirect on others. For instance, where the monetary policy rate (MPC) rate/the minimum rediscount rate (which ever), is increased to a certain level, it increases the cost of borrowing and perhaps slow investment. This makes firms to rush to capital market to source for fund and finance their investments.

The effect of monetary policy on equity markets has been the subject of a long standing literature, which has received renewed interest in recent years. The topic has attracted considerable attention, on the one hand, because monetary policy can substantially affect stock market valuation, and as such is considered important from a finance perspective, and on the other hand, because the stock market is a central part of the transmission mechanism of monetary policy, and as such is of relevance to monetary economists, (Ehrmann and Fratzscher 2006). A monetary policy shock affects firm investment through its influence on Tobin's q , which can most conveniently be studied through the response of stock prices to this shock. At the same time, stock price reactions have repercussions on consumer behaviour through wealth effects.

Generally, the primary objectives of monetary policy is concerned with the application of expansionary monetary policy measures during economic recession and contractionary monetary policy controls money supply because it is believed that its rate of growth has an effect on inflation. The basic aim of monetary policies is not to aggregate themselves but the aggregate in the real sectors of the economy such as, level of capital price stabilization and economic development.

Policies are designed in order to change the trend of some monetary variables in particular direction so as to induce the desired behavioral change in the monetary policy. The central bank's role is to consistent with the main economic objectives that will help the growth of gross domestic product (GDP), sustainable inflation are and stable balance of payment position. Monetary policy influences the macrocosmic objectives because it is believed that there occurs a relationship between the real variables. Monetary policy affects all aspects of our economic and financial decisions whether to buy a car build a house, start up a business or to expand the existing ones. Excessive monetary expansion is being tackled at all costs; hence the resource to stabilization securities among other instruments (Ajisate & Folorunse, 2002).

Monetary policy is either being an expansionary policy, or a contractionary policy. An expansionary policy increases the total supply of money in the economy rapidly or decreases the interest rate. When the central bank wants to carry out an expansionary monetary policy, it goes to the security market to buy government bonds with money, thus increasing the money stock or the money in circulation in the economy. Expansionary policy is traditionally used to combat unemployment in a recession. A contractionary policy on the other hand decreases the total money supply or increases it only slowly, or raises the interest rate. When the central bank wants to implement a contractionary monetary policy, it goes to the security market to sell government bonds for money thus decreasing the money stock or the money in circulation in the economy. Contractionary policy is used to combat inflation. The critics' key arguments revolve around low monetary policy transparency with regard to the real economy and the time lag between when the monetary policy changes were brought about and the time it takes to have a positive effect in the real economy.

There is a large stream of literature studying the monetary policy shocks for different countries. Most of them assessing monetary policy of the US and Euro (developed countries). Bernanke (2002) postulates that if all things being equal, the changes in financial asset prices and returns induced by the actions of monetary policy makers lead to changes in economic behavior that the policy was aiming at. Thus, understanding how monetary policy affects the broader economy necessarily entails understanding both how policy actions affect key financial markets, as well as how changes in asset prices and returns in these markets in turn affect the behaviour of households, firms, and other decision makers. Poole and Rasche (2002) tested how the monetary policy changes affected the bank bill rate in different maturities using U.S. data and find that the market managed to better forecast the monetary policy action in the more recent period than the earlier sample period.

Cook and Hahn (1989) employing event study method to test the daily effect of monetary policy on asset prices. They find a significant relationship between changes of monetary policy and bond return. Kutter (2001) improved on the Cook and Hahn (1989) study by decomposing the interest rate changes into expected and unexpected changes and find a significant reaction on the part of stock market to surprise monetary policy changes. Bredin and Hyde (2007) and .Gregoriou et al. (2009) adopted the method of Kutter (2001) to test the effect of monetary policy shock on the daily stock returns in the U.K. market and also find similar results. Bernanke (2002) postulates that if all things being equal, the changes in financial asset prices and returns induced by the actions of monetary policy makers lead to changes in economic behavior that the policy was aiming at. Thus, understanding how monetary policy affects the broader economy necessarily entails understanding both how policy actions affect key financial markets, as well as how changes in asset prices and returns in these markets in turn affect the behaviour of households, firms, and other decision makers. However, there is no study to the best of my knowledge that focuses on monetary policy shocks and the performance of stock market and in particular employing the intended variables.

1.2 Objectives of the Study

The primary objective of this study is to assess the effect of Central Bank of Nigeria monetary policy on the Nigerian economy. The specific objectives are to:

- i. Examine the effect of monetary policy rate (MPR) on the gross domestic product of Nigeria.
- ii. Determine the impact of exchange rate on the gross domestic product of Nigeria.
- iii. Evaluate the impact of money supply on the gross domestic product of Nigeria.
- iv. Identify the effect of interest rate on the gross domestic product of Nigeria.

14 Research Hypotheses

For the purpose of this research, the following hypotheses were formulated:

- H0₁: Monetary policy rate have no significance effect on the gross domestic product of Nigeria
- H0₂: Exchange rate has no significance impact on the gross domestic product of Nigeria.
- H0₃: Money supply has no significance impact on the gross domestic product of Nigeria

H04: Interest rate has no significance influence on the gross domestic product f Nigeria.

The motivation of this study is that it will be of benefit to basically two categories of user's viz-a-viz government and investors as a whole (that is individual and institutional investors). The government, through its agencies such as CBN, federal ministry of finance among others will have a clue how adverse or favorable their decisions are on the micro and macro economy. This is so because informed investors are watch dog of MPC meetings at all times and it helps them on whether to invest or otherwise. Moreover, understanding the links between monetary policy and asset prices is thus a crucially important for understanding the policy transmission mechanism. At investors level, however, the questions on when, where and how to invest become very vital as MPR is the mother of all rates in the economy.

2.1 Literature review and Theoretical framework

This study focused on trying to assess of the effect of central bank of Nigeria monetary policy on the economic development of Nigeria. CBN (2011), Monetary Policy refers to the specific actions taken by the Central Bank (Monetary Authority) to regulate the value; supply and cost of money in the economy with a view to achieving predetermine macroeconomic goals. Amassoma *et al.* (2011) 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 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. Sanusi (2002) noted that 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. Onyeiwu (2012) empirically investigated the effect of CBN monetary policies on selected macroeconomic variables – gross domestic product, inflation rate and balance of payment between 1981 and 2008.

Chuku (2009) examined the effect of monetary policy innovations in Nigeria. The study used a structural vector auto-regression (SVAR) approach to trace the effects of monetary policy shocks on output and prices in Nigeria with a sample data spanning from 1986 to 2008. The study conducted the experiment using three alternative policy instruments i.e. broad money (M2), Minimum Rediscount Rate (MRR) and the real effective exchange rate (REER). The study made the assumption that the Central Bank cannot observe unexpected changes in output and prices within the same period.

However, these studies continued to produce conflicting results, thus making the topic a great research burden. The impact of financial development on economic growth has generated heated debate among economic researchers especially in the recent times. While some studies such as Shittu, (2012), opined that financial development drives economic growth, others Odhiambo, (2011); and Odeniran and Udejaja, (2010), have argued that economic growth drives financial development.

The basic theoretical framework for analyzing an assessment of the effect of CBN monetary policy on the economic development of Nigeria. Generally, monetary policy is a tool of general macroeconomic management, under the control of the monetary authorities, designed to achieve government economic objectives. Monetary policy aims at achieving certain national goals which have historically included full employment (or a low unemployment rate), high output (or a high output growth), a stable price level (or a low inflation rate), and a stable exchange rate (or a desirable balance of payments).

The country is also endowed with vast land, forest resources, and abundant natural resources, including rivers and lakes, oil and gas, and solid minerals. It is therefore a potentially large centre of production and consumption activities, and has the potential of becoming a big economy. About 31.3 per cent of the total land area in the country is arable and almost all forms of agriculture thrive in Nigeria. The weather condition is clement. Nigeria is also endowed with abundant natural resources. Oil plays a major role in the economy, as it accounted for about 24.6 per cent of GDP, 95.9 per cent of foreign exchange receipts and 87.6 per cent of government revenue in 2006 (CBN, 2006). In addition, the country is endowed with vast reserves of natural gas, even more than oil. She is also richly endowed with a variety of solid minerals, ranging from precious metals to industrial minerals, such as barites, gypsum, kaolin and marble. Others include coal, iron ore, lead, limestone, tin, columbite and zinc. The current level of exploitation of the minerals is very minimal in relation to the deposits found in the country. However, with the introduction of reforms in the sector in 2006, greater exploitation is expected in the years to come.

Contemporary studies on the effects of monetary policy now generally favour a more encompassing dynamic stochastic general equilibrium (DSGE) framework (see for e.g. Walsh, 1998; Good friend and King 1997 and the references therein). Here, we pursue a simple general-equilibrium framework, similar to that of Clarida et al. (2005) but different in the sense that we exclude the assumption of perfect price flexibility and stick to the sticky price assumption. Monetary policy

is one of the prime economic management tools that governments use to shape economic performance.

Measured against fiscal policy, monetary policy is said to be quicker at resolving economic shocks (Uniamikogbo and Enoma, 2001). Deliberating on the impact of monetary policy on private sector investment Kahn (2010), observes that monetary policy objectives are concerned with the management of multiple monetary targets among them price stability, promotion of growth, achieving full employment, smoothing the business cycle, preventing financial crises, stabilizing long-term interest rates and the real exchange rate.

3.1 Methodology and Model Specification

For the purpose of this study correlational research design is adopted to capture the dependent and independent variables. This will be able to explain the relationship between monetary policies and gross domestic product of Nigeria. The population of the study consists of all the quoted companies during the period under study from (1986 to 2015) both years inclusive. That is the sample covers all the population using census sampling technique. Secondary sources of data collection was used, the data was obtained from the Central Bank of Nigeria statistical bulletin for the period of 1986 to 2015. The adoption of the secondary source was prompted by the requirement of the model and tool of analysis adopted and that the variables of the study. In order to analyze the data with a view of resolving the problem and achieving the stated objectives of the study, the study used time series ordinary least square multiple regression technique. This is for the fact that the study examines the effect of four independent variables on one dependent variable. The model specified to examine the hypotheses of the study is presented below:

$$GDP_t = \beta_0 + \beta_1 MPR_t + \beta_2 ER_t + \beta_3 MS_t + ITR_t + \varepsilon_t$$

Where:

GDP= gross domestic product

β_0 = constant

t = time

β_1 - β_3 = coefficient of independent variables

MPR = Monetary policy Rate

ER = Exchange Rate

MS = Money supply

ITR = Interest rate

4.1 Result and Discussion

The section starts with analyzing the trend of the variables using descriptive statistics, for the dependent and independent variable. This is followed by the presentation and analysis of the correlation matrix, the results of the model estimations and the inferences drawn from the tests of the hypotheses are also given. Hence, findings are discussed and policy implications are analyzed.

4.2 Descriptive Statistics

The following Table 4.1 present the descriptive statistics where minimum, maximum mean, standard deviation, skewness and kurtosis of the data for the variables used in the study are described.

Table 4.1: Descriptive Statistics

Variable	Mean	Minimum	Maximum	Std.Dev	Kurtosis	Skewness
GDP	14.6484	13.93	15.46	0.53266	-1.412	0.021
MPR	8.3167	6.00	12.00	2.49131	-1.51	0.611
ER	1.52942	149.69	198.39	3.01055	-1.094	0.633
MS	1.18747	1.047	1.377	9.61515	-0.895	0.487
ITR	26.9847	25.01	29.00	1.06556	-0.753	-0.007

Source: *SPSS OUTPUT 2016*

Table 4.1 shows that the measure of economic growth (GDP) of Nigerian economy has a mean value of 14.6484 with standard deviation of 0.53266, and minimum and maximum values of 13.93 and 15.46 respectively. This implies that the average gross domestic product of Nigeria is 14.6484 to 15.46, and the deviation from both sides of the mean is 0.53266. This suggests that the dispersion of the data from the mean is wide because the mean value is greater than the standard deviation. The peak of the data is indicated by the kurtosis value of -1.412, suggesting that most of the values are higher than mean, hence the data does not meet a normal distribution assumption. The coefficient of Skewness of 0.021 implies that the data is positively skewed (most of the data are on the right hand side of the normal curve); thus, the data does not meet the symmetrical distribution assumption.

The Table indicates an average proportion of monetary policy rate (MPR) of 8.3167 with standard deviation of 2.49131; the minimum and maximum values are 6.00 and 12.00 respectively. This implies that on average the proportion of MPR in Nigeria is 8.3167 and the data deviate from both side of the mean by 2.49131. This suggests a wide dispersion of the data from the mean because the mean value is greater than the standard deviation. The peak of the data is indicated by the kurtosis value of -1.351, suggesting that most of the values are higher than mean, and the data does not meet a normal distribution assumption.

The coefficient of Skewness of 0.611 implies that the data is positively skewed (that is, most of the data are on the right side of the normal curve), implying that the data does not meet the symmetrical distribution assumption.

In addition, the Table also indicates an average proportion of exchange rate (ER) of 1.52942 with standard deviation of 3.01055, the minimum and maximum values of 149.69 and 198.39 respectively. The deviation from both side of the mean is 3.01055, this also suggests a wide dispersion of the data from the mean because the standard deviation is higher than the mean value. The peak of the ER data is indicated by the kurtosis value of -1.094, suggesting that most of the values are higher than mean, and the data does not meet a normal distribution assumption. The coefficient of Skewness of 0.633 implies that the data is positively skewed (that is, most of the data are on the right side of the normal curve), implying that the data does not meet the symmetrical distribution assumption.

Moreover, Table 4.1 shows average money supply (MS) of 1.18747 with standard deviation of 9.615155, the minimum and maximum values are 1.047 and 1.377 respectively. The deviation from both sides of the mean is 9.615155. This suggests a wide dispersion of the data from the mean because the standard deviation is high compared to the mean value. The kurtosis value of -0.895 suggesting that most of the values are higher than mean, and the data does not meet a normal distribution assumption; the Skewness value of 0.487 implies that the data is positively skewed (that is, most of the data are on the right side of the normal curve), implying that the data does not meet the symmetrical distribution assumption.

Finally, the results in Table 4.1 indicate that interest rate (ITR) has a mean value of 26.9847 with standard deviation of 1.06556, and minimum and maximum values of 25.01 and 29.00 respectively. This suggests that on average interest rate in Nigeria is 26.9% and the deviation from both sides of the mean by 1.06%. This also suggests a wide dispersion of the data from the mean, because the mean value is high compared to standard deviation. The peak of the ITR data is indicated by the kurtosis value of -0.753, suggesting that most of the values are higher than mean, and the data does not meet a normal distribution assumption. The coefficient of Skewness of -0.007 implies that the data is negatively skewed (that is, most of the data are on the left side of the normal curve), implying that the data does not meet the symmetrical distribution assumption.

4.3. Correlation Matrix

The correlation matrix is used to determine the degree of relationship between the dependent and independent variables of the study as well as independent variables themselves. These associations among the variables of the study are presented in Table 4.2.

Table 4.2 Correlation Matrix

Variables	GDP	MPR	ER	MS	ITR
GDP	1	-0.566	-0.913	-0.935	-0.096
MPR		1	0.593	0.605	-0.317
ER			1	0.942	-0.123
MS				1	0.019
ITR					1

Source: *SPSS OUTPUT 2016*

From Table 4.2, it can be observed that there is negative relationship between monetary policy rate, exchange rate, money supply and interest rate with gross domestic product of Nigeria. This relationship is evidenced from the correlation coefficients of -0.566, -0.913, -0.935 and -0.096 respectively. This indicates that there are inverse relationships between monetary policy, exchange rate, money supply and interest rate with gross domestic product of Nigeria. Hence, this correlation matrix will not serve as a basis for generalization on the actual relationship between MPR, ER, MS and ITR and gross domestic product of Nigeria as correlation matrix only gives a mere degree of association between the dependent variable and the independent variables themselves. Thus, regression shows causation. In addition, it can be observed that the relationship between the independent variables themselves are not significant, an indication of absence of multicollinearity. This can be clearly observed from the two indicators (i.e. tolerance value and variance inflation factor VIF) which are within less than 1 and less than 10 respectively (see appendix II D).

4.4 Regression Results

This constitutes the summary of the multiple regression results obtained from the model using ordinary least square regression. The results show individual impact between the independent variables (i.e. monetary policy rate, exchange rate, money supply and interest rate and gross domestic product) and finally the overall impact between the dependent variable and the independent variables. This is presented in table 4.3 below.

Table 4.3: Summary of Regression Result

Variables	Coefficients	t- values	p-values	Tolerance	VIF
Constant	32.843	6.837	0.000		
MPR	0.015	0.808	0.426	0.520	1.923
ER	-0.084	-2.313	0.026	0.791	8.960
MS	2.4427	2.037	0.052	0.583	6.073
ITR	-0.084	-2.227	0.035	0.679	1.473
R					0.75
R2					0.703
Adj R2					0.658
F-Statistics					58.247
F-Sig					0.000
DW					1.390

Source: *SPSS OUTPUT 2016*

$$\text{GDP} = 0.015(\text{MPR}_{it}) + -0.084(\text{ER}_{it}) + 2.4427(\text{MS}_{it}) + -0.084(\text{ITR}_{it}) + 32.843$$

Table 4.3 reveals that the cumulative association between the independent variables is given by the value of R 0.75. This is signifying that the relationship between the gross domestic product (GDP) and monetary policies in Nigeria is up to 75% indicating that any change in the independent variables will improve the GDP of Nigeria. The adjusted R2 is the multiple coefficient of determination given by 0.658 indicating that the cumulative variation of the regressand as caused by the regressors is up to 66%. This means that the monetary policy rate, exchange rate, money supply and interest rate of Nigeria. Thus, the level of prediction is up to 66% whereas the remaining 34% are said to be taken care by other factors.

In order to examine the impact of monetary policy rate on gross domestic product of Nigeria, a t- value of 0.808 and a beta coefficient of 0.015 were given by the regression statistics which is insignificance. This indicates that monetary policy rate has no significant influence on the gross domestic product (GDP) of Nigeria. This means that the increase in monetary policy rate by the central bank of Nigeria (CBN) will no in any way improve the gross domestic product (GDP) of Nigeria. Thus, the result is surprising because government review monetary policy in order to control r stabilize the economy, but the result may be as a result of political maneuver that embedded the country, meaning that, many policies nowadays in Nigeria are highly political or if not political are highly influenced by political factors to render the policy ineffective. Additionally, unsereouseness from the part of the regulators for monitoring of the policies is another important

factor for the result. However, the policy implication of the result is that, regulators of the Nigerian economy should not stick on monetary policy rate only for regulating the economy. The first null hypothesis formulated which states that; monetary policy rate has no significant influence on the gross domestic product of Nigeria is hereby rejected base on the finding.

To test the hypothesis which states that; exchange rate has no significant impact on the gross domestic product of Nigeria. The regression result gives a t-value of -2.313 and beta a coefficient of -0.084 which is at 5% level of significance. This reveals that exchange rate has negatively and significantly impacted on the gross domestic product of Nigeria, it further explains that high exchange rate of foreign currency over the local currency may not be in favor of the economic growth of Nigeria as measured by the GDP. This result proved our priory expectation that the higher the exchange rate of foreign currency over the Nigerian local currency may have a negative impact on the economic growth and development of Nigeria as measured by the gross domestic product. This result implies that where a foreign currency is f higher value than the local currency it makes international trade difficult and expensive which will affect the and adverse effect on the inflation rate of a country, therefore, reduce the productive capacity of our local industry. This negative effect on the local industry implies negative effect on the gross domestic product. This provides an evidence of rejecting the second null hypothesis of the study.

Table 4.3 above shows that money supply has a t-value of 2.037 with a beta coefficient of 2.4427 which is at 10% level of significance. This reveals that money supply has positively and statistically impacted on the gross domestic product of Nigeria. This signifies that for any 10% increase in the money supply by the Central Bank of Nigeria the gross domestic product of Nigeria will also increase positively by ₦2.4427. The finding did not in any way contradict the researcher expectation. The Central Bank of Nigeria is hereby advice while considering a policy on monetary policy should consider increasing the money supply in the economy as it go a long way in improving the gross domestic product of Nigeria vis-à-vis improves economic growth and development. Thus, with this result it serve as an evidence of rejecting the third null hypothesis which state that money supply has no significant impact on the gross domestic product of Nigeria.

The interest rate t-value was given as -2.227 and a beta coefficient of -0.084. This indicates that interest rate has negatively and statistically impacting on the gross domestic product of Nigeria. This is in accordance with our expectation that the higher interest rate otherwise known as cost of borrowing will reduce the value of

investment fund as investors are constrained to borrow for investment purpose which will invariably have a negative effect on the gross domestic product of Nigeria. The policy implication derivable is the authorities like the Central Bank of Nigeria (CBN) should consider reducing the interest rate or lending rate by Banks so that investors will borrow and invest for economic growth and development. This result provides an evidence to reject the fourth null hypothesis of the study which states that interest rate has no significant effect on gross domestic product of Nigeria.

5.1 Summary Conclusion and Recommendation

The study examines the influence of monetary policies on the economic growth and development in Nigeria. The study hypothesizes that monetary policy rate, exchange rate, money supply and interest rate have no significant impact on gross domestic product of Nigeria. The study covers the period of 30 years from 1986 to 2015. In addition, several literatures were reviewed for the purpose of this study.

A correlational research design was used. The data was collected purely from secondary extracted source using the Central Bank of Nigeria (CBN) statistical bulletins for the periods of 30 years from 1986 to 2015. Multiple regressions were employed to empirically examine the relationship among the variables of the study.

The study provides evidence of positive and insignificant relationship between monetary policy rate and gross domestic product of Nigeria. It further documents that exchange rate is negatively and significantly related to gross domestic product of Nigeria. In addition, a positive significant relationship was also found between money supply and gross domestic product of Nigeria. Finally, a negative and statistically significant relationship was established between interest rate and gross domestic product of Nigeria.

However, the study has empirically provided evidence on the relationship between monetary policies proxied by monetary policy rate, exchange rate, money supply and interest rate and gross domestic product of Nigeria proxied by gross domestic product of Nigeria. Consequently, based on the findings of the study, the following conclusions are drawn.

The presence of positive and insignificant relationship between monetary policy rate and gross domestic product of Nigeria made conclude that monetary policy rate is not in any way affecting the gross domestic product of Nigeria and is not contributing to gross domestic product of Nigeria.

Similarly the study also asserts that exchange rate is better in increasing the gross domestic product of Nigeria, thereby improving the performance of the economy in general. It is further established that exchange rate might not guarantee better economic performance of Nigeria by increase gross domestic product of Nigeria.

Additionally, the study concluded that, too much money in supply in the economy result in better economic growth and development of the Nigerian economy. This is the reason why this study found positive relationship between money supply and gross domestic product of Nigeria.

Finally, it also concluded that higher interest rate or cost of borrowing play a prominent role in controlling the economy by mopping too much money in circulation thereby improving the economic performance. Thus, contrary to the finding of this study that high interest rate on borrowed fund does not play any prominent role in improving the economic performance of Nigeria by increasing the gross domestic product of Nigeria. In line with the findings and conclusions of the study, the following recommendations are proffered:

The regulators especially Central Bank of Nigeria (CBN) should not give too much priority to monetary policy rate while implementing monetary policies in the Nigerian economy. This is because monetary policy rate is not in any way increasing the gross domestic product of Nigeria. Furthermore, the central Bank of Nigeria as the apex Bank and determining the exchange rate of foreign currency as compared to the local currency should consider reducing the maximum exchange rate of the U.S dollar as against the Nigerian currency from 198.39 as found in this study within the periods of this study to ₦160.00 per \$1 dollar. This may encourage international business. Hence, improve the entire economic performance of the country, thereby, increasing the gross domestic product of Nigeria. In addition, i is recommended base on the findings and conclusion of this study that, the Central Bank of Nigeria should encourage and increase money supply. This is because it goes in line with increase gross domestic product of the Nigerian economy.

Finally, the regulators especially Central Bank of Nigeria (CBN) should direct all the Deposit Money Banks in Nigeria to reduce their interest lending rate by given directives of the maximum interest rate to be charged on borrowed fund. In addition to that, the CBN should reduce the cost of borrowing by the deposit money banks in Nigeria from 29.00% maximum as found by this study to 15% or 17% maximum, as this will encourage investors to borrow and invest.

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Appendix

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
GDP	30	13.93	15.46	14.6484	.53266	.021	.427	-1.412	.833
MPR	30	6.00	12.00	8.3167	2.49131	.611	.427	-1.351	.833
ER	30	149.69	198.39	1.5294E2	3.01055	.633	.427	-1.094	.833
MS	30	1.04E7	1.37E7	1.1874E7	9.61515E5	.487	.427	-.895	.833
ITR	30	25.01	29.00	26.9847	1.06556	-.007	.427	-.753	.833
Valid N (listwise)	30								

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				Durbin-Watson	
					R Square Change	F Change	df1	df2		Sig. F Change
1	.750 ^a	.703	.658	.17859	.703	58.247	4	25	.000	1.390

a. Predictors: (Constant), ITR, MS, MPR, ER

b. Dependent Variable: GDP

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.431	4	1.858	58.247	.000 ^a
	Residual	.797	25	.032		
	Total	8.228	29			

a. Predictors: (Constant), ITR, MS, MPR, ER

b. Dependent Variable: GDP

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Correlations

		GDP	MPR	ER	MS	ITR
GDP	Pearson Correlation	1	-.566**	-.913**	-.935**	-.096
	Sig. (2-tailed)		.001	.000	.000	.614
	N	30	30	30	30	30
MPR	Pearson Correlation	-.566**	1	.593**	.605**	-.317
	Sig. (2-tailed)	.001		.001	.000	.088
	N	30	30	30	30	30
ER	Pearson Correlation	-.913**	.593**	1	.942**	-.123
	Sig. (2-tailed)	.000	.001		.000	.517
	N	30	30	30	30	30
MS	Pearson Correlation	-.935**	.605**	.942**	1	.019
	Sig. (2-tailed)	.000	.000	.000		.920
	N	30	30	30	30	30
ITR	Pearson Correlation	-.096	-.317	-.123	.019	1
	Sig. (2-tailed)	.614	.088	.517	.920	
	N	30	30	30	30	30

** . Correlation is significant at the 0.01 level (2-tailed).

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	32.843	4.803		6.837	.000		
MPR	.015	.018	.070	.808	.426	.520	1.923
ER	-.084	.036	-.477	2.313	.029	.791	8.960
MS	2.442E-7	.000	.441	2.037	.052	.583	6.073
ITR	-.084	.038	-.168	2.227	.035	.679	1.473

a. Dependent Variable:
GDP