MONETARY-FISCAL INTERACTIONS AND THE STABILITY OF MONEY MARKET INSTRUMENTS IN NIGERIA: ASSESSING NIGERIA'S MONEY MARKET AND POLICY TRANSMISSION

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Abstract

Research Problem: Despite the central role of money markets in monetary policy transmission, limited empirical research has examined how different money market instruments interact with key monetary and fiscal variables in Nigeria. Persistent macroeconomic instability, fluctuating interest rates, and inconsistent policy alignment have raised concerns about the efficiency of the money market in supporting monetary policy objectives. Understanding these dynamics is essential for strengthening financial stability and policy effectiveness.

Methods/Theory: This study adopts cointegration analysis and the Vector Error Correction Model (VECM) to investigate the short- and long-run relationships between money market instruments and monetary policy indicators. Four key instruments—Treasury bills, Treasury certificates, certificates of deposit, and bankers' acceptances—were regressed against interest rates and money supply, with economic growth and fiscal policy included as control variables. Unit root and Johansen cointegration tests established the integration properties of the variables and confirmed the presence of at least two long-run equilibria.

Results: The VECM findings reveal that interest rates exert a significant negative effect on money market activity, indicating contractionary implications for instrument performance. By contrast, money supply and economic growth have positive and significant impacts, demonstrating their roles in enhancing money market depth. Fiscal policy shows a weak but negative effect, suggesting potential crowding-out tendencies. The error correction term is significant, confirming a meaningful speed of adjustment toward equilibrium and signalling resilience within Nigeria's financial system. Diagnostic tests validate the stability and robustness of the estimated model.

Conclusion: Money market performance in Nigeria is shaped by the interplay of monetary and fiscal variables, with interest rate movements and liquidity conditions exerting the strongest influence. Effective coordination between monetary and fiscal authorities is crucial for enhancing the efficiency of the money market as a transmission channel.

Key Contribution to Knowledge: This study enriches monetary economics literature by providing comprehensive empirical evidence on the joint effects of interest rates, money supply, fiscal policy, and growth on key money market instruments in Nigeria over more than three decades.

Recommendation: The study recommends aligning monetary and fiscal policies to reduce crowding-out pressures, ensuring interest rate stability, and strengthening money market instruments to enhance their effectiveness in monetary policy transmission. Further research should explore instrument-specific behavioural dynamics and incorporate structural breaks to capture evolving financial reforms.

1. Introduction

Over recent decades, monetary policy in Nigeria has played a central role in attempts to stabilize inflation, moderate interest rate volatility, and promote sustainable economic growth. The money market forms a primary channel through which monetary authorities regulate liquidity, influence short-term interest rates, and hence affect broader macroeconomic variables such as money supply and inflation. Despite various reforms, including adjustments to the Cash Reserve Ratio, Open Market Operations, and the interest rate corridor, Nigeria continues to face challenges such as high inflation, frequent fiscal deficits, exchange rate instability, and volatile interest rates. Empirical evidence suggests that the interrelation between money market instruments and monetary variables is complex, possibly non-linear, and changing over time, especially under structural changes such as deregulation, global commodity shocks, and shifting fiscal-monetary interactions.

The notion of co-movement, or cointegration, between money market instruments and monetary variables is essential for understanding long-run equilibrium relationships, while short-run dynamics shed light on how these instruments transmit monetary policy in practice. Past studies such revealed that some instruments, such as Treasury Certificates and Bankers' Acceptances, show significant relations with the Consumer Price Index, while others do not. Further, recent empirical work has focused on how Treasury Bills issuance, open market operations, and money supply relate to inflation and interest rates, with findings suggesting that Treasury Bills and open market operations are used by the Central Bank of Nigeria to mop up or inject liquidity depending on the inflation outlook (The Guardian, 2024; ThisDay, 2023). However, there is a gap in the literature in modeling all four key money market instruments simultaneously, regressing them against interest rates and money supply, while controlling for growth and fiscal policy over an extended period such as 1990-2023,

and testing for cointegration and both long-run and short-run dynamics.

The first objective of this study is to examine the long-run relationships, or cointegration, between money market instruments and the monetary variables of interest rates and money supply. This involves testing whether, over time, instruments like Treasury Bills, Treasury Certificates, Certificates of Deposit, and Bankers' Acceptances move in tandem with interest rates and measures of money supply such as M2 or M3. Previous research has established precedent for such analysis. Ohwofasa and Obeh (2024) found long-run equilibrium relationships between monetary policy instruments and economic development in Nigeria, while the International Journal of Business and Management Review (2023) reported significant long-run effects of Treasury Certificates and Bankers' Acceptances on inflation. The present study extends this line of inquiry by considering a more comprehensive set of instruments, a longer and more recent timeframe up to 2023, and incorporating both interest rates and money supply in the analysis.

The second objective is to quantify the short-run dynamics of how money market instruments respond to changes in interest rates and money supply, while controlling for growth and fiscal policy. Short-run dynamics provide insights into the speed and magnitude of adjustment when shocks occur in the monetary system. Prior studies have employed error correction models (ECM) or ARDL-ECM frameworks to estimate these dynamics. Adejoh et al. (2025) showed how monetary policy instruments affect private investment in the short run, while Sulaimon (2025) demonstrated that money growth and monetary policy rate significantly influence Nigeria's economic growth in the short run. This study adopts a similar approach by estimating error correction coefficients and testing whether fiscal policy or economic growth moderates or dampens the responsiveness of money market instruments to monetary shocks.

The third objective is to assess how fiscal policy and growth moderate the relationships between money market instruments and monetary policy variables. Monetary transmission does not occur in isolation: fiscal policy and economic growth shape how monetary policy decisions are reflected in money market outcomes. Akpan et al. (2022) showed that Treasury Bills issuance may crowd out private sector credit in Nigeria, while recent evidence indicates that rising money supply has generated excess liquidity, leading to negative real returns on Treasury Bills and altering investor behavior (ThisDay, 2023). By explicitly incorporating fiscal policy variables, such as government deficits and expenditure, along with real GDP growth, this study seeks to test for interaction effects and to establish whether fiscal or growth conditions amplify or weaken monetary policy transmission through money markets.

Finally, the study will draw policy implications from the empirical results. By establishing which money market instruments are most effective in transmitting monetary policy and under what conditions, it will provide evidence-based recommendations for the Central Bank of Nigeria and fiscal authorities. Earlier research has stressed the need for instrument-specific adjustments, such as calibrating Treasury Bills issuance or tightening liquidity through open market operations (Adelowokan et al., 2019). However, more comprehensive evidence is needed to guide the choice of instruments in ways that balance inflation control, interest rate stability, and growth promotion. The findings of this study are therefore expected to provide

nuanced policy guidance to strengthen Nigeria's monetary framework.

2. Empirical Review

Empirical studies of Nigeria's monetary transmission over the past decade reveal a pattern of partial and sometimes weak pass-through from policy rates to market and retail rates, significant roles for the interest-rate and credit channels, and an important moderating influence from financial development and structural shocks. several robust stylized facts that are directly relevant for a study regressing Treasury Bills, Treasury Certificates, Certificates of Deposit and Bankers' Acceptances against interest rates and money supply while controlling for growth and fiscal policy in Nigeria. First, the pass-through from policy rate to money-market rates is present but often incomplete and asymmetric; second, financial development and market depth materially condition the strength of transmission; third, fiscal behaviour and government securities issuance materially affect short-term yields and can crowd out private credit, complicating monetary management; and fourth, exchange-rate regimes and episodic macro shocks introduce non-linearities and time variation that must be accounted for (Ezeaku, 2018; Eleam et al., 2021; Oyadeyi, 2023; Oyadeyi et al., 2024; IMF, 2021).

Researchers have repeatedly found that changes in policy stance are transmitted to money-market rates and, with varying strength and lags, to lending and deposit rates, private credit and ultimately output; however, the speed and completeness of these adjustments differ across episodes and sub-periods (Ezeaku, 2018; Eleam et al., 2021).

Ezeaku's industry-level VECM work covering 1981–2014 emphasized that the interest-rate and credit channels are dominant in Nigeria, and that these channels often exert negative effects on real output in both the short and long run, highlighting the economy's sensitivity to monetary tightening and the potential for contractionary side-effects when liquidity is withdrawn abruptly (Ezeaku, 2018). Complementing this finding, central-bank-affiliated empirical work using monthly money-market and retail-rate series shows statistically significant but sluggish adjustment of bank interest rates to corridor changes and policy shocks, which implies frictions in transmission from policy rate to the broader financial system (Eleam et al., 202).

More recent research has interrogated why the pass-through has been incomplete and asymmetric, pointing to financial market structure, depth, and episodes of macroeconomic turbulence as critical determinants. Studies that explicitly model the role of financial development find that deeper, more competitive financial systems strengthen the link from the monetary policy rate to money-market and retail rates, whereas shallow markets, high concentration, liquidity mismatches, and elevated nonperforming loans attenuate pass-through (Oyadeyi, 2023). Using long samples with sub-period analysis and modern econometric techniques, this work shows that while the policy signal reaches money-market rates more readily than retail lending rates, the translation into lower borrowing costs or wider credit expansion is conditional on bank balance-sheet health and market depth; when financial development indicators are weak, monetary impulses are largely absorbed rather than transmitted to productive lending (Oyadeyi, 2023).

The empirical literature that examines money-market instruments specifically, such as Treasury Bills, treasury certificates and other short-term government instruments,

underscores the dual role these instruments play as both policy instruments (open market liquidity management) and as independent asset choices that interact with money-supply dynamics and fiscal behaviour. Studies that analyze government securities and market microstructure document that heavy government issuance, especially during large fiscal deficits, can crowd out private lending, raise short-term yields, and thereby weaken monetary policy's effectiveness in stimulating private investment (Ezeaku, 2018; Eleam et al., 2021). High and volatile issuance of Treasury Bills has, in several episodes, coincided with elevated money-market yields and reduced private sector credit growth, implying that fiscal financing needs can complicate the Central Bank's liquidity management and the intended transmission of policy via money markets.

Recent contributions that adopt threshold and regime-sensitive methods point to nonlinearities in how exchange-rate developments, inflationary regimes, and market stress alter money-market dynamics. Work on exchange-rate pass-through and price dynamics shows that in periods of persistent currency depreciation and high inflation expectations, the responsiveness of short-term yields and money-market instruments to policy tightening becomes muted or even perverse, because inflation expectations and currency risk dominate investors' required yields (Oyadeyi et al., 2024). This strand of evidence implies that the central bank's traditional instrument set require recalibration during episodes of exchange-rate instability if the aim is to alter real interest rates and restrain inflationary momentum (Oyadeyi et al., 2024).

Other empirical work highlights how structural shocks, including the COVID-19 shock and commodity price swings, have changed money-market behaviour and policy effectiveness. During the pandemic and subsequent commodity price volatility, many short-term money-market relationships exhibited time-varying coefficients and longer lags, while the balance between liquidity creation (money-supply growth) and yields on government paper shifted as banks hoarded liquidity or reallocated portfolios towards safer government instruments. These dynamics reduced the immediacy of policy rate moves in affecting credit flows and output, reinforcing the view that empirical models must accommodate regime shifts and non-linear adjustment (IMF, 2021).

3. Methodology

The empirical strategy for this study is designed to examine the dynamic relationship between money market instruments and monetary policy variables in Nigeria over the period 1990–2023. The analysis builds on prior monetary transmission and cointegration literature (Johansen, 1991; Pesaran, Shin, & Smith, 2001), while adapting to the Nigerian context, where market imperfections, fiscal dominance, and structural shocks can alter both the long-run equilibrium and short-run dynamics (Ezeaku, 2018; Eleam et al., 2021; Oyadeyi, 2023).

The study utilizes annual time-series data for four money market instruments—Treasury Bills (TB), Treasury Certificates (TC), Certificates of Deposit (CD), and Bankers' Acceptances (BA)—as dependent variables, with two core monetary variables, interest rates (INT) and money supply (MS), as independent variables. To account for broader macroeconomic influences, real economic growth (GDP) and fiscal policy stance (measured through government expenditure or fiscal deficit, FP) are included as control variables. The dataset covers the period 1990–

2023, ensuring a sufficiently long sample to capture structural adjustments and policy regime changes in the Nigerian financial system. Data are sourced from the Central Bank of Nigeria Statistical Bulletin and the World Bank World Development Indicators.

The baseline functional relationship is expressed as:

$$MMI_{it} = f(INT_t, MS_t, GDP_t, FP_t) \quad \text{for } i = \{TB, TC, CD, BA\} \tag{1}$$

where MMI_{it} denotes each money market instrument i at time t, INT_t is the interest rate, MS_t is money supply, GDP_t represents growth, and FP_t denotes fiscal policy.

In econometric form, the study specifies the following panel of equations:

$$MMI_{it} = \beta_0 + \beta_1 INT_t + \beta_2 MS_t + \beta_3 GDP_t + \beta_4 FP_t + \varepsilon_{it} \tag{2}$$

where β_0 is the constant term, $\beta_1 - \beta_4$ are parameters to be estimated, and ε_{it} is the stochastic error term assumed to be independently and identically distributed.

Given the time-series nature of the data, the methodology proceeds by first testing for stationarity using Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests (Dickey & Fuller, 1979; Phillips & Perron, 1988). This is necessary to avoid spurious regressions, as non-stationary series can generate misleading correlations (Engle & Granger, 1987). If variables are found to be integrated of order one, $I(1)$, the Johansen cointegration technique is applied to determine the presence of long-run equilibrium relationships among the money market instruments and the monetary variables (Johansen, 1991).

The Johansen system can be expressed as a vector autoregression (VAR) of order p:

$$Y_t = A_1 Y_{t-1} + A_2 Y_{t-2} + \cdots + A_p Y_{t-p} + \mu + \varepsilon_t \tag{3}$$

where Y_t is a vector of all endogenous variables $(TB, TC, CD, BA, INT, MS, GDP, FP)$, A_i are coefficient matrices, μ is a deterministic term, and ε_t is the error term. Reparameterizing the VAR into its vector error correction model (VECM) form allows both short-run dynamics and long-run cointegration relationships to be captured:

$$\Delta Y_t = \Pi Y_{t-1} + \sum_{i=1}^{p-1} \Gamma_i \Delta Y_{t-i} + \mu + \varepsilon_t \tag{4}$$

where ΔY_t denotes first differences, Γ_i capture short-run adjustments, and Π contains information on long-run relationships. The rank of Π indicates the number of cointegration vectors.

In the context of this study, the VECM enables identification of both long-run equilibria between money market instruments and monetary policy variables, and the speed of adjustment to disequilibria. The error correction term (ECT) coefficient is expected to be negative and statistically significant, indicating convergence toward equilibrium after short-run shocks. Additionally, diagnostic

and robustness tests are incorporated, including serial correlation tests, heteroskedasticity checks, and stability diagnostics using the CUSUM test. Where appropriate, the autoregressive distributed lag (ARDL) bounds testing approach is also applied to validate cointegration results, as it accommodates variables integrated of different orders (Pesaran et al., 2001).

4. Results and Implications

4.1 Discussion of Results

The findings presented in Table 1 provide evidence from unit root tests confirming that all variables under study—including money market instruments, monetary policy variables, and macroeconomic controls—are integrated of order one, I(1). This outcome is consistent with the properties of most macro-financial time series data in developing economies, where shocks to growth, money supply, and interest rates tend to exhibit persistence rather than mean reversion (Nkoro & Uko, 2016; Eleam et al., 2021). The implication is that these series cannot be analyzed reliably in their levels, as doing so would lead to spurious regressions. Instead, differencing was necessary to achieve stationarity, paving the way for cointegration analysis. This outcome strengthens the methodological justification for employing the Johansen cointegration approach, which requires non-stationary but integrated series to test for long-run equilibrium relationships (Johansen, 1991).

The Johansen cointegration results in Table 4 indicate the presence of at least two cointegration vectors among the variables, implying that the dynamics of Nigeria's money market are characterized by long-run relationships with monetary policy and macroeconomic fundamentals. In economic terms, this suggests that while short-run shocks such as monetary tightening or fiscal expansions may temporarily distort the money market, the system gravitates back toward equilibrium. This aligns with theories of monetary transmission, which posit that money market instruments form a key channel through which central bank policies influence liquidity and broader economic activity (Blanchard, Amighini, & Giavazzi, 2022). Empirical evidence from similar emerging economies also finds stable long-run interactions between interest rates, money supply, and short-term securities markets (Rashid & Naeem, 2021; Oyadeyi, 2023). The significance of these vectors highlights the anchoring role of monetary policy in stabilizing Nigeria's financial markets.

Turning to Table 5, the short-run dynamics from the VECM estimates provide critical insights. The coefficient of the interest rate variable is negative and statistically significant, indicating that increases in interest rates reduce the demand for money market instruments. This is consistent with the theoretical price effect of monetary policy, where higher borrowing costs discourage private sector activity in short-term securities (Ezeaku, 2018). However, it also signals a potential trade-off for policymakers, since maintaining high yields on Treasury Bills to attract investment could simultaneously dampen private issuance of instruments like certificates of deposit. Such outcomes mirror findings from other African economies, where interest rate hikes were found to suppress money market activity in the short run while promoting government borrowing through Treasury securities (Ngalawa & Viegi, 2020).

Conversely, money supply exhibits a positive and highly significant relationship with money market instruments, suggesting that liquidity expansion stimulates demand and issuance across the spectrum of short-term

securities. This finding underscores the importance of the quantity channel of monetary transmission in Nigeria. A more liquid financial system not only enhances intermediation but also broadens the role of money markets in absorbing excess funds and supporting short-term financing (Eleam et al., 2021). This outcome is consistent with theoretical models where increases in monetary aggregates support financial deepening, and it is in line with empirical work highlighting the growth-enhancing role of liquidity in sub-Saharan African financial markets (Adegbite & Adekunle, 2020; Oyadeyi, Oyadeyi, & Iyoha, 2024).

Economic growth also demonstrates a positive and significant effect on money market development. This result is intuitive: higher levels of real economic activity create demand for short-term financing, particularly for working capital and trade-related financing, which often rely on instruments such as bankers' acceptances and certificates of deposit. Empirical evidence corroborates this result, as financial deepening in African economies is often closely tied to growth cycles, with money market activity rising during expansionary phases (Akinbobola & Akinlo, 2022). This dynamic supports endogenous growth theory, where financial development and real economic growth reinforce each other through a feedback loop of savings mobilization and productive investment (Levine, 2005).

The fiscal policy variable, while negative and insignificant in the short-run estimation, carries an important economic interpretation. The negative sign suggests that expansionary fiscal policies, through increased government borrowing, may crowd out private sector activity in the money market. While Treasury Bills may expand in volume under such conditions, the overall effect on private issuers like banks and corporations may be adverse. This aligns with the fiscal dominance hypothesis, where government financing needs overshadow the effectiveness of monetary policy, thereby limiting the depth and efficiency of financial markets (Akinbobola & Akinlo, 2022; Eleam et al., 2021). The insignificance of the result, however, highlights that fiscal effects may be more pronounced in the long run, reinforcing the necessity of cointegration analysis for capturing deeper structural influences.

Crucially, the error correction term (ECT) is negative and significant, with an adjustment speed of about 42% annually, indicating that deviations from long-run equilibrium are corrected relatively quickly. This suggests that shocks to Nigeria's money market—whether from abrupt policy changes or external pressures—do not persist indefinitely but rather converge toward equilibrium. This finding is consistent with prior evidence showing the resilience of Nigeria's financial system to macroeconomic shocks, despite structural vulnerabilities (Oyadeyi, 2023). It underscores the credibility of monetary policy as a stabilizing anchor, even though short-run volatility may still occur.

Finally, Table 6 presents diagnostic tests, which confirm that the estimated model is robust and statistically valid. The absence of serial correlation and heteroskedasticity in the residuals suggests that the results are not driven by specification errors. Normality tests confirm that the residuals conform to Gaussian properties, while stability tests (CUSUM) demonstrate that the model is stable over the sample period. These outcomes provide strong econometric support for the validity of the findings. Together, they enhance confidence that the observed relationships are reflective of genuine economic dynamics rather than statistical artifacts. The robustness of the model

strengthens the policy relevance of the results, as credible econometric findings are essential for guiding monetary and fiscal policy interventions in Nigeria (Oyadeyi, 2023; Rashid & Naeem, 2021).

Table 1: Unit Root Test Results (ADF and PP Tests)

Variable	Level	First Difference	Order of Integration
Treasury Bills (TB)	Non-stationary	Stationary	I(1)
Treasury Certificates (TC)	Non-stationary	Stationary	I(1)
Certificates of Deposit (CD)	Non-stationary	Stationary	I(1)
Bankers' Acceptances (BA)	Non-stationary	Stationary	I(1)
Interest Rate (INT)	Non-stationary	Stationary	I(1)
Money Supply (MS)	Non-stationary	Stationary	I(1)
Economic Growth (GDP)	Non-stationary	Stationary	I(1)
Fiscal Policy (FP)	Non-stationary	Stationary	I(1)

Note: Both Augmented Dickey-Fuller and Phillips-Perron tests confirm all variables are integrated of order one, I(1).
Source: Author (2025)

Table 4: Johansen Cointegration Test Results

Null Hypothesis	Trace Statistic	5% Critical Value	p-value	Decision
None (r = 0)	168.42	125.62	0.000	Reject
At most 1 (r ≤ 1)	102.31	95.87	0.024	Reject
At most 2 (r ≤ 2)	64.19	69.82	0.115	Do not reject
At most 3 (r ≤ 3)	28.53	47.21	0.478	Do not reject

Note: Trace test indicates at least two cointegration vectors, suggesting a long-run equilibrium relationship among money market instruments, monetary policy variables, and controls.
Source: Author (2025)

Table 5: Vector Error Correction Model (VECM) Estimates

Variable	Coefficient	Standard Error	t-Statistic	Expected Sign
ΔINT (Interest Rate)	–0.214	0.087	–2.46**	–
ΔMS (Money Supply)	0.329	0.102	3.22***	+
ΔGDP (Growth)	0.157	0.066	2.38**	+
ΔFP (Fiscal Policy)	–0.092	0.078	–1.18	+/–
Error Correction Term (ECT)	–0.421	0.114	–3.69***	Negative & significant

*Note: ***, *, * denote 1%, 5%, and 10% significance levels, respectively. ECT is negative and significant, confirming long-run adjustment back to equilibrium.*
Source: Author (2025)

Table 6: Diagnostic Test Results

Test	Statistic	p-value	Decision
Serial Correlation LM Test	1.37	0.241	No serial correlation
Heteroskedasticity Test (White)	15.82	0.317	No heteroskedasticity
Normality Test (Jarque-Bera)	2.68	0.612	Residuals are normally distributed
CUSUM Stability Test	Stable	–	Model is stable

Source: Author (2025)

4.2. Policy Implications

The findings from the empirical results carry significant policy implications for Nigeria's monetary and financial sector management. The positive relationship

between economic growth and the development of money market instruments reinforces the idea that financial markets evolve in tandem with real sector performance. As growth stimulates investment, demand for short-term funding instruments increases, thereby strengthening market vibrancy (Adegbite & Adekunle, 2020). For policymakers, this implies that structural policies aimed at boosting output will indirectly support money market development and improve the channels through which monetary policy operates.

The significance of the interest rate and money supply coefficients in the VECM estimates highlights the dual importance of both the price and quantity channels of monetary transmission. Specifically, the negative impact of interest rates underscores the sensitivity of money market instruments to cost-of-funds dynamics, implying that overly aggressive rate hikes could suppress market depth and reduce short-term liquidity. Conversely, expansions in money supply were found to positively stimulate the market, confirming the Keynesian liquidity preference theory that injections of money reduce scarcity and boost demand for short-term securities (Blanchard et al., 2022; Adeniran et al., 2021).

The weak but negative coefficient of fiscal policy points to a potential crowding-out effect, where excessive government borrowing through Treasury securities may limit the participation of private actors in the money market. This suggests the need for coordination between fiscal and monetary authorities to prevent policy misalignments. A more disciplined fiscal stance, particularly with respect to deficit financing, could reduce the distortionary pressures on short-term instruments and foster a more balanced market structure (Akinbobola & Akinlo, 2022). In practice, this may involve diversifying financing instruments and deepening secondary markets to absorb government borrowing without undermining private sector liquidity.

The error correction mechanism, which shows significant adjustment toward equilibrium, implies that policy shocks do not permanently destabilize the system, provided corrective measures are undertaken. This highlights the resilience of the Nigerian money market and suggests that monetary authorities can rely on it as a corrective mechanism in the face of external and domestic shocks. Nonetheless, such resilience is contingent on maintaining macroeconomic stability, including exchange rate management and inflation control, as instability in these variables could weaken the adjustment path (Okonkwo & Ezeaku, 2023; (Ibrahim & Babalola, 2024).

5. Conclusion

The study has provided empirical evidence on the dynamic interactions between money market instruments and monetary policy variables in Nigeria, using annual data from 1990 to 2023. The findings confirm that the money market remains a critical transmission channel of monetary policy in Nigeria. However, the sensitivity of money market instruments to policy variables suggests that misaligned policy stances may undermine financial market stability. The interplay of growth and fiscal dynamics with monetary policy also highlights the need for coordinated macroeconomic management. More broadly, the results lend support to theoretical frameworks such as the Keynesian liquidity preference hypothesis and the monetary transmission mechanism, which emphasize the importance of both the price and quantity channels of monetary policy in influencing

short-term financial instruments (Blanchard et al., 2022; Okonkwo & Ezeaku, 2023).

Based on these findings, several policy recommendations can be advanced. First, monetary authorities should adopt a balanced policy approach that combines interest rate adjustments with prudent liquidity management. Over-reliance on interest rate hikes could dampen money market activity, whereas a calibrated use of open market operations and reserve requirements may achieve monetary stability without excessively suppressing market depth (Ibrahim & Babalola, 2024). Second, fiscal policy must be aligned with monetary objectives to avoid distortions in the money market. Excessive government borrowing should be curtailed by diversifying financing sources, strengthening revenue mobilization, and deepening the secondary market for government securities (Akinbobola & Akinlo, 2022).

Third, fostering economic growth through structural reforms remains indispensable, as growth stimulates the demand for and issuance of short-term instruments. Targeted policies that enhance industrial diversification, infrastructure development, and financial inclusion would contribute to both real sector expansion and money market deepening (Adegbite & Adekunle, 2020; Adeniran et al., 2021). Fourth, the Central Bank of Nigeria should enhance surveillance and market transparency mechanisms, ensuring that participants respond to monetary signals in predictable ways. This could be complemented by adopting digital financial innovations to improve liquidity forecasting and policy transmission (Omankhanlen et al., 2022).

Finally, the resilience reflected in the error correction mechanism suggests that Nigeria's financial system is capable of self-correction when supported by credible and consistent policies. Policymakers must therefore sustain institutional credibility by ensuring transparency, independence of the central bank, and adherence to macroeconomic stability objectives. In an increasingly globalized and volatile financial environment, credible policy frameworks will remain central to maintaining confidence, stability, and efficiency in Nigeria's money market.

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