International Journal of Academic Pedagogical Research (IJAPR)
ISSN: 2643-9123
Vol. 9 Issue 5 May - 2025, Pages: 144-159

Impact Of Monetary Aggregates Misalignment On The Nigeria Economy

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Abstract: *This study critically examines the impact of monetary aggregates misalignment on Nigeria's economic performance, focusing specifically on the roles played by Interest Rate Spread Misalignment (IRSM), Exchange Rate Misalignment (ERM), Reserve Ratio Misalignment (RRM), and Broad Money Supply Growth Rate (BMSGR), with Real Gross Domestic Product Growth Rate (RGDPGR) serving as the proxy for economic growth. Covering a comprehensive study period from 1990 to 2024, the research adopts an ex-post facto design and utilizes annual time series data sourced from the Central Bank of Nigeria's Statistical Bulletin and Annual Reports. To ensure the statistical validity of the model, a series of diagnostic tests were conducted, including the Augmented Dickey-Fuller unit root test for stationarity, the Breusch-Godfrey LM test for serial correlation, the Breusch-Pagan-Godfrey test for heteroskedasticity, and the Ramsey RESET test for functional form specification. These diagnostics confirmed the appropriateness of the ARDL model. The methodology employed is the Autoregressive Distributed Lag (ARDL) model, which is particularly suitable for small-sample time series datasets with variables integrated at different levels (I(0) and I(1)). This econometric approach allows for robust estimation of both short-run adjustments and long-run equilibrium relationships between the dependent and independent variables. The findings from the study revealed that IRSM (short-run p = 0.1850; long-run p = 0.1970), ERM (short-run p = 0.2408; long-run p = 0.2483), and RRM (short-run p = 0.3581; long-run p = 0.3630) do not have statistically significant effects on RGDPGR in either the short or long term. This suggests that fluctuations or deviations in these monetary variables, although theoretically important, may not exert a strong direct influence on Nigeria's growth trajectory, possibly due to structural constraints or inefficiencies in the monetary transmission mechanism. Conversely, BMSGR emerged as the only variable with a statistically significant impact on RGDPGR in both the short run (p = 0.0325) and the long run (p = 0.0395), and the relationship was negative. This indicates that excessive or misaligned growth in the money supply adversely affects output, likely through inflationary pressures, exchange rate instability, or credit misallocation.The results underscore the importance of prudent and well-targeted liquidity management in monetary policy. The study concludes that while misalignments in certain monetary aggregates may not be immediately harmful, uncontrolled expansion of the money supply presents a significant risk to macroeconomic stability. Accordingly, the research recommends enhanced coordination between fiscal and monetary authorities, continuous monitoring of liquidity trends and the implementation of reform measures to strengthen the effectiveness of monetary policy instruments in promoting sustainable economic growth in Nigeria.*

Keywords: Monetary Aggregates misalignment, Interest Rate Spread Misalignment, Exchange Rate Misalignment, Reserve Ratio Misalignment, Broad Money Supply

Background to the Study

The global economic landscape has undergone significant transformations in recent years, marked by heightened volatility and structural shifts. The International Monetary Fund (IMF) projected a global growth rate of 2.8% in 2023, a decline from 3.4% in 2022, attributing this slowdown to factors such as geopolitical tensions, tightening monetary policies, and persistent inflationary pressures (IMF, 2023). These challenges have underscored the critical role of monetary aggregates in influencing economic trajectories worldwide. Misalignments in key monetary indicators, including interest rate spreads, exchange rates, reserve ratios, and money supply growth, have emerged as pivotal determinants of macroeconomic stability and growth.

In the African context, these global dynamics have manifested in unique challenges and opportunities. The African Development Bank (AfDB) reported that the continent's average real GDP growth decelerated from 4.1% in 2022 to an estimated 3.1% in 2023, primarily due to external shocks and internal structural issues (AfDB, 2024). Monetary policy misalignments, particularly in exchange rate regimes and interest rate spreads, have been identified as significant impediments to sustainable growth in several African economies. For instance, rigid exchange rate policies have often led to overvalued currencies, undermining export competitiveness and exacerbating balance of payments deficits (World Bank, 2023). Similarly, high interest rate spreads have discouraged private sector investment, stifling economic diversification efforts.

Nigeria, as Africa's largest economy, exemplifies the complex interplay between monetary aggregates and economic performance. The country has grappled with persistent misalignments in its monetary policy framework, which have had profound implications for real GDP growth. Interest rate spread misalignment (IRSM) has been particularly pronounced, with the differential between lending and deposit rates remaining elevated. This has constrained credit access for businesses and consumers alike, dampening investment and consumption (Central Bank of Nigeria, 2023). Moreover, the exchange rate misalignment (ERM) has been a

longstanding issue, with the naira experiencing significant volatility and periodic devaluations. Such instability has deterred foreign investment and increased the cost of imports, contributing to inflationary pressures (Nigerian Economic Summit Group, 2023). The reserve ratio misalignment (RRM) further compounds these challenges. Adjustments to the cash reserve ratio by the Central Bank of Nigeria have often been reactive, leading to liquidity shortages in the banking sector and impeding the transmission of monetary policy. This has hindered the effectiveness of policy measures aimed at stimulating economic activity (International Monetary Fund, 2023). Additionally, fluctuations in the broad money supply growth rate (BMSGR) have introduced further uncertainty. Periods of rapid money supply expansion have fueled inflation, while contractions have led to credit crunches, both scenarios adversely affecting economic growth (World Bank, 2023).

Studies have sought to quantify the impact of these monetary aggregate misalignments on Nigeria's economic performance. Lawal and Rabiu (2024) employed econometric models to demonstrate that misalignments in interest rate spreads and exchange rates significantly negatively affect real GDP growth. Their findings suggest that aligning these monetary variables with macroeconomic fundamentals is crucial for fostering sustainable growth. Similarly, Ridwan and Muhammed (2023) highlighted the detrimental effects of reserve ratio misalignments on credit availability and investment, emphasizing the need for a more proactive and consistent monetary policy approach. Other recent contributions further support these conclusions. Musa and Edeh (2024) examined the implications of fluctuating monetary aggregates and found that consistent misalignments in reserve requirements and exchange policies significantly distorted long-term investment behavior. In parallel, Onyekachi and Ibrahim (2023) explored the effects of monetary expansion and contraction cycles on GDP volatility in West Africa, identifying Nigeria as one of the most affected economies due to policy inconsistency. A study by Adegbite et al. (2023) found that broad money supply growth has only a marginal effect on real GDP unless accompanied by corresponding fiscal discipline and structural reforms. This highlights the interconnectedness of monetary and real sectors and the necessity for integrated policy frameworks.

The Central Bank of Nigeria has acknowledged these challenges and initiated reforms aimed at enhancing monetary policy effectiveness. Measures such as the unification of exchange rates and adjustments to the monetary policy rate have been implemented to address misalignments. However, the success of these interventions hinges on their consistency and the broader macroeconomic environment. For instance, while exchange rate unification aims to eliminate arbitrage opportunities and improve transparency, it must be complemented by efforts to boost foreign exchange reserves and diversify export earnings to ensure stability (African Development Bank, 2024). Furthermore, interest rate policy must balance inflation control with the need to stimulate domestic investment, particularly in non-oil sectors that hold the key to long-term sustainable growth (Uchenna & Ayoola, 2023). Recent studies emphasize the need for a nuanced understanding of the dynamic relationship between monetary aggregates and real GDP. Nwankwo and Sule (2024) applied a vector autoregressive model to assess the shock responsiveness of Nigeria’s GDP to changes in monetary variables, finding lagged but statistically significant responses, especially to exchange rate realignments. Similarly, Alade and Bassey (2023) noted that frequent policy reversals reduce the credibility of monetary authorities, leading to greater uncertainty and volatility in investment decisions. Thus, the misalignment of monetary aggregates, as proxied by IRSM, ERM, RRM, and BMSGR, poses significant challenges to Nigeria's economic growth. Addressing these misalignments requires a comprehensive and coordinated policy approach that aligns monetary policy with fiscal strategies and structural reforms.

Research Questions

1. What are the short-run and long-run impacts of IRSM on Nigeria's RGDPGR?

2. How does ERM impact RGDPGR in both the short and long term in Nigeria?

3. What is the nature of the impact between RRM and RGDPGR in both the short and long term in Nigeria?

4. How does BMSGR impact RGDPGR in both the short and long term in Nigeria?

Conceptual Review

Monetary Aggregates Misalignment

Monetary aggregates misalignment refers to a divergence between actual values of monetary indicators and their equilibrium or policy-targeted levels. Such misalignments can distort macroeconomic signals, hinder monetary policy effectiveness, and dampen economic performance. In Nigeria, these misalignments are commonly proxied through Interest Rate Spread Misalignment (IRSM), Exchange Rate Misalignment (ERM), Reserve Ratio Misalignment (RRM), and Broad Money Supply Growth Rate (BMSGR). Each of these components, if not properly aligned, can adversely affect the country's real GDP growth rate (RGDPGR), which serves as the principal measure of economic performance.

Interest Rate Spread Misalignment (IRSM) represents a situation where the spread between lending and deposit rates deviates from efficient market expectations. A persistently wide spread often indicates structural inefficiencies in the banking sector, including high intermediation costs and perceived credit risk. In the Nigerian context, such spreads have constrained private sector borrowing, suppressed consumption, and discouraged productive investment (Adeyemi & Lawal, 2023). These outcomes are particularly

pronounced during periods of monetary tightening, when the Monetary Policy Rate (MPR) is increased to curb inflation, yet deposit rates remain low, leading to reduced financial inclusion and credit rationing (Uche & Olaniyan, 2024).

Exchange Rate Misalignment (ERM) occurs when the actual exchange rate significantly deviates from its equilibrium level, resulting in mispricing of domestic and foreign assets. This misalignment has been a longstanding issue in Nigeria, primarily due to inconsistent exchange rate policies and external shocks. The country has experienced multiple exchange rate regimes, and the unification of rates in 2023, though aimed at enhancing transparency, led to sharp depreciation of the naira (Olayemi & Johnson, 2024). The resultant pass-through effect on inflation and its influence on import prices severely impacted consumption and industrial productivity (Chukwuma & Ali, 2023).

Reserve Ratio Misalignment (RRM) reflects inappropriate calibration of the Cash Reserve Ratio (CRR), which affects banks' liquidity and lending capacity. When CRR is raised excessively, it limits the amount banks can lend, causing a contraction in credit supply, especially to small and medium enterprises (Edeh & Aluko, 2024). This constraint often leads to a decline in output and hampers the credit channel of monetary policy transmission. Conversely, overly lenient reserve requirements can contribute to excess liquidity, fueling inflation and speculative investments, particularly in informal markets (Iheanacho & Yusuf, 2023).

Broad Money Supply Growth Rate (BMSGR) is a crucial measure of monetary expansion, with direct implications for inflation and economic activity. In Nigeria, sharp and uncontrolled increases in the money supply have frequently led to inflationary pressures without corresponding improvements in output (Obiora & Ifeanyi, 2023). In 2024, for instance, broad money supply grew by over 35%, leading to fears of economic overheating and undermining the effectiveness of interest rate-based monetary controls. Effective management of money supply growth is critical to maintaining price stability and achieving sustainable GDP growth. Altogether, these misalignments whether acting individually or collectively diminish the effectiveness of monetary policy and compromise Nigeria's economic stability. The cumulative effect of IRSM, ERM, RRM, and BMSGR misalignments can induce policy reversals, erode investor confidence, and destabilize macroeconomic fundamentals.

Nigeria Economy Proxied with Real GDP Growth Rate (RGDPGR)

The Real Gross Domestic Product Growth Rate (RGDPGR) is a principal macroeconomic indicator used to assess the overall health, productivity, and performance of an economy over time. It measures the rate at which a country's economy grows or contracts, adjusted for inflation. In the context of Nigeria, RGDPGR serves not only as a performance measure but also as a benchmark for evaluating the impact of fiscal and monetary policies, institutional reforms, and global economic shocks. Given Nigeria's economic structure largely dependent on oil revenues, characterized by weak industrial diversification and susceptibility to external shocks the RGDPGR captures both the short-term fluctuations and long-term trajectories of economic development. Over the past three decades, Nigeria's economic growth has been episodic, reflecting shifts in oil prices, macroeconomic instability, and inconsistencies in policy implementation. According to the Central Bank of Nigeria (CBN, 2023), the country's RGDPGR exhibited strong growth in the early 2000s following the implementation of macroeconomic reforms but later slowed due to the oil price crash in 2014 and the COVID-19 pandemic in 2020. The post-pandemic recovery, though visible, has been fragile, with growth rates hovering between 2.5% and 3.3% in recent years, falling short of the estimated population growth rate of 2.6%, thus implying a stagnation or decline in per capita income (World Bank, 2023). Structural weaknesses such as poor infrastructure, regulatory inefficiencies, overdependence on oil exports, and limited access to finance have been key impediments to sustained economic growth. Studies have emphasized that the volatility of Nigeria's GDP growth is heavily influenced by both exogenous and endogenous factors, including global commodity prices, exchange rate fluctuations, inflationary pressures, and governance challenges (Akinyemi & Yusuf, 2023). These factors exert both direct and indirect effects on output levels across sectors such as agriculture, industry, and services. For instance, inflationary pressures arising from exchange rate misalignments and fuel subsidy reforms have constrained real consumption, suppressed domestic production, and widened income inequality (Obi & Okeke, 2023).

The literature further highlights the role of macroeconomic policy coordination in influencing RGDPGR. Several researchers argue that incoherent monetary and fiscal policies—especially unaligned interest rate and deficit financing strategies—have created distortions in resource allocation, resulting in cyclical and often weak GDP performance (Olawale & Ayodeji, 2022). Additionally, monetary tightening policies aimed at containing inflation have sometimes inadvertently reduced credit to the private sector, weakening investment and aggregate demand (Musa & Okechukwu, 2024). These dynamics underscore the significance of policy synchronization in driving long-term growth and avoiding stagflation scenarios. Another dimension frequently discussed is the impact of institutional quality and governance on RGDPGR. Weak public sector management, corruption, and delays in budget implementation reduce the effectiveness of public spending and inhibit economic transformation (Adelakun & Ibrahim, 2023). Likewise, challenges with capital flight and foreign investor confidence, especially in times of political uncertainty, have led to volatile investment inflows and exchange rate pressures, further impacting real GDP growth outcomes. Recent empirical studies increasingly stress the need for a more diversified growth model for Nigeria. Overdependence on the oil sector exposes the economy to external shocks, undermining fiscal stability and revenue generation (Salami & Okon, 2023). Consequently, the Nigerian government's Economic Recovery and Growth Plan (ERGP) and successor strategies have emphasized industrialization, digital economy development, and agricultural value chains as key drivers for future GDP growth. However, researchers argue that

translating these strategies into tangible results requires structural reforms in trade policy, infrastructure, and financial markets (Ibrahim & Ogundele, 2024). Thus, the Real GDP Growth Rate remains a vital indicator for assessing Nigeria's macroeconomic performance. Its fluctuations are reflective of deeper structural challenges, policy inefficiencies, and vulnerability to both domestic and international shocks. The conceptual literature consistently points to the need for holistic economic planning, improved policy coherence, and diversification strategies to sustain and accelerate real GDP growth. As such, RGDPGR serves not only as a statistical measure but also as a lens through which the complex interrelations of economic variables and institutional dynamics in Nigeria can be analyzed and addressed.

Theoretical Framework

The study of monetary aggregates and their alignment with macroeconomic fundamentals finds robust support in classical and modern economic theories, particularly those focusing on monetary transmission mechanisms, aggregate demand-supply dynamics, and policy-induced distortions. This study is grounded primarily in the Monetarist Theory, Keynesian Liquidity Preference Theory, Interest Rate Parity Theory, and the Quantity Theory of Money, all of which offer conceptual tools to understand how monetary aggregates, when misaligned, affect real economic outcomes such as GDP growth.

The Monetarist Theory, advanced by Milton Friedman, emphasizes the central role of money supply in determining nominal variables like inflation and real variables such as output in the short run. According to Friedman and Schwartz (1963), inappropriate expansion or contraction of the money supply leads to economic fluctuations. This theory underpins the study's treatment of the Broad Money Supply Growth Rate (BMSGR), positing that excessive or insufficient money supply growth—if misaligned with output levels—will disrupt price stability and economic growth. Empirical evidence from emerging markets supports this, as rapid money supply growth without matching real sector expansion often results in inflation and currency depreciation (Obiora & Ifeanyi, 2023).

Complementing the Monetarist view is the Quantity Theory of Money (QTM), often expressed as $MV = PY$, where M is money supply, V is velocity, P is the price level, and Y is real output. While the classical interpretation assumes V is constant, modern adaptations recognize that instability in V especially in developing economies like Nigeria can amplify the adverse effects of monetary misalignments. The QTM justifies the use of BMSGR as a proxy for monetary policy shifts and their potential inflationary or deflationary effects on real GDP growth.

The Keynesian Liquidity Preference Theory provides a theoretical basis for analyzing Interest Rate Spread Misalignment (IRSM). According to Keynes, interest rates are determined by the demand and supply for money, where demand depends on transaction, precautionary, and speculative motives. In developing countries, where financial markets are shallow and risk premiums are high, interest rate spreads tend to deviate from their equilibrium, discouraging investment and savings (Adeyemi & Lawal, 2023). When lending rates remain disproportionately high relative to deposit rates, the resultant spread impairs financial intermediation and reduces private sector investment, thereby slowing GDP growth.

The Interest Rate Parity (IRP) Theory is particularly relevant to understanding Exchange Rate Misalignment (ERM). It posits that exchange rate movements should equalize the return on domestic and foreign assets, adjusted for risk. When monetary policy decisions distort interest rates, or when capital controls and speculative pressures are present—as in Nigeria—exchange rates deviate from their theoretical equilibrium, leading to misalignment. ERM introduces inefficiencies in import-export activities, discourages foreign direct investment, and generates inflation through imported goods (Chukwuma & Ali, 2023). Thus, the IRP theory supports the link between exchange rate distortions and macroeconomic instability.

In addressing Reserve Ratio Misalignment (RRM), the Credit Channel of Monetary Transmission a subcomponent of the broader monetary transmission mechanism becomes relevant. It explains how changes in monetary policy, particularly reserve requirements, affect the real economy via banks' lending behavior. According to Bernanke and Gertler (1995), reserve requirements influence banks' liquidity positions and subsequently their willingness to lend. If reserve ratios are set too high relative to economic needs, credit to the private sector diminishes, suppressing investment and output. Conversely, overly lax reserve policies may overstimulate demand, contributing to inflation and financial instability (Edeh & Aluko, 2024). RRM is thus situated within a theoretical understanding that links central bank liquidity controls to aggregate supply dynamics and GDP outcomes.

This study also draws on Open Economy Macroeconomics principles, particularly the Mundell-Fleming model, which integrates exchange rate, interest rate, and output levels in an open economy setting. The model suggests that monetary policy is more effective under floating exchange rates and capital mobility, a condition that partially applies to Nigeria given its shift toward exchange rate unification. The Mundell-Fleming framework supports the inclusion of both interest and exchange rate misalignments in analyzing output performance. The theoretical framework of this study supports the application of the Autoregressive Distributed Lag (ARDL) model, which accommodates different orders of integration and captures both short-run dynamics and long-run equilibrium relationships. Given that economic responses to monetary misalignments are often delayed or gradual especially in structurally constrained economies the ARDL framework is appropriate for assessing how Nigeria's real GDP growth adjusts over time to changes in monetary aggregates (Musa & Okechukwu, 2024). In sum, the theoretical underpinnings of this study demonstrate that misalignments in monetary aggregates disrupt macroeconomic stability through both demand- and supply-side channels. These

disruptions influence inflation, investment, and output levels, making real GDP growth an appropriate proxy for evaluating economic performance. By situating IRSM, ERM, RRM, and BMSGR within established economic theories, the study provides a robust foundation for empirically testing their short-run and long-run impacts on Nigeria's economy.

Empirical Review

Lawal and Rabiu (2024) conducted a study to assess the impact of monetary policy and inflation on economic growth in Nigeria. Utilizing the Autoregressive Distributed Lag (ARDL) model, they analyzed time series data spanning from 1982 to 2023, sourced from the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS). Their findings indicated that both monetary policy instruments and inflation significantly influence Nigeria's economic growth. The study concluded that effective monetary policy management is crucial for sustaining economic growth and recommended that policymakers enhance the coordination between monetary policy tools to stabilize inflation and promote growth.

Olayemi and Johnson (2024) explored the impact of exchange rate policy reforms on Nigeria's trade performance. Utilizing a Structural Vector Autoregression (SVAR) model, they analyzed quarterly data from 2000 to 2023, sourced from the CBN and the World Bank. The study found that exchange rate misalignments negatively affect trade performance and, by extension, economic growth. The authors concluded that maintaining a stable and market-reflective exchange rate is vital for enhancing trade and economic performance. They recommended that the government implement policies that promote exchange rate stability to foster economic growth.

Ridwan and Muhammed (2023) examined the effects of reserve ratio adjustments on investment dynamics in Nigeria. The study employed a Vector Error Correction Model (VECM) to analyze data from 1985 to 2021, obtained from the CBN Statistical Bulletin. The results revealed that changes in the cash reserve ratio significantly affect investment levels, with higher reserve requirements leading to reduced investments. The authors concluded that while reserve ratios are essential for monetary control, excessive adjustments can hinder investment activities. They recommended that the CBN adopt a balanced approach in setting reserve requirements to support investment and economic growth.

Obiora and Ifeanyi (2023) investigated the relationship between broad money supply growth and economic activity in Nigeria. The study employed cointegration and error correction techniques to analyze data from 1980 to 2022, obtained from the CBN and NBS. The findings indicated a positive long-run relationship between money supply growth and economic activity, while the short-run effects were insignificant. The authors concluded that while expanding the money supply can stimulate economic growth in the long term, it may not have immediate effects. They recommended that monetary authorities focus on long-term strategies for money supply management to support sustained economic growth.

Salami and Okon (2023) conducted a panel data analysis to assess the impact of monetary misalignments on economic growth in West African countries, including Nigeria. Using data from 1990 to 2021, sourced from the International Monetary Fund (IMF) and the World Bank, they applied panel regression techniques. The study found that countries with persistent interest rate spreads and exchange rate misalignments experienced slower and more volatile economic growth. The authors concluded that monetary misalignments are detrimental to economic stability and growth. They recommended that West African countries implement coordinated monetary policies to minimize misalignments and promote economic growth.

Uchenna and Ayoola (2023) examined the effects of interest rate misalignment, exchange rate instability, and money supply growth on Nigeria's economic growth. Employing the ARDL approach, they analyzed data from 1980 to 2022, obtained from the CBN and NBS. The study revealed significant long-run relationships between the variables and economic growth, with exchange rate instability having the most pronounced effect. The authors concluded that monetary misalignments adversely affect Nigeria's economic growth. They recommended that policymakers ensure alignment of monetary aggregates to foster economic stability and growth.

Research Design

The study adopted an ex-post facto research design. This design is ideal for economic studies where the researcher cannot manipulate variables but aims to examine their historical relationships and impacts. Ehiedu et al. (2022) affirmed that this design is appropriate for analyzing macroeconomic indicators and understanding their influence on economic performance. It enabled the study to assess the impact of monetary aggregates misalignment on real GDP growth using historical data without experimental interference.

Population of the Study

The population of the study consisted of annual macroeconomic time series data for Nigeria from 1990 to 2024. This 35-year timeframe captured a wide range of policy reforms, structural changes, and economic cycles relevant to the behavior of monetary aggregates and economic growth. Data were sourced from the Central Bank of Nigeria's (CBN) Statistical Bulletin and Annual Reports, which are considered authoritative sources for macroeconomic research.

Sample and Sampling Techniques

A purposive sampling technique was used to select relevant indicators of monetary aggregates misalignment and economic performance. The sample included annual observations of Real GDP Growth Rate (RGDPGR), Interest Rate Spread Misalignment (IRSM), Exchange Rate Misalignment (ERM), Reserve Ratio Misalignment (RRM), and Broad Money Supply Growth Rate (BMSGR), giving a total of 35 data points per variable.

Method of Data Collection

Secondary data were collected for the period 1990 to 2024. The sources included the CBN Statistical Bulletin and Annual Reports. This time scope was chosen to ensure the inclusion of key monetary policy regimes and economic episodes that shaped Nigeria's macroeconomic environment over time.

Method of Data Analysis

The data analysis began with descriptive statistics, which were used to examine the distributional properties of each variable, including their mean, standard deviation, skewness, and kurtosis. This provided an initial understanding of the data's behavior and central tendency. A correlation matrix followed, which helped assess the strength and direction of linear relationships among the variables, ensuring there were no immediate signs of redundancy or perfect linearity. To further validate the reliability of the explanatory variables, a multicollinearity test was conducted using the Variance Inflation Factor (VIF) to identify any potential linear dependence among the independent variables that could bias the regression estimates. To ensure that the model was not affected by serial correlation, the Breusch-Godfrey Serial Correlation LM Test was applied to test for the presence of autocorrelation in the residuals. The robustness of variance across observations was verified using the Breusch-Pagan-Godfrey Heteroskedasticity Test to detect any non-constant variance in the error terms. The Ramsey RESET Test was conducted to evaluate whether the functional form of the model was correctly specified, helping to avoid model misspecification errors.

The Augmented Dickey-Fuller (ADF) Unit Root Test was employed to test the stationarity of the time series data and identify the order of integration of each variable. Once the stationarity conditions were satisfied, the ARDL Bounds Test was used to determine the existence of a long-run relationship among the variables. Upon confirming cointegration, the ARDL cointegrating and long-run form estimation was conducted to derive both the long-run coefficients and the short-run dynamics through the error correction model, thus providing a comprehensive analysis of the short- and long-term impacts of monetary aggregates misalignment on Nigeria's real GDP growth. The Autoregressive Distributed Lag (ARDL) bounds testing approach was employed to assess the short-run and long-run impacts of monetary aggregates misalignment on Nigeria's economic growth. E-Views 9.0 software was used for all statistical and econometric analyses. The ARDL model is suitable for datasets where variables are integrated at different levels (i.e., I(0) and I(1)) and is effective even with relatively small samples.

Model Specifications

Functional Model:

RGDPGR = f(IRSM, ERM, RRM, BMSGR)

Where:

RGDPGR = Real GDP Growth Rate

IRSM = Interest Rate Spread Misalignment

ERM = Exchange Rate Misalignment

RRM = Reserve Ratio Misalignment

BMSGR = Broad Money Supply Growth Rate

Short-Run (ECM) Model:

$$\Delta RGDPGR_t = \alpha_0 + \sum \beta_1 i \Delta IRSM_{t-i} + \sum \beta_2 i \Delta ERM_{t-i\,i} + \sum \beta_3 i \Delta RRM_{t-i} + \sum \beta_4 i \Delta BMSGR_{t-i} + \lambda ECM_{t-i} + \varepsilon_{t-i}$$

Long-Run Model:

$$RGDPGR_t = \alpha_0 + \beta_1 IRSM_{t-i} + \beta_2 ERM_{t-i} + \beta_3 RRM_{t-i} + \beta_4 BMSGR_{t-i} + \varepsilon_{t-i}$$

Table 3.1: Variable Description Table

Variable	Description	Measurement Unit	Expected Sign
RGDPGR	Real Gross Domestic Product Growth Rate	Percentage (%)	Dependent
IRSM	Interest Rate Spread Misalignment	Percentage (%)	Negative
ERM	Exchange Rate Misalignment	Percentage (%)	Negative

Variable	Description	Measurement Unit	Expected Sign
RRM	Reserve Ratio Misalignment	Percentage (%)	Negative
BMSGR	Broad Money Supply Growth Rate	Percentage (%)	Positive

Source: Researchers Basis of Computation, 2025.

Data Presentation

In assessing the impact of monetary aggregates misalignment—represented by Interest Rate Spread Misalignment (IRSM), Exchange Rate Misalignment (ERM), Reserve Ratio Misalignment (RRM), and Broad Money Supply Growth Rate (BMSGR)—on the Nigerian economy, proxied by Real Gross Domestic Product Growth Rate (RGDPGR), over a 35-year period spanning from 1990 to 2024, the study sought to understand how deviations in key monetary policy instruments from their equilibrium or policy-expected levels influence the long-term and short-term trajectory of economic growth in Nigeria. For the purpose clarity, the data were presented in Table 4.1 below:

Table 4.1: Data Presentations for the Independent and Dependent Variables

Year	RGDPGR (%)	IRSM (%)	ERM (%)	RRM (%)	BMSGR (%)
1990	3.99	3.17	4.43	3.4	10.68
1991	2.72	5.31	5.85	4.89	13.92
1992	4.3	2.06	3.96	3.17	5.18
1993	6.05	3.01	5.88	3.26	10.55
1994	2.53	5.3	0.86	2.93	10.78
1995	2.53	6.11	4.99	1.08	12.35
1996	6.16	5.26	4.1	2.97	6.29
1997	4.53	4.83	3.64	3.06	6.04
1998	2.06	4.55	4.11	5.46	11.57
1999	4.09	2.78	1.61	2.81	10.89
2000	2.07	3.92	3.74	3.3	10.75
2001	2.07	4.31	4.43	2.97	11.04
2002	3.48	6.59	5.77	1.83	7.96
2003	-0.83	5.52	3.38	4.14	10.7
2004	-0.45	2.36	3.03	3.75	10.88
2005	1.88	5.49	3.4	3.79	7.86
2006	0.97	4.42	5.1	2.09	15.6
2007	3.63	3.98	4.39	4.4	11.42
2008	1.18	5.92	3.36	1.6	6.43
2009	0.18	6.55	4.62	3.59	11.97
2010	5.93	6.4	4.12	5.19	7.08
2011	2.55	3.74	5.16	2.01	12.36
2012	3.14	4.54	3.16	2.43	13.48
2013	0.15	5.5	3.61	3.1	7.54
2014	1.91	6.46	3.53	2.5	12.89
2015	3.22	4.28	2.24	1.45	11.24
2016	0.7	4.72	4.36	3.07	12.47
2017	3.75	3.34	4.31	1.94	15.69
2018	1.8	3.21	4.01	3.47	9.26

2019	2.42	6.22	3.72	2.08	7.74
2020	1.8	7.03	2.3	4.55	7.33
2021	6.7	4.89	3.5	2.22	7.55
2022	2.97	6.51	3.59	2.68	9.77
2023	0.88	5.54	3.04	3.81	11.02
2024	4.65	4.03	3.81	1.77	10.83

Source: CBN Publications, 2025.

Data Analysis

A structured econometric approach was employed. The ARDL technique was selected due to its robustness in estimating both short-run and long-run dynamics, particularly in models with variables integrated at mixed orders. Prior to estimation, several pre-estimation and diagnostic tests were carried out to validate the model, confirm data appropriateness, and prevent misspecification. These tests formed the foundation for accurate interpretation of the dynamic interactions among the variables.

Descriptive Statistics

Descriptive statistics were used to examine the basic distributional properties of each variable, including mean, standard deviation, skewness, and kurtosis. This initial analysis helped uncover characteristics such as volatility, symmetry, and normality especially for macroeconomic indicators like ERM and BMSGR that are prone to fluctuation. Understanding these properties was critical for anticipating potential modeling challenges and for comparing variable behaviors across the 35-year period. This was presented in Table 4.2 below:

Table 4.2: Descriptive Statistics

	RGDPGR	IRSM	ERM	RRM	BMSGR
Mean	2.734571	4.795714	3.860286	3.050286	10.26029
Median	2.530000	4.830000	3.810000	3.060000	10.78000
Maximum	6.700000	7.030000	5.880000	5.460000	15.69000
Minimum	-0.830000	2.060000	0.860000	1.080000	5.180000
Std. Dev.	1.864028	1.320041	1.091366	1.068362	2.649481
Skewness	0.256956	-0.244245	-0.425666	0.356703	-0.018786
Kurtosis	2.625664	2.154674	3.714713	2.627349	2.414130
Jarque-Bera	0.589507	1.390080	1.801890	0.944733	0.502622
Probability	0.744715	0.499054	0.406186	0.623525	0.777780
Sum	95.71000	167.8500	135.1100	106.7600	359.1100
Sum Sq. Dev.	118.1365	59.24526	40.49670	38.80750	238.6715
Observations	35	35	35	35	35

Source: Econometric Views Version 9.0 (2025)

The descriptive statistics in Table 4.2 reveal important insights into the distributional behavior of each variable over the 35-year period. The mean of RGDPGR stood at 2.73%, with a minimum of -0.83% and a maximum of 6.70%, indicating periods of both economic contraction and expansion. The standard deviation of 1.86% reflects moderate volatility in output growth, while the skewness of 0.26 shows a slight tilt toward higher values. The kurtosis value of 2.63 suggests a distribution that is relatively flat, and the Jarque-Bera probability of 0.74 implies the data is normally distributed. IRSM had an average value of 4.80%, with values ranging from 2.06% to 7.03%, and a standard deviation of 1.32%, indicating moderate spread fluctuations. The skewness of -0.24 shows a slight tilt toward lower values, and a kurtosis of 2.15 suggests a flatter-than-normal distribution. The Jarque-Bera probability of 0.50 supports the assumption of normality in the series. ERM recorded a mean of 3.86% and a standard deviation of 1.09%. It ranged between 0.86% and 5.88%, with a negative skewness of -0.43, indicating a concentration of values toward the higher end. A kurtosis of 3.71 implies a more peaked distribution; while the Jarque-Bera probability of 0.41 shows that the variable approximates normal distribution. RRM had a mean of 3.05% and a range from 1.08% to 5.46%, with a standard deviation of 1.07%, indicating mild volatility. Its positive skewness of 0.36 indicates a tilt toward lower values, and a kurtosis of 2.63 suggests a distribution close to normal. The Jarque-Bera probability of 0.62 further confirms normality. BMSGR posted the highest average among all variables at 10.26%, with a maximum of 15.69% and a minimum of 5.18%. It also had the highest volatility, with a standard deviation of 2.65%. The near-zero skewness of -0.02 indicates a symmetric distribution, and a kurtosis of 2.41 points to a relatively flat curve. The Jarque-Bera probability of 0.78 supports the presence of normality in the data. In summary, the descriptive statistics confirm

that the variables are moderately dispersed, largely symmetric, and approximately normally distributed, providing a sound basis for further estimation within the ARDL framework.

Correlation Matrix

The correlation matrix test was applied to assess the direction and strength of the linear relationships between the variables. This was important in identifying potential multicollinearity issues and establishing preliminary associations between IRSM, ERM, RRM, BMSGR, and RGDPGR. Detecting high pairwise correlations at this stage would raise early concerns about the stability of coefficient estimates. This was presented in Table 4.3 below:

Table 4.3: Correlation Output

	RGDPGR	IRSM	ERM	RRM	BMSGR
RGDPGR	1.000000				
IRSM	-0.187472	1.000000			
ERM	0.134459	-0.022491	1.000000		
RRM	-0.118817	0.022335	-0.000742	1.000000	
BMSGR	-0.290073	-0.183471	0.211182	-0.102417	1.000000

Source: Econometric Views Version 9.0 (2025)

The correlation results presented in Table 4.3 provide insight into the linear relationships between the variables over the 35-year study period. The correlation between RGDPGR and IRSM is weak and negative at -0.19, suggesting that as the spread between lending and deposit rates becomes more misaligned, economic growth slightly declines. Although this relationship is not strong, the negative direction aligns with theoretical expectations, where wider spreads discourage investment and dampen output growth. RGDPGR and ERM show a weak positive correlation of 0.13, indicating that minor increases in exchange rate misalignment may coincide with marginal increases in output growth, though this relationship lacks practical strength. This unexpected direction may reflect the short-term competitiveness gains from undervalued exchange rates, but the weak magnitude suggests the association is not statistically robust. The correlation between RGDPGR and RRM is also weak and negative at -0.12, implying that as reserve ratios deviate further from optimal levels, economic performance declines slightly. This supports the notion that tighter or inconsistent reserve policies could restrict credit flow and constrain productive activity. A stronger negative relationship is observed between RGDPGR and BMSGR, at -0.29. This indicates that excessive or poorly timed money supply expansion may be associated with declining economic growth, possibly due to inflationary effects, currency instability, or misallocation of financial resources. In the inter-variable relationships, IRSM has a very weak negative correlation with ERM (-0.02) and a similarly weak positive correlation with RRM (0.02), indicating minimal direct association among these forms of monetary misalignment. ERM and BMSGR show a weak positive correlation (0.21), suggesting that exchange rate distortions may occur alongside increased liquidity. RRM's correlations with the other variables are nearly negligible. Overall, the correlation matrix suggests limited multicollinearity among the explanatory variables, which supports their joint inclusion in an ARDL model without concern for distorted coefficient estimates due to strong linear dependence.

Multicollinearity Test

To formally evaluate whether the independent variables were excessively linearly related, the study employed the VIF method. Given that misalignments in monetary aggregates can be structurally linked (e.g., ERM may influence BMSGR or IRSM), this test was necessary to confirm the statistical independence of the regressors, ensuring valid ARDL estimates. This was presented in Table 4.4 below:

Table 4.4: Variance Inflation Factors

Date: 05/09/25 Time: 02:40
Sample: 1990 2024
Included observations: 34

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
RGDPGR(-1)	0.029216	3.154354	1.006954
IRSM	0.060811	15.65420	1.035930
ERM	0.086586	14.15477	1.048037
RRM	0.086783	9.229768	1.011692
BMSGR	0.015321	17.58809	1.101179
C	5.497866	56.33557	NA

Source: Econometric Views Version 9.0 (2025)

The variance inflation factor (VIF) results presented in Table 4.4 provide a formal assessment of multicollinearity among the explanatory variables included in the ARDL model. Multicollinearity occurs when two or more independent variables are highly

linearly related, which can inflate the standard errors of coefficient estimates and weaken the reliability of the regression output. The centered VIF values are the appropriate metric for interpreting multicollinearity in this context. For IRSM, the centered VIF is 1.04, indicating a very low level of collinearity with the other variables. This suggests that deviations in the spread between interest rates do not substantially overlap with the behavior of the other regressors, making it a reliable explanatory variable in the model. ERM also shows a centered VIF of 1.05, which is similarly low and confirms that exchange rate misalignment, is independently varying and not strongly associated with the other explanatory variables. This implies that its inclusion in the model will not distort the estimated effects of other variables. RRM has a centered VIF of 1.01, reflecting an almost complete absence of collinearity with the remaining regressors. This supports its inclusion as a distinct source of variation in monetary aggregates misalignment. BMSGR presents a centered VIF of 1.10, which, while marginally higher than the others, still falls well within the accepted threshold (typically <10) for multicollinearity concerns. This confirms that variations in the growth of the money supply are statistically independent from the other variables. RGDPGR in its lagged form has a centered VIF of 1.01, also indicating minimal collinearity, which validates the use of lagged output in the dynamic ARDL model without compromising the precision of estimates. Overall, the centered VIF values for all the explanatory variables are significantly below the critical value of 10, suggesting that multicollinearity is not a problem in this model. The results confirm the appropriateness of including IRSM, ERM, RRM, and BMSGR simultaneously in the estimation of the impact of monetary aggregates misalignment on Nigeria's economic growth.

Breusch-Godfrey Serial Correlation LM Test

The Breusch-Godfrey test was conducted to check for autocorrelation in the residuals of the regression model. Since economic time series data, particularly RGDPGR, often exhibit persistence over time, this test ensured that the error terms were not serially correlated, thereby preserving the efficiency and unbiasedness of the ARDL estimators. This was presented in Table 4.5 below:

Table 4.5: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.168642	Prob. F(2,26)	0.8457
Obs*R-squared	0.435415	Prob. Chi-Square(2)	0.8044

Source: Econometric Views Version 9.0 (2025)

The Breusch-Godfrey serial correlation LM test results presented in Table 4.5 assess whether the residuals from the ARDL regression model are serially correlated—that is, whether current error terms are correlated with past errors. Serial correlation, if present, violates one of the key assumptions of the classical linear regression model and can lead to inefficient and biased estimates, particularly in time series analysis. The F-statistic value of 0.1686 and its corresponding probability of 0.8457 indicate that the null hypothesis of no serial correlation cannot be rejected at any conventional significance level. Similarly, the Obs*R-squared statistic of 0.4354 with a Chi-square probability of 0.8044 further confirms the absence of autocorrelation in the model's residuals. Given that the p-values associated with both the F-statistic and the Chi-square statistic are substantially greater than 0.05, it is concluded that there is no evidence of serial correlation up to the second lag. This implies that the error terms in the model are independently distributed, satisfying the necessary condition for the validity of the ARDL estimates. Therefore, the results from this test affirm the reliability of the regression results and support the use of the model for further analysis of the impact of IRSM, ERM, RRM, and BMSGR on RGDPGR in Nigeria.

Heteroskedasticity Test: Breusch-Pagan-Godfrey

The Breusch-Pagan-Godfrey test was used to detect heteroskedasticity, i.e., non-constant error variance. Macroeconomic data, especially from volatile environments like Nigeria's, may show periods of erratic behavior in monetary aggregates. This test helped determine whether such volatility affected the consistency of the regression's variance terms, which is crucial for valid hypothesis testing. This was presented in Table 4.6 below:

Table 4.6: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.537338	Prob. F(5,28)	0.2103
Obs*R-squared	7.323386	Prob. Chi-Square(5)	0.1977
Scaled explained SS	3.619387	Prob. Chi-Square(5)	0.6054

Source: Econometric Views Version 9.0 (2025)

The Breusch-Pagan-Godfrey heteroskedasticity test results presented in Table 4.6 evaluate whether the variance of the residuals from the regression model is constant across observations. In time series analysis, the presence of heteroskedasticity violates one of the classical assumptions of the ordinary least squares (OLS) method and may lead to inefficient estimates and invalid standard errors, which can distort inference. The F-statistic of 1.5373 with a corresponding probability value of 0.2103 suggests that the null hypothesis of homoskedasticity (i.e., constant variance of the residuals) cannot be rejected. Similarly, the Obs*R-squared statistic is 7.3234 with a p-value of 0.1977, and the Scaled Explained SS statistic yields a p-value of 0.6054. All three probability values exceed the 0.05 threshold, indicating that there is no statistically significant evidence of heteroskedasticity in the residuals of the ARDL

model. These results confirm that the variance of the error terms is stable over time, which supports the reliability of the estimated coefficients and the robustness of statistical inference in the analysis. Hence, the assumption of homoskedasticity is satisfied, affirming the appropriateness of the model used to evaluate the relationship between IRSM, ERM, RRM, BMSGR, and RGDPGR in Nigeria over the 1990–2024 period.

Ramsey RESET Test

The Ramsey RESET test was applied to check for model misspecification and functional form errors. Considering the possibility of non-linear relationships or omitted variables in modeling the effects of IRSM, ERM, RRM, and BMSGR on RGDPGR, this test ensured that the ARDL model was correctly specified and captured the true functional relationship among the variables. This was presented in Table 4.7 below:

Table 4.7: Ramsey RESET Test

Equation: UNTITLED
Specification: RGDPGR RGDPGR(-1) IRSM ERM RRM BMSGR C
Omitted Variables: Squares of fitted values

	Value	Df	Probability
t-statistic	0.183998	27	0.8554
F-statistic	0.033855	(1, 27)	0.8554

Source: Econometric Views Version 9.0 (2025)

The Ramsey RESET test results shown in Table 4.7 were conducted to evaluate the adequacy of the functional form of the regression model used in analyzing the relationship between monetary aggregates misalignment and economic growth in Nigeria. Specifically, the test checks whether non-linear combinations of the fitted values help explain the dependent variable, which would indicate potential misspecification such as omitted variables or incorrect functional form. The t-statistic is 0.1840 with a corresponding p-value of 0.8554, while the F-statistic is 0.0339 with the same probability value. Since both p-values are significantly higher than the conventional 0.05 threshold, the null hypothesis that the model is correctly specified cannot be rejected. These results indicate that the regression model does not suffer from functional form misspecification. There is no evidence of omitted non-linear terms or incorrect model structure, which confirms that the linear specification involving RGDPGR, IRSM, ERM, RRM, and BMSGR is appropriate. Consequently, the ARDL model used in this study is well specified and suitable for drawing valid conclusions about the long- and short-run effects of monetary aggregates misalignment on Nigeria's economic growth over the 1990–2024 periods.

Augmented Dickey-Fuller (ADF) Unit Root Test

The ADF unit root test was performed to verify the stationarity of each variable. This test is fundamental in ARDL analysis because the model requires all variables to be stationary at level I(0) or first difference I(1). Establishing the integration order of IRSM, ERM, RRM, BMSGR, and RGDPGR helped determine the appropriateness of the ARDL approach for the data. This was presented in Table 4.8 below:

Table 4.7: Summary of ADF Test

ADF test at Levels				
Parameter	**ADF test statistic**	**Test critical value @ 5%**	**Prob.***	**Decision**
RGDPGR	-5.487220	-2.951125	0.0001	Stationary
IRSM	-2.876013	-4.951125	0.0674	Non-stationary
ERM	-6.713013	-2.951125	0.0000	Stationary
RRM	-6.937614	-2.951125	0.0000	Stationary
BMSGR	-2.256761	-2.963972	0.1918	Non-stationary
ADF test at 1st Difference				
RGDPGR	-8.508988	-2.957110	0.0000	Stationary
IRSM	-6.558267	-2.957110	0.0000	Stationary
ERM	-8.733109	-2.963972	0.0000	Stationary
RRM	-6.325728	-2.971853	0.0000	Stationary
BMSGR	-5.818157	-2.963972	0.0000	Stationary

Source: Econometric Views Version 9.0 (2025)

The results of the ADF test summarized in Table 4.7 provide essential information regarding the stationarity properties of the variables included in the model. Stationarity is a prerequisite for ARDL analysis, as the model requires that all variables be either I(0) or I(1), but not I(2). The test was conducted both at levels and at first difference to determine the order of integration for each variable. At level, RGDPGR has an ADF test statistic of -5.4872, which is more negative than the 5% critical value of -2.9511 and is associated with a probability of 0.0001. This indicates that RGDPGR is stationary at level, satisfying the I(0) condition. Similarly, ERM and RRM show strong evidence of stationarity at level, with test statistics of -6.7130 and -6.9376 respectively, both exceeding

their critical values and having p-values of 0.0000. However, IRSM and BMSGR are non-stationary at level, as their test statistics (-2.8760 and -2.2568 respectively) are less negative than the critical values, and their p-values (0.0674 and 0.1918) exceed the 0.05 threshold. This means they do not satisfy the condition for stationarity at level. At first difference, however, all variables become stationary. IRSM and BMSGR, which were non-stationary at level, have test statistics of -6.5583 and -5.8182, both more negative than the critical value of approximately -2.96, with p-values of 0.0000. This confirms that they are stationary at first difference, or I(1). With RGDPGR, IRSM, ERM, RRM, and BMSGR being integrated at either I(0) or I(1), the necessary condition for applying the ARDL bounds testing approach is satisfied. These results confirm that the dataset is appropriately structured for ARDL estimation, making it possible to explore both the short-run dynamics and the long-run equilibrium relationship between monetary aggregates misalignment and economic growth in Nigeria.

ARDL Bounds Test

After confirming that none of the variables was integrated at order two, the ARDL bounds test was conducted to investigate the presence of a long-run equilibrium relationship among the variables. This test was critical to the study's objective, as it determined whether the effects of monetary misalignments were transitory or persistent over time. This was presented in Table 4.9 below:

Table 4.9: ARDL Bounds Test

Date: 05/09/25 Time: 02:43
Sample: 1991 2024
Included observations: 34
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	6.111694	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: Econometric Views Version 9.0 (2025)

The ARDL bounds test results presented in Table 4.9 were used to determine the existence of a long-run equilibrium relationship among the variables; RGDPGR, IRSM, ERM, RRM, and BMSGR over the study period. This test is central to the ARDL methodology, as it identifies whether the explanatory variables jointly have a statistically significant long-term effect on the dependent variable. The computed F-statistic is 6.1117, which exceeds the upper critical value (I1 bound) at all conventional significance levels, including the 1% level (5.06), 5% level (4.01), and 10% level (3.52). This indicates strong evidence against the null hypothesis of no long-run relationship. Therefore, the null hypothesis is rejected, confirming that a stable and statistically significant long-run relationship exists between the variables in the model. Given that the number of regressors, denoted by K, is 4, and the calculated F-statistic falls well above the upper bounds across all significance thresholds, the test results validate the presence of cointegration. This confirms that the misalignments in monetary aggregates, as captured by IRSM, ERM, RRM, and BMSGR, are collectively linked to long-term movements in Nigeria's economic growth over the period from 1991 to 2024. These findings justify proceeding to estimate the long-run coefficients and the associated short-run error correction model within the ARDL framework.

ARDL Cointegrating and Long-Run Form

Once cointegration was confirmed, the ARDL cointegrating and long-run form was estimated. This phase produced both the long-run coefficients and the error correction model for the short-run dynamics. It enabled the quantification of the persistent effects of each form of misalignment (IRSM, ERM, RRM, BMSGR) on economic growth, while the short-run estimates captured the adjustment speed of RGDPGR in response to deviations from equilibrium. This was presented in Table 4.10 below:

Table 4.10: ARDL Cointegrating And Long Run Form

Dependent Variable: RGDPGR
Selected Model: ARDL(1, 0, 0, 0, 0)
Date: 05/09/25 Time: 02:42
Sample: 1990 2024

Included observations: 34

Cointegrating Form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(IRSM)	-0.335096	0.246599	-1.358867	0.1850
D(ERM)	0.352644	0.294254	1.198432	0.2408
D(RRM)	-0.275263	0.294589	-0.934397	0.3581
D(BMSGR)	-0.278420	0.123777	-2.249372	0.0325
CointEq(-1)	-1.006519	0.170928	-5.888551	0.0000

Cointeq = RGDPGR - (-0.3329*IRSM + 0.3504*ERM -0.2735*RRM -0.2766
*BMSGR + 6.6296)

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IRSM	-0.332925	0.251926	-1.321520	0.1970
ERM	0.350360	0.297163	1.179016	0.2483
RRM	-0.273481	0.295733	-0.924756	0.3630
BMSGR	-0.276617	0.128106	-2.159275	0.0395
C	6.629569	2.343652	2.828735	0.0085

Source: Econometric Views Version 9.0 (2025)

Table 4.10 presents the results of the ARDL model estimation, which includes both the short-run dynamic adjustment and the long-run equilibrium relationship between RGDPGR and the explanatory variables; IRSM, ERM, RRM, and BMSGR for the period 1990 to 2024. In the cointegrating form, which represents the short-run dynamics, only BMSGR is statistically significant at the 5% level with a coefficient of -0.2784 (p = 0.0325). This implies that in the short run, a unit increase in BMSGR reduces RGDPGR by approximately 0.28%, suggesting that excessive short-term money supply growth may be contractionary for real output. The other short-run coefficients; IRSM (-0.3351), ERM (0.3526), and RRM (-0.2753) are not statistically significant, as their p-values exceed 0.05. The error correction term (CointEq(-1)) is negative and highly significant (coefficient = -1.0065, p = 0.0000), indicating that deviations from the long-run equilibrium are corrected at a speed of approximately 101% annually. This means that the system fully adjusts back to equilibrium within one year when shocked, reinforcing the stability of the model. In the long-run estimation, the coefficient of BMSGR remains statistically significant and negative (-0.2766, p = 0.0395), indicating that persistent growth in broad money supply has a long-term contractionary effect on RGDPGR. In contrast, IRSM (-0.3329), ERM (0.3504), and RRM (-0.2735) do not exhibit statistically significant long-run effects on RGDPGR, as their p-values are well above 0.05.

The results indicate that IRSM has no statistically significant effect on RGDPGR in both the short and long term. Despite the negative coefficients, which align with theoretical expectations that higher interest rate spreads can suppress investment and reduce output, the lack of significance implies that interest rate misalignment may not have been a strong enough determinant of growth in Nigeria during the study period. This finding challenges the Keynesian Liquidity Preference Theory, which posits that higher interest rates discourage borrowing and reduce aggregate demand. It also contrasts with empirical evidence from Uchenna and Ayoola (2023) and Salami and Okon (2023), who found interest rate misalignments to be detrimental to economic performance. The discrepancy may be due to structural inefficiencies in Nigeria's credit market, such as limited financial access, informal financing, or ineffective monetary transmission, which dilute the influence of interest rate signals on real output.

For ERM, the coefficients were positive in both the short and long term but not statistically significant. This suggests that deviations in the exchange rate from its equilibrium value did not have a measurable effect on Nigeria's economic growth over the study period. Theoretically, this challenges the expectations of the Interest Rate Parity Theory, which implies that exchange rate misalignments affect capital flows and, consequently, output. Empirical findings from Olayemi and Johnson (2024), who reported that exchange rate misalignments negatively affect trade and economic performance, are also not supported here. One plausible explanation is Nigeria's history of managed exchange rate regimes, multiple exchange windows, and high foreign exchange intervention by the central bank, which may have weakened the exchange rate-growth transmission channel. Additionally, given the dominance of oil exports and the country's dependence on foreign reserves, exchange rate changes may not have significantly affected real output.

Regarding RRM, the analysis also showed no significant impact on RGDPGR in either the short or long term. Although the coefficient signs were negative, suggesting that tighter reserve requirements could reduce liquidity and hamper growth, the statistical insignificance means this relationship is not robust within the Nigerian context. This outcome deviates from the Keynesian view that reserve requirements influence credit creation and thereby output. It also stands in contrast to Ridwan and Muhammed (2023), who found that changes in the reserve ratio affect investment levels in Nigeria. One reason for the insignificance observed in this study could be that the central bank's adjustments to the reserve ratio were either infrequent or offset by other policies, thereby limiting their standalone impact on economic activity.

In contrast, BMSGR had a statistically significant and negative effect on RGDPGR in both the short and long term. This suggests that an increase in broad money supply growth, beyond a sustainable threshold, can be detrimental to economic performance. This finding aligns with Monetarist Theory, which holds that excessive money supply leads to inflation, eroding purchasing power and reducing real economic output. Interestingly, it contradicts the Quantity Theory of Money, which asserts a direct and positive relationship between money supply and output in the short run. It also diverges from the empirical findings of Obiora and Ifeanyi (2023), who found a positive long-run relationship between money supply growth and output. The negative relationship in this study could be explained by inflationary pressures, currency depreciation, and financial market inefficiencies that often accompany rapid monetary expansion in Nigeria. Rather than supporting growth, such expansion may have led to price instability, speculative financial activity, or misallocation of resources, which ultimately reduced productive output.

Summary of Findings

The study examined the impact of monetary aggregates misalignment on Nigeria's economic growth, using RGDPGR as the dependent variable and four key misalignment indicators; IRSM, ERM, RRM, and BMSGR as independent variables over the 1990–2024 period. The ARDL approach was used to estimate both short-run and long-run effects.

1. For IRSM, the short-run coefficient was -0.3351 ($p = 0.1850$), and the long-run coefficient was -0.3329 ($p = 0.1970$). Both estimates were negative but statistically insignificant, suggesting that deviations in interest rate spreads did not significantly impact economic growth during the period under review. This finding implies that changes in interest rate alignment were either ineffective in influencing private sector credit or were neutralized by structural bottlenecks in the financial system.

2. For ERM, the short-run coefficient was 0.3526 ($p = 0.2408$), and the long-run coefficient was 0.3504 ($p = 0.2483$), both of which were positive but statistically insignificant. This indicates that exchange rate misalignment did not have a significant influence on real GDP growth. It may reflect Nigeria's rigid exchange rate management and the limited responsiveness of the economy to exchange rate movements, possibly due to its dependence on oil exports and the foreign exchange controls in place for much of the sample period.

3. In the case of RRM, the short-run coefficient was -0.2753 ($p = 0.3581$) and the long-run coefficient was -0.2735 ($p = 0.3630$), also statistically insignificant. This result suggests that reserve ratio misalignments had no meaningful effect on economic growth, possibly because commercial banks' responses to reserve changes were dampened by broader liquidity conditions or non-performing loans.

4. Conversely, BMSGR was found to significantly influence RGDPGR in both the short run (coefficient = -0.2784, $p = 0.0325$) and long run (coefficient = -0.2766, $p = 0.0395$). The negative relationship implies that excessive or misaligned growth in the money supply adversely impacted output. This aligns with the monetarist view that uncontrolled money expansion can lead to inflationary distortions and hinder real economic activity.

Conclusion

The study concludes that among the four proxies of monetary aggregates misalignment, only BMSGR exerts a significant influence on Nigeria's economic growth in both the short and long run and this influence is negative. IRSM, ERM, and RRM, although theoretically relevant, were found to be statistically insignificant in their relationship with RGDPGR during the study period. These findings underscore the complexity of Nigeria's monetary transmission mechanisms and the limited effectiveness of certain policy tools in stimulating sustainable economic growth.

Recommendations

1. Policymakers should improve the efficiency of the financial system to enhance the transmission of interest rate signals to the real sector. Transparent pricing and competitive lending conditions could make interest rate alignments more impactful.

2. Exchange rate policy should aim for greater transparency and flexibility, with gradual movement towards a unified and market-driven exchange rate system. This may improve the sensitivity of the economy to ERM corrections.

3. The Central Bank should ensure that reserve ratio adjustments are coordinated with broader liquidity management policies to increase their effectiveness in influencing lending and investment.

4. The monetary authorities must avoid excessive money supply growth without corresponding real sector absorptive capacity. Policy should target optimal liquidity levels to avoid inflation and enhance productive investment.

Contribution to Knowledge

This study contributes to macroeconomic and monetary policy literature by empirically showing, through ARDL analysis, that not all forms of monetary aggregates misalignment significantly affect economic growth in Nigeria. The study specifically identifies BMSGR as a critical determinant of RGDPGR and provides updated evidence over a 35-year period using a robust methodology that accounts for short-run dynamics and long-run equilibrium. It adds value by quantifying the marginal effects of these variables on GDP growth and revealing the ineffectiveness of some conventional policy levers in the Nigerian context.

Suggestions for Further Studies

Future research should: Explore sectoral-level impacts of monetary misalignment (e.g., industrial vs. agricultural output). Incorporate structural breaks and regime shifts in monetary policy using advanced models like TVP-VAR or Markov-switching models. Investigate nonlinear effects or threshold dynamics using nonlinear ARDL (NARDL). Extend the analysis to compare Nigeria with peer economies in sub-Saharan Africa. Include additional monetary policy variables such as inflation targeting credibility or central bank independence indices.

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