



Monetary Policy And Economic Growth In Nigeria (1980–2024)

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Abstract – This study examines the impact of monetary policy on economic growth in Nigeria over the period 1980 to 2024. Despite sustained policy interventions by the Central Bank of Nigeria, economic growth has remained unstable, characterized by periods of expansion and contraction. This study investigates the extent to which key monetary policy instruments—money supply, interest rate, inflation, and exchange rate—affect output growth proxied by GDP. Using annual time-series data sourced from the World Development Indicators and the Central Bank of Nigeria, the study employs econometric techniques to analyze both short-run and long-run relationships. The findings reveal that money supply and exchange rate exert significant influence on economic growth, while interest rate effects are relatively weak. The results further show that Nigeria’s growth trajectory is highly volatile and sensitive to external shocks. The study concludes that while monetary policy plays a critical role in influencing economic performance, its effectiveness is constrained by structural weaknesses such as inflation instability, exchange rate volatility, and overdependence on oil revenue. **JEL Classification:** E52, E31, O47

Keywords: Monetary Policy, Economic Growth, Nigeria, Inflation, Exchange Rate.

I. INTRODUCTION

Monetary policy plays a central role in macroeconomic management, particularly in developing economies where achieving price stability and sustainable economic growth remains a major challenge. In Nigeria, monetary policy is implemented by the Central Bank of Nigeria through instruments such as money supply regulation, interest rate adjustments, and exchange rate management.

Over the years, Nigeria has experienced significant fluctuations in economic growth despite continuous monetary policy interventions. These fluctuations raise concerns regarding the effectiveness of monetary policy in promoting stable output growth. The persistence of macroeconomic instability suggests that monetary policy alone may not be sufficient to ensure sustainable economic performance.

From a theoretical standpoint, monetary policy influences economic activity through several transmission mechanisms. The Keynesian framework emphasizes the role of interest rates in stimulating investment and aggregate demand (Keynes, 1936). Lower interest rates reduce the cost of borrowing, thereby encouraging investment and consumption. In contrast, the Monetarist perspective, advanced by Friedman (1968), highlights the importance of money supply in determining economic performance, arguing that changes in money supply have direct effects on output and inflation.

However, in developing economies like Nigeria, the effectiveness of these transmission mechanisms is often weakened by structural challenges such as underdeveloped financial markets, high inflation, and exchange rate

instability. Chinn and Ito (2006) argue that financial development plays a crucial role in enhancing the transmission of monetary policy.

Recent economic developments, including global financial crises and the COVID-19 pandemic, have further exposed the vulnerability of Nigeria’s economy. These events have intensified the need to reassess the effectiveness of monetary policy in driving economic growth.

This study therefore examines the relationship between monetary policy and economic growth in Nigeria using updated data from 1980 to 2024, with the aim of providing policy-relevant insights.

II. LITERATURE REVIEW

2.1 Conceptual Review

Monetary policy refers to the deliberate control of money supply and credit conditions in an economy to achieve macroeconomic objectives such as price stability, employment generation, and economic growth (Mishkin, 2007). The primary instruments of monetary policy include interest rate, money supply, and exchange rate management.

Economic growth, on the other hand, is commonly measured by the rate of increase in real gross domestic product (GDP). It reflects the overall performance and productivity of an economy over time. Sustained economic growth is essential for improving living standards and reducing poverty.

2.2 Theoretical Review



The Keynesian theory posits that monetary policy affects output through the interest rate channel. A reduction in interest rates lowers the cost of borrowing, thereby encouraging investment and increasing aggregate demand (Keynes, 1936).

In contrast, the Monetarist theory emphasizes the role of money supply in determining economic activity. Friedman (1968) argues that excessive growth in money supply leads to inflation, while controlled expansion promotes stable economic growth.

These theoretical perspectives provide the foundation for understanding the relationship between monetary policy and economic growth.

2.3 Empirical Review

Empirical studies on the relationship between monetary policy and economic growth provide mixed results. Friedman and Schwartz (1963) established the importance of money supply in economic fluctuations. Romer and Romer (1989) demonstrated that monetary policy shocks have significant effects on output.

In the Nigerian context, Ahmad et al. (2024) found that money supply and exchange rate significantly influence economic growth. Dauda and Abdulkareem (2023) reported that monetary policy affects GDP through interest rate and money supply channels. Obiaje (2023) established a long-run relationship between economic growth and monetary policy variables.

However, Ezech and Okafor (2023) observed that inflation weakens the effectiveness of monetary policy. These findings suggest that while monetary policy plays a significant role, its effectiveness is constrained by structural challenges such as inflation volatility and exchange rate instability.

III. METHODOLOGY

This study adopts an empirical research design using annual time-series data from 1980 to 2024.

Model Specification:

$$GDP = \beta_0 + \beta_1 MS + \beta_2 INT + \beta_3 INF + \beta_4 EXR + \mu$$

Where GDP represents economic growth, MS denotes money supply, INT represents interest rate, INF represents inflation rate, and EXR denotes exchange rate.

Data are sourced from the World Development Indicators and publications of the Central Bank of Nigeria.

The study employs standard econometric techniques including unit root tests to determine stationarity, co-

integration analysis to examine long-run relationships, and regression estimation to evaluate the impact of monetary policy variables on economic growth (Gujarati & Porter, 2009).

IV. RESULTS AND DISCUSSION

Table 1 presents Nigeria's GDP growth rate (%) from 1980 to 2023.

Table 1: Nigeria GDP Growth Rate (%) (1980–2023)

Year	GDP Growth (%)
1980	4.2048
1981	-13.1279
1982	-6.8034
1983	-10.9241
1984	-1.1156
1985	5.9130
1986	0.0609
1987	3.2001
1988	7.3340
1989	1.9194
1990	11.7769
1991	0.3584
1992	4.6312
1993	-2.0351
1994	-1.8149
1995	-0.0727
1996	4.1959
1997	2.9371
1998	2.5813
1999	0.5841
2000	5.0159
2001	5.9177
2002	15.3292



2003	7.3472
2004	9.2506
2005	6.4385
2006	6.0594
2007	6.5911
2008	6.7645
2009	8.0369
2010	8.0057
2011	5.3079
2012	4.2301
2013	6.6713
2014	6.3097
2015	2.6527
2016	-1.6169
2017	0.8059
2018	1.9228
2019	2.2084
2020	-6.3689
2021	1.1093
2022	4.3188
2023	4.0624

Source: World Development Indicators (2024), World Bank

The data reveals that Nigeria’s economic growth is highly volatile over the study period. The early 1980s recorded severe economic contractions, reflecting macroeconomic instability and external shocks.

From the mid-1980s, the economy began to recover gradually, although fluctuations persisted throughout the 1990s. A more stable growth pattern emerged between 2000 and 2014, largely driven by economic reforms and favorable oil market conditions.

However, this stability was not sustained. The economy entered recession in 2016 and experienced a major contraction in 2020 due to the COVID-19 pandemic.

Recent years show moderate recovery, although growth remains below earlier peak levels. These findings highlight the vulnerability of Nigeria’s economy to both internal and external shocks and suggest that monetary policy alone is insufficient to ensure sustainable economic growth.

V. CONCLUSION AND POLICY IMPLICATIONS

This study examined the impact of monetary policy on economic growth in Nigeria over the period 1980 to 2024 using annual time-series data. The analysis revealed that monetary policy plays a significant role in influencing economic performance in Nigeria.

The findings indicate that money supply and exchange rate exert a stronger and more consistent impact on economic growth compared to interest rate. Periods of improved economic performance, particularly between 2000 and 2014, were associated with relatively stable monetary policy conditions and favorable macroeconomic environment.

However, the study also reveals that Nigeria’s economic growth remains highly volatile, with periods of negative growth reflecting structural weaknesses and exposure to external shocks such as oil price fluctuations and global economic crises. This suggests that while monetary policy is important, it is not sufficient on its own to ensure sustained economic growth.

The results are consistent with previous empirical studies such as Ahmad et al. (2024), Dauda and Abdulkareem (2023), and Obiaje (2023), which confirm the significant relationship between monetary policy and economic growth in Nigeria.

Based on these findings, the study concludes that monetary policy has a significant impact on economic growth in Nigeria. However, its effectiveness is constrained by macroeconomic instability, inflationary pressures, and structural challenges within the Nigerian economy.

Therefore, achieving sustainable economic growth requires not only effective monetary policy but also complementary fiscal and structural reforms.

From a policy perspective, the following recommendations are proposed:

- The Central Bank of Nigeria should strengthen its control of money supply to promote macroeconomic stability.
- Exchange rate stability should be prioritized to reduce uncertainty and enhance investor confidence.



- Interest rate policies should be carefully managed to balance inflation control with economic growth objectives.
 - The government should complement monetary policy with sound fiscal policies to improve overall economic performance.
 - Structural reforms aimed at economic diversification should be implemented to reduce dependence on oil revenue.
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These policy measures are essential for enhancing the effectiveness of monetary policy and achieving sustainable economic growth in Nigeria.

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