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MONEY SUPPLY AND ECONOMIC DEVELOPMENT: EXPERIENCE FROM NIGERIA (2007- 2023)

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Keywords: *Money supply, economic development and Human development index,*

Abstract: *Money Supply is one of the initial economic concepts. It helps you to understand a nations monetary system. It depicts the sum of money in circulation; notes, coins and bank balances in circulation in an economy. A lot of reforms have taken place in Nigeria financial system and the reforms are geared towards financial stability and adequate funds in circulation in the economy. The paper studied the money supply and economic development: Experience from Nigeria (2007 to 2023). We applied Ex-post-facto research design in the study. The study adopted secondary data got from the Central Bank of Nigeria (CBN) statistical bulletin. The data gotten from CBN statistical bulletin was analyzed with the Ordinary least square (OLS) econometric technique and Granger causality tests. The variables tested are: Money Supply (MS) and Human development index (HDI) which proxied the economic development. The results from the OLS showed that Money supply positively but insignificantly affects the economic development in Nigeria while the Granger causality test revealed that no causality exists between HDI and MS. The study recommended that Central banks should continue to prioritize stability in monetary policy to ensure that fluctuations in the money supply do not lead to excessive inflation or deflation, Governments should adopt comprehensive economic policies that go beyond monetary measures alone, policymakers should consider targeted interventions and Government should ensure continuous monitoring and evaluation of the relationship between money supply dynamics and economic development.*

Introduction

Money supply is a fundamental concept in economics, serving as a cornerstone for understanding the dynamics of an economy's monetary system. In the Nigerian context, comprehending the intricacies of the money supply is crucial for policymakers, economists, investors, and the general populace alike. Nigeria, as one of the largest economies in Africa, exhibits a unique blend of monetary factors influenced by both domestic and international forces. This introductory overview aims to delve

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into the key components, determinants, and implications of money supply in Nigeria.

Money supply is the total amount of money, coins, notes and balances in bank accounts in circulation in an economy. Money supply is also the total money stock in the economy. It is an important economic tool for stabilizing the economy when there is a recession (Ifionu, 2015). It consists of tangible currencies like coins and banknotes and various kinds of bank deposits.

Historically, Nigeria's monetary landscape has undergone significant transformations over the years. From its colonial past to independence and subsequent economic policies, the evolution of the money supply reflects the nation's journey toward financial stability and development. Post-independence, Nigeria witnessed fluctuations in its monetary policies, marked by periods of high inflation, currency devaluations, and attempts at stabilization through various monetary frameworks. Money supply in Nigeria encompasses various forms of currency, deposits, and other liquid assets circulating within the nation. The Nigeria apex bank CBN categorizes money supply into different measures, including M0, M1, M2, and M3. M0 represents the money in circulation in an economy and vault cash in banks. M1 expands upon M0 by including demand deposits, while M2 further incorporates bank savings and current assets. M3, the broadest measure, encompasses all components of M2 along with longer-term time deposits. Several factors influence the dynamics of the money supply in Nigeria. Monetary policy decisions by the Central Bank, as the CBN regulates the money supply in the economy by manipulating instruments of money supply, namely: open market operations, reserve requirements, and discount rates. Additionally, fiscal policies, government borrowing, foreign exchange reserves, and external shocks contribute to shaping the overall money supply framework.

The Implications for the Economy is that stability and adequacy of the money supply have far-reaching implications for Nigeria's economic performance. An excessive increase in money supply sparks up inflationary pressures, eroding purchasing power and undermining macroeconomic stability. Conversely, a deficient money supply may hinder economic growth, investment, and consumption, constraining development efforts. Balancing the supply of money with the productive capacity of the economy remains a critical challenge for policymakers.

Despite progress in monetary policy frameworks and financial regulations, Nigeria faces persistent challenges in managing its money supply dynamics. Structural issues such as weak institutional capacity, fiscal indiscipline, volatile oil prices, and external debt burdens continue to pose hurdles to achieving optimal monetary outcomes. Looking ahead, enhancing transparency, strengthening institutional frameworks, diversifying the economy, and promoting financial inclusion are imperative for

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fostering a resilient and sustainable monetary environment.

This aim of the study is to analyze the effect of money supply on the economic development of Nigeria using Human Development Index, a more robust measure to analyze the Nigerian experience.

Review of Related Literature

Money supply

Money supply is the sum of all kinds of money in circulation. Money supply is also the total money stock in the economy. It is an essential instrument used by CBN to stabilize the economy during the period of recession (Ifionu, 2015; Ullah, & Rauf, 2013). It involves touchable currencies like; coins, banknotes and different kinds of deposits in banks. The money supply is typically measured in different categories, known as M0, M1, M2, and so on, each representing different forms of money with varying degrees of liquidity.

Human Development Index (HDI)

The Human Development Index (HDI) is a metric created by the United Nations to assess the social and economic progress of different countries. It provides an overall measure of human development by evaluating a nation's average achievements in three key areas: health, education, and living standards.

Keynesians Economic Theory

Keynesian economics is a macroeconomic framework that examines the impact of total spending on the economy, particularly its influence on output, employment, and inflation. The theory, introduced by British economist John Maynard Keynes during the 1930s, aimed to explain the economic crisis of the Great Depression. Keynesians argue that because prices tend to be inflexible, changes in any spending category—such as consumption, investment, or government spending—can affect overall economic output. For instance, if government spending rises while other spending components remain unchanged, economic output is expected to grow.

The core principle of Keynesian economics is that government intervention can help stabilize economic activity. Keynes' approach was groundbreaking in distinguishing the analysis of broad economic aggregates from individual behavior and incentives. He suggested increasing government spending and cutting taxes to boost demand and help lift the global economy out of the Depression. The term "Keynesian economics" has since come to refer to the idea that the government can improve economic performance and prevent downturns by managing aggregate demand. Keynesian economists maintain that such intervention can help achieve full employment and maintain price stability.

Empirical Review

Numerous studies have explored the factors influencing money supply in Nigeria. Oluwatosin and Samuel (2019) carried out an in-depth analysis, highlighting key determinants like government expenditure, foreign direct investment, inflation rate, and exchange rate as

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crucial factors affecting money supply trends in the country. Their research found a notable positive correlation between increased government spending and the growth of the money supply.

The influence of money supply on different economic factors has been widely analyzed within the Nigerian context. In a study by Ogunmuyiwa et al. (2017), the relationship between money supply, inflation, and economic growth in Nigeria was explored using time series data. The results indicated a significant positive correlation between money supply and inflation, implying that an increase in money supply tends to contribute to rising inflationary pressures.

Monetary policy plays a crucial role in influencing money supply dynamics. Studies have investigated the effectiveness of monetary policy tools in controlling money supply growth in Nigeria. Adebiyi and Oseni (2018) analyzed the impact of monetary policy rate (MPR) on money supply using vector autoregression (VAR) techniques. They found that changes in MPR significantly affect money supply growth in Nigeria, highlighting the importance of monetary policy in managing money supply dynamics.

The role of financial innovation in shaping money supply growth has garnered attention in the literature. Okonkwo and Ogunrinola (2020) explored the impact of financial innovation on money supply dynamics in Nigeria, focusing on the adoption of mobile money services. Their study found that the proliferation of mobile money services has led to an expansion of the money supply, facilitating financial inclusion and economic development.

Alush (2016) examined how macroeconomic factors influence economic growth, focusing on the relationship between macroeconomic indicators—specifically public debt, budget deficit, and inflation—and economic growth over the period from 2004 to 2014. The study employed linear regression as the econometric model to represent the connection between macro-fiscal indicators and economic growth. The findings, based on the theoretical analysis, indicated that the relationship was not particularly strong, as the coefficients obtained did not provide a high level of explanatory power for economic phenomena.

Eighigiamusoe and Lean (2017) explored the relationship between macroeconomic variables, investment, and economic development in Nigeria. The study analyzed how the interaction between macroeconomic factors and investment influences economic development, aiming to determine whether the impact of investment on economic growth changes depending on the levels of macroeconomic variables. Five macroeconomic variables were selected for the analysis, based on the Maastricht criteria indicators used to assess a country's macroeconomic stability. The study indicates that fiscal deficit as a percentage of GDP and the real exchange rate positively influence economic development in Nigeria, while higher inflation rates and government debt relative to GDP

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negatively impact it. In contrast, the real interest rate does not show a statistically significant effect on economic development. The analysis also reveals that the influence of the investment rate on economic development varies depending on the levels of four macroeconomic factors, excluding the real interest rate. This suggests that macroeconomic conditions play a crucial role in driving economic development, and an improved macroeconomic environment, along with increased investment, is more beneficial for economic progress than simply raising the investment rate in a poor macroeconomic setting. The findings led to several policy recommendations.

Ojima (2019) conducted a study on the relationship between unemployment and economic growth in Nigeria, finding that unemployment negatively impacts the country's economic development. This indicates an inverse correlation between the two variables, where higher unemployment levels are associated with weaker economic progress. Based on the findings, the study suggests that the government should prioritize job creation initiatives to significantly reduce unemployment. Additionally, it recommends adopting fiscal and monetary policies that stimulate job growth, along with promoting skill acquisition and job training programs to support sustainable economic growth in Nigeria.

Ezu, Anyeneh, and Ogbonnaya (2020) explored how macroeconomic factors such as real interest rate, exchange rate, and inflation affect the manufacturing sector's performance in Nigeria. The study assessed the sector's contribution to the real gross domestic product and capacity utilization using data from the Central Bank of Nigeria and the National Bureau of Statistics for analysis. Employing time series data and testing for stationarity with the Augmented Dickey-Fuller test, the researchers utilized simple linear regression to analyze the relationships. Results indicated a significant association between the macroeconomic variables and manufacturing performance at a 5% significance level. The study recommends lowering nominal interest rates to boost investment levels, which would enhance the performance of manufacturing firms and promote economic growth.

Olokoyo, Oyakhilome, Abiola, and Chika (2021) examined how various macroeconomic factors influence the performance of banks in Nigeria. The study identified economic growth, trade, and interest rates as key predictors of bank performance, with growth and trade having a positive impact, while high interest rates hinder performance. The findings suggest that to improve banking sector outcomes, the government should continue implementing policies that support economic growth and trade. Moreover, increases in interest rates should be limited to situations where stricter monetary policies are necessary.

Ojo (2022) analyzed the effects of infrastructural investments on Nigeria's macroeconomic outcomes, using data from 1990 to 2020. Employing econometric methods such as the Autoregressive Distributed Lag (ARDL) Bound test and pairwise causality analysis, the study found no significant long-term relationship between public infrastructure investment (PII) and macroeconomic indicators like

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unemployment and interest rates, nor did it find causality between public expenditure, inflation, and income per capita. The study concludes that traditional economic theories do not hold well in the Nigerian context and recommends more strategic and focused capital investment in infrastructure to improve macroeconomic outcomes and economic well-being, emphasizing the critical role of infrastructure in driving sustainable development in emerging economies.

Anochie, Okereafor and Bashir (2023) researched macroeconomic variables and productivity in Nigeria's manufacturing sector. Their work revealed that the exchange rate and interest rate have a significant effect on the productivity of Nigeria's manufacturing sector; and that the inflation rate has no significant effect on the productivity of Nigeria's manufacturing sector. The study thus concluded that the exchange rate and interest rate are macroeconomic variables that significantly affect the productivity of Nigeria's manufacturing sector; and recommends that the exchange rate and interest rate should be stabilized in other to maintain steady growth and positive performance of manufacturing firms in Nigeria.

Obidike, Onyeka, and Nduka (2022) investigated the impact of various macroeconomic factors on Nigeria's economic performance. The study aimed to assess how factors such as exchange rate, interest rate, inflation rate, trade openness, foreign direct investment, and money supply influence the country's economy. Using time series data spanning 34 years (1987-2020), the researchers applied econometric methods, including Descriptive Statistics, Augmented Dickey-Fuller Tests for Unit Roots, and the Autoregressive Distributed Lag (ARDL) model. Several diagnostic tests—such as Normality, Serial Correlation, Multicollinearity, Heteroskedasticity, and Ramsey RESET Tests—were conducted to ensure model reliability. The results indicated that inflation, trade openness, foreign direct investment, and money supply had a significant positive effect on real GDP in the short term, while exchange and interest rates showed no significant impact. The study concluded that these macroeconomic variables have been effective tools for influencing Nigeria's economy in the short run.

Nwagu (2023) focused on how macroeconomic variables affect foreign direct investment (FDI) in Nigeria. The research aimed to evaluate the influence of factors like the exchange rate, inflation rate, monetary policy rate, and GDP growth rate on FDI inflows from 1986 to 2020. An ex post facto design was used, and the analysis employed the Autoregressive Distributed Lag (ARDL) approach due to mixed data integration levels (both level and first difference). The ARDL bounds test confirmed a long-term relationship between the macroeconomic variables and FDI. Short-term analysis revealed that GDP growth rate and monetary policy rate significantly boosted FDI inflows, whereas inflation and exchange rates had a negative impact. In the long run, GDP growth and exchange rates positively affected FDI, while the monetary policy rate had a substantial negative influence. The study recommends that Nigerian monetary authorities prioritize robust GDP growth, maintain exchange rate stability, and implement effective monetary policy measures to attract more FDI, as well as develop sound foreign exchange policies to encourage investment from abroad.

Methodology

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The study utilized an ex-post-facto research design, relying on secondary data obtained from the Central Bank of Nigeria's statistical bulletin for the period 2007-2022. Economic development was measured using the Human Development Index (HDI) as a proxy. The time series data for the variables under study were analyzed through the Ordinary Least Squares (OLS) method and the Granger Causality tests.

Model Specification

The model used in this study was adapted from the framework applied by Obidike et al. (2022). In their research, they modeled GDP as a function of variables including exchange rate, interest rate, inflation rate, trade openness, foreign direct investment, and money supply. For this study, the model was modified to represent the Human Development Index (HDI) as a function of Money Supply (MS), as shown in equation 1:

HDI = f(MS) (eq1)

The model was further specified in econometric terms, incorporating elements such as the intercept (α0), the regression coefficient (α1), and the error term (εt). The econometric expression is given in equation 2:

$HDI = \alpha 0 + \alpha 1MS + \varepsilon t$ (eq2)

Where HDI represents the Human Development Index.

MS = Money Supply

Data Table 1
Trends of HDI and MS

Years	HDI	MS
(N'Billions)		
2007	0.479	5,127.40
2008	0.485	8,643.43
2009	0.49	9,687.51
2010	0.484	11,101.46
2011	0.494	12,628.32
2012	0.512	15,503.41
2013	0.519	18,743.07
2014	0.524	20,415.61
2015	0.527	20,885.52
2016	0.53	24,259.00
2017	0.532	28,604.47
2018	0.534	29,774.43
2019	0.539	34,257.90
2020	0.542	36,038.01
2021	0.535	40,370.41
2022	0.536	48,462.07

Source: Central Bank of Nigeria Statistical Bulletin (2022)

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Descriptive Statistics

	HDI	MS
Mean	0.516375	22781.38
Median	0.525500	20650.57
Maximum	0.542000	48462.07
Minimum	0.479000	5127.401
Std. Dev.	0.022307	12549.32
Skewness	-0.562974	0.455605
Kurtosis	1.701015	2.240025
Jarque-Bera	1.970080	0.938576
Probability	0.373424	0.625447
Sum	8.262000	364502.0
Sum Sq. Dev.	0.007464	2.36E+09
Observations	16	16

Source: Nigeria Bureau of Statistics

Results

Descriptive Statistics

	HDI	MS
Mean	0.516375	22,781.38
Median	0.525500	20,650.57
Maximum	0.542000	48,462.07
Minimum	0.479000	5127.401
Std. Dev.	0.022307	12549.32
Skewness	-0.562974	0.455605
Kurtosis	1.701015	2.240025
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Source: Authors calculations

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From the Table above, the analysis revealed that the average annual values for the Human Development Index (HDI) and money supply (MS) were 0.516 and ₦22,781.38 billion, respectively. Descriptive statistics indicated that during the period under review, the highest recorded money supply in Nigeria was ₦48,462.07 billion, while the lowest was ₦5,127.401 billion in 2022 and 2007 respectively. Additionally, the results showed that all variables followed a normal distribution, as evidenced by Jarque-Bera probabilities exceeding 0.05.

Ordinary Least Square Regression Result
Dependent Variable: HDI
Method: Least Squares
Date: 12/05/23 Time: 11:31
Sample (adjusted): 1 16
Included observations: 16 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MS	5.94E-07	3.87E-07	1.536059	0.1528
C	0.408870	0.021182	19.30271	0.0000

R-squared	0.937557	Mean dependent var	0.516375
Adjusted R-squared	0.914851	S.D. dependent var	0.022307
S.E. of regression	0.006509	Akaike info criterion	-6.980916
Sum squared resid	0.000466	Schwarz criterion	-6.739482
Log-likelihood	60.84733	Hannan-Quinn criteria.	-6.968553
F-statistic	41.29044	Durbin-Watson stat	1.594189
Prob(F-statistic)	0.000001		

Source: Authors calculations

The results presented in the table indicate that the money supply has a positive but statistically insignificant impact on economic development in Nigeria. The coefficient, valued at $5.94x10^{-7}$ with a p-value of 0.1528, suggests that for every billion-naira increase in the money supply, there is a corresponding but insignificant increase of 0.00000059 in the HDI.

The F-statistic value of 41.29, along with a probability of 0.0000, indicates that the overall effect of the independent variable on the dependent variable is statistically significant. Moreover, the R-squared value of 0.937557 implies that approximately 94% of the variations in HDI can be explained by changes in the money supply.

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Granger Causality Test

Granger Causality Test Result for HDI and MS

Pairwise Granger Causality Tests
Date: 12/06/23 Time: 08:06
Sample: 1 25
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
MS does not Granger Cause HDI	14	0.03492	0.9658
HDI does not Granger Cause MS		0.85675	0.4565

Source: E-views 11 Granger Causality Test Result, 2023

The table above reveals that the p-value for the first null hypothesis is 0.9658 which is greater than 0.05. This indicates that the first null hypothesis is accepted; MS does not Granger Cause HDI. However, the p-value for the second null hypothesis is 0.4565 which is greater than 0.05. This indicates that the second null hypothesis is also accepted: HDI does not Granger Cause MS. Therefore, no causality exists between HDI and MS.

Results

From the ordinary least square regression tests, the results show that Money supply positively but insignificantly affects the economic development of Nigeria while the Granger causality tests revealed that no causality exists between HDI and MS The statement "no causality exists between Human Development Index (HDI) and Money Supply" suggests that there is no direct causal relationship between a country's level of human development, as measured by the HDI, and the amount of money circulating within its economy, known as the money supply.

Discussion of Findings

The paper studied the effect of money supply on the economic development of Nigeria. The economic development was proxied by the Human Development Index. The data was analyzed using the Granger Causality test and ordinary least square econometric technique. The findings of the OLS revealed that money supply positively but insignificantly predicts economic development in Nigeria. This indicates that in periods when the money supply has increased the Nigerian economy has recorded some development. The existence of a positive significant relationship between money supply and economic development is also found in the

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study of Obidike, Onyeka and Nduka (2022) who found a positive relationship between money supply and economic growth in the short run. However, it was confirmed to be a mere relationship as the results of the Granger Causality test did not show any significant effect of money supply on economic development in Nigeria.

Conclusion

Based on the findings of the study, we, therefore conclude that the economic development of Nigeria is to some extent dependent on the money supply. Though the relationship between money supply and the Human Development Index (HDI) may appear to be positive, the insignificance of this effect suggests a more nuanced understanding is needed. While a higher money supply theoretically provides the potential for increased investment in education, healthcare, and infrastructure; the key components of human development. The actual impact may be mitigated by various factors such as institutional quality, governance, distributional inequalities, and socio-economic variables.

This insignificant relationship underscores the complexity of human development and the multitude of factors that contribute to it. It highlights the need for policymakers to look beyond monetary metrics alone and focus on comprehensive strategies that address systemic issues such as poverty alleviation, access to education and healthcare, gender equality, and environmental sustainability. Moreover, it emphasizes the importance of targeted interventions and policy coherence in achieving sustainable improvements in human well-being.

Recommendations

Based on the complex relationship between money supply and economic development, as well as the potential for significant but often nuanced impacts, we made the following recommendations:

1. Monetary Policy Alignment: Central banks should continue to prioritize stability in monetary policy to ensure that fluctuations in money supply do not lead to excessive inflation or deflation. A stable monetary environment provides a conducive backdrop for sustainable economic growth.
2. Comprehensive Economic Policies: Governments should adopt comprehensive economic policies that go beyond monetary measures alone. Fiscal policies, investment in human capital, infrastructure development, and regulatory reforms are equally crucial for fostering economic development.
3. Targeted Interventions: Recognizing the heterogeneous impacts of changes in money supply across different sectors and segments of society, policymakers should consider targeted interventions. For instance, investments in education and healthcare can have long-term positive effects on human capital development and economic productivity.
4. Monitoring and Evaluation: Government should continuously monitor and evaluate the relationship between money supply dynamics

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and economic development. This involves collecting robust data, conducting empirical analysis, and refining policy approaches based on evidence-based insights.

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