CHAPTER FIFTEEN

OPEN MARKET OPERATIONS, GROWTH AND DEVELOPMENT IN NIGERIA

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Abstract
In many countries, monetary policy is used by Central Banks to achieve specific national macroeconomic goals or objectives. This study relied on aggregate indices of open market operation and growth (OMO, RR, RGDP, and MPR) and development in Nigeria from 1990 through 2022 using the structural break approach model to lend empirical credence to the relationship. The study relied on the Auto-regressive Distributed Lag (ARDL) Model approach and the Error Correction Mechanism (ECM) model procedure to establish a baseline asymptotic relationship between open market operation, growth, and development (DEV) in Nigeria. From the result, the study concluded that the combined effect of the selected variables on development (DEV) is significant. However, the effect gets diluted when the variables are considered on an individual basis. The study found that a percentage increase in OMO will decrease the development (DEV) in Nigeria. Thus, the structural approach model depicted a stable trend in economic development (DEV), which is the sick variable because the best line of fit is stable within the two bisecting lines in the result. The study concludes that OMO is a predictor of DEV in Nigeria. Finally, they concluded that the monetary policy rate will likely influence Nigeria's development (DEV) behavior. This conclusion may hold because the effect of MPR on the economy is pertinent as an increase in the supply (stock) of money will lower OMO, which, in turn, will stem investment in the country. The study recommended that the Central government monitor required reserves through trend analysis based on the critical role played by reserves, which can be highlighted in consumer spending and saving behavior in businesses.

Keywords: Open-market-operation, Economic Growth and Development

Introduction

In many countries of the world, monetary policy is used by Central Banks to achieve certain national macroeconomic goals or objectives. These objectives strive to mainly maintain a low inflation rate, low unemployment, rapid economic growth and development, stable exchange rate, and maintenance of the balance of payments equilibrium (Jinghan &Stephen, 2009; Ajayi & Ojo, 1981; CBN 2001, 2016; Sanusi, 2001; Ogwuma, 1994).

According to Nnanna (2001), OMO entails the sale or purchase of eligible bills or securities in the open market by the Central Bank of Nigeria to influence deposit money banks' reserves balances, the level of base money, and, consequently, the overall level of monetary and financial conditions. The transactions carried out in Open Market Operations are outright sales or purchases of securities in the market, repurchase transactions (REPOS), and matched sales purchase transactions. Other market-based instruments introduced in addition to OMO were; reserve requirement, which specifies the proportion of bank's total deposit liabilities that should be kept with the central bank, and discount window operations under which the Central Bank performs the role of lender of last resort to deposit money banks as well as moral suasion adopted as a means of establishing a two-way communication with the banks thereby creating a better environment for the effectiveness of monetary policy.

To pursue these broad objectives, the Central Bank of Nigeria (CBN) employs several indirect/market weapons techniques of monetary control, namely, discount rate, open market operations (OMO), reserve requirements, and direct control of bank credit. These weapons are used by monetary authorities to influence the supply, cost, and availability of credit in the economy (Ajayi & Ojo, 1981; Jhingan & Stephen, 2009).

Before introducing the Structural Adjustment Programme (SAP) in 1986, only direct monetary policy instruments were used for monetary management. Traditional or market-based instruments, such as OMO, were not used due to the underdeveloped nature of the Nigerian financial market. OMO was used merely to raise revenue for the government and not as an instrument of monetary policy. However, with the advent of

SAP, market-based monetary policy instruments were introduced for efficient resource allocation and as a driver of economic growth (CBN, 2016).

Hence, by the end of June 1993, OMO was introduced and conducted wholly on Nigeria Treasury Bills. The aim is to target bank reserves of deposit money banks (DMBs) and broad money supply (M2) at levels adequate for non-inflationary economic growth and development, the balance of payments equilibrium, full employment, etc. (Nnanna, 2002; CBN 2004).

OMO, conventionally, involves the purchase or sale by the Central Bank of government securities (e.g., treasury bills and bonds) from/to the DMBs and the non-bank public to increase or decrease the banks' lending ability. When the Central Bank sells these securities in the open secondary market, the result is the transfer of a deposit from the DMBs to the Central Bank. Such transfers would reduce the reserves of DMBs money supply; interest rate would rise, and hence, their capacity to give credit would be reduced. The reverse is the case when the Central Bank buys government securities from the DMBs and the non-bank public (CBN, 2016).

Thus, purchasing securities by the Central Bank presupposes an expansionary monetary policy that reduces interest rates, stimulating private-sector borrowing and investment to enhance economic activity or growth (Oyejide, 2017). Within a proper institutional framework, OMO is a powerful and highly effective monetary policy instrument. This is because it is flexible concerning timing and size. It can be readily reversed when necessary. Hence, policymakers can easily undertake either small or large operations to maintain the market's stability. In a well-developed securities market, OMO can be made a continuous activity. In this respect, they have the advantage that, unlike other policy instruments, it does not have an announcement effect (i.e., it is an on-going rather than one-off).

Consequently, this paper aims to examine the effects of OMO in stimulating growth and development in Nigeria from 1980-2019. This is even though OMO was introduced in mid–1993. The rationale for this choice is that it has been used as a fiscal policy, though not as a monetary policy instrument, before SAP in 1986. This allows for a broader

understanding of the monetary instrument. The specific objective of the paper is to examine the effect of monetary policy on economic growth in Nigeria. The rest of the paper is structured thus. Section two is devoted to theoretical and related empirical literature. The model for the work is developed in section three, while empirical results and analysis are handled in section four. Section five concludes the paper.

Theoretical and Related Empirical Literature

There are two main contrasting views about the transmission mechanism of OMO. On the one hand, Keynes views the mechanism as working through the financial system to the real sector. He starts from the premise that money and certain marketable fixed-income securities (bonds) are close substitutes (Keynes, 1936). According to him, in the wake of a discrepancy between desired and actual money balances, individuals try to rid themselves of excess money balances by buying these bonds, and this desire sets in motion the process of adjustment, which ultimately stimulates investment and aggregate output or growth in the economy.

Such adjustments will lead to an increase in money supply. An increase in the money supply will, in turn, produce portfolio effects. The portfolio effect works through the substitution of other financial assets for money in an attempt to get rid of excess money balances. The attempt to buy other financial assets raises their prices and depresses their yields (i.e. the rate of interest). The decrease in the rate of interest itself generates three effects, namely, the wealth effect, the cost of capital effect, and the credit rationing effect.

On the one hand, there is the monetarist view, which is based on the hypothesis that money is not just a close substitute for a small class of financial assets but a substitute for a large spectrum of financial and real assets. Suppose the money supply increases due to the Central Bank's open market purchases of government securities. In that case, sellers will want to rid themselves of the excess money balances now that their desired and actual money balances are no longer equal. If the sellers are individuals, they will deposit the proceeds in their bank accounts. This will increase bank reserves and their ability to create credit. However, if the sellers are DMBs, their reserves will increase, thus their loan and credit-creating capabilities.

In either case, there is a need for readjustments of portfolios; each will want to buy assets that are similar to the ones they have sold. This consequently makes existing real assets expensive relative to new ones. The rise in the price level of real assets increases wealth relative to income and makes purchasing current services cheaper relative to purchasing sources of services (Ajayi & Ojo, 1981). According to Friedman (1969), 'The monetary impulse is, in this way, spread from the financial markets to the markets for goods and services', thereby increasing aggregate output (i.e., Gross Domestic Product) and spending.

And empirical literature is replete with OMO, yet there is no consensus on its effect on economic growth and development of a country. Aliyu (2005), using an application of co-integration and error correction modeling in his paper, establishes the existence of a long-run relationship between OMO in particular and macroeconomic stability in Nigeria's economy between 1970 and 2001. Treasury bills intervention was found to have a significant positive effect on the interest rate level via bond prices in the money market. i

While Okpara and Nwocha (2010), Chimaobi and Uche (2010), Sanchita and Rina (2011), and Adofu and Audu (20 10) posit a positive and significant relationship between OMO and economic development, Olubusoye and Oyaromade (2008) and Salisu (1993) find no significant relationship and Ditimi, Nwosa and Olaiya (2011) did not even find any relationship between OMO and economic growth.

Agbadu and Odejime (2015), in their paper on OMO, using multiple regression technique and data within the period 1981 to 2011, find that the variation in the growth trends of Gross Domestic Product (GDP) and the explanatory variables in a graphic representation appear to cast doubts on whether money market operations made significant contributions to GDP in the period under review. However, the summary statistics of the model, as indicated by the coefficient of determination (R2) and ANOVA F-statistics, showed that the estimated model implied that a long-run relationship exists between money market operations and economic growth in Nigeria. Nonetheless, using the ordinary least squares (OLS) co-integration, Granger causality, and ECM analytical techniques, the work of Osadume (2018) finds that OMO captured by treasury bills rate and

treasury certificate rates both have no significant effect on economic development but shows a positive and significant effect in the long run period on economic development with significant spread of adjustments. Similarly, Bassey, Akpan, and Umoh (2018) employing the OLS estimation method to examine OMO's effectiveness as an instrument of monetary policy management in Nigeria establishes a positive and significant relationship with broad money supply(M2) and concludes that it could achieve macroeconomic objectives.

Methodology

Model Specification

Following the objective of this study and in line with the frameworks of Mishkin (2010) and Uchendu (2009), we specify the functional form of the model for the effectiveness of Open Market Operations, growth and development in Nigeria as follows;

DEV = f (OMO, RR, RGDP MPR) ……...…….(1)

Since the variables enter the model in the log linear form, equation (3) is stated as;

logDEV = b0 + b1logOMO + b2 logRR + b3RGDP + b4MPR + Ut……....…….(2)

a priori expectation (b1>0, b2 ,b3 < 0)

where; logDEV = Broad Money Supply proxy for monetary policy

logRR = log of Required Reserve

MPR = Monetary Policy Rate

RGDP= Real gross domestic product

logOMO = log of Open Market Operations

Ut = Error Term

β_1, β_2, β_3 β_4 β_5 = Parameters to be determined

Data Sources

Annual data from 1990 to 2022 were sourced from CBN Statistical Bulletin and CBN Annual/Quarterly reports.

Results and Analysis

Table 1: Descriptive Statistics

Variable	DEV	OMO	RR	RGDP	MPR
Mean	1820283	2.58E+09	39078769	1.60E+09	6073256.
Std. Dev	919053.5	1.83E+09	4985348.	2.17E+09	714980.5
Skewness	1.14E+08	5.55E+09	6.15E+08	2.21E+09	42280118
Kurtosis	432980.0	7.29E+08	2139425.	2.83E+09	185661.0
Jarque-Bera	1.851973	0.427252	4.859093	-2.179448	1.990498
Probability	4.601293	1.483596	25.70781	6.685058	5.424348

Source: Author's computation (2023) using EViews 10

Table 1 presents the descriptive statistics of properties in the variables of the model specified in the methodology. The above depicts that development DEV has a mean of 1820.8 naira to 1 dollar with a corresponding standard deviation of 919053.3, which is close to the mean, showing significant differences in the amount of DEV in Nigeria throughout the study. The value of skewness in DEV is 1.14. This means that DEV is skewed to the right. The Kurtosis value of DEV is 432980.0, which is more than 3, indicating that the distribution of DEV is normally distributed. The Jacque Bera (JB) of 1.85 with a probability value greater than the critical value of 5% indicates DEV is normally distributed. The mean value for open market operation (OMO) is N2.58 Billion. The standard deviation value is 1.83. The skewness value for OMO is 5.55. While the Kurtosis value of 7.29 shows that OMO is normally distributed. Required reserves RR has a mean value of 3908 and SD of 49853. Its skewness coefficient value (6.15E+08) shows that RR is slightly skewed to the right and centreed about its mean value. The JB of 4.85 with a probability of 0.67 suggests normality in distribution. The kurtosis of 2139425 showed that the inflationary rate variable (RR) distribution was relatively flat, indicating a normal distribution. The JB of 4.85 and its probability of 25.5 indicate normal distribution. RGDP is slightly skewed to the right and centreed about its mean value. Its Kurtosis (2.83E+09) indicates that the distribution is normally distributed. The JB value of -2.179448 with a probability of 6.68 also suggests its normality. RGDP has a mean and SD of N2.17 billion and 2.21, respectively. The JB of -2.18 and its probability of 6.68, higher than the critical 5% level, also indicate normal distribution.

Furthermore, the monetary policy rate variable (MPR) has mean and SD values of 714980.5 billion and 42280118, respectively. Its skewness coefficient of 1.5777 indicates that money supply distribution is positively skewed. Its kurtosis value of 185661.0 showed that the distribution is relatively peaked. The JB statistic of 15.866 indicates that MPR is not normally distributed.

Correlation Matrix

Table 2: Correlation Matrix

	DEV	OMO	RR	RGDP	MPR
DEV	1.000000				
OMO	-0.848780	1.000000			
RR	0.208079	-0.350461	1.000000		
RGDP	0.428375	-0.402299	0.561555	1.000000	
MPR	0.889578	-0.937467	-0.230610	-0.296620	1.000000

Source: Eviews 10 output, 2023

The result of the correlation matrix in Table 2 shows the correlation between the dependent variable, development DEV variable represented by open market operations OMO, and the independent variables, open market operations OMO, required reserves, real gross domestic product, and monetary policy rate on the one hand, and among the independent variables on the other hand. Table 2 shows that all the correlation coefficients among the independent variables are below 0.80. The table reveals a native correlation between the dependent variable of open market operations OMO and the explanatory variable open market operations OMO with coefficients of -0.8487. Furthermore, the study shows that OMO has a positive correlation of 0.1833. This implies that the two explanatory variables move in the same direction with economic development in Nigeria. The correlation matrix also reveals that OMO and monetary policy rate MPR exhibit positive correlations with coefficients of 0.4283 and 0.8895, respectively. This implies that RGDP and MPR move in the same direction as development DEV.

Test for Stationarity (Unit Root - Augmented Dickey-Fuller (ADF) Test
Table 3: Unit Root Test Summary (Augmented Dickey-Fuller Test (ADF))

Augmented Dickey-Fuller	DEV difference	1st OMO 1st difference	RR@ Level	RGDP1st difference	MPR 2nd difference
	t-stat. 3.8739 **Prob.** 0.0062	**t-stat.** -3.6952 **Prob.** 0.0096	**t-stat.** -5.1514 **Prob.** 0.0002	**t-stat.** -5.3209 **Prob.** 0.0002	**t-stat.** -4.5351 **Prob.** 0.0014
1% Level	-3.6793	-3.6793	-3.6701	-3.6793	-3.7114
5% Level	-2.9677	-2.9677	-2.9639	-2.9677	-2.9810
10%Level	-2.6229	-2.6229	-2.6210	-2.6229	-2.6299

Source: E-View Output, 2023

The unit root test result in Table 3 shows that open market operations OMO and growth variables were not stationary at level but stationary at first difference but became stationary at first difference with ADF statistic value of -3.8739 and the associated one-sided p-value of 0.0062. In addition, the critical values at the 1%, 5%, and 10% levels were greater than the statistic value, which indicates the presence of stationarity at the first difference. The table also shows that the result of the unit root of open market operations OMO indicates that it was not stationary at first difference with an ADF statistic value of -3.6952 and the associated one-sided p-value of 0.0096. Furthermore, the critical values at the 1%, 5%, and 10% levels were greater than the statistic value, indicating stationarity at the first difference.

Also, the required reserves rate was stationary at level with an ADF statistic value of -5.1541 and the associated one-sided p-value of 0.0000. Furthermore, the critical values at the 1%, 5%, and 10% levels were greater than the statistic value, indicating the presence of stationarity. Furthermore, RGDP was found to be stationary at first difference with an ADF statistic value of -5.3209 and the associated one-sided p-value of 0.0002. All the values at 1%, 5%, and 10% levels were greater than the statistic value, which indicates the presence of stationarity first difference. Finally, the monetary policy rate is stationary at second difference with

ADF statistic value of -4.5351 and the associated one-sided p-value of 0.0014. In addition, all the critical values at 1%, 5%, and 10% levels are greater than the statistic value, indicating stationarity.

Co-integration Test

ADRL Bound Co-integration Estimation

After conducting the co-integration, there are three likely outcomes; the first is that series are integrated of order 0. Second, variables are stationary at 1st difference, and third, variables are integrated in different orders that combine 1(0) and 1(1).

If series are integrated of different orders, that is, a combination of both levels and the first difference, performing a co-integration test is necessary to establish long-run relationships. In this case, you can only use the bound test proposed by Pesaran *et al*. (2001) to test for a long-run relationship between the variables. The null hypothesis of this test is that there is no cointegrating equation, while the alternate hypothesis is that this is not true. The table below shows the result of the bound test for this study.

Table 4: ADRL Bound Cointegration Estimation (F-Bounds Test)

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	37.31301	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: Eviews 12 output, 2023

Table 4 shows the result of the ADRL bound test for variables used in the study. You can reject the null hypothesis if the F-calculated is greater than the critical value for the upper bound 1(1) and vice versa. From this result, the F-statistics is greater than the critical values at 1(1), and as such, it is concluded that there is a long-run relationship among the variables. The

study, therefore, proceeded to estimate the long-run model, which is the error correction model.

Diagnostics Test

The following regression diagnostics tests were used to determine whether the data used for analysis were reliable. The researcher conducted a diagnostic test for Heteroscedasticity using the Breusch Pagan Godfrey test and a test for multicollinearity using the Variance Inflation Factor (VIF) test. Diagnostic tests are performed to ensure that a good model is chosen. They check whether the model's stochastic properties are met to avoid conventional econometrics problems.

Test for Multicollinearity

Specifically, multicollinearity is a situation where two or more independent variables in regression are highly or moderately correlated. Furthermore, multicollinearity occurs when the explanatory variables are not independent. The Variance Inflation Factor (VIF) test was used to test for multicollinearity. According to Gujarati and Porter (2009), the mean Variance Inflation Factor should be less than 10, and the tolerance values should be greater than 10%. The result is presented in Table 5**.**

Table 5: Variance Inflation Factor

Variable	Coefficient Variance	Uncentreed VIF	Centreed VIF
OMO	1.82E+13	29.28682	10.24430
RR	7.74E+14	4.273384	1.569942
RGDP	1.16E+14	3.634301	1.596701
MPR	1.23E+09	16.21524	9.220715
C	2.21E+17	11.46701	NA

Based on the evidence presented in Table 5, it can be concluded that there is no multicollinearity problem. This is because the mean VIF values for the set of models are less than 10, and the tolerance values for all the variables are greater than 0.10 (Gujarati, 2004). This is substantiated by Baltagi (2015), who says that mean VIF below 10 and greater than 10% for tolerance values indicates no multicollinearity problem among the series in the distribution; it indicates that the series is not unhealthily related.

Test for Heteroscedasticity

The presence of heteroscedasticity is of major concern when applying regression analysis. Therefore, the initial step is to investigate whether the variance of the error term is constant. Heteroscedasticity occurs when the variance of the error term is not constant in that the variance of the error term changes as the values of the independent variables change. The heteroscedasticity test aims to interpret whether the regression model has different residual variances from observations (Ghozali, 2002). In this study, the Breusch-Pagan Godfrey test was used to examine heteroscedasticity. The null hypothesis for the test is that there is no heteroscedasticity. If the p-value is less than 5 percent, then reject the null hypothesis and conclude that the residuals are heteroscedastic. If heteroscedasticity is established, appropriate measures will be employed. Heteroscedasticity was tested using Breusch Pagan's Test.

Table 6: Test for Heteroscedasticity (Breusch-Pagan-Godfrey)

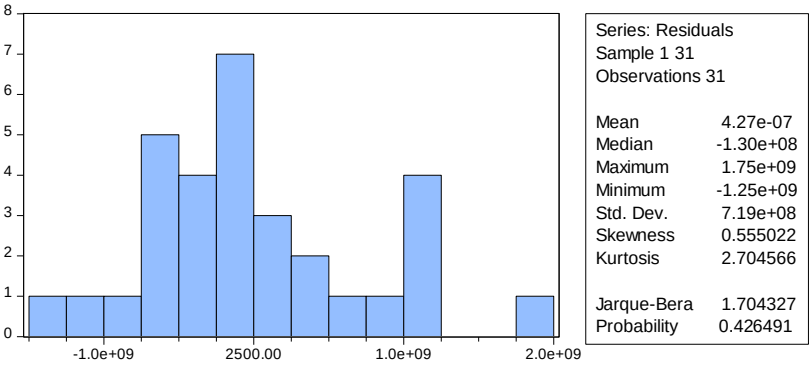
F-statistic	0.801984	Prob. F(4,26)	0.5350
Obs*R-squared	3.404760	Prob. Chi-Square(4)	0.4925
Scaled explained SS	2.041237	Prob. Chi-Square(4)	0.7282

Source: E-View Output, 2022

The presence of heteroskedasticity signifies that the variation of the residuals or term error is not constant, which would affect inferences regarding the beta coefficient, coefficient of determination (R2), and F-statistic of the study. Based on the results, it can be concluded that there is no problem of heteroscedasticity as the F-statistics and its corresponding probability stand at 0.8019 and 0.5350, which is insignificant, implying that there is absence of heteroscedasticity in the model (see Appendix B).

Test for Normality

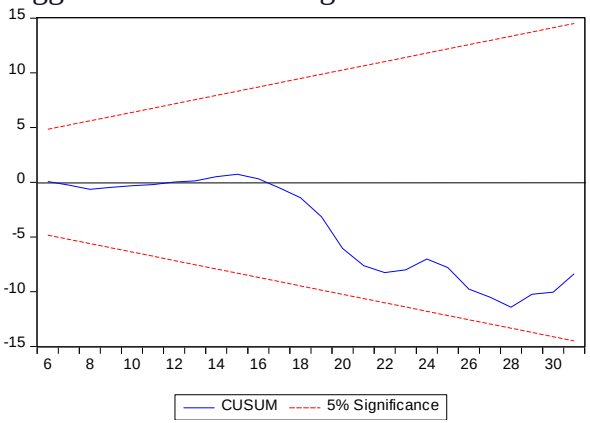
An assessment of the normality of data is a prerequisite for many statistical tests because normal data is an underlying assumption in parametric testing. The normality test ascertains if the data is well modeled around a normal distribution.



The residual test of normality indicates that the data were normally distributed because the probability of Jarque-Bera is 0.4264, which is greater than 5%.

CUSUM Stability Test

The structural approach model (CUSUM tests) assesses the stability of coefficients β in a multiple linear regression model of the form $y = X\beta + \varepsilon$. Inference is based on a sequence of sums, or sums of squares, of recursive residuals (standardized one-step-ahead forecast errors) computed iteratively from nested subsamples of the data. Under the null hypothesis of coefficient constancy, values of the sequence outside an expected range suggest a structural change in the model over time.



The CUSUM stability test indicates that development DEV is stable because the best line of fit is stable within the two bisecting lines in the result above.

Autoregressive Redistributive Lag Model

Table 7: ARDL Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
DEV(-1)	0.001555	0.183834	0.008457	0.9936
DEV (-2)	0.452721	0.158287	2.860125	0.0354
OMO	-23044455	6155422.	-3.743765	0.0134
OMO (-1)	7651915.	6773092.	1.129752	0.3098
OMO (-2)	16424647	5624314.	2.920294	0.0330
OMO (-3)	-5123136.	4269466.	-1.199948	0.2839
RR	-13099652	20334814	-0.644198	0.5478
RR (-1)	-60259414	21069042	-2.860093	0.0354
RR (-2)	-64058868	24616109	-2.602315	0.0481
RR (-3)	-99768449	19923965	-5.007460	0.0041
RR (-4)	-89950816	17291763	-5.201946	0.0035
RGDP	1708023.	8590676.	0.198823	0.8502
RGDP (-1)	12287658	8271087.	1.485616	0.1975
RGDP (-2)	-21531515	10435979	-2.063200	0.0940
RGDP (-3)	13177917	11774978	1.119146	0.3139
RGDP (-4)	44035804	10245999	4.297853	0.0077
MPR	-77201.51	48579.11	-1.589191	0.1729
MPR (-1)	276579.6	60724.41	4.554669	0.0061
MPR (-2)	-387434.4	107876.8	-3.591451	0.0157
MPR (-3)	-39320.87	132815.1	-0.296057	0.7791
MPR (-4)	444983.0	140092.0	3.176363	0.0246
C	3.80E+09	7.12E+08	5.337451	0.0031
R-squared	0.897670	Mean dependent var		3.49E+09
F-statistic	101.9345	Durbin-Watson stat		2.208016

Source: Eviews 12, 2023

The ARDL result in Table 7 reveals the explanatory power of the regression model with an r-squared of eight-eight (89%) percent. This indicates that 89% percent of the variation in macroeconomic variables is explained by the independent variables OMO, Required reserves RR, RGDP, and monetary policy rate MPR. Variables outside this model explain the remaining twelve percent. The Adjusted R2 of seventy-eight is close to the R2 value of eighty-nine, meaning that the model is fit and useful for making generalizations within this period. The Durbin-Watson

statistic shows no first-order serial autocorrelation in the model, given that its value is 2.2. Furthermore, the value of F-statistics stands at 101.93 with a corresponding probability of 0.0000, which is less than 0.05, indicating the absolute fitness of the model.

Conclusion

This study relied on aggregate indices of open market operation, growth (OMO, RR, RGDP, and MPR), and development in Nigeria from 1990 through 2022 to lend empirical credence to the relationship. The study relied on the Auto-regressive Distributed Lag (ARDL) Model approach and the Error Correction Mechanism (ECM) model procedure to establish a baseline asymptotic relationship between open market operation, growth, and development (DEV) in Nigeria. From the result, the combined effect of the selected variables on development (DEV) is significant. However, the effect gets diluted when the variables are considered individually. The study found that a percentage increase in OMO will decrease the development (DEV) in Nigeria. The study concludes that OMO is a predictor of DEV in Nigeria. Also, a percentage increase in required reserves RR will decrease the development (DEV) in Nigeria. Also, the structural approach model depicted a stable trend in economic development (DEV), which is the sick variable because the best line of fit is stable within the two bisecting lines in the result. Accordingly, the import of these findings is that RGDP does not possess the likelihood of influencing the extent of development (DEV)) in the Nigerian economy.

Conversely, real gross domestic product RGDP was found to statistically determine macroeconomic variables (RGDP) in Nigeria at a level of significance. This implies that RGDP does not affect Nigeria's variations in economic growth. Finally, it is concluded that the monetary policy rate will likely influence Nigeria's development (DEV) behavior. This conclusion may hold because the effect of MPR on the economy is pertinent as the increase in the supply (stock) of money will lower OMO, which, in turn, will stem investment in the country.

Recommendations

Based on the study's findings and conclusions above, the following recommendations are made: The study also recommended that the central government monitor required reserves through trend analysis based on the

critical role played by required reserves, which impacts consumer spending and saving behavior in businesses. Variations in required reserves would affect consumer spending, the level of savings of households, and the production and investment decisions of firms. The government should improve on the watch-out measures that will stabilize inflationary pressures even though they can stimulate an increase in development in Nigeria (in the short term. This is because every responsible government will consistently lower the inflation rate to suit an economy that favors investment activities in Nigeria.

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