

Journal of Economics and Trade

Volume 9, Issue 1, Page 60-75, 2024; Article no.JET.12442 ISSN: 2456-8821

# Analyzing the Influence of Monetary Policy on Nigeria's Economic Expansion

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#### Author's contribution

This work was carried out in collaboration among all authors. Author IO designed the study, performed the statistical analysis, wrote the protocol, and wrote the first draft of the manuscript. Authors CE managed the analyses of the study and AJO managed the literature searches. All authors read and approved the final manuscript.

#### Article Information

DOI: https://doi.org/10.56557/jet/2024/v9i18982

#### **Open Peer Review History:**

This journal follows the Advanced Open Peer Review policy. Identity of the Reviewers, Editor(s) and additional Reviewers, peer review comments, different versions of the manuscript, comments of the editors, etc are available here: https://prh.ikprress.org/review-history/12442

**Original Research Article** 

Received: 24/08/2024 Accepted: 28/10/2024 Published: 09/12/2024

#### ABSTRACT

This paper examined the connection between key monetary policy indicators and economic growth in Nigeria. The analysis was conducted using the Autoregressive Distributed Lag (ARDL) bound cointegration method. It estimated both the short-run and long-run effects of monetary policy on economic growth, utilizing secondary data from 1981 to 2022. The data, sourced primarily from the Central Bank of Nigeria Statistical Bulletin, revealed a long-run relationship between the variables.

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**Cite as:** Ogbodo, Izuchukwu, Clifford Ezinwa, and Amobi John Ogbodo. 2024. "Analyzing the Influence of Monetary Policy on Nigeria's Economic Expansion". Journal of Economics and Trade 9 (1):60-75. https://doi.org/10.56557/jet/2024/v9i18982.

Contrary to initial expectations, the findings revealed Cash Reserve Ratio and Monetary Policy Rate had an insignificant impact on Real GDP, suggesting that changes in these indicators did not substantially influence economic growth. The Treasury Bill Rate and Exchange Rate showed a positive but insignificant effect on real economic growth. The study also found that Cash Reserve Ratio and Monetary Policy Rate had a negative yet insignificant effect on interest rates, implying that shifts in these variables did not significantly alter investment levels. However, the results indicated that Cash Reserve Ratio and Monetary Policy Rate could potentially lower overall interest rates, thereby encouraging investment and boosting real GDP. Additionally, the study highlighted the positive influence of savings and investment on economic growth. On the other hand, the Exchange Rate and Treasury Bill Rate were positively but insignificantly related to interest rates, suggesting their potential use in raising interest rates to manage liquidity, which could affect both investment and growth. Lastly, the study proposed that Treasury Bill Rates could help increase interest rates and absorb liquidity, thereby moderating investment and overall economic growth.

Keywords: Monetary policy; economic growth; interest rate; investment; Nigeria.

#### 1. INTRODUCTION

In recent decades, Nigeria's economy has faced several challenges, including persistent fiscal imbalances, poor public enterprise performance, and heavy government intervention through regulations that limit private sector and foreign trade. These factors, combined with low-income growth, high unemployment, inflation, financial repression, and balance of payment crises, have negatively impacted investment, savings, and resource allocation.

Addressing these issues through appropriate policies can improve economic performance over time [1]. The government plays a key role in stabilizing the economy by promoting employment, controlling inflation, and balancing payments. This is achieved through fiscal policy, which manages government spending and tax revenues, and monetary policy, which controls money supply and credit to influence interest rates and economic stability.

Monetary policy affects financial markets and resource availability, with investment influenced by factors such as interest rates, savings, and income levels. Effective monetary policy is crucial for price stability, exchange rate viability, and sustainable growth. Despite efforts by the Central Bank of Nigeria to promote growth through various monetary policies, challenges like high unemployment, inflation, and unstable exchange rates persist, hindering economic progress. Therefore, it is essential to evaluate the effectiveness of Nigeria's monetary policies in driving economic growth.

The study highlights the unclear and poorly understood connection between monetary policy

and economic growth in developing countries like Nigeria. Although monetary policy is seen as essential for addressing demand shortfalls and promoting growth, its transmission mechanisms are weak and unreliable in these economies. Much of the research has focused on developed nations. leaving а significant gap in understanding how monetary policies, particularly interest rates, impact growth in developing contexts.

This study seeks to fill that gap by examining the effect of Nigeria's monetary policy rate on its economic growth. Traditionally, Nigeria has emphasized money supply over interest rate policies, despite the increasing global focus on interest rates following events like the 2008 financial crisis. The study also points out that restrictive models. such as the Vector Autoregressive (VAR) model, often used in prior research, may not accurately reflect the complexities of monetary policy's impact on developing countries.

To address these issues, the research will use the Two Stage Least Squares (2SLS) method to analyze key monetary policy variables, including the Reserve Requirement (RR), Treasury Bills Rate (TBR), Monetary Policy Rate (MPR), and Exchange Rate (EXR). It will also consider transmission mechanisms often overlooked or oversimplified in previous studies. The main objective is to evaluate how these monetary variables have influenced Nigeria's economic growth from 1981 to 2022.

The research seeks to answer specific questions, such as the impact of RR, TBR, MPR, and EXR on Nigeria's GDP. It will also test hypotheses regarding the significance of these variables in influencing economic growth. The study aims to contribute to the ongoing debate by providing a more detailed model that better captures the relationship between monetary policy and economic growth in Nigeria.

### 2. REVIEW OF LITERATURE

Monetary policy involves the calculated application of tools, both direct and indirect, by monetary authorities like central banks to achieve macroeconomic stability. It functions as a crucial tool for attaining a desirable interest or inflation rate, maintaining price stability, and regulating the money supply in the economy [2]. According to Dwivedi [3], monetary policy encompasses actions taken by central banks to regulate money supply and credit flows to achieve predetermined economic goals. These strategies are frequently used to impact economic activities [4]. Governments often control money supply growth to influence inflation rates. As Ogunjimi [5] notes, monetary policy consists of government actions that affect the behavior of the monetary sector, including decisions about money circulation, interest rates, and credit markets. Monetary policies are particularly effective in economies with welldeveloped financial markets, where deliberate changes in monetary variables influence various economic indicators. Adegbite and Alabi [6] highlight monetary policy's role in stabilizing domestic prices and exchange rates, which is crucial for sustainable economic growth. Depending on the economic situation, monetary policy can either be contractionary (to curb inflation) or expansionary (to stimulate economic activity during recessions). According to Ogunjimi [5], monetary policy decisions revolve around managing the money supply, interest rates, and credit markets. A surplus in money supply can cause excessive demand for goods and services, leading to price hikes and worsening balance of payments. Thus, the performance of monetary requires collaboration with policy fiscal authorities and well-developed financial market infrastructure.

Economic growth is advanced as a sustained increase in production, employment, and welfare. Ogbulu and Torbira [7] see it as an improvement in output and financial welfare, while Hardwick, Khan, and Langmead [8] describe it as a rise in productive capacity, measured by GDP. Economic growth reflects a nation's ability to enhance its potential GDP or overall output. Musa, Magaji, Salisu, and Peter [9] demonstrate a positive relationship between monetary policy and real GDP (RGDP). The potential for economic expansion requires the adoption of effective monetary policies, along with additional supportive strategies.

Monetary policy affects growth through the money channel, impacting aggregate demand [10], and the credit channel, influenced by market imperfections [11]. The credit channel has subchannels like the bank-lending channel, supported by Cyrille [12] and others, but Hassan [13] found no support.

The Central Bank of Nigeria (CBN) seeks to maintain monetary stability, managing inflation and interest rates [14]. CBN's policy tools, such as reserve requirements and open market operations, influence credit, savings, and investment [15,16,17]. Despite this, challenges like liquidity growth, high interest rates [18,19], and large government deficits undermine policy goals.

Monetary policy in Nigeria is constrained by political instability, fiscal indiscipline, and the CBN's mandated role in underwriting government debt [19].

The Classical monetary theory, primarily rooted in Irving Fisher's Quantity Theory of Money, asserts a stable relationship between money supply and price levels, assuming constant velocity and output. Classical economists believe money is neutral in both the short and long run. impacting nominal but not real macroeconomic variables like output or employment [20,21]. This view is encapsulated in Say's Law, which states that supply creates its own demand, ensuring full employment through market forces [22]. Flexibility in prices and interest rates allows the money supply to only affect the price level, not output [23]. Early thinkers like Locke and Hume also emphasized the neutrality of money, linking money supply with price levels.

In contrast, Keynesian theory disputes money's neutrality, asserting that monetary policy influences real economic variables such as interest rates, aggregate demand, and employment, especially during periods of unemployment [24]. Keynes introduced the liquidity preference theory, arguing that money demand is affected by income and interest rates, with monetary supply changes impacting aggregate demand via interest rates [25]. Monetarists similarly stress the short-run role of money supply in determining nominal GDP and prices, with Milton Friedman famously asserting that "inflation is always and everywhere a monetary phenomenon" [26].

The New Classical Model, emerging in the 1970s, integrates rational expectations and real business cycle theory, suggesting that real shocks, not monetary policy, drive economic cycles, with flexible prices ensuring market equilibrium [27].

In this framework, economic agents respond optimally to shocks, making traditional monetary interventions ineffective for stabilization [28]. The New Classical Model rests on rationality, perfect competition, and the assumption of no wage rigidity, asserting that monetary policy does not impact real variables.

Avodeji and Oluwele (2018) conducted a study to examine the effects of monetary policy on Nigeria's economic growth. They developed a model to assess how government monetary policy influences economic growth using multiple regression analysis. The monetary policy variables they analyzed included Money Supply (MS), Exchange Rate (ER), Interest Rate (IR), and Liquidity Ratio (LR), while economic growth was measured by the Gross Domestic Product (GDP) at constant prices. A unit root test was performed, revealing that all variables were stationary at their first differences, except for the interest rate component, ensuring that their model's interpretation would be valid and accurately reflect the relationships between the dependent and independent variables. They incorporated an Error Correction Model into their analysis for a more streamlined approach. Their findings indicated that two variables-money supply and exchange rate-positively influenced economic growth, though the effect was relatively insignificant. Conversely, the interest rate and liquidity ratio negatively impacted economic with a highly significant growth. effect. Furthermore, they performed an Engle-Granger co-integration test, which confirmed a long-term relationship between monetary policy and economic growth in Nigeria. The Granger causality test indicated a one-way causality from money supply to economic growth, while economic growth was found to Granger-cause liquidity ratio and exchange rates. both Additionally, a bi-directional causality was identified between interest rates and economic growth. Similar result has also been reported [29,30,31,32].

Duskobilov [33] asserts that monetary policy is a vital component of any economy's strategy for economic development, largely due to its important influence on economic sustainability. The author examines how monetary policy instruments affect economic regulation in Uzbekistan by analyzing their relationship with economic growth. Through the use of a cointegration and error correction model, the study finds that these instruments positively affect economic growth over the long term. In another study, Ahmad, Afzal, and Ghani [34] investigate the role of monetary policy in fostering economic growth in Pakistan, using time series data from 1973 to 2014. They apply the Autoregressive Distributed Lag (ARDL) model to assess the robustness of the relationships among variables, highlighting both short-run and long-run connections. Their findings indicate that monetary policy variables have a significant and positive effect on economic growth. The same is seen in Njimanted, Akume and Mukete [35]; Alavinasab [36]; Najal, [37]; Natvik and Sola, [38]; Afrin, [39]; Obeid and Awad [40]; Srithilat and Sun [41]; Lennard, [42]; D'Aguanno, [43]; Twinoburyo and Odhiambo [44]; Kaminska and Roberts-Sklar [45]; Cantelmo and Melina [46]; Colletaz, Levieuge and Popescu, 2018; Zhao, Chen and Hao [47]; Junankar [48].

Akinjare et al. [49] explored the relationship between monetary policy and economic growth in Nigeria by employing the ordinary least squares (OLS) method. Their study utilized multiple linear regression, treating GDP as the dependent variable while considering inflation rate, exchange rate, interest rate, and money supply as independent variables. The results indicated that exchange rate, interest rate, and money supply have a significant effect on the economy, whereas inflation does not. As a result, the study suggests that monetary policies should focus on creating a favorable investment environment by implementing market-driven interest and exchange rate systems. This approach would help attract both domestic and foreign investments, create jobs, enhance non-oil exports, and revitalize industries that are currently operating below their potential [50].

Collectively, these studies illustrate the critical yet complex relationship between monetary policy and economic growth, revealing both the effectiveness and challenges of policy implementation across various economic contexts. The findings underscore the necessity for tailored monetary strategies that account for each country's unique structural characteristics and economic conditions.

# 3. MODEL SPECIFICATION AND TECHNIQUES OF ANALYSIS

Since this paper aims to analyze the monetary policy bearing on Nigerian economic growth, the functional form of the model specification is specified as:

$$RGDP = f (MS, INF, INTR,)$$
(3.1)

Where: RGDP = Real Gross Domestic Product, MS = Money Supply, INF = Inflation Rate, and INTR = Interest Rate,

To estimate the above equation, we transformed the functional form into an estimated model as:

$$RGDP_t = \alpha_0 = \alpha_1 MS_t + \alpha_2 INF_t + \alpha_3 INTR_t + \mu_t \quad (3.2)$$

The Auto Regressive Distributed Lag (ARDL) model, which applies a bounds testing method using an unrestricted error correction model (UECM), was utilized in this study to assess the relationship between future financing and investment in Nigeria. One key benefit of this approach is that it can be employed regardless of whether the variables are integrated of order I(0)or I(1). Additionally, this method allows the model to incorporate a sufficient number of lags to capture the underlying data generation process within a general-to-specific modeling framework.

While a dynamic error correction model (ECM) can be derived from the ARDL model through a simple linear transformation, the bounds test approach is based solely on the estimation of the UECM using an ordinary least squares estimator. According to Tang (2003), the UECM is essentially a re-parameterization of a broader ARDL model. The ARDL model is formulated as follows:

$$RGDP_{t} = \alpha_{o} + \sum \gamma_{i}RGDP_{t-i} + \sum \gamma_{i}MS_{t-i} + \sum \beta_{i}INTR_{t-i} + \mu_{it}$$
(3.3)

In order to obtain the co-integrating equation, equation 3.3 is transformed into 3.4 as follows:

$$\Lambda RGDP_{t} = \alpha_{o} + \sum \gamma_{i} \Lambda RGDP_{t-i} + \sum \gamma_{i} \Lambda MS_{t-i} + \sum \beta_{i} \Lambda INF_{t-i} + \sum \beta_{i} \Lambda INTR_{t-i} + \phi_{i} ECT + \mu it \quad (3.4)$$

Where 
$$ECT_t = Y_t - \alpha_0 - \sum_{i=1}^p \gamma_1 \Delta Y_{t-i} - \sum_{i=0}^p \beta_i \Delta X_{t-i}$$
 and  $\varphi = 1 - \sum_{i=1}^p \gamma_i \Delta Y_{t-i}$ .  
(3.5)

The Bound test procedure used equations 3.4 and 3.5 into 3.6 as:

**Unit root and co-integration test results:** Being that the validity of the ARDL method depends on whether the variables are integrated at level I(0), at first difference I(1), or a mix of both. Therefore, it is essential to first assess the time-series properties of each variable used in equation (3.3) to determine if they are integrated at order zero, one, or higher. Since unit root tests have inherent limitations, this study employed two tests: the non-parametric Phillips-Perron (PP) test, introduced by Phillips and Perron (1988), and the widely used Augmented Dickey-Fuller (ADF) test. Both tests assess the null hypothesis that the series contains a unit root, meaning the variables are non-stationary.

Monetary policy, guided by the Central Bank, aims to maintain price stability, full employment, and aggregate income growth. Key mechanisms include the manipulation of interest rates through supply and demand dynamics in lending and borrowing markets. Instruments analyzed in this study include: Reserve Requirement (RR): The cash reserve ratio mandates that banks hold a fraction of deposits, limiting loan issuance and controlling money supply. Treasury Bills (TBR): The CBN engages in open market operations, buying and selling treasury bills to adjust reserves and influence credit availability. Central Bank Lending: The Monetary Policy Rate (MPR) represents the cost of borrowing from the CBN, impacting the monetary base and liquidity in the banking sector. Exchange Rate (EXR): The CBN intervenes in foreign exchange markets to stabilize the exchange rate, thereby influencing domestic money supply.

The effectiveness of these instruments is contingent upon the economy's financial sector development. Both expansionary and contractionary monetary policies affect the economy by altering interest rates, which subsequently influence investment levels. This relationship can be encapsulated in investment function; Where investment depends on interest rates, savings, and income levels (proxied by real GDP), which are interdependent. Reducedform parameters assess the total, direct, and indirect effects of changes in predetermined variables on endogenous variables, while structural parameters isolate direct effects within the endogenous variables.

#### 4. PRESENTATION AND DISCUSSION OF MAJOR RESULTS

The economic growth, proxied by Real GDP, along with monetary policy variables in Table 1, were tested for stationarity to avoid inaccuracies that could result from using non-stationary data in regression analysis, which might lead to misleading outcomes. The findings indicate that all the variables are integrated of order one (I(1)), meaning they become stationary after being differenced once. A summary of these results is presented in Table 2.

In Table 2, the ADF (Augmented Dickey-Fuller) statistics for all the series are more negative than their 5% critical values at first difference, confirming that the variables are integrated of order one. Consequently, the researchers tested for cointegration among the variables in the models presented in the system of equations. According to the Engel and Granger approach, if a linear combination of the series is integrated of order zero, the model is considered cointegrated. Therefore, unit root analysis was performed for all the models, revealing that the variables are stationary at their levels. The results of the cointegration test for the interest rate model are shown in Table 3, while the results for other models in the system are provided in the appendix.

After establishing that all the models are cointegrated, we applied an error correction model to evaluate the system of equations using the Two-Stage Least Square Method. The interest rate model is detailed in Table 4.

According to Table 4, both the cash reserve ratio and the monetary policy rate have a negative but statistically insignificant effect on the interest rate, while the exchange rate and treasury bill rate have a positive yet similarly insignificant relationship with the interest rate. These findings indicate that lowering the cash reserve ratio and monetary policy rate could lead to a decrease in interest rates, encouraging more investment. On the other hand, increasing the exchange rate and treasury bill rates could raise interest rates, absorb excess liquidity, and subsequently reduce investment levels. However, the influence of monetary policy on interest rates is minimal. The researcher also analyzed a second equation, in which investment is determined by interest rates, savings, and real GDP, and presented the findings.

Table 5 demonstrates that investment tends to be self-reinforcing and decreases as the interest rate rises, indicating an inverse relationship between the two. In other words, investment declines as interest rates increase, making it a negative function of the interest rate. On the other hand, real GDP and savings are positively correlated with investment, though their individual effects on investment are minimal.

Since real GDP is not entirely exogenous, in order to avoid a simultaneous equation bias, real GDP as a function of investment is calculated and presented.

Table 6 shows that real GDP significantly reinforces itself, while investment, savings, and interest rates are all positively, but insignificantly, related to real GDP. Therefore, real GDP is a positive, yet insignificant, function of investment in Nigeria. After analyzing the interrelationships among monetary policy tools, interest rates, investment, and real GDP, the researcher has stated and estimated the reduced-form equation previously outlined in Table 7.

The analysis in Table 5 indicates that both the cash reserve ratio (CRR) and the monetary policy rate (MPR) have an insignificant impact on real GDP. Similarly, the treasury bill rate (TBR) and the exchange rate show a positive but also insignificant influence on economic growth.

The CRR and MPR negatively and insignificantly affect the interest rate, which is inversely related to investment. This suggests that lowering the CRR and MPR could reduce interest rates, encouraging more investment, which would lead to higher real GDP growth. Economic growth is shown to be positively linked to both savings and investment, meaning that increased savings and investment drive economic expansion.

Conversely, the exchange rate and TBR are positively, though insignificantly, related to interest rates, implying that these two factors could be used to raise interest rates, tighten liquidity, and subsequently reduce investment and economic growth.

These sets of policy tools, if effectively strengthened and implemented, could be used to fine-tune the growth trajectory of the Nigerian economy.

Year	LOGCRR	LOGINVMT	LOGLIQR	LOGMPR	LOGRGDP	LOGTRB	LOGINTR	LOGEXR	LOGSAV
1981	0.530628251	4.824466346	3.650658	1.791759	9.632859	1.60943791	2.014903	-0.4943	1.880991
1982	0.336472237	4.852811209	3.701302	2.079442	9.61481	1.94591015	2.327278	-0.39616	2.016235
1983	0.741937345	4.789656066	4.001864	2.079442	9.536021	1.94591015	2.302585	-0.32283	2.244956
1984	1.064710737	4.582720057	4.175925	2.302585	9.53092	2.14006616	2.525729	-0.26801	2.396986
1985	1.064710737	4.467516021	4.174387	2.302585	9.612728	2.14006616	2.224624	-0.11227	2.527327
1986	1.064710737	4.69015451	3.594569	2.302585	9.631547	2.14006616	2.351375	0.703394	2.634045
1987	1.481604541	4.807784446	3.839452	2.545531	9.633248	2.46385324	2.862201	1.390759	2.927453
1988	1.791759469	4.92797806	3.806662	2.545531	9.693715	2.46385324	2.80336	1.5122	3.146305
1989	1.740466175	5.383347616	3.696351	2.917771	9.758154	2.86220088	3.288402	2.000344	3.169686
1990	1.757857918	5.571279125	3.790985	2.917771	9.868152	2.86220088	3.238678	2.084155	3.389462
1991	2.014903021	5.654557216	3.653252	2.74084	9.862617	2.7080502	2.995732	2.293494	3.630721
1992	2.054123734	5.98295343	3.370738	2.862201	9.884314	3.04452244	3.394508	2.850614	4.009513
1993	2.116255515	6.326417773	3.74242	3.258097	9.899881	3.29212629	2.906901	3.093362	4.443004
1994	2.459588842	6.612161995	3.881564	2.60269	9.902443	2.52572864	3.044522	3.085852	4.70926
1995	2.282382386	7.050530069	3.499533	2.60269	9.920993	2.52572864	3.005683	3.085852	4.686658
1996	2.379546134	7.309714248	3.763523	2.60269	9.960714	2.50552594	2.980619	3.085852	4.901564
1997	2.360854001	7.437070904	3.693867	2.60269	9.989165	2.48490665	2.60269	3.085852	5.179815
1998	2.302585093	7.574892104	3.845883	2.60269	10.01381	2.56109579	2.906901	3.085852	5.298667
1999	2.151762203	7.648997144	4.110874	2.890372	10.01902	2.83321334	3.058707	4.529297	5.626433
2000	2.272125886	7.785230336	4.160444	2.639057	10.07274	2.48490665	2.890372	4.626004	5.953737
2001	1.435084525	7.813377302	3.968403	3.020425	10.13728	2.56109579	2.906901	4.717992	6.190418
2002	1.029619417	8.032288694	3.95986	2.80336	10.27359	2.93810316	3.214868	4.795544	6.383659
2003	1.504077397	8.254848727	3.929863	2.70805	10.36437	2.70938265	3.030134	4.862572	6.485764
2004	1.252762968	8.460351904	3.921478	2.70805	10.46369	2.65394594	2.95491	4.894104	6.681507
2005	2.151762203	8.660884794	3.915517	2.564949	10.53143	1.94519561	2.890372	4.883915	7.183081
2006	2.079441542	8.980690702	4.399625	2.302585	10.59652	2.17475172	2.850707	4.857108	7.461433
2007	2.48490665	8.85332537	3.727022	2.251292	10.66715	1.93296964	2.827314	4.834956	7.898615
2008	2.48490665	8.927349943	3.630071	2.277267	10.73667	2.6426224	2.714695	4.775477	8.323164
2009	2.564949357	9.12446435	3.27309	1.791759	10.8169	2.00552586	2.944439	5.003142	8.659302
2010	2.995732274	9.125115761	3.310158	1.832581	10.90801	2.41591378	2.867899	5.01262	8.691862
2011	2.974968184	9.200007168	3.738146	2.484907	10.95973	3.10503501	2.772589	5.036053	8.784455
2012	2.557017212	9.23814521	3.906382	2.484907	11.00093	3.30321697	2.821379	5.059422	8.995029
2013	2.583035883	9.348194408	3.833731	2.484907	11.05436	3.03687422	2.815409	5.058226	9.066022
2014	2.608394714	9.517367614	3.644576	2.564949	11.11473	3.17763708	2.80336	5.066086	9.393348
2015	2.633126347	9.554792825	3.745901	2.397895	11.14221	2.90580757	2.821379	5.264136	9.346455
2016	2.65726099	9.622726806	3.827554	2.639057	11.12625	3.06805294	2.827314	5.535333	9.418225

## Table 1. Monetary policy and economic growth variables

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Year	LOGCRR	LOGINVMT	LOGLIQR	LOGMPR	LOGRGDP	LOGTRB	LOGINTR	LOGEXR	LOGSAV
2017	2.680826921	9.73554985	4.003502	2.639057	11.13446	3.33148997	2.815409	5.722899	9.469408
2018	2.70385026	10.10847691	4.175064	2.639057	11.15339	3.19253185	2.815409	5.723847	9.62027
2019	2.726355433	10.48748873	4.329496	2.60269	11.17588	2.2512918	2.815409	5.726589	9.743361
2020	2.65726099	9.622726806	3.827554	2.639057	11.12625	3.06805294	2.827314	5.535333	9.418225
2021	2.642941511	10.69618659	4.213586	2.442347	11.18892	1.15373159	2.815409	5.978673	9.803705
2022	2.557017212	9.23814521	3.906382	2.484907	11.00093	3.30321697	2.821379	5.059422	8.995029

Source: Statistical Bulletin of Central Bank of Nigeria, Various Issues

#### Table 2. Augmented dickey-fuller unit root test

	Lag	ADF Test Statistic	;	Critical Values	
Variables	SCI	1st difference	1%	5%	Remarks
LOGRGDP	2	-3.437906	-3.615588	-2.941145	Stationary
LOGINVMT	2	-3.869537	-3.615588	-2.941145	Stationary
LOGMPR	2	-7.598097	-3.615588	-2.941145	Stationary
LOGCRR	2	-7.233896	-3.615588	-2.941145	Stationary
LOGLIQR	2	-7.030270	-3.615588	-2.941145	Stationary
LOGTRB	2	-5.38545	-3.615588	-2.941145	Stationary
LOGINTR	2	-8.636867	-3.615588	-2.941145	Stationary
LOGEXR	2	-5.319718	-3.615588	-2.941145	Stationary
LOGSAV	2	-4.425479	-3.615588	-2.941145	Stationary

#### Table 3. Engle and granger method of testing for cointegration

#### Null Hypothesis: ECT has a unit root Exogenous: Constant Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller to	est statistic	-4.767664	0.0004
Test critical values:	1% level	-3.610453	
	5% level	-2.938987	
	10% level	-2.607932	

\*MacKinnon (1996) one-sided p-values

#### Table 4. Dependent Variable: D(LOGINTR) (Obiekwe et al., 2023)

Method: Least Squares				
Date: 03/02/22 Time: 21:19				
Sample (adjusted): 1983 20	020			
Included observations: 38	after adjustments			
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOGINTR(-1))	-0.204720	0.200741	-1.019817	0.3157
D(LOGCRR(-1))	-0.038603	0.076443	-0.504992	0.6171
D(LOGEXRATE(-1))	0.111315	0.126371	0.880858	0.3852
D(LOGMPR(-1))	-0.344818	0.215656	-1.598929	0.1200
D(LOGTRB(-1))	0.180211	0.130740	1.378395	0.1779
ECT(-1)	-0.539108	0.228878	-2.355439	0.0250
С	0.002841	0.037750	0.075265	0.9405
R-squared	0.302411	Mean depender	nt var	0.004839
Adjusted R-squared	0.167394	S.D. dependent	t var	0.217550
S.E. of regression	0.198508	Akaike info crite	erion	-0.231152
Sum squared resid	1.221569	Schwarz criterio	on	0.070508
Log likelihood	11.39189	Hannan-Quinn	criter.	-0.123824
F-statistic	2.939793	Durbin-Watson	stat	2.068512
Prob(F-statistic)	0.045447			

#### Table 5. Investment function (Obiekwe et al., 2023)

Dependent Variable: D(LOGINVESTMT) Method: Least Squares							
Sample (adjusted): 1983 2020							
Included observations: 38 after	r adjustments						
Variable	Coefficient	Std. Error	t-Statistic	Prob.			
D(LOGINVESTMT(-1))	0.570887	0.166692	3.424807	0.0017			
D(LOGRGDP(-1))	0.218340	0.546960	0.399189	0.6924			
D(LOGINTRATE(-1))	-0.128987	0.106023	-1.216600	0.2327			
D(LOGSAVINGS(-1))	0.031621	0.170620	0.185328	0.8541			
ECT(-1)	-0.168599	0.084763	-1.989072	0.0353			
С	0.050680	0.051221	0.989440	0.3299			
R-squared	0.296745	Mean dependent v	ar	0.153773			
Adjusted R-squared	0.186861	S.D. dependent va	r	0.151694			
S.E. of regression	0.136789	Akaike info criterio	า	-0.996819			
Sum squared resid	0.598757	Schwarz criterion		-0.738253			
Log likelihood	24.93957	Hannan-Quinn crite	er.	-0.904823			
F-statistic	2.700537	Durbin-Watson sta	t	2.116256			
Prob(F-statistic)	0.038101						

Method: Least Squares								
Date: 03/03/22 Time: 07:32								
Sample (adjusted): 1983 202	20							
Included observations: 38 a	ifter adjustments							
Variable	Coefficient	Std. Error	t-Statistic	Prob.				
D(LOGRGDP(-1))	0.534813	0.140282	3.812413	0.0006				
D(LOGINVESTMT(-1))	0.003619	0.042752	0.084643	0.9331				
D(LOGINTRATE(-1))	0.031659	0.027192	1.164273	0.2529				
D(LOGSAVINGS(-1))	0.045687	0.043760	1.044033	0.3043				
ECT(-1)	-0.021999	0.021740	-1.011911	0.3192				
С	0.008488	0.013137	0.646154	0.5228				
R-squared	0.366865	Mean depender	nt var	0.041424				
Adjusted R-squared	0.267938	S.D. dependent	var	0.041004				
S.E. of regression	0.035083	Akaike info crite	erion	-3.718260				
Sum squared resid	0.039386	Schwarz criteric	on	-3.459694				
Log likelihood	76.64695	Hannan-Quinn	criter.	-3.626265				
F-statistic	3.708432	Durbin-Watson	stat	2.043885				
Prob(F-statistic)	0.009254							

#### Table 6. Dependent variable: D(LOGRGDP) (Obiekwe et al., 2023)

#### Table 7. Dependent Variable: D(LOGRGDP)

Method: Least Squares				
Date: 03/02/22 Time: 20:32				
Sample (adjusted): 1984 20	20			
Included observations: 37 a	after adjustments			
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOGRGDP(-1))	0.486148	0.132888	3.658325	0.0010
D(LOGCRR(-2))	0.003590	0.011885	-0.302082	0.7647
D(LOGMPR(-2))	0.047310	0.033210	-1.424575	0.1650
D(LOGTRB(-2))	0.017847	0.023563	0.757391	0.4549
D(LOGEXRATE(-1))	0.017295	0.018185	0.951043	0.3494
D(LOGSAVINGS(-2))	0.042721	0.040783	1.047515	0.3035
ECT(-1)	-0.157280	0.078953	-2.992078	0.0259
С	0.011762	0.011756	1.000574	0.3253
R-squared	0.435231	Mean depender	nt var	0.044673
Adjusted R-squared	0.298908	S.D. dependent	var	0.036273
S.E. of regression	0.030372	Akaike info crite	erion	-3.961790
Sum squared resid	0.026751	Schwarz criteric	on	-3.613484
Log likelihood	81.29312	Hannan-Quinn	criter.	-3.838996
F-statistic	3.192634	Durbin-Watson	stat	1.819904
Prob(F-statistic)	0.012451			

#### 5. CONCLUSION

This paper revealed that cash reserve ratio and monetary policy rate were found to have little effect on real GDP. While the treasury bills rate and exchange rate had positive effects on economic growth, these impacts were also minimal. Both the cash reserve ratio and monetary policy rate had a negative influence on interest rates, indicating an inverse relationship with investment levels. This suggests that lowering these rates could reduce overall interest rates, potentially encouraging investment and fostering real GDP growth. Additionally, economic growth was positively linked to savings and investment, implying that higher savings and

investment contribute to growth. In contrast, the exchange rate and treasury bills rate showed a positive but insignificant relationship with interest rates. Indicating potential for these tools to raise interest rates and manage liquidity, thereby affecting investment and growth. Treasury bill rate could serve to increase interest rates and absorb excess liquidity, moderating investment and overall economic growth. These results are found to challenge initial assumptions.

The analysis reveals a mixed significance across monetary policy variables, after regressing reserve ratio, treasury bill rate, monetary policy rate, and exchange rate against real gross domestic product (rgdp), asserting that if effectively utilized, these policy tools could enhance the growth trajectory of Nigeria's economy.

The paper recommends support from government to small and medium enterprises (SMEs) through maintaining reasonable levels for cash reserve ratio and monetary policy rate to promote moderate loan interest rates, addressing unemployment and social issues. The monetary authority should permit commercial banks to uphold adequate liquidity ratios, facilitating lending and stimulating economic activity. Nigerian banks should focus on maintaining price and improving regulatory stability frameworks to foster a resilient financial sector that enhances efficient intermediation and economic growth. The paper concluded that Granting autonomy to the central bank is essential for the effective implementation of monetary policies that can drive economic development in Nigeria.

#### DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

#### **COMPETING INTERESTS**

Author has declared that no competing interests exist.

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## APPENDIXES

#### JOHANSEN COINTEGRATION

Date: 05/05/21	1 Time: 08:15				
Sample (adjus	sted): 1983 2019				
Included obse	rvations: 37 after	adjustments			
Trend assump	tion: Linear dete	rministic trend			
Series: RGDP	MPR M2 LIQ CF	R			
Lags interval (	in first difference	s): 1 to 1			
Unrestricted C	ointegration Ran	k Test (Trace)			
Hypothesized		Trace	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**	
None *	0.735552	91.68245	69.81889	0.0004	
At most 1	0.497881	42.46833	47.85613	0.1460	
At most 2	0.219277	16.97833	29.79707	0.6416	
At most 3	0.152538	7.819528	15.49471	0.4849	
At most 4	0.044795	1.695672	3.841466	0.1929	
Trace test ind	licates 1 cointegr	ating eqn(s) at the	0.05 level		
* denotes reje	ection of the hypo	othesis at the 0.05	level		
**MacKinnon-	Haug-Michelis (1	1999) p-values			
Unrestricted C	ointegration Ran	k Test (Maximum	Eigenvalue)		
Hypothesized	-	Max-Eigen	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**	
None *	0.735552	49.21412	33.87687	0.0004	
At most 1	0.497881	25.49000	27.58434	0.0905	
At most 2	0.219277	9.158797	21.13162	0.8194	
At most 3	0.152538	6.123856	14.26460	0.5974	
At most 4	0.044795	1.695672	3.841466	0.1929	
Max-eigenval	ue test indicates	1 cointegrating eq	n(s) at the 0.05 le	evel	
* denotes reje	ection of the hypo	thesis at the 0.05	level		
**MacKinnon-	Haug-Michelis (1	1999) p-values			
Unrestricted (	Cointegrating Co	efficients (normaliz	ed by b'*S11*b=l	):	
RGDP	MPR	M2	LIQ	CRR	
-9.77E-05	0.064411	1.15E-05	0.045936	0.046505	
-9.88E-05	-0.021503	0.000205	-0.133518	-0.239624	
-0.000162	-0.190658	0.000205	-0.007452	0.240359	
8.24E-05	-0.225633	-0.000137	0.040712	-0.122961	
-0.000169	0.017056	0.000404	0.039944	-0.043527	
Unrestricted A	Adjustment Coeff	icients (alpha):			
D(RGDP)	393.6478	-170.2623	-69.13598	167.6368	-123.4028
D(MPR)	-0.587144	-0.121906	1.308086	0.485189	0.029489
D(M2)	-722.7434	-355.2254	-79.25381	93.14595	-6.431024
D(LIQ)	-5.476161	2.305615	1.055809	-0.850743	-1.135945
D(CRR)	-0.215708	1.104123	-0.731007	0.385216	-0.036667
1 Cointegratin	g Equation(s):	Log likelihood	-896.0146		
Normalized co	ointegrating coeffi	icients (standard e	rror in parenthes	es)	
RGDP	MPR	M2 `	LIQ	CRR	
1.000000	-659.1017	-0.117703	-470.0536	-475.8681	
	(339.440)	(0.23515)	(168.842)	(400.834)	
Adjustment co	efficients (standa	ard error in parenth	neses)	<b>x y</b>	
D(RGDP)	-0.038470	•	,		
	(0.01449)				
D(MPR)	5.74E-05				
· · /	(5.5E-05)				
D(M2)	0.070631				
· · /	(0.01296)				

D(LIQ)	0.000535			
	(0.00014)			
D(CRR)	2.11E-05			
	(4.3E-05)			
2 Cointegrating	g Equation(s):	Log likelihood	-883.2696	
Normalized co	integrating coeffi	cients (standard e	rror in parenthe	ses)
RGDP	MPR	M2		CRR
1.000000	0.000000	-1.589589	899,4849	1705.613
	0.000000	(0.29815)	(214 326)	(507 320)
0 00000	1 000000	-0.002233	2 077886	3 300770
0.000000	1.000000	(0.002233	(0.37246)	(0.88164)
Adjustment co	officients (stands	(0.0002) ard error in parenth	(0.072+0)	(0.00104)
		20 01655	16565)	
D(KGDF)	-0.021034	29.01000		
	(0.02015)	(9.04770)		
D(IVIPR)	6.94E-05	-0.035197		
	(7.8E-05)	(0.03822)		
D(M2)	0.105714	-38.91424		
	(0.01607)	(7.85583)		
D(LIQ)	0.000307	-0.402305		
- / \	(0.00019)	(0.09176)		
D(CRR)	-8.80E-05	-0.037636		
	(5.5E-05)	(0.02684)		
3 Cointegrating	g Equation(s):	Log likelihood	-878.6902	
Normalized co	integrating coeffi	cients (standard e	rror in parenthe	ses)
RGDP	MPR	M2	LIQ	CRR
1.000000	0.000000	0.000000	-875.2117	-2105.606
			(240.237)	(504.957)
0.000000	1.000000	0.000000	-0.415336	-2.044498
			(0.27022)	(0.56798)
0.000000	0.000000	1.000000	-1116.450	-2397.613
			(228 679)	(480 664)
Adjustment co	efficients (standa	ard error in parenth		
D(RGDP)	-0 010454	42 19788	-0.044523	
2(11021)	(0.03083)	(29 2394)	(0.04188)	
	-0.000142	-0 284594	0.000236	
	(0.000142	(0 10316)	(0.000200	
D(M2)	0.118553	-23 80387	-0.007355	
	(0.02450)	-23.00307	-0.097300	
	(0.02450)	(23.2300)	(0.03327)	
	0.000130	-0.003003	0.000626	
	(0.00029)	(0.27069)	(0.00039)	
D(CRR)	3.05E-05	0.101736	7.43E-05	
	(7.9E-05)	(0.07529)	(0.00011)	
4 Cointegrating	g Equation(s):	Log likelihood	-875.6283	
Normalized co	integrating coeffi	cients (standard e	rror in parenthe	ses)
RGDP	MPR	M2	LIQ	CRR
1.000000	0.000000	0.000000	0.000000	2727.262
				(1010.45)
0.000000	1.000000	0.000000	0.000000	0.248963
				(0.38745)
0.000000	0.000000	1.000000	0.000000	3767.359
				(1262.86)
0.000000	0.000000	0.000000	1.000000	5.521942
				(1.32640)
Adjustment co	efficients (standa	ard error in parenth	leses)	(
D(RGDP)	0 003351	<u>4</u> 373403	-0.067492	48 15588
	(0 03230)	(12 7057)	(0 04527)	(20 77/0)
	-0.00200	(42.1301)	(0.0+027)	(20.1143)
	-0.000103	-0.394009	0.000109	-0.000090

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	(0.00011)	(0.15214)	(0.00016)	(0.07386)	
D(M2)	0.126223	-44.82072	-0.110117	18.61160	
	(0.02597)	(34.4059)	(0.03639)	(16.7021)	
D(LIQ)	6.64E-05	-0.411647	0.000742	-0.601900	
	(0.00030)	(0.40264)	(0.00043)	(0.19546)	
D(CRR)	6.22E-05	0.014818	2.15E-05	-0.136199	
	(8.4E-05)	(0.11072)	(0.00012)	(0.05375)	

#### **OVER PARAMETERIZED RESULT**

Dependent Variable: DLOG(RGDP)						
Method: Least Squares						
Date: 05/05/21 Time: 08:32						
Sample (adjusted): 1987 2019						
Included observations: 33 after	adjustments					
Variable	Coefficient	Std. Error	t-Statistic	Prob.		
С	-0.005231	0.021570	-0.242526	0.8119		
DLOG(RGDP(-1))	0.703280	0.267299	2.631057	0.0197		
DLOG(MPR(-1))	0.020685	0.034063	0.607251	0.5534		
DLOG(MPR(-2))	-0.033996	0.039979	-0.850333	0.4094		
DLOG(MPR(-3))	0.009385	0.035732	0.262659	0.7966		
DLOG(MPR(-4))	-0.031207	0.031536	-0.989553	0.3392		
DLOG(M2(-1))	0.135323	0.065253	2.073832	0.0570		
DLOG(M2(-2))	0.028468	0.067898	0.419274	0.6814		
DLOG(M2(-3))	-0.089257	0.067804	-1.316401	0.2092		
DLOG(M2(-4))	0.016822	0.061315	0.274351	0.7878		
DLOG(LIQ(-1))	0.016880	0.037751	0.447147	0.6616		
DLOG(LIQ(-2))	6.17E-05	0.037175	0.001661	0.9987		
DLOG(LIQ(-3))	0.018704	0.037657	0.496683	0.6271		
DLOG(LIQ(-4))	-0.000385	0.029806	-0.012906	0.9899		
DLOG(CRR(-1))	-0.016622	0.015321	-1.084866	0.2963		
DLOG(CRR(-2))	-0.003815	0.015941	-0.239347	0.8143		
DLOG(CRR(-3))	-0.004540	0.016169	-0.280789	0.7830		
DLOG(CRR(-4))	0.014428	0.017053	0.846074	0.4117		
ECT(-1)	-0.120936	0.256538	-1.972691	0.0426		
R-squared	0.656635	Mean depender	nt var	0.046798		
Adjusted R-squared	0.215166	S.D. dependent	var	0.036095		
S.E. of regression	0.031977	Akaike info crite	erion	-3.753527		
Sum squared resid	0.014316	Schwarz criteric	on	-2.891902		
Log likelihood	80.93320	Hannan-Quinn	criter.	-3.463617		
F-statistic	1.487385	Durbin-Watson	stat	2.053564		
Prob(F-statistic)	0.227937					

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Peer-review history: The peer review history for this paper can be accessed here: https://prh.ikprress.org/review-history/12442