EFFECTS OF MONEY MARKET ON NIGERIAN ECONOMY GROWTH AND DEVELOPMENT

(A CASE STUDY OF CENTRAL BANK OF NIGERIA)

BY

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CERTIFICATION

This is to certify that this research project has been read and approved as meeting part of the requirement for the award of Higher National Diploma (HND) in Banking and Finance, Institute of Finance and Management Studies, kwara state polytechnic, Ilorin.

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DEDICATION

This project work is dedicated to Almighty Allah the creator of heaven and earth, the one who created all human kind, who gave me knowledge to achieve this project work and also my father MR TAIWO TAIRU, My late mother MRS TAIRU F and brother ADEWALE TAIRU.

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CHAPTER ONE

1.0 Introduction to the study

Money plays a vital role in the functioning of any modern economy. It facilitates transactions, encourages savings and investments, and serves as a basis for the implementation of monetary policy. In developing economies like Nigeria, the role of money is even more critical, especially given the country's pursuit of sustained economic growth and development. Economic theories suggest that the money supply has a direct influence on economic indicators such as inflation, interest rates, investment, and national output (Friedman, 2000).

The Central Bank of Nigeria (CBN), established in 1958, is responsible for managing the Nigerian monetary system. It regulates the supply of money and credit to ensure price stability and foster conditions conducive to economic development (CBN, 2023). Over the decades, the CBN has used monetary policy tools such as open market operations (OMO), cash reserve requirements, and interest rate adjustments to control inflation, stabilize the naira, and stimulate economic activity.

Despite these efforts, Nigeria continues to face economic instability characterized by fluctuating inflation rates, high unemployment, exchange rate volatility, and low real sector growth. Although money supply has expanded significantly over the years, the expected corresponding growth in real output and economic development has not been consistently realized (Umaru & Zubairu, 2012). This raises questions about the effectiveness of monetary policy in Nigeria and the actual impact of money on economic performance.

The importance of evaluating the role of money in economic growth cannot be overstated. A well-functioning monetary system can foster investment, promote production, and create employment. Conversely, poor monetary management can lead to inflationary pressures, currency depreciation, and financial instability. As such, this study examines the extent to which money—measured through monetary policy instruments and money supply affects Nigeria's economic growth and development, using the Central Bank of Nigeria as the focal institution.

The role of money in influencing economic growth and development has long been recognized in economic literature. Money facilitates trade, investment, and production activities, acting as a medium of exchange, a unit of account, a store of value, and a standard for deferred payments. In the context of a developing economy like Nigeria, money supply and its proper management are crucial for driving economic activities and ensuring macroeconomic stability (Obaseki, 1991).

Nigeria's monetary system is largely regulated by the Central Bank of Nigeria (CBN), which plays a critical role in formulating and implementing monetary policies aimed at ensuring price stability, managing inflation, stabilizing the currency, and fostering overall economic growth (CBN, 2023). Over the years, the CBN has employed various tools—such as open market operations (OMO), interest rate adjustments, and cash reserve ratios—to regulate the money supply and guide the economy toward its development goals.

However, despite these efforts, Nigeria continues to face significant economic challenges such as high inflation, exchange rate instability, unemployment, and sluggish GDP growth. While the money supply in Nigeria has consistently increased over the past two decades, the rate of economic growth has not always kept pace (Awe & Olawumi, 2012). This discrepancy raises critical questions about the effectiveness of monetary policy and its actual influence on development outcomes in the Nigerian context.

As the Nigerian economy becomes increasingly complex and integrated into the global financial system, understanding the relationship between money supply and economic development becomes even more important. This study, therefore, seeks to explore how money, through its supply and control by the Central Bank of Nigeria, affects economic growth and development within the country.

1.1 Statement of the Problem

Despite the Central Bank of Nigeria's consistent efforts to regulate the monetary system, Nigeria continues to experience fluctuating inflation rates, volatile exchange rates, and slow economic growth. While money supply has increased significantly over the years, corresponding improvements in economic growth have not always followed (Umaru & Zubairu, 2012). This raises concerns about the transmission mechanisms of monetary policy and its real impact on development.

Furthermore, with ongoing global economic shocks and internal structural weaknesses, the ability of monetary tools to address macroeconomic instability is being tested. This study, therefore, seeks to explore the actual impact of money on Nigeria's economic development and determine the effectiveness of CBN's policies.

1.2 Research Questions

This study is guided by the following research questions:

1. What is the relationship between money supply and economic growth in Nigeria?
2. How effective is the Central Bank of Nigeria in managing the money supply?
3. What impact does monetary policy have on Nigeria's economic development?
4. What are the challenges faced by the CBN in the implementation of monetary policy?

1.3 Objectives of the Study

The main objective of this study is to evaluate the effect of money on Nigeria's economic growth and development using the Central Bank of Nigeria as a case study. The specific objectives are:

i. To examine the relationship between money supply and economic growth in Nigeria.
ii. To analyze the role of the Central Bank of Nigeria in the implementation of monetary policy.

iii. To assess the impact of monetary policy instruments on development indicators such as employment, inflation, and GDP growth.
iv. To identify the challenges the Central Bank of Nigeria faces in managing the money supply.

1.4 Research Hypotheses

To provide empirical evidence, the stud=y proposes the following hypotheses:

i. $\mathbf{H_{01}}$: There is no significant relationship between money supply and economic growth in Nigeria.
ii. $\mathbf{H_{11}}$: There is a significant relationship between money supply and economic growth in Nigeria.
iii. $\mathbf{H_{02}}$: Monetary policy by the Central Bank of Nigeria has no significant effect on economic development.
iv. $\mathbf{H_{12}}$: Monetary policy by the Central Bank of Nigeria has a significant effect on economic development.

1.5 Significance of the Study

This study will be valuable in the following ways:

i. **To policy makers**: It offers insights into how monetary tools can be refined to promote development and stability.
ii. **To economists and researchers**: It provides empirical evidence on the relationship between money supply and economic performance.
iii. **To students and academia**: It serves as a reference for future research on monetary policy and economic development.
iv. **To the public**: It enhances understanding of how decisions made by the CBN affect everyday economic outcomes like inflation and interest rates.

1.6 Scope of the Study and Limitation of the study

This research focuses on the Nigerian economy with an emphasis on the role of the Central Bank of Nigeria in regulating money supply and implementing monetary policy. The study covers the period from 2000 to 2023, a time frame characterized by major economic reforms, monetary policy shifts, and financial instability.

1.7 Definition of Terms

1. **Money Market**: A segment of the financial market where short-term borrowing, lending, buying, and selling of financial instruments such as treasury bills, commercial papers, and certificates of deposit take place, usually with maturities of one year or less.
2. **Central Bank of Nigeria (CBN)**: The apex financial institution in Nigeria responsible for regulating the country's monetary and financial systems. It issues currency, implements monetary policy, manages reserves, and supervises other financial institutions to maintain economic stability.
3. **Economic Growth**: The increase in the capacity of an economy to produce goods and services over a period, commonly measured by the rise in Gross Domestic Product (GDP).
4. **Economic Development**: A broader concept than economic growth, referring to improvements in living standards, reduction in poverty, access to healthcare, education, infrastructure, and employment opportunities.
5. **Treasury Bills (T-Bills)**: Short-term debt instruments issued by the Central Bank of Nigeria on behalf of the federal government to control money supply and raise funds for short-term public sector financing.
6. **Monetary Policy**: The process by which the Central Bank controls the supply of money, interest rates, and inflation to stabilize the economy and promote sustainable growth.
7. **Liquidity**: The availability of cash or easily convertible assets within the financial system, allowing institutions to meet short-term obligations.

8. **Interest Rate**: The cost of borrowing money or the return on savings and investments, usually expressed as a percentage of the amount borrowed or invested annually.
9. **Interbank Lending**: The process by which banks lend money to each other on a short-term basis to manage liquidity needs and comply with regulatory requirements.
10. **Financial Instruments**: Contracts that represent an asset to one party and a liability to another, such as bonds, treasury bills, and commercial papers, used in the money market for short-term funding and investment.
11. **Gross Domestic Product (GDP)**: The total monetary value of all finished goods and services produced within a country over a specific time period, used as a measure of economic performance.

1.8 Plan of the study

This paper is organized in five sections. Section one is the introduction. Section two is the review of related literature, the third section talks about the methodology of the study, section four presents and analysis the data, and finally, section five summarises, makes recommendations and concludes the work.

CHAPTER TWO

2.0 LITERATURE REVIEW

This section reviews related and relevant to the subject matter under conceptual framework, theoretical review and empirical review.

2.1 Conceptual framework

The money market is the second arm of the financial market. The existence of money market facilitates trading in short-term debt instruments to meet short term needs of large users of funds such as governments, banks, and similar institutions. Money market plays a key role in bank's liquidity management and the transmission of monetary policy. By providing the appropriate instruments and partner for liquidity trading, the money market allows the refinancing of short and medium term positions and facilitates the mitigation of business liquidity risks. The banking system and the money market represent the exclusive setting in which monetary policy operates. Developed, active, and efficient interbank and money markets enhance the efficiency of central bank's monetary policy and the transmission of its impulses into the economy. Thus, the development of the money market smoothen the progress of the financial intermediation and boost lending to the economy, and improves the country's economic and social welfare.

Well developed money markets exist in developed countries, particularly in the high income ones, while those in the low income countries mirror the state of their development. In the latter, the markets are narrow, poorly integrated, and in some instances, non-existent in the real sense of it. (Nwosu and Hamman, 2008). The level of development of a money market serves as a barometer for measuring the level of development of the economy. They assert that the degree and tempo of development of one reflects the spate of development of the other. The money market is one of the categorizations of the financial markets. The other category is the capital market. While the money market deals in short-term funds, the capital market deals in long-terms loanable funds. (Anyanwu, 1996). The basis of distinction between the money and capital market lies in the degree of liquidity of instruments bought and sold in each of the markets.

2.2 Theoretical review

The linkage between the financial sector and economic performance can be captured by the relationship between money supply and gross domestic product (MS-GDP ratio). At the turn of the Millennium, it was clear that the Nigerian banking sector was still struggling with systemic crises that left it on the verge of collapse. Soludo, (2008) posited that the beleaguered sector was characterized by negative features such as: low aggregate banking credit to the domestic economy (20 percentage of GDP); systemic crises prompting resort to central bank bailouts; inadequate capital base; oligopolistic structure of banks; poor corporate governance; low banking/population density 1:30,432; payment system that encouraged cash-based transactions, among others. The emergence of the global financial crises has however unsettled the relative stability subsisting in the Nigeria's banking sector since its consolidation in 2004. The plummeting government revenue from crude oil proceeds has reduced public sector deposits a major revenue earner for Nigerian banks (Igbatayo, 2011). Also, the global economic meltdown caused a reduction in the remittances sent to Nigeria by the nation's diaspora community.

In sum, the existence of money markets facilitate trading in short-term debt instruments to meet short-term needs of large users of funds such as governments, banks and similar institutions. Government treasury bills and similar securities, as well as company commercial bills, are examples of instruments traded in the money market. A wide range of financial institutions, including merchant banks, commercial banks, the central bank and other dealers operate in the money market. Public as well as private sector operators make use of various financial instruments to raise and invest short term funds which, if need be, can be quickly liquidated to satisfy short-term needs. (Mohamad, 2009).

Modern growth theory developed by Grossman and Helpman. (1991). Lucas, (1988) and Romer, (1986) identifies two main channels through which the financial sector might affect long-run growth in a country. They include; through catalyzing the capital accumulation (including both human and physical capital) and by increasing the rate of technological progress. The five basic functions of an efficiently working financial sector (such as mobilizing and pooling savings; producing information ex-ante about possible investments and allocating capital; monitoring investments and exerting corporate governance; facilitating the trading, diversification and management of risks; and facilitating the exchange of goods and services) allow the above two channels to work for promoting growth by mobilizing savings for investment; facilitating and encouraging capital inflows; and allocating the capital efficiently among competing uses. (Mordi, 2010).

The link between financial sector and real economy has long been believed by economists that financial markets and institutions are important factors in supporting economic development (See Goldsmith (1969), McKinnon (1973), Schumpeter, (1934) and Shaw (1973). However, these early literature failed to give theoretical linkage between financial development and growth. Recently, many economists have developed a model that drives a formal link between financial intermediation and growth. This literature considers two interrelated issues: it analyses how financial intermediation affects economic growth, and it studies how economic growth might itself affect the evolution and growth of financial intermediation. Levine (1999) for instance agrees that financial intermediaries enhance economic efficiency and, eventually, growth by helping to allocate capital to its best uses. Several other cross-country and panel data studies such as Khan, Senhadji and Smith (2006), King and Levine (1992) and Levine (2004) showed that financial development had a positive impact on economic growth.

Specific roles of money market in the economy

Money markets play a key role in banks’ liquidity management and the transmission of monetary policy. In normal times, money markets are among the most liquid in the financial sector. By providing the appropriate instruments and partners for liquidity trading, the money market allows the refinancing of short and medium-term positions and facilitates the mitigation of your business’ liquidity risk. The banking system and the money market represent the exclusive setting monetary policy operates in.

A developed, active and efficient interbank market enhances the efficiency of central bank's monetary policy, transmitting its impulses into the economy best. Thus, the development of the money market smoothes the progress of financial intermediation and boosts lending to economy, hence improving the country's economic and social welfare. Therefore, the development of the money market is in all stakeholders' interests: the banking system elf, the Central Bank and the economy on the whole.

A. Producing information and allocating capital

The information production role of financial systems is explored by Ramakrishnan and Thakor (1984), Bhattacharya and Pfleiderer (1985), Boyd and Prescott (1986), and Allen (1990). They develop models where financial intermediaries arise to produce information and sell this information to savers. Financial intermediaries can improve the ex ante assessment of investment opportunities with positive ramifications on resource allocation by economizing on information acquisition costs. As Schumpeter (1912) argued, financial systems can enhance growth by spurring technological innovation by identifying and funding entrepreneurs with the best chance of successfully implementing innovative procedures. For sustained growth at the frontier of technology, acquiring information and strengthening incentives for obtaining information to improve resource allocation become key issues.

B. Risk sharing

One of the most important functions of a financial system is to achieve an optimal allocation of risk. There are many studies directly analyzing the interaction of the risk sharing role of financial systems and economic growth. These theoretical analyses clarify the conditions under which financial development that facilitates risk sharing promotes economic growth and welfare. Quite often in these studies, however, authors focus on either markets or intermediaries, or a comparison of the two extreme cases where every financing is conducted by either markets or intermediaries. The intermediate case in which markets and institutions co-exist is rarely analyzed in the context of growth models because the addition of markets can destroy the risk-sharing opportunities provided by intermediaries. In addition, studies focus on the role of financial systems that face diversifiable risks.

C. Liquidity

Money market funds provide valuable liquidity by investing in commercial paper, municipal securities and repurchase agreements: Money market funds are significant participants in the commercial paper, municipal securities and repurchase agreement (or repo) markets. Money market funds hold almost 40% of all outstanding commercial paper, which is now the primary source for short-term funding for corporations, who issue commercial paper as a lower-cost alternative to short-term bank loans. The repo market is an important means by which the Federal Reserve conducts monetary policy and provides daily liquidity to global financial institutions.

D. Diversification

For both individual and institutional investors, money market mutual funds provide a commercially attractive alternative to bank deposits. Money market funds offer greater investment diversification, are less susceptible to collapse than banks and offer investors greater disclosure on the nature of their investments and the underlying assets than traditional bank deposits. For the financial system generally, money market mutual funds reduce pressure on the FDIC, reduce systemic risk and provide essential liquidity to capital markets because of the funds' investments in commercial paper, municipal securities and repurchase agreements.

E. **Encouragements to saving and investment**

Money market has encouraged investors to save which results in encouragement to investment in the economy. The savings and investment equilibrium of demand and supply of loanable funds helps in the allocation of resources.

F. Controls the price line in the economy

Inflation is one of the severe economic problems that all the developing economies have to face every now and then. Cyclical fluctuations do influence the price level differently depending upon the demand and supply situation at the given point of time. Money market rates play a main role in controlling the price line. Higher rates in the money markets decrease the liquidity in the economy and have the effect of reducing the economic activity in the system. Reduced rates on the other hand increase the liquidity in the market and bring down the cost of capital considerably, thereby rising the investment. This function also assists the CBN to control the general money supply in the economy.

G. Helps in correcting the imbalances in economy.

Financial policy on the other hand, has longer term perspective and aims at correcting the imbalances in the economy. Credit policy and the financial policy both balance each other to achieve the long term goals strong-minded by the government. It not only maintains total control over the credit creation by the banks, but also keeps a close watch over it. The instruments of financial policy counting the repo rate cash reserve ratio and bank rate are used by the Central Bank of the country to give the necessary direction to the monetary policy.

H. Regulates the flow of credit and credit rates

Money markets are one of the most significant mechanisms of any developing financial system. In its place of just ensure that the money market in India regulate the flow of credit and credit rates, this instrument has emerge as one of the significant policy tools with the government and the CBN to control the financial policy, money supply, credit creation and control, inflation rate and overall economic policy of the Country. Therefore the first and the leading function of the money market mechanism is regulatory in nature.

I. Transmission of monetary policy

The money market forms the first and foremost link in the transmission of monetary policy impulses to the real economy. Policy interventions by the central bank along with its market operations influence the decisions of households and firms through the monetary policy transmission mechanism. The key to this mechanism is the total claim of the economy on the central bank, commonly known as the monetary base or high-powered money in the economy. Among the constituents of the monetary base, the most important constituent is bank reserves, i.e., the claims that banks hold in the form of deposits with the central bank.

Instruments traded in the money market

In view of the rapid changes on account of financial deregulation and global financial markets integration, central banks in several countries have striven to develop and deepen the money markets by enlarging the ambit of instruments5 and participants so as to improve the transmission channels of monetary policy. The structure of money markets determines the type of instruments that are feasible for the conduct of monetary management. Evidence and experience indicate that preference for market oriented an instrument by the monetary authorities helps to promote broader market development.

The entire money market in India can be divided into two parts. They are organised money market and the unorganized money market. The unorganized money market can also be known as an unauthorized money market. Both of these components comprise several constituents.

A. **Call money market**: It is a sub-market of the money money, also known as money at call and money at short notice or inter bank loan market. In this market money is demanded for extremely short period. The duration of such transactions is from few hours to 14 days. These transactions help stock brokers and dealers to fulfil their financial requirements. The rate at which money is made available is called call rate. The rate is fixed by the market forces such as the demand for and supply of money. With the rising credit demand, the CBN frequently reviews the Inter-bank participation certificates scheme to improve assets liability management and liquidity management.

B. **Commercial bill market**: This is a market for the short term, self liquidating and negotiable money market instrument. Commercial bills are used to finance the movement and storage of agriculture and industrial goods in domestic and foreign markets. The commercial bill market in India is still underdeveloped.

C. **Treasury bill market**: This is a market for sale and purchase of short term government securities. These securities are called as Treasury Bills which are promissory notes or financial bills issued by the CBN on behalf of the Federal Government of Nigeria. There are two types of treasury bills: (i) Ordinary or Regular Treasury Bills; and (ii) Ad Hoc Treasury Bills.

The maturity period of these securities range from as low as 14 days to as high as 364 days. They have become very popular recently due to high level of safety involved in them. Treasury Bills, one of the safest money market instruments, are short term borrowing instruments of the Central Government of the Country issued through the Central Bank. They are zero risk instruments, and hence the returns are not so attractive. It is available both in primary market as well as secondary market. It is a promise to pay a said sum after a specified period. T-bills are short-term securities that mature in one year or less from their issue date. They are issued with three-month, six-month and one-year maturity periods.

The CBN issues T- Bills at a price less than their face value (par value). They are issued with a promise to pay full face value on maturity. So, when the T-Bills mature, the government pays the holder its face value. The difference between the purchase price and the maturity value is the interest income earned by the purchaser of the instrument. T-Bills are issued through a bidding process at auctions. The bid can be prepared either competitively or non-competitively. In the second type of bidding, return required is not specified and the one determined at the auction is received on maturity. Whereas, in case of competitive bidding, the return required on maturity is specified in the bid. In case the return specified is too high then the T-Bill might not be issued to the bidder.

D. **Market for certificate of deposits (CDs)**: It is again an important segment of the Nigerian money market. The certificate of deposits is issued by the commercial banks. These are the transferable investment instrument in a money market. The government initiated a market of CDs in order to widen the range of instruments in the money market and to provide a higher flexibility to investors for investing their short term money.

E. **Market for commercial papers (CPs)**: It is the market where the commercial papers are traded. Commercial paper (CP) is an investment instrument which can be issued by a listed company having working capital.

F. **Short term loan market**: It is a market where the short term loan requirements of corporate are met by the Commercial banks. Banks provide short term loans to corporate in the form of cash credit or in the form of overdraft. Cash credit is given to industrialists and overdraft is given to businessmen.

G. **Banker's acceptance:** It is a short term credit investment created by a non-financial firm and guaranteed by a bank to make payment. It is simply a bill of exchange drawn by a person and accepted by a bank. It is a buyer's promise to pay to the seller a certain specified amount at certain date. The same is guaranteed by the banker of the buyer in exchange for a claim on the goods as collateral. The person drawing the bill must have a good credit rating otherwise the Banker's Acceptance will not be tradable. The most common term for these instruments is 90 days. However, they can very from 30 days to180 days. For corporations, it acts as a negotiable time draft for financing imports, exports and other transactions in goods and is highly useful when the credit worthiness of the foreign trade party is unknown. The seller need not hold it until maturity and can sell off the same in secondary market at discount from the face value to liquidate its receivables.

2.3 Empirical review

Several studies have been conducted on the relationship between financial intermediation and economic growth. The financial system has long been known in the literature to play an important role in the economic development of a country. But the financial market is divided into two major markets namely capital and money markets.

Some earlier studies have examined the relationship between the capital market and economic growth in Nigeria and majority of these studies have showed that capita market promotes economic development (Atje and Jovanovic, 1993; Levine, 1996; and Obstfeld, 1995). On the other hand, not much empirical works have been done to show the impact of the money market on economic growth in Nigeria. Empirical evidences are divided as to the relationship between money market and economic growth. Greenwood and Jovanovic (1990) show that financial intermediation promotes economic growth. Similar conclusion was arrived at by Ajakaiye (2002). and Adebiyi (2005), while, Ebhodaghe (1996), Lucas (1988), Omoruyi (1991), Sobodu and Sobodu (1999), and Soyibo, Alashi and Ahmad (1997), suggest otherwise.

Goldsmith (1969), using a cross-section of 80 countries during the period 1960-1989 found that financial development promotes economic growth when other growth conditioning variable are taken into account. Also, McKinnon (1973) provides country specific evidence in a study that focuses on the economies of Argentina, Brazil, Chile, Germany, Indonesia, Korea, and Taiwan during the post-World War II period. Examining the relationship between adopted financial policies and economic growth in these countries, McKinnon concluded that better functioning financial system aid faster growth. Related cross-country studies by King and Levine (1992) Levine and Zervos (1996), and Zingalas (2001) gave empirical evidence supporting the hypothesis that financial development enhances economic growth. With respect to African economies, Gelbard and Leite (1999) provides evidence that although there remains much to be done, financial reforms in many adjusting African countries has contributed positively to economic growth. (Saibu, Wakeel & Nwosu, 2009). In another study, Khan, Senhadji and Smith, and Bruce (2006) employed a dataset comprising 159 countries over 1960-1999 and their analysis confirm a strongly positive and statistically significant relationship between financial depth indicators covering banking system and securities market and economic growth.

Shan and Morris (2002) used a Granger causality procedure to investigate the relationship between financial development and economic growth for nine OECD countries and China by estimating a vector autoregression (VAR) model. The results of their study show that five out of ten countries have a bilateral Granger causality; three of them have reverse causality with economic growth leading to financial development while two countries do not have a causal effect at all. Schoar (2009) agrees that a competitive banking sector is necessary in facilitating firm growth and competition, and that equity markets constitute only a small portion of overall financing in developing countries. The author underscores the importance of scale for banks, and tiny banks will not garner sufficient capital to finance small businesses for expansion. In particular, the banking sector should be established and tailored to improve the real economy and, as a tool to create jobs and opportunities.

Schoar (2009) proposes a two-tier banking system where one tier consist of small banks that serve basic financial needs and the other tier should consist of larger banks that serve medium firms that can create jobs for many others and will grow to large scales. Agha, Ahmed, Mubarak, and Shah (2005) in a study of the transmission mechanism of monetary policy in Pakistan asserted that the role of bank lending is prominent because of the dominance of the banking sector. Other factors that might have enhanced the banks' role included financial reforms, market-based credit allocation and crowding-in of private sector credit due to the decline in fiscal dominance. The extant literature shows that the bank lending channel is an important medium through which monetary policy permeates the real sector of the economy. Therefore, in the pursuit of price stability by monetary authorities, the consideration of the impact of lending on monetary aggregates is a necessary condition for attaining macroeconomic stability.

To Thoma (2009), developing countries require not only small banks and microfinance institutions that support small borrowers, but could also do with relatively sophisticated financial instruments such as hedging price risks through futures markets, insuring against crop failures, purchasing farm equipment through pooling arrangements, and managing the problem brought about by seasonality. He acknowledges inadequate information on the financial history and worthiness of potential borrowers as a challenge and that small banks were better positioned to collect such information.

2.4 Literature gap

1. Under-representation of the Role of the Central Bank of Nigeria (CBN) in Shaping Money Market Dynamics

- **Existing Research:** While general research on the money market in Nigeria and its role in economic growth is abundant, specific studies on how the **Central Bank of Nigeria (CBN)** directly shapes and influences the money market through its policies and actions are limited.
- **Literature Gap:** Many studies do not explore in-depth the **specific mechanisms** through which the CBN influences economic growth. The **CBN's interventions** such as interest rates, open market operations, and reserve requirements are often discussed in broad terms, without understanding their **targeted effects** on the money market and the **real economy**.

2. *Limited Longitudinal Studies on the Impact of Monetary Policy over Time*

- **Existing Research:** Most existing studies focus on the immediate or short-term effects of monetary policy changes on the money market and economic growth.
- **Literature Gap:** A **longitudinal analysis** tracking the **long-term** effects of CBN's policies on Nigeria's economic growth is needed. Studies that look at the **cumulative effects** of monetary interventions over multiple years or even decades could offer insights into the **sustainability** and **durability** of these policies.

3. *Scarcity of Research on Structural Barriers within Nigeria's Money Market*

- **Existing Research:** While there is research on the theoretical framework of the money market and its impact on economic growth, there is limited discussion on **structural challenges** within the Nigerian financial system, such as underdeveloped financial institutions, low banking penetration, and inefficient capital markets.

- **Literature Gap:** There is a lack of studies that analyze how these **structural barriers** in Nigeria's money market hinder the full impact of monetary policy. This gap is critical as the effectiveness of CBN's policies is closely linked to the state of the financial infrastructure in Nigeria.

4. Lack of Integration with Broader Economic Indicators and Sectoral Impact

- **Existing Research:** A lot of literature links money markets to overall national economic indicators, such as GDP growth or inflation.
- **Literature Gap:** Few studies provide a detailed analysis of how monetary policy, via the money market, influences **specific sectors of the economy** (e.g., agriculture, manufacturing, or services). Further research is required to understand how the **money market affects sectoral performance** and contributes to **balanced economic development** in Nigeria.

5. Absence of Analysis on the Impact of External Shocks on the Money Market

- **Existing Research:** Some research examines the money market's role in economic development but typically overlooks external factors like **global oil price volatility**, **foreign exchange fluctuations**, and **international financial crises**, which greatly impact Nigeria's money market.
- **Literature Gap:** There is a significant gap in understanding how **external shocks**, such as **oil price fluctuations** or **global financial crises**, interact with domestic monetary policies and affect the money market's contribution to Nigeria's economic growth. This aspect is especially pertinent due to Nigeria's reliance on oil exports and vulnerability to global economic trends.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This chapter presents the research methodology used to study the effect of the money market on Nigeria's economic growth and development, with a focus on the role of the Central Bank of Nigeria (CBN). It outlines the research design, population, sample size, sources of data, methods of data collection, methods of data analysis, and the validity and reliability of the research instrument. The methodology provides a clear framework for how the study will be conducted and how data will be collected and analyzed to address the research questions.

3.1 Research Design

The research employs a **descriptive correlational research design**, which is appropriate for exploring the relationship between variables. The design is chosen to determine how the money market, through its various instruments (e.g., Treasury Bills, Certificates of Deposit), affects Nigeria's economic growth and development. The descriptive design helps capture the state of the money market and its contributions to Nigeria's economic indicators like inflation, GDP, and investment levels. A quantitative approach is adopted as it offers measurable data, which is essential for statistical analysis (Sekaran & Bougie, 2016).

3.2 Population of the Study

The population of the study consists of the key stakeholders in Nigeria's financial system, primarily focusing on the Central Bank of Nigeria (CBN) and the commercial banks that participate in money market operations. The study also considers other financial institutions that engage in the buying and selling of money market instruments such as Treasury Bills and Certificates of Deposit. Secondary data from national economic reports and financial market publications from the CBN are included to provide a comprehensive understanding of the money market's impact on Nigeria's economic growth.

The focus on the CBN is critical, as it is the central body responsible for the regulation of the money market and the implementation of monetary policy in Nigeria (CBN Annual Report, 2022).

3.3 Sample Size and Sampling Technique

Given the large number of financial institutions in Nigeria, a **stratified random sampling** technique will be used to select the sample. The stratified approach will ensure that different groups within the money market such as government agencies, commercial banks, and investment firms—are adequately represented. A sample size of 50 financial institutions, including the CBN and key commercial banks, will be selected. The study will focus on data from 2010 to 2023, as this period encompasses significant monetary policy changes and market developments in Nigeria.

The selection criteria will involve identifying the top banks and financial institutions that actively engage in the money market, ensuring that the sample represents the broader financial system's dynamics (Yamane, 1967).

3.4 Sources of Data

This study will use both **primary** and **secondary** sources of data:

i. **Primary Data:** Primary data will be collected through structured interviews with key officials at the Central Bank of Nigeria and other financial institutions. These interviews will gather insights into the operational aspects of the money market, the tools used by the CBN, and their effects on the broader economy.
ii. **Secondary Data:** Secondary data will be collected from various publications and reports issued by the CBN, including annual reports, economic reviews, and monetary policy reports. Data from other relevant sources such as Nigeria's National Bureau of Statistics (NBS) will also be utilized to

complement the primary data and offer broader insights into the economic impact of the money market (CBN Annual Report, 2022).

3.5 Method of Data Collection

The data will be collected using the following methods:

i. **Interviews:** Structured interviews will be conducted with representatives from the CBN, commercial banks, and other key financial institutions involved in the money market. These interviews will focus on understanding the role of money market instruments in economic growth, CBN policies, and challenges in market operations.

ii. **Document Analysis:** Secondary data will be gathered from reports such as CBN publications, government economic reports, and market analysis documents. These documents will provide quantitative and qualitative data on the performance of the money market in relation to Nigeria's economic indicators such as GDP growth, inflation, and investment patterns (Sekaran & Bougie, 2016).

3.6 Method of Data Analysis

The collected data will be analyzed using both **descriptive** and **inferential statistical techniques**:

i. **Descriptive Statistics:** Descriptive statistics will be used to summarize the data and present the trends in the money market and its relation to key economic indicators such as inflation, investment, and GDP growth. The mean, standard deviation, and frequency distribution will be used to summarize data.

ii. **Inferential Statistics:** Regression analysis will be used to test the hypotheses and examine the relationships between money market activities and economic growth variables. A multiple regression model will be constructed to assess the impact of different money market instruments (e.g., Treasury Bills, Certificates of Deposit) on Nigeria's GDP and other economic indicators (Gujarati & Porter, 2009).

The statistical software SPSS (Statistical Package for the Social Sciences) will be used to perform these analyses, ensuring accurate and reliable results.

Validity and Reliability of Research Instrument

To ensure the **validity** and **reliability** of the research instruments:

i. **Validity:** Content validity will be assessed by consulting with subject matter experts in economics and finance to ensure that the interview questions and data sources are relevant to the research objectives. Additionally, construct validity will be checked by comparing the findings with similar studies in the field of monetary policy and financial markets (Sekaran & Bougie, 2016).
ii. **Reliability:** A pilot test will be conducted before the main data collection to determine the consistency of the research instrument. Cronbach's alpha will be used to measure the internal consistency of the interview responses, while test-retest reliability will be employed to check the stability of the instrument over time (Cronbach, 1951).

By ensuring both validity and reliability, the study aims to provide trustworthy results that contribute to understanding the role of the money market in Nigeria's economic growth.

3.7 Limitations of the Methodology

Although the research methodology adopted in this study is robust and appropriate for addressing the research questions, it is not without limitations. These limitations may affect the interpretation and generalizability of the findings:

1. **Dependence on Secondary Data**

The study primarily relies on secondary data obtained from the Central Bank of Nigeria (CBN), the National Bureau of Statistics (NBS), and other financial institutions. While these data sources are reputable, the study is limited by the completeness, accuracy, and timeliness of the data, which may not fully reflect current realities (Akinlo & Egbetunde, 2010).

2. **Measurement Constraints**

Variables used to measure money market performance and economic growth, such as Treasury bill rates, money market instruments, and GDP, may not capture the full scope of market activities or economic dynamics. This simplification may overlook critical qualitative aspects, such as regulatory changes or investor behavior (Iyoha, 2004).

3. **Lack of Primary Data**

The absence of primary data collection, such as interviews or surveys with financial experts or policymakers, limits the depth of insight into recent developments in the money market. Primary data could have enriched the analysis by providing perspectives not evident in secondary datasets.

4. **Limited Time Frame**

The study may cover a specific period (e.g., 2010–2023), which might not be sufficient to observe long-term structural impacts of money market activities on economic development. Longer time-series data could provide more robust trend analysis and deeper insight (Brooks, 2014).

5. **Causality Challenges**

Establishing a direct causal relationship between money market activities and economic growth is complex, as other macroeconomic variables such as fiscal policy, inflation, and political stability also influence growth. This introduces the possibility of omitted variable bias or endogeneity in regression models (Gujarati & Porter, 2009).

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Data Presentation

The research employs a descriptive correlational research design, which is appropriate for exploring the relationship between variables. The design is chosen to determine how the money market, through its key instruments (i.e., Treasury Bills, Certificates of Deposits, and Commercial Papers), influences economic performance. The descriptive design helps capture the value of the money market and its contribution to Nigeria's macroeconomic indicators like GDP, CP, and interest (MPR) levels. A quantitative approach is adopted as it offers measurable data, which is essential for accuracy and significant levels.

TABLE 4.1: Data for analysis: KEY: Treasury bill (TB), Commercial paper (CP), Gross domestic product (GDP), and Monetary policy rate (MPR)

YEAR	TB	CP	GDP (₦m)	MPR
2008	446,536	19,003	671,653.00	13.5
2009	584,536	35,848	6,896,000.00	14.8
2010	584,536	36,978	8,345,000.00	14.0
2011	825,055	47,569	11,148,903.00	15.7
2012	871,577	80,115	13,843,000.00	15.0
2013	874,828	194,599	15,248,000.00	12.0
2014	701,400	193,512	17,924,000.00	12.5
2015	574,929	363,370	20,657,000.00	13.0
2016	471,930	822,701	23,504,000.00	13.0
2017	1277,100	509,709	26,803,000.00	13.5
2018	1,727,914	189,216	31,730,000.00	13.5
2019	1,727,914	203,008	35,234,000.00	13.5
2020	2,023,334	234,876	71,186,600.00	13.5
2021	2,276,290	278,392	70,203,687.00	13.5
2022	2,931,208	321,308	89,043,638.00	13.5

Source: CBN statistical bulletin and annual publications for various years

TEST OF HYPOTHESES

HYPOTHESIS ONE

Restatement of hypothesis

- H_0: There is no significant relationship between Gross domestic Product and commercial papers in Nigeria.
- H_1: There is a significant relationship between Gross domestic Product and commercial papers in Nigeria.

Dependent Variable: CP
Method: Least Squares

Prob(F-statistic)	0.000000

Source: researcher's regression result from E-view 11.0

The constant coefficient of -2.20 shows that there will a decrease of 2.20% in Treasury Bill if the Gross Domestic Product is held constant. The result of the analysis shows that Treasury Bills have positive relationship with Gross domestic product, as shown by their coefficient values. The Rsquared value of 0.96 is an indication that only 0.96% variation Gross domestic product rate is explained by changes in the independent variables. This value is statistically significant as it is above 0.5. The P –value of 0.000 is less than the significance value of 0.05, hence,

Applying the decision rule, we reject the null hypothesis, and accept the alternate that There is no significant relationship between Gross domestic Product and treasury bills in Nigeria. The Durbin Watson value of 2.08 is above 2.0, this therefore shows that the variables used in the analysis are free from problem of autocorrelation.

HYPOTHESIS THREE

Restatement of hypothesis

$H0_3$: There is no significant relationship between Gross domestic Product and monetary policy rate in Nigeria.

HI_3: There is a significant relationship between Gross domestic Product and monetary policy rate in Nigeria.

Dependent Variable: MPR

Method: Least Squares

Date: 08/28/24 Time: 03:02

Sample (adjusted): 2008 2024

Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15.938207	3.397998	2.653977	0.0241
GDP	0.222326	0.300386	0.740135	0.4762

R-squared	0.051935	Mean depe ndent var	11.45917
Adjusted R-squared	0.824871	S.D. depen dent var	2.775872
S.E. of regression	2.834750	Akaike inf o criterion	5.072796
Sum squared resid	80.35807	Schwarz cr iterion	5.153614
Log likelihood	-28.43678	HannanQu inn criter.	5.042875
F-statistic	0.547800	DurbinWa tson stat	2.079552
Prob(F-statistic)	0.016235		

Source: researcher's regression result from E-view 11.0

The constant coefficient of 15.93 shows that there will an increment of 15.93% in Monetary policy rate if the Gross Domestic Product is held constant. The result of the analysis shows that Monetary policy rate has a positive relationship with Gross Domestic Product. This is shown by their coefficient values. The R-squared value of 0.05 is an indication that only 0.05% variation in Monetary policy rate is explained by changes in the independent variables. This value is statistically insignificant as it is less than 0.5.

The P -value of 0.01 is less than the significance value of 0.05, hence, applying the decision rule, we reject the null hypothesis, and accept the alternate that there is a significant relationship between Gross domestic Product and monetary policy rate in Nigeria. The Durbin Watson value of 2.07 is above 2.0, this therefore shows that the variables used in the analysis are free from problem of autocorrelation.

Model Specification

A model is simply an observation of reality. The study investigated the impact of money market and economic growth in Nigeria using regression analysis.

The model is as specified below

Model one

GDP =f (CPs)..............................1

GDP=a0+a1CPs+ut.....................2

LogGDP=a0+loga1CPs+ut.........3 Where:

GDP = Gross Domestic Product

F= Functional relationship CPs= Commercial papers a0=Constant parameter a1 to a3= Vector coefficient

L= Log

Ut= Error term representing other missing variables.

Model Two

GDP =f (TBs)..............................1

GDP=a0+a1TBs+ut.....................2

LogGDP=a0+loga1TBs+ut.........3 Where:

GDP = Gross Domestic Product

F= Functional relationship TBs= Treasury Bills a0=Constant parameter a1 to a3= Vector coefficient L= Log

Ut= Error term representing other missing variables.

Model Three

GDP =f (MPRs)..............................1

GDP=a0+a1MPRs+ut........................2

LogGDP=a0+loga1MPRs+ut............3

Where:

GDP = Gross Domestic Product

F= Functional relationship

MPRs= Monetary Policy Rate a0=Constant parameter

a1 to a3= Vector coefficient

L= Log

Ut= Error term representing other missing variables.

Decision Rule

A relationship (F significance) below 0.05 shows significance while above 0.05 shows insignificance.

4.2 Data Analysis

1 Treasury Bills

i. TBs have increased steadily over the years, from ₦2.5 trillion in 2020 to ₦6.01 trillion in 2024.
ii. This growth reflects increased government borrowing to finance deficits and manage liquidity.

2. Commercial Papers

i. There was a sharp rise in CPs from ₦0.81 trillion in 2022 to ₦1.50 trillion in 2023, followed by a drop in 2024 to ₦0.83 trillion.
ii. This pattern suggests that businesses initially sought alternative funding sources but may have pulled back due to rising interest rates.

3. Monetary Policy Rate (MPR)

i. MPR increased drastically from 11.5% in 2020 to 22.75% in 2024.
ii. This reflects CBN's aggressive tightening policy to curb inflation, but it raises the cost of borrowing and discourages investment.

4. GDP Growth

i. Nigeria's GDP increased each year, indicating positive economic growth.
ii. However, the rate of growth is moderate despite the substantial rise in monetary instruments, indicating that money market expansion alone does not drive strong growth without structural reforms.

4.3 Data Interpretation

The results of the regression analysis showed that there is a significant relationship between Gross domestic Product and commercial papers in Nigeria. This is to say that the money market can be used as veritable tool for stimulating economic growth in Nigeria. This finding confirms the work of Agbada, (2015) which found a strong positive relationship between money market and economic development. The second result also found a significant relationship between Gross domestic Product and treasury bills in Nigeria. The findings confirms the research carried out by Ogunmuyiwa in 2010, where he stated that the use of treasury bills for domestic borrowing can positively affect gross domestic product. The result in hypothesis three showed that Gross Domestic Product has no significant effect on monetary policy rate. Monetary policy rate is used as a veritable tool to control inflation by the monetary policy committee by either increasing or decreasing the monetary policy rate. It is expected that an increase in the monetary policy rate will make borrowing costlier and therefore discourage borrowing and hence bring down the rate of consumption. But in the Nigerian setting, even the increment in the monetary policy rate(MPR) has failed to reduce the increasing inflation rate in Nigeria and ensure the needed economic growth.

Date: 08/28/23 Time: 00:29
Sample (adjusted): 2008 2024
Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.49146	6.402536	16.38642	0.0000
GDP	7.25E-06	1.62E-05	0.447332	0.6633

R-squared	0.825743	Mean depe ndent var	135.4600
Adjusted R-squared	0.778218	S.D. depen dent var	19.24982
S.E. of regression	9.065451	Akaike info criterion	7.469997
Sum squared resid	904.0064	Schwarz cri terion	7.658810
Log likelihood	-52.02497	HannanQu inn criter.	7.467985
F-statistic	17.37505	DurbinWat son stat	2.143170
Prob(F-statistic)	0.000175		

Source: researcher's regression result from E-view 11.0

The constant coefficient of 10.49 shows that there will an increment of 10.49% in Commercial papers if Gross Domestic Product is held constant. The result of the analysis shows that Gross Domestic Product has a positive relationship with commercial papers, as shown by their coefficient values. The R-squared value of 0.825 is an indication that only 0.82% variation in commercial paper is explained by changes in the independent variables. This value is statistically significant as it is above 0.5. The P –value of 0.000 is less than the significance value of 0.05, hence, applying the decision rule, we reject the null hypothesis, and accept the alternate that there is a significant relationship between Gross Domestic Product and commercial papers. The Durbin Watson value of 2.14 is above 2.0, this therefore shows that the variables used in the analysis are free from problem of autocorrelation.

HYPOTHESIS TWO

$H0_2$: There is no significant relationship between Gross domestic Product and treasury bills in Nigeria.

$H1_2$: There is a significant relationship between Gross domestic Product and treasury bills in Nigeria.

Dependent Variable: TB
Method: Least Squares
Date: 08/28/23 Time: 00:35
Sample (adjusted): 2008 2024
Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.2078688	4177009.	-5.285765	0.0004
GDP	26.64385	3.347600	7.959092	0.0000

R-squared	0.972410	Mean dep endent var	34925523
Adjusted R-squared	0.964133	S.D. depe ndent var	29939576
S.E. of regression	5670143.	Akaike in fo criterion	34.17428
Sum squared resid	3.22E+14	Schwarz c riterion	34.35687
Log likelihood	-235.2200	HannanQ uinn criter.	34.15738
F-statistic	117.4829	DurbinW atson stat	2.089704

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Summary

This study examined the trends, performance, and policy implications of Nigeria's money market instruments from 2008 to 2024, focusing particularly on Treasury Bills (TBs), Commercial Papers (CPs), the Monetary Policy Rate (MPR), and their influence on economic growth. The findings indicate a significant increase in the issuance of TBs, reflecting heightened government reliance on short-term borrowing. While TBs provided a relatively safe investment option, they also crowded out private sector access to funds.

Commercial Papers experienced a sharp rise in 2020–2023 as businesses sought alternative financing amidst rising bank loan rates and high-interest environments. However, the issuance declined afterward due to increased market rate pressures. The MPR increased significantly from 11.5% in 2020 to 23.75% in 2024, largely in response to inflationary pressures, resulting in increased borrowing costs and tightened credit access.

While GDP growth occurred over the years, the economy exhibited only moderate and uneven development due to inflation, structural inefficiencies, and limited credit access. While the money market has expanded in scale and scope, its contribution to inclusive and sustainable economic growth remains limited under the current macroeconomic and policy conditions.

5.2 Conclusion

The analysis shows that Nigeria's money market has witnessed notable growth in terms of instruments and activity. However, this expansion has not translated into strong contributions to economic development.

Structural challenges — such as high interest rates, limited credit access, and weak monetary policy — have limited the market's effectiveness in supporting productive sectors of the economy.

Although the money market supports economic resilience by offering alternative financing mechanisms, the absence of affordable credit and shallow market penetration constrain its full potential. For Nigeria to leverage the money market effectively, a strategic balance must be achieved between government and private sector financing. Additionally, reforms are needed to deepen market infrastructure, enhance investor confidence, and improve the efficiency of monetary policy implementation.

5.3 Recommendations

Based on the findings of this study, the following recommendations are made:

1. **Lower and Stabilize the MPR Gradually**:

   The Central Bank of Nigeria (CBN) should adopt a more stable and gradual approach to monetary policy; lowering interest rates once inflation is under control to facilitate access to credit for productive sectors.

2. **Deepen the Money Market**:

   Policymakers should encourage private sector participation by expanding the range of financial instruments available, including asset-backed securities, to increase funding sources.

3. **Promote Corporate Access to Commercial Papers**:

   Authorities should support better credit rating mechanisms and ease issuance requirements for CPs, enabling large and medium-sized firms to use them effectively.

4. **Balance Public Borrowing**:

   Government reliance on Treasury Bills should be carefully managed to avoid excessive crowding out of private investments and to ensure balanced financial market development.

5. **Revitalize Government Securities**:

   Treasury Bills and other certificates should be better integrated into the money market to improve their contribution to economic growth.

6. **Encourage Financial Innovation**:

   New products and innovations should be introduced to enhance market participation, attract investors, and diversify the investment landscape.

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