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ANALYZING THE ROLE OF MONEY MARKET INSTRUMENTS IN SHAPING NIGERIA'S ECONOMIC DEVELOPMENT

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ABSTRACT

This empirical work was conducted to determine the extent to which the money market influences the development of the Nigerian economy, covering the period from 1986 to 2019. The impact of Treasury bills, commercial paper, certificates of deposit, and banker's acceptances issued within this timeframe was evaluated in relation to economic development in Nigeria. The study relied on secondary data, which underwent preliminary testing for multicollinearity to ensure the stability of the variables and the model. Data analysis was conducted using the OLS technique. The results revealed that commercial paper, Treasury bills, and certificates of deposit significantly influenced Nigeria's economic development, while banker's acceptances had a negative but insignificant impact. It was recommended that banker's acceptances as a money market instrument should be strengthened to contribute positively to economic growth. Financial regulators should implement policies to enhance stakeholders' understanding of money market operations and to prevent malpractices.

Keywords: money market, treasury bills, certificate of deposits, commercial paper, banker's acceptances

JEL: O10, E52, E58

INTRODUCTION

The financial literature emphasizes the role that an economy's financial system and activities play as a catalyst for economic growth (Guo, 2018; Liu et al., 2021), as surplus and deficit economic units interact productively to promote growth and development. According to Elijah & Hamza (2019), the financial sector of the Nigerian economy is undoubtedly one of the most vital parts of the economic system because it provides the lubrication that drives the nation's economy. It supplies the resources needed for profitable investments and allocates funds wisely and efficiently to ventures that yield the best returns to investors. To some extent, the health of the financial sector determines the growth of the economy (Briggs & Goya, 2023), and consequently, the country's economy suffers if the sector is underperforming.

Coincidentally, Avray et al. (2020) suggest that the financial market is institutionally arranged in a way that facilitates financial intermediation within the economy. According to Anyanwu (1996), this includes the capital market, which handles long-term loanable funds, and the money market, which deals with short-term instruments. The nature of the liquid instruments traded uniquely distinguishes the short-term, or money market, from the long-term, or capital market (Wieland et al., 2020). Additionally, the capital market is further divided into the secondary market, which is used to trade securities that have already been issued, and the primary market, which deals with raising new issues or cash. These markets provide the deficit economic units (savers) with the opportunity to invest surplus funds in securities and to retrieve those funds when necessary, as argued by Acharya and Koirala (2020).

From the foregoing, the money market represents the part of the nation's financial sector that offers securities or investments with maturities of less than a year. Consequently, it serves as an intermediary for short-term financial securities, primarily established to absorb savings for productive investments, while providing the government with funding to implement policies and programs (Oriakpono et al, 2022; Jiang, 2023).

Gbanador et al. (2023) suggest that the Nigerian economy is heavily reliant on the money market to support liquidity management and facilitate economic development. The market needs to be infused with adequate liquidity to boost investors' confidence. Although the nation's money market has experienced exponential growth in both the volume and value of securities traded since the financial sector was liberalized in 1986, according to Uruakpa (2019), it still requires further deepening to achieve the desired vitality of a healthy money market. This does not imply that the money market is ineffective or weak; instead, it emphasizes the importance and urgency of evaluating its performance relative to its overall contribution to the country's economic development. It also highlights the need to deepen and broaden the market to handle larger transactions without negatively impacting the prices of financial instruments and interest rates (Nwangolo & Ogechi, 2018). Therefore, the goal of the study is to determine how money market instruments used in Nigeria have influenced the growth of the Nigerian economy.

Following from the above, we outline the specific objectives of this study to include;

- Investigating the extent to which treasury bills induce development of the Nigerian economy.
- Assessment of the impact of commercial papers on the development of the Nigerian economy.
- Evaluation of the influence of bankers' acceptance on the development of the Nigerian economy.
- Determination of the influence of certificates of deposits on the development of the Nigerian economy.

Accordingly, the following hypotheses were formulated to proffer the needed research solution.

- H_O: Treasury bills do not influence the development of the economy of Nigeria.
- H_O: Commercial paper does not influence the development of Nigeria.
- H_O: The development of the Nigerian Economy is not influenced by bankers' acceptance.
- H_O: Certificate of deposits does not induce the development of the Nigerian economy

LITERATURE REVIEW

Economic development and growth have always been essential principles in economics. Economic growth implies an increase in a country's actual output of goods and services over time, which is typically measured by Gross Domestic Product (GDP) per capita or Gross National Product (GNP) (Agbada & Odejimi, 2015). Similarly, development can be viewed as a process that reduces poverty, unemployment, and income inequality, with the aim of improving welfare and living standards (Theaddus & Chigozie, 2015). In light of this, two major economic theories support this investigation: the modern growth theory and the financial intermediation theory.

Modern Growth Theory

The modern growth theory was propagated by Romer (1986) and expanded by Lucas (1988), Grossman and Helpman (1990); however, Shaw (1992) proposed that cross-border commerce will help a nation's knowledge base grow and its technical proficiency to advance. Romer (1990) and Rebelo (1991) contend that human capital can expedite capital accumulation and foster economic growth since it is a component of the production function of repeatable components and has non-decreasing returns to scale. They pointed out two main pathways by which any economy's financial sector might influence long-term growth: stimulation of capital accumulation and an increasing rate of technological progress. An efficient financial system mobilizes savings from the deficit economic unit, allocates capital to efficient investments, facilitates the exchange of goods and services, enables diversification and management of financial risk, as well as encourages capital inflows for competitive use (Mordi, 2010).

Theory of Financial Intermediation

The financial intermediation theory is associated with Goldsmith (1967), McKinnon (1973), Senbet and Otchere (2005). They argue that financial markets are essential for the growth or development of any economy; therefore, the variety and quality of services and products offered by financial institutions influence how economies evolve over time and differ across countries. In the words of Goldsmith (1969), the positive relationship that exists between gross national product and financial development is based on the impact that financial development has in promoting the efficient use of the capital stock.

Raymond Goldsmith (1969) provided stylized statistics about the development of the economy and financial structure in the 1960s. He found that for a developing nation's economy, its financial system grows more quickly than its total GDP. It appears that the division of roles between saving and investing among various economic components is the primary factor influencing the relative size of a nation's financial system. Supported by McKinnon (1973), Senbet and Otchere (2005), they argued that the main variables of financial repression include, among other things, restrictions on deposit rates and lending, high reserve requirements on deposits, directed credit, control over capital transactions in foreign currencies, and opening up banking activities. These variables are, however, measures of central banking governance and the regulatory framework for the level of money in circulation, which we call instruments of monetary policy.

Moreover, several studies, such as Demirgüç-Kunt and Levine (1999), find that from the 1960s to the 1990s, claims made by commercial banks and other intermediaries to the business community steadily increased as a share of GDP across a wide range of both wealthy and underdeveloped countries.

Literature review

The money market is a system for short-term financial resources. It is used by companies to raise funds for working capital, by banks to cushion provisional reserve losses, and by governments to balance their earnings and expenses (Iyoha, 2003). Unlike the commodity market, the term "money market" is rarely used in a specific location. However, money market activities can be associated with certain streets, such as Wall Street in New York, Lombard Street in London, and Broad Street in Lagos, Nigeria. These transactions are often impersonal and mainly conducted by telephone (Ajaji & Oji, 1981).

Moreover, the money market, according to Etale & Ayunku (2017), remains a key part of the financial sector in any economy, serving as the core of financial activities carried out by the main regulatory institution in the pursuit and implementation of monetary policy goals. It is a market or mechanism for short-term financial securities with maturities and durations ranging from one day to one year, including financial securities or assets that are close substitutes for money. This financial market performs several broad functions. First, it provides an intermediary mechanism for the demand and supply of short-term financial resources (Orok, 2019). Second, it facilitates borrowing and investment needs at an optimal market clearing rate. Lastly, it allows regulatory institutions to intervene in the financial system to influence the amount and cost of liquidity, which helps transmit monetary policy signals to the real economy (Nwankwo, 1970).

Notably, few studies have been conducted to specifically determine whether money market development positively influences economic growth and development. For example, Iwedi and Igbanibo (2005) examined the relationship between the operations of the money market in Nigeria and economic development, covering the period from 1980 to 2013. Using the Granger causality test, Johansen cointegration, and vector autoregressions (VAR), the results show a significant positive relationship between the variables in both the short run and long run.

Ezeanyeji and Ejefobihi (2015) aimed to determine the effect of inflation, moderated by monetary policy tools, on economic growth in Nigeria from 1991 to 2013, and found that inflation had a negative effect on Nigeria's economic growth. Similarly, Okpe (2013) examined the extent to which the money market influences the development of the Nigerian economy from 1987 to 2007. Using the OLS technique, he discovered that the stock exchange in Nigeria significantly contributed to financing small enterprises as well as medium-sized businesses.

Ikpefan and Osabuohien (2012) found a long-term relationship between monetary instruments, discount house operations, and economic growth after they used VECM and the co-integration technique to examine the engagement that exists between money market firms and the development of Nigeria from 1992 to 2007. Similarly, Ezeanyeji and Obi (2017) investigated how interest rate liberalization affected mobilization of deposits from 1981 to 2017. The results of the co-integration test, the Augmented Dickey-Fuller (ADF) test, and the error correction model (ECM) indicated that interest rates and regulation policy had no discernible impact on the raising of savings.

Similarly, Ehigiamusoe (2013) examined the influence of the money market on economic development in Nigeria from 1980 to 2012. Using the vector error correction model, Johansen’s cointegration test, and ordinary least squares method to analyze both the short and long-term

relationships, the results revealed a long-term impact of the money market on economic development.

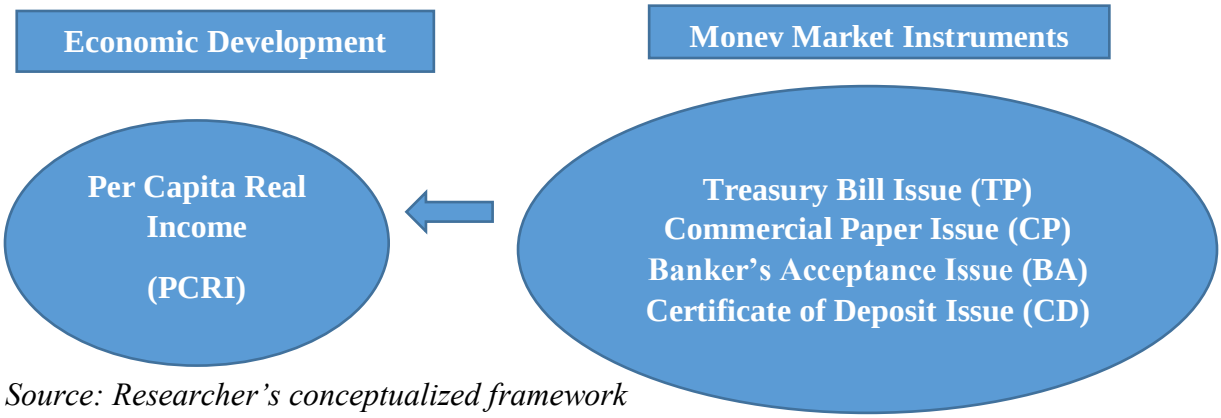
Furthermore, Agbada and Odejimi (2015) analyze the impact of money market operations and the sustainability of the Nigerian economy from 1981 to 2011. Economic sustainability was measured by gross domestic product. Using the ordinary least squares method, results indicated that certificates of deposit and treasury certificates had little correlation with commercial paper and GDP.

METHODOLOGY

This investigation used the ex-post facto technique, often called historical investigation and design since historical data are available. This method does not allow the researcher to manipulate variables because they have already happened and been recorded before the study was conducted. Therefore, such events cannot be manipulated or controlled by the researcher. Additionally, because the study involves a large population, the ex-post facto approach helps the researcher identify, characterize, and explain occurrences before drawing conclusions about the population from the data collected.

Basically, the data used in this study were obtained from secondary sources. The Central Bank of Nigeria Annual Report and Statistical Bulletin are two such sources, covering the period from 1986 to 2019.

Figure 1 Conceptual Model for the study



Source: Researcher's conceptualized framework

Model specification

The empirical form of this model is written as: $PCRI = \beta_0 + \beta_1 TB + \beta_2 CP + \beta_3 BA + \beta_4 CD + ut$

Where
β_0 = Intercept of the entire regression model
β_1¬ β_4 = parameters to be estimated
ut = Error term

This model presents evidence on the relationship between the development of the Nigerian economy and the money market. From the above model, we can establish apriori expectation for the variable thus:

$\beta_1>0$, $\beta_2>0$, $\beta_3>0$, $\beta_4>0$

The result of the above model specification aims to achieve the objectives of the study stated earlier.

DATA ANALYSIS, RESULTS AND DISCUSSIONS

Data Analysis

Given that this research relates to the economy, it aims to econometrically analyze the contribution of the money market to developing the Nigerian economy. A multiple key model has been predicted. Regression estimation was derived using Ordinary Least Squares estimates; it is the most reliable estimate for the study because of its general minimal bias and variance (Iyoha, 2004).

Descriptive analysis

The result of the descriptive statistics is presented in Table *1*. The analysis depicted that, per capita real income (PCRI), which proxies for economic development in Nigeria, stood at an average of 1,294.257 and a standard deviation of 919.0418. The highest PCRI was 3098.986 while its minimum was 270.2240. The variance between the minimum and the maximum figures informed the range of data. Treasury bills' minimum value was 65.90400 and maximum of 4555.502, with a mean and standard deviation of 1637.512 and 1604.073, respectively. This demonstrated that the TB was stationary and did not deviate significantly from the arithmetic mean. Similarly, the commercial papers' standard deviation stood at 73.84721 and is considered not to display wide dispersion from its mean value (83.45808).

Table 1 Descriptive statistics results

	PCRI	TB	CP	BA	CD
Mean	1294.257	1637.512	83.45808	23.76760	25.05300
Median	768.5669	1348.306	9.928536	14.83690	27.49000
Maximum	3098.986	4555.502	822.7009	81.83400	75.70283
Minimum	270.2240	65.90400	0.259000	0.008600	0.261900
Std. Dev.	919.0418	1604.073	73.84721	24.47921	21.04893
Skewness	0.530609	0.392927	2.914168	1.060344	0.510652
Kurtosis	1.731937	1.594205	11.58941	3.100539	2.327394
Jarque-Bera	2.873401	3.674587	152.6423	6.385515	2.118572
Probability	0.144179	0.159248	0.000000	0.041058	0.346703
Sum	44004.74	55675.42	2837.575	808.0982	851.8020
Sum Sq. Dev.	27873046	84910632	997354.4	19774.65	14620.89
Observations	34	34	34	34	34

Source: E-views 11.0 statistical software

Additional examination of the descriptive statistics showed that the mean value of banker's acceptance (BA) over the study period is 23.76760, with a standard deviation of 24.47921, ranging from a maximum of 81.83400 to a minimum of 0.008600. Additionally, certificates of deposit had a mean of 25.05300 and a standard deviation of 21.04893, with a maximum of 75.70283 and a minimum of 0.261900. The variable did not deviate significantly, as its mean value (25.05300) exceeds its standard deviation (21.04893) for the period.

Again, the analysis revealed that the skewness measurement showed that CD was negatively skewed, while PCRI, TB, CP, and BA were positively skewed. The coefficient of kurtosis for CP and BA indicated that these variables were peaked (3.00 and above), showing leptokurtic distribution relative to the normal distribution, whereas PCRI, TB, and CD had kurtosis values below 3.00, indicating platykurtic distribution. The Jarque-Bera (JB) test assesses the variability of skewness and kurtosis of the series in relation to the normal distribution. The Jarque-Bera values of 152.6423 and 6.385515 for CP and BA suggest that these variables pass the normality test, as their corresponding p-values are less than or equal to 0.05.

Correlation matrix

The results in

Table *2* below showed that PCRI and TB have a strong positive correlation of 0.7849, and PCRI also shows a strong positive correlation with CD at 0.7300. Similarly, TB and CD exhibit a strong positive correlation of 0.7454. Additionally, CP and BA have a strong positive correlation of 0.7351. In contrast, CP has almost no correlation with TB, with a correlation coefficient of -0.0105, indicating their linear relationship is negligible. Conclusively, the relationship between PCRI and the independent variables is strong and positive. These suggest that an increase in each of these series will lead to a simultaneous increment in the development of the Nigerian economy.

Table 2 Correlation Results

	PCRI	**TB**	**CP**	**BA**	**CD**
PCRI	1.0000				
TB	0.7849	1.0000			
CP	0.3237	-0.0105	1.0000		
BA	0.4621	0.2846	0.7351	1.0000	
CD	0.7300	0.7454	0.1672	0.3840	1.0000

Source: Researchers' computation with E-views 11 statistical software

Stability test

The CUSUM test below shows that the estimated model and elements were stationary due to the recursive error falling between the two critical lines.

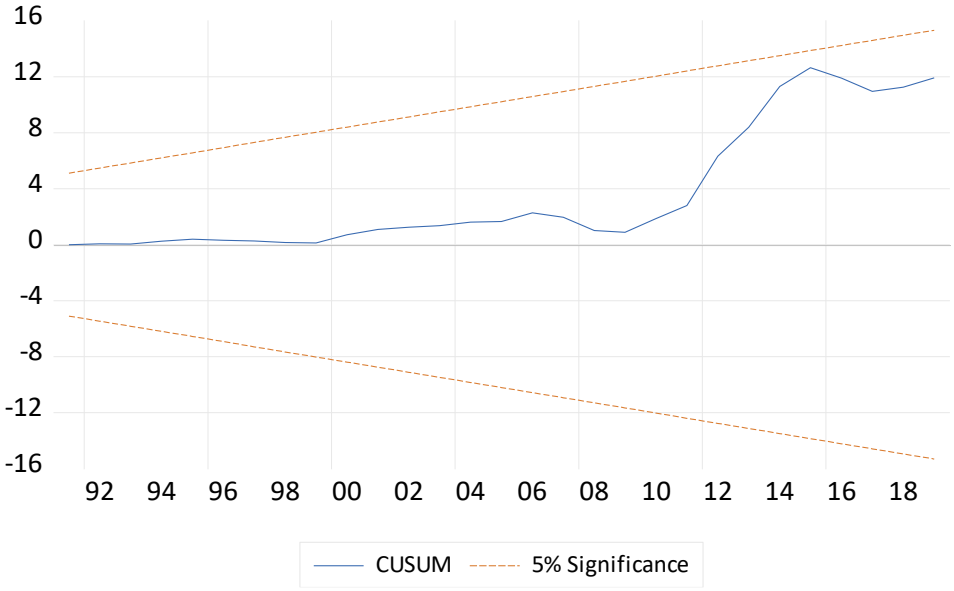


Figure 2 Stability Test
Source: E-Views 11 statistical software

Regression results

From Table *3*, the constant term efficiency of 40.6259 revealed that per capita real income (PCRI) in Nigeria will automatically witness a 40.625 percent increase if all other variables are held constant. Further examination of the outcome revealed that the coefficient estimated for treasury bills (TD) is 0.4391, indicating that 43 percent variability in TD will cause a simultaneous rise in per capita real income, which was found to be statistically significant. The economic implication is that TD has a positive influence on the development of the Nigerian economy.

Likewise, it was discovered that the forecast predictor of {1.7964} for commercial papers (CP) is statistically significant and indicates that an increase or decrease in CP will result in a similar proportionate rise in real per capita income (PCRI) in Nigeria. Also, the coefficient of banker's acceptance (BA) {-0.6838} reveals that a unit increase in BA will lead to a corresponding percent decrease of about 0.6838 in PCRI. This implies that bankers' acceptance has a negative impact on the development of the Nigerian economy. Lastly, certificates of deposit (CD) affects per capita real income (PCRI) positively but were found to be statistically insignificant. This demonstrates that certificates of deposit had a positive impact on the Nigerian economy.

The R2 is 0.7267, which is approximately 73 percent, indicating that the independent variables (TB, CP, BA, and CD) account for about 73 percent of the variation in the response variable (PCRI). This is why the actual and fitted curves on the graph are closely aligned, implying that the model fits well. The remaining 27 percent is explained by other factors not included in the study and the error term. The adjusted R-squared, at 0.6890, shows that adding extra variables does not significantly improve the model, as there is a 5 percent difference between the R-squared and the adjusted R-squared (73% - 68%).

Table 3: OLS regression result

Dependent Variable: PCRI
Method: Least Squares
Date: 08/21/21 Time: 16:07
Sample: 1986 2019
Included observations: 34

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	40.62591	14.74436	2.755353	0.0100
TB	0.439153	0.111100	3.952782	0.0005
CP	1.796471	0.818841	2.193920	0.0364
BA	-0.683837	5.964706	-0.114647	0.9095
CD	1.405155	8.415362	0.166975	0.8685

R-squared	0.726729	Mean dependent var	1294.257
Adjusted R-squared	0.689037	S.D. dependent var	919.0418
S.E. of regression	512.4951	Akaike info criterion	15.45151
Sum squared residuals	7616885.	Schwarz criterion	15.67598
Log likelihood	-257.6757	Hannan-Quinn criter.	15.52806
F-statistic	19.28048	Durbin-Watson stat	0.494057
Prob(F-statistic)	0.000000		

Source: Researcher's computation from E-views 11.0 statistical software

Test of hypotheses

To test the null hypothesis (that treasury bills have no effect on the growing size of the Nigerian economy), table 3 data show a TB value of 0.43915 with a probability of 0.0005, which suggests that treasury bills had a significant impact on how the Nigerian economy developed. As a result, we supported the alternative hypothesis that Treasury bills do have a substantial effect on Nigeria's economic development. This indicates that Treasury bills played a major role in the growth of economic activities in Nigeria between 1986 and 2019.

Table 3 shows that the coefficient of CP for the test of H02 (Commercial papers do not influence the development of the Nigerian economy) was 1.79647, with a significant p-value of 0.0364. This indicates that CPs have a substantial impact on the development of the Nigerian economy. Therefore, we agree with the alternative hypothesis that commercial papers significantly affect the development of the Nigerian economy.

Based on table 3, the study concluded that banker's acceptance (BA) with a coefficient of -0.68383 and a non-significant p-value of 0.9095 in testing for H03 (Banker's acceptance exhibits no influence on Nigeria's economic growth). This suggests that bankers' acceptance has no measurable effect on development; therefore, the study accepted its null hypothesis and determined that bankers' acceptance does not impact the growth of Nigeria's economy.

Certificates of deposits (CD) have a coefficient of 1.40515 and a non-significant p-value of 0.8685, according to Table 4.6's empirical test of H04 (Certificate of Deposits does not encourage the economic growth of Nigeria). This indicates that, while not statistically significant, certificates of deposit had a favorable impact on Nigeria's economic growth. Therefore, it was concluded that certificates of deposits do not promote the growth of the Nigerian economy, and the null hypothesis was retained.

Discussion of findings

This empirical study evaluates the influence of the Nigerian money market on Nigeria's economic growth using annual data collected over a period of 34 years. Descriptive statistics, Ordinary Least Squares (OLS), and a correlation matrix were employed to analyze the data. The descriptive statistics revealed no outliers in the data. The JB values for CP and BA are considered to pass the normality test, as their p-values are less than or equal to 0.05 (Emmanuel et al, 2020), indicating that the data can be generalized. The Pearson correlation matrix showed no multicollinearity issues, with relatively low correlations, and the relationships between per capita real income and the explanatory variables are positive and strong. These findings suggest that increases in each of these series will lead to a simultaneous rise in Nigeria's economic growth.

Based on the OLS regression results, the test for the presence of autocorrelation was conducted using the Durbin-Watson statistic. The DW statistic value of 0.4940, which falls between 0 and 2, indicates the absence of autocorrelation among the successive values of the variables in the model. The F-statistic of 19.2804, with a p-value less than 0.05, suggests that the explanatory variables collectively have a significant influence on development in the Nigerian economy. The R-squared value of 73 percent indicates that the explanatory variables (TB, CP, BA, and CD) account for about 73 percent of the variation in the dependent variable (PCRI).

Furthermore, the estimated least squares results shown in Table 3 revealed that a TB coefficient of 0.43915 with a significant probability value of 0.0005. This indicates that treasury bills have a significant and positive influence on the development of the Nigerian economy. By implication, this means that changes in TB over time will lead to a simultaneous increase in the growth of the Nigerian economy. This conclusion aligns with previous empirical studies, including the work by Agbada and Odejimi (2015); Igbinosa and Aigbovo (2015). Similarly, the results show that there is a substantial and beneficial impact of commercial paper on the growth of the Nigerian economy. This suggests that as the value of commercial papers increases, there is a positive rise in the growth of the Nigerian economy. These findings are consistent with Ehigiamusoe (2013); Agbada and Odejimi (2015); Igbinosa and Aigbovo (2015), who determined that the increased distribution of commercial papers and Treasury notes would boost economic growth.

Furthermore, the estimated results show that the banker's acceptance had a non-significant impact on the development of the Nigerian economy. This implies that changes in BA will negatively affect economic development. It is surprising to see a negative correlation between economic development and bankers' acceptances issued, which may be because they mature in short bursts, often lasting three to six months. This finding contrasts with the work of Igbinosa and Aigbovo (2015). Lastly, the regression analysis of certificates of deposit indicates a positive influence on Nigeria's economic development, but it was not statistically significant. This is consistent with Oluwole's (2014) empirical findings that certificates of deposit had a non-significant effect on stock market development in Nigeria.

From the analyses, the following findings were made:

1. Treasury bills have a significant and positive influence on the development of the Nigerian economy.

2. Commercial paper showed a significant and positive influence on the development of the Nigerian economy.
3. Banker's acceptance showed a non-significant and negative influence on the development of the Nigerian economy.
4. Certificate of deposit showed a non-significant, but positive influence on the development of the Nigerian economy.

CONCLUSION AND RECOMMENDATIONS

To sum up, our research has provided important insights into how different money market instruments influence the growth of economic activities in Nigeria. Our results emphasize the importance of commercial papers and Treasury bills as major drivers of economic expansion, highlighting their significant and positive effects. Ultimately, the findings show that these money market instruments all contribute to Nigeria's economic development, although the contribution of certificates of deposit was found to be beneficial but not statistically significant, and the contribution of banker's acceptance was negative and also not statistically significant.

These findings have important implications for the banking industry and regulators because they highlight the need to strengthen and support the use of commercial papers and treasury bills as tools for encouraging economic growth. Based on these findings, future research could explore the underlying factors that limit the effectiveness of certificates of deposit and banker's acceptances, as well as the long-term impacts of money market instruments on broader economic indicators.

Recommendations

The following economic recommendations are suggested in light of the findings and outcomes:

a. Implement laws and strategies to support and enhance the growth of the money market, such as treasury bills and commercial papers, which should remain key tools for the country's economic development. The Nigerian government should also ensure a stable and predictable issuance schedule to boost investor confidence.
b. Considering the significant and positive impact of commercial papers on the economy, authorities should strengthen the regulatory framework to promote transparency and minimize risks related to commercial paper transactions, while also offering incentives for businesses to issue commercial papers, such as tax advantages or simplified issuance processes.
c. Conducting a comprehensive review to identify the factors contributing to the negative impact of Banker's Acceptance is necessary, while addressing these issues through targeted reforms.
d. Industry practitioners should promote greater awareness among investors about the benefits and security of investing in certificates of deposit.

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