

# Impact of Monetary Policy on Credit and Investment in Nigeria (1981 – 2020)

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**Abstract.** *In auspicious macroeconomic setting, monetary policy should increase credit availability, particularly in the real sector, to spur investment; however, this is not the case in the Nigerian economy. In this study, the impact of monetary policy on bank credit and investment in Nigeria from 1981 to 2020 was investigated. The central bank of Nigeria's statistics bulletin was the source of the data used in this study. Using the data gathered, the study used Auto-Regressive Distributed Lag (ARDL). The study's findings indicate that bank loans and investment have a long-term association with monetary policy. In addition, it was observed that while bank loans to the private sector and the liquidity ratio had short-term negative effects on investment, the cash reserve ratio, monetary policy, money supply, and inflation rate had long-term positive effects on investment. According to the study's findings, monetary policy significantly and favorably affects bank credit and investment in Nigeria. The study suggested that the CBN adjust the monetary policy rate by reducing the cash reserve ratio, which will increase liquidity and allow the banks to discharge their credit capacity with the aim of improving investment in Nigeria. Monetary authorities should view credit as a major channel for implementing monetary policies, and this urgent adjustment should be made.*

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## Introduction

The CBN's monetary policy has a significant impact on the banking industry since it may either encourage or discourage banking activity (Udeh, 2015). Economic stability depends on how banks respond to changes in monetary policies since the sector's productivity and effectiveness are impacted by changes in the tools used to implement monetary policy (Jordi, David & Javier, 2002). Variations in deposit money banks' desire and capacity to advance loans will have an influence on overall economic activity since credit advancement is

crucial to the monetary transmission mechanism (Ubi, Lionel & Eyo, 2012).

The period of monetary policy in Nigeria can be recognized to the pre and post 1986 era. Preceding the year 1986, in order to accomplish value dependability in Nigeria the public authority utilizes direct money related control which lead to showcase component after the progression (Uchendu, 2009). The fixing of generally low loan fees was done deliberately to improve venture and development. Every so often, CBN forced exceptional stores on banks to decrease the measure of inordinate reserves (Okafor, 2009; Jegede, 2014).

On the other hand, investment is a basic macroeconomic variable that is critical for money related turn of events and improvement of a country. Investment can be insinuated as the procurement of items that are not consumed today yet are used in the future to make further capital or wealth (Ogunsakin, 2016). Investment is depicted as the making of capital items. Heim (2008) trusted that in finance, an endeavor is a cash related asset purchased with the likelihood that the asset will yield a clear benefit in the later years. Relating monetary way to deal with investment creation, Khan (2010) fought that monetary technique objections are stressed over the organization of amounts of monetary targets which join, supporting turn of events, accomplishing full business, settling esteem, dismissing financial crisis, offsetting certified trading scale and advance expenses. Obviously, these objectives are for the most-part-not-consistent-with-each-other, as-the-tendency-of-cash-related-technique-objectives-are-gotten-upon-the-reliability-consigned-by-monetary-subject-matter-experts-or-country-needs.

The summit bank utilizes expansionary and contractionary financial approach to impact the degree of venture through credit supply. Any arrangement means by the peak bank to collect its cash supply is known as expansionary strategy while contractionary strategy is an action provide by a similar bank to diminish cash supply in order to produce a compression in financial exercises (Suranovic, 2010; Ihugba, 2015). One flaw in the monetarist money-related approach is that it ignores the effects of contractionary money-related arrangements on the economy's stockpile side. Due to a lack of credit, it is necessary to limit business usage, venture, and employment.

On the off chance that credit is reduced due to contractionary financial approach, just the somewhat better supplied families and firms will approach credit. Additionally, as firms are compelled to chop down business and venture, the ineffective specialists are the essential focuses for conservation. In this way, the impacts of credit requirements might demolish pay imbalance that is lopsided appropriation of profit and openings. Second, close financial approach has significant open economy impacts that have suggestions for business and expansion this is on the grounds that the point of tight money related strategy is to lessen the expanding inflationary rate in an economy. Low homegrown credit, exorbitant loan fees, and solid public money sabotage trade seriousness, prompting a disintegration of the current record (Léonce, 2016). These potential stock results of financial approach call for cautious assessment on impact of money related strategy using a loan and interest in Nigeria to target low swelling rate which has been an issue to the money related arrangement.

Monetary policy is anticipated to enhance credit facilities, particularly in the real sector, to spur investment in an advantageous macroeconomic climate. Strangely, the situation in Nigeria is the opposite, since there has been a credit crunch in the real sector of the economy, which has a negative effect on the choice to invest. Since they are unable to implement company ideas that may develop into successful investment initiatives owing to a lack of funding, Nigerian businesses do indeed have limited credit. The value of domestic credit to the ratio of GDP supplied to the private sector as credit during the last two decades, according to Udeh (2015), confirms the aforementioned. According to the CBN, the GDP-to-private-sector ratio, for instance, was 8.25 percent in 2000, rose to 13.49 percent in 2010, and then decreased to 13.08 percent and 10.47 percent, respectively, in 2015 and 2019. (2020). This indicates that the credit extended to the private sector does not match the projected level of investment needed to boost Nigeria's economic growth.

The government has not been completely excluded from the monetary policy experiment, but it is still impossible. Several changes to the credit rate, cash reserve ratio, money supply, monetary policy rate, credit to the private sector, etc. have not entirely increased investment in Nigeria. This may be linked to the central bank's and deposit money bank's respective ineffective policies, high monetary policy rates, high interest rates, etc.

The supply leading theory argues that credit expansion is anticipated to increase investment. Strangely, the situation in Nigeria is the opposite. Yet, based on thorough examinations of the work produced by academics like Amasoma, Nwosa, and Olaiya (2011), Adebusuyi (2014), and Ajayi and Kolapo (2018), to name a few. In Nigeria, there hasn't been much study done in this area, therefore the literature has tended to concentrate on how monetary policy affects credit and investment separately. To the best of the researcher's knowledge,

no study has examined the influence of monetary policy on credit and investment in Nigeria in a comprehensive and all-encompassing manner. On that basis, the goal of this study is to examine how Nigeria's monetary policy has affected credit and investment over the course of the country's 39-year history, from 1981 to 2020.

The aim of the study is to examine the interaction between monetary policy variables and investment in Nigeria.

### Literature Review

A collection of measures known as monetary policy aims to maintain the value, availability, and cost of money in a particular nation in line with the level of economic activity (Adejare, 2014). Monetary policy refers to monetary authorities measures that are intended to influence monetary sector behaviors' (Abdullazeez, 2016).

The central bank of Nigeria defines bank credit as the total amount of loans and advances made to economic agents by banks (CBN 2009). The procedure through which a bank or financial institution lends money to a single borrower, a group of borrowers, or a customer is known as "bank credit" (Atanda, 2012). financial resources development of human capital, Investments are actual assets, both productive and unproductive, that may be made (Goher, 2012). It also stated that investment in any form yields positive results that are beneficial to a country economic efficiency (Udoh, Dauda, Ajayi, & Ikpechukwu 2021).

McKinnon (1973) asserts that because the state of the money supply has a first-order impact on saving and investment decisions and because money is the primary determinant of savings and investment, the demand for money is directly and positively related to the process of building up physical capital.

The concept by Knut Wicksell, a Swedish economist who was highly influenced by the quantity theory of money. Wise claims that Wicksell's theory is supported by a comparison of the marginal product of capital and the cost of borrowing money (2006). As a result, Wicksell's theory saw economic progress through the lens of money. If the interest rate on a loan was lower than the natural rate of return on capital, business owners would borrow at the money rate to purchase capital goods (Wicksell, 1901).

In 2008, Rafiq and Mallick used a novel VAR identification method to assess how monetary policy affected output in the three largest euro area countries (Germany, France, and Italy). From 1981 to 2005, quarterly observations were employed. According to the data, Germany has the most effective monetary policy innovations. Apart from Germany, it's unclear whether higher interest rates lead to lower output, demonstrating a lack of consistency in the responses.

In order to examine the interest rate pass-through from money market rates to bank credit rates in the Eurozone and the US, Kwapi and Scharler (2010) employed monthly data, Engle-Granger co-integration, and the autoregressive distributed lag (ARDL) method. They found that the United States had a quicker interest rate pass-through than Europe.

The reviewed literature in Nigeria consists of: Amassoma, Nwosa, and Olaiya (2011) examined how Nigerian monetary policy changed throughout the years, as well as how it affected macroeconomic indices. The unit root and co-integration tests were also performed using a simplified Ordinary Least Squares approach. The study's findings revealed that several policy initiatives have been implemented in monetary policy, resulting in consistent improvement over time. The results also showed that while price volatility is significantly influenced by monetary policy, the exchange rate and money supply are very little affected.

Onouorah and Ehikioya (2011) investigated the connection between private investment and monetary policy in Nigeria from 1980 to 2009. The empirical analysis of the long-term relationship between private investment and economic development in Nigeria was conducted using a functional monetary policy measure. The findings, which used the Vector Auto-Regression Model approach to look at the stationary series of variables, showed that the money supply has a negative impact on private investment in Nigeria in the short run, but that GDP and other factors had a favourable impact in the long run. This suggests that the country's private sector has benefited from Nigeria's monetary policies. This study clarified the link between private direct investment and monetary policy in Nigeria, but it did not clarify the relationship between monetary policy and credit mobilisation, prompting the present study.

An article on monetary policy and economic development in the United States was written by Dimitrijevi and

Lovre (2013) in a similar vein. The quantity theory of money, velocity of circulation, and monetary policy instruments were examined in order to evaluate whether or not monetary policy promotes or restrains economic growth. Conceptual literature and theoretical methods were also employed in the study to support these findings. Based on information from the literature, the research came to the conclusion that monetary policy will indeed affect economic growth, even over the long term.

Sulaiman and Migiyo (2014) utilised macroeconomic indicators such the GDP, cash reserve ratio, monetary policy rate, exchange rate, money supply, and interest rate to assess the link between Nigerian economic development and monetary policy from 1981 to 2012. According to the co-integration test, there is a long-term link between monetary policy and economic development, and the causality test identified a strong flow of unidirectional causation between the two.

A supervisory dataset of loan applications and sanctioned loans was utilized by Abuka, Peydro, and Presbitero (2015) to empirically explore the bank credit channel in Uganda from 2010 to 2014. Other research from poor nations was also looked at. The study examined a brief period of time when the policy rate rose by 1,000 basis points before falling by 1,200 basis points using the ordinary least square estimate method. According to the findings, increases in interest rates have a considerable impact on retail credit rates and have an extensive and strong impact on the availability of bank credit.

The researcher highlighted that there haven't been any other empirical studies on the subject except from the one by Léonce (2016), which examined how monetary policy affects loans and investments in developing nations. The researcher draws the conclusion that prior research has mostly concentrated on monetary policy with regard to bank credit and investment on the one hand, respectively. As a result, the researcher is driven to fill a gap in the literature rather than rely on past studies that fell short of doing so by conducting an empirical analysis of how monetary policy affects credit and investment in Nigeria. A time-specific study from 1981 to 2019 should be conducted to better analyse the subject of interest because the researcher found evidence of mixed and conflicting results from earlier investigations.

Brima and Brima (2017) looked at how monetary policy changes in Sierra Leone had an impact on private sector investment behavior. From 1980 to 2014, theories and empirical research were assessed in search of a workable model for private sector investment. The results show that the treasury bill rate, inflation, and gross domestic debt have a negative influence on private sector investments whereas the money supply and gross domestic saving have a positive and statistically significant impact. In order to improve the amount of credit available to the private sector and hence promote private investment, the key policy proposal of this research is to make it simpler to form financial institutions.

The impact of various monetary policy tools, such as the money supply and the interest rate, on India's price level, overall demand, and overall supply was examined by Bhat and Acharya (2019). The regression analysis indicates that the money supply and interest rates are crucial monetary policy instruments because they have an impact on price levels, total demand, and total supply.

The empirical data on the elements influencing bank credit was supplied by Nigerian researcher Oyebowale (2020). Using yearly data from 1961 to 2016, the study's sparse model analyses the effects of growing loan-to-deposit ratios, inflation, wide money, and bank capital on the expansion of bank credit. This study uses Granger causality tests and the autoregressive distributed lag (ARDL) bounds testing technique to examine the connection and direction of causality among the variables. According to the Granger causality studies, broad money expansion in Nigeria fosters the rise of bank credit, but no other explanatory variables are causally related to bank credit. This study suggests that increased bank credit causes Nigeria's loan-to-deposit ratio to grow as well as inflation. According to the survey, Nigerian commercial banks are very worried about their liquidity and capital adequacy requirements even if they serve as financial intermediaries.

In order to determine how variations in the inflation rate impact the efficiency of monetary policy instruments to stabilise the Nigerian economy and encourage investment, Ezeibekwe (2020) analysed data from 1981 to 2018 using the vector error correction model. An empirical study suggests that the level of inflation affects how interest rates affect investment. Interest rate instruments that directly alter interest rates, such as the monetary policy rate (MPR), are effective stabilisation tools when inflation is low but ineffective when inflation is high. When inflation increases, the amount to which interest rates affect investment declines. Low interest rates on bank loans are to blame for this. Furthermore, the degree of inflation has no effect on the effect of the money supply objective on investment. This demonstrates Using a vector autoregressive model to analyze monthly data spanning 10 years, Udoh, Dauda, Ajayi, and Ikpechukwu (2021) examined the

applicability and effectiveness of the credit channel in the dissemination of monetary policy in Nigeria (2008-2018). The asset and liability sides of the bank's balance sheet are represented by Bank total asset and Bank deposits, respectively, in the empirical study, which is based on Uslu (2016). All Share Index (ASI), Market Capitalization (MK), and Consumer Price Index (CPI) are used to represent substitutable assets on a bank's balance sheet, while the Purchasing Managers Index (PMI), Consumer Price Index (CPI), and Real Effective Exchange Rate (REER) are used as proxies for macroeconomic activity.

## Methodology

Examining how Nigeria's monetary policy affects credit and investment is the major goal of this study and to achieve the objective above, this study empirical model was built on the theoretical framework conclusion with the goal of establishing a link between monetary policy, credit and investment. As a result, historical monetary policy credit and investment numbers and data are drawn from secondary data that cannot be changed.

Model: representing effect of monetary policy on credit and investment.

$$INV = (BCPS, CRR, LR, MS, MPR, INF)$$

Where:  $INV = Investment$ ;

$BCPS = Bank\ credit\ to\ private\ sector$

$CRR = Cash\ reserve\ ratio$

$LR = Liquidity\ ratio$

$MPR = monetary\ policy\ rate$

$MS = Money\ supply$ ;

$INF = Inflation\ rate$

$f = functional\ notation$

The theoretical framework for the above model is the financial development growth of the supply leading and demand following hypothesis. This idea is helpful because it clarifies the role that money plays in an economy. All economy's growth and development depend heavily on the availability of money; as a result, if the monetary authority does not understand this notion, any formulation on credit and investment might be a waste of time and resources. Hence, credit has to be established before investing.

## Econometric Model

The auto-regressive distributed lag (ARDL) bank test is used in the study to look at how Nigerian monetary policy affects loan and investment over the long and short terms. In order to determine whether there is a long-term link, we perform an ARDL bound co-integration test in our study. Similar to this, an ARDL may be transformed into a dynamic error correction model (ECM) via a straightforward linear transformation.

$$\ln \ln(INV)_t = \lambda_0 + \sum_{i=1}^n \lambda_1 + \Delta \ln(INV)_{t-1} + \sum_{i=1}^n \lambda_2 + \Delta \ln(BCPS)_{t-1} + \sum_{i=1}^n \lambda_3 + \Delta \ln(CRR)_{t-1} + \sum_{i=1}^n \lambda_4 + \Delta \ln(LR)_{t-1} + \sum_{i=1}^n \lambda_5 + \Delta \ln(MS)_{t-1} + \sum_{i=1}^n \lambda_6 + \Delta \ln(MPR)_{t-1} + \sum_{i=1}^n \lambda_7 + \Delta \ln(INF)_{t-1} + \beta_0 \ln \ln(INV)_{t-1} + \beta_1 \ln(BCPS)_{t-1} + \beta_2 \ln(CRR)_{t-1} + \beta_3 \ln(LR)_{t-1} + \beta_4 \ln(MS)_{t-1} + \beta_5 \ln(MPR)_{t-1} + \beta_6 \ln(INF)_{t-1} + \mu_{it}$$

Where  $ECM_{t1}$  denotes the first difference operator and is the one-period lag error correction term computed from the equation. The error correction term coefficient derived after estimation measures the rate of adjustment to reach equilibrium in the event of system shocks. Once the long run relationship is calculated using the selected ARDL model, a variety of diagnostic and stability tests are employed to evaluate the model's goodness of fit.

**Results And Discussion**

**Table 1. Unit Root Test on Monetary Policy, Bank Credit and Investment**

Variables	Test statistics	Variables	Test statistics	Critical value			Order of Integration
				1%	5%	10%	
-----	-----	INV	-3.869495	-3.615588	-2.941145	-2.609066	I(1)**
BCPS	-4.482032	BCPS	-4.482032	-3.615588	-2.941145	-2.609066	I(1)**
CRR	-5.428719	CRR	-5.428719	-3.615588	-2.941145	-2.609066	I(1)***
LR	-6.916529	LR	-6.916529	-3.615588	-2.941145	-2.609066	I(1)***
MPR	-3.222761	MPR	-3.222761	-3.610453	-2.938987	-2.607932	I(0)**
MS	-4.012095	MS	-4.012095	-3.615588	-2.941145	-2.609066	I(1)**
INF	-4.883197	INF	-4.883197	-3.610453	-2.938987	-2.607932	I(0)**

Note: \* (\*\*) (\*\*\*) denotes null hypothesis at 10%, 5%, and 1% level of significance, respectively.

Source: Author’s Computation (2021), E-view Statistical Package.

The outcomes of the Augmented Dickey-Fuller unit root test are presented in Table above. The results showed that the monetary policy rate (MPR) and inflation rate (INF) had achieved stationarity at the level and at the 5% level of significance. Moreover, stationarity was obtained at the first difference and the 5% level of significance for the investment (INV), bank credit to the private sector (BCPS), cash reserve requirement (CRR), liquidity ratio (LR), and money supply (MS) variables.

If all of the variables reached stationarity in the same order of integration, Johansen co integration should be used, and if not, the Autoregressive Distributed Lag Model (ADRL) should be used. Notably, the model contains combinations of I(0) and I(1), nullifying the use of Johansen co integration in favor of the Autoregressive Distributed Lag model (ADRL).

**ARDL Bound Cointegration**

**Table 2. ARDL Bound test**

Null Hypothesis	F – Statistic	Critical Values Bounds		
		Significance	Lower Bound	Upper Bound
No Long-Run Relationships Exist	8.296530	10%	1.75	2.87
		5%	2.04	3.24
		2.5%	2.32	3.59
		1%	2.66	4.05

Source: Author’s Computation (2021), E-view 9 Statistical Package.

According to table above, the computed F-stat of 8.296530 is higher than the Upper Bound table value at any% level of significance. In this investigation, the null hypothesis is rejected. A long-run connection is implied by the term, meaning that the variables move together over time. This demonstrates that the study might continue with a dynamic approach that accounts for both long- and short-term errors.

**Long and Short Run Estimation Coefficients**

After confirming the existence of a long-run link between the variables, the study uses the ARDL model to estimate long and short run parameters.

**Table 3. Long Run Co-Integrating Coefficients**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.306029	1.029212	1.268960	0.2450
BCPS	-5.432566	10.466297	-0.519053	0.6113
CRR	0.425183	0.821781	0.517393	0.6124
LR	-1.818031	4.601685	-0.395079	0.6983
MPR	2.498997	4.997899	0.500009	0.6243
MS	6.218277	10.575573	0.587985	0.5653
INF	0.742307	1.561115	0.475498	0.6413

Source: Author’s Computation (2021), E-view 9 Statistical Package.

The investment coefficient is positive and statistically insignificant, as shown in table above. Investment will rise by 13.06 percent, assuming all other factors stay the same. Indicating a negative and statistically insignificant long-term association between bank credit to the private sector, liquidity ratio, and investment

in Nigeria, the coefficients of bank credit to the private sector and liquidity ratio were both negative. A shift in bank credit to the private sector and a tightening of the liquidity ratio in Nigeria will lead to losses in investment of 54.32 percent and 18.18 percent, respectively.

Indicating a positive but statistically negligible long-run link between the cash reserve ratio, monetary policy, and investment, the coefficients of the monetary policy rate and the cash reserve ratio indicated a positive but statistically insignificant association with investment. Hence, a 1% increase in the monetary policy rate and a 1% increase in the cash reserve ratio will respectively boost investment by 4.25 percent and 24.98 percent in Nigeria. Also, the money supply coefficient yielded a favorable and negligible result, indicating that a 1% rise in the money supply will lead to an increase in Nigerian investment of 62.18 percent.

Finally, in Nigeria, inflation had a positive but statistically insignificant relationship with investment levels. This demonstrates that inflation and investment levels in Nigeria have a long-term, positive but tepid connection. In Nigeria, an increase in inflation of 1% will lead to an increase in investment of 7.43%. In the long run, monetary policy and bank credit would not be able to significantly expand investment in the country, according to the findings.

The lack of significance of these variables suggests that the monetary authority's current use of monetary policy tools is not encouraging; specifically, the Central Bank of Nigeria's monetary policy rate has not yet proven to be effective in influencing and stimulating domestic investment, which would allow for the facilitation of loanable funds to bank customers at a regularized rate of interest. It also suggests that requiring banks to set aside a larger portion of their deposit obligation than necessary will undoubtedly damage the cash available for transactions; the less money available for transactions, the fewer investments that can be made in the nation. Hence, to maintain banks' credit more money to the public for feasible investment activities, the government, through the monetary authority, should regulate the cash reserve ratio of banks. To accelerate and boost domestic investment, the amount of money supply must be raised so that it may move freely across the nation. The government is urged to develop a framework for policy that can checkmate and control the increasing inflation rate before it cripples the economy and prevents investment activity. Controlling inflation is a key goal of monetary policy, but this has not been producing the desired results.

Table 4. The Short-run Dynamics and Error Correction Model Table

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INV(-1))	0.329026	0.188970	1.741158	0.1021
D(BCPS)	-0.659341	0.229818	-2.868971	0.0117
D(BCPS(-1))	0.423359	0.231741	1.826861	0.0877
D(CRR)	0.040508	0.074652	0.542623	0.5954
D(CRR(-1))	0.253314	0.077509	3.268169	0.0052
D(LR)	-0.151612	0.133266	-1.137660	0.2731
D(MPR)	0.176735	0.160888	1.098495	0.2893
D(MPR(-1))	0.435300	0.154501	2.817452	0.0130
D(MS)	0.518563	0.241917	2.143558	0.0489
D(INF)	-0.000699	0.024666	-0.028327	0.9778
D(INF(-1))	-0.063414	0.026095	-2.430079	0.0281
ECM(-1)	-0.273169	0.113708	-2.402373	0.0229

Source: Author's Computation (2021), E-view 9 Statistical Package.

The findings in table above show that the coefficient of the error correction term ECM (-1) has the correct sign and is significant at the 5% level. The value of the coefficient is -0.273169. The short-run discrepancies are stabilized and integrated into the long-run equilibrium connection in around 27.32 percent of cycles. Or to put it another way, the equilibrium point for monetary policy was at a rate of 27.32 percent. As a consequence, Nigeria's yearly correction and inclusion of the short-term monetary policy difference of 27.32 percent was made.

D(BCPS(-1)), the coefficient of bank credit to the private sector, had a negative and substantial impact on investment at lag one of 5%, but it became positive and insignificant at lag one of 5%, but significant at lag one of 10%. As a result, the connection between private-sector bank loans and investment is both positive and small, at 5%. As a result, a 1% increase in bank credit to the private sector will result in an increase in investment of 42.3 percent. The cash reserve requirement variable had a favorable but negligible effect on

investment in Nigeria at first. However, at lag one  $D(CRR(-1))$ , the variable became significant, implying a positive and significant connection with investment of 25.33 percent.

Also, evidence from the findings suggests that, with a matching coefficient value of 0.151612, the ongoing link between the liquidity ratio and investment in the nation during the study period remained unfavourable and inconsequential. As a result, a rise in the liquidity ratio by 1% will have a negative impact on Nigeria's investment level by 15.16%. The end outcome is linked to a long-term impact on investment that is detrimental and negligible. Furthermore, the study revealed that while the monetary policy rate had a beneficial, short-term impact on investment, it had a large, long-term impact at a level of 5% after one lag. A 1% increase in the monetary policy rate would raise investment in Nigeria by 43.53 percent, indicating that the monetary policy rate at lag one  $D(MPR(-1))$  had a positive and large influence on investment.

The availability of money has a favorable and notable impact on investment in Nigeria. As a result, an increase in the money supply of 1% will positively and significantly affect the level of investment in Nigeria to the tune of 51.85%. In addition, inflation was initially predicted to have a negative and insignificant impact on the level of investment, but after lag one, or  $D(INF(-1))$ , it became significant, which means that inflation significantly and negatively influenced investment in Nigeria by 6.34%. Thus, on the short run, the study established that bank credit, liquidity ratio and inflation rate failed to significantly contribute to investment level in the country, as such, the effect they portrayed on investment activities is meaningless.

### Conclusion and Recommendations

The study concludes that banking is a risky profession, particularly when it comes to expanding credit, Nigerian DMBs should not forego efficient and effective monetary policy in order to succeed and survive. Banks are required to maintain adequate liquidity in order to meet their financial obligations to customers or depositors, with the purpose of stimulating economic activity and increasing shareholder returns. If banks strictly adhere to the Central Bank of Nigeria's minimum liquidity requirement, the optimal liquidity level could be obtained.

It is vital to offer some policy solutions that would support Nigeria's monetary policy on credit and investment decisions based on the information supplied by the empirical findings.

- i. Deposit money banks should avoid holding excessive liquidity as a reserve for clients' unexpected withdrawal needs.
- ii. Credit should once again be seen by monetary authorities as a primary avenue for implementing monetary policies;
- iii. Monetary authorities should work to establish indirect monetary tools and maintain proper supervision over the monetary sector in order to successfully increase bank credit.
- iv. Banks should completely extend loans to the private sector to those who have been identified to invest in developing the nation;
- v. Banks should provide a platform where their consumers can learn about several investment options other than participating in an useless enterprise.

### Authors Contributions

**Conceptualization:** Aanuoluwapo Adebisi Olonila; **Methodology:** Aanuoluwapo Adebisi Olonila; **Validation:** Ditimi Amassoma (Prof.); **Formal Analysis:** Bayode Olusanya Babatunde (Phd); **Investigation:** Aanuoluwapo Adebisi Olonila, Ditimi Amassoma (Prof.); **Resources:** Aanuoluwapo Adebisi Olonila; **Data Curation:** Aanuoluwapo Adebisi Olonila, Bayode Olusanya Babatunde (Phd); **Writing - Original Draft Preparation:** Aanuoluwapo Adebisi Olonila; **Writing - Review And Editing:** Aanuoluwapo Adebisi Olonila, Bayode Olusanya Babatunde (Phd) And Ditimi Amassoma (Prof.); **Visualization:** Aanuoluwapo Adebisi Olonila; **Supervision:** Bayode Olusanya Babatunde (Phd) and Ditimi Amassoma (Prof.); **Project Administration:** Aanuoluwapo Adebisi Olonila; **Funding Acquisition:** Aanuoluwapo Adebisi Olonila, Bayode Olusanya Babatunde (Phd) and Ditimi Amassoma (Prof.)

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