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Abstract: This study examined the Impact of Central Bank of Nigeria’s Financial management on the Nigerian Economy for the period of 1982 – 2013. The Econometrics times series analysis was adopted to determine the Central Bank’s financial management on economic growth in the Nigerian economy. For purposes of clarity, models were specified as (GDP) dependent variable, (M₇), (INT), (EXR) and (LR) as independent variables. In order to avoid spurious result, some advance econometric tests were conducted. the result revealed that except broad money (M₇), Interest rate, exchange rate and liquidity ratio are integrated of order one (1) given the period under study, broad money was integrated of order 1(2). The result further reveals that the variables have longrun relationship because of evidence of two cointegrating equations while the speed of adjustment of the co-integrating equations is 35.06% per annum. There was also a uni-directional relationship running from GDP to M₇. The research concluded that Central Bank financial management significantly impacts on economic growth of Nigeria. Based on the findings above; the study recommends that Central Bank financial management should be used to create a favourable investment climate by facilitating the emergence of market based interest and exchange rate regimes that would attract both domestic and foreign investments, create jobs, promote non-oil export and revive industries that are currently operational far below installed capacity.

Key words: Central Bank of Nigeria • Financial Management • Economic growth • Unit Root • Cointegration

INTRODUCTION

For many countries, the objectives of financial management are explicitly stated in the laws establishing the central bank, while for others they are not. The objectives of financial management may vary from country to country but there are two main views. The first view calls for financial management to achieve price stability, while the second view seeks to achieve price stability and other macroeconomic objectives. The Central Bank of Nigeria, like other central banks in developing countries, achieves the goal of financial management through the amount of money supplied. CBN (2006) defines money supply as comprising narrow and broad money. The definition of narrow money (M₁) includes currency in circulation with non-bank public and demand deposits or current accounts in the banks. The broad money (M₇) includes narrow money plus savings and time deposits, as well as foreign denominated deposits. The broad money measures the total volume of money supply in the economy. Thus, excess money supply (or liquidity) may arise in the economy when the amount of broad money is over and above the level of total output in the economy.

Financial Policy refers to the policy measures undertaken by the government or the central Bank to influence the availability, cost and use of money and credit with the help of monetary techniques to achieve specific objectives Abu-Bader, Abu-Qarn [1]. Since its establishment in 1959, the Central Bank of Nigeria (CBN) has continued to play the traditional role expected of a Central Bank, which is the regulation of the stock of money in such a way as to promote the social welfare [2]. This role is anchored on the use of monetary policy that is usually targeted towards the achievement of full employment equilibrium, rapid economic growth, price stability and external balance [3].

Economic Growth according to Ademole [4] is an increase in real output or real per capita output of an economy. Adenuga et al. [5] also defined economic growth as a long term rise in capacity to sustain increasingly, diverse economic goods and services to its
population, growing capacity based on advancing technology, institutional and ideological adjustments that it demands. The Interpretation of economic growth emphasizes a "sustained" rise in the output level which is the only manifestation of economic growth. In general terms, monetary policy refers to a combination of measures designed to regulate the value, supply and cost of money in an economy in consonance with the expected level of economic activity [3].

The general task of a central bank is to administer a national financial policy within the terms of the economic objectives and consideration laid down by the government. In pursuance of these objectives, the Central Bank of Nigeria (CBN) generally has the core mandate of maintaining internal and external value of the currency. In the domestic economy, this translates to keeping inflation low, maintaining low interest rate, ensuring a good Gross Domestic Product value, all for economic stability. Therefore, financial management is a measure for macroeconomic management though its application varies from country to country and produces different results. Financial management is one of the tools of controlling money supply in an economy of a nation by the monetary authorities in order to achieve a desirable economic growth. Financial management are effective only when economies are characterized by well-developed money and financial markets like in the developed economies of the world. This is where a deliberate change in monetary variable influences the movement of many other variables in the monetary and macroeconomic variables.

Financial management consists of a Government’s formal efforts to manage the money in its economy in order to realize specific economic goals. Financial management refers to the specific actions taken by the Central Bank to regulate the value, supply and cost of money in the economy with a view to achieving Government’s macroeconomic objectives. Three basic kinds of Financial management decisions can be made; the amount of money in circulation; the level of interest rate; and the functions of credit markets and the banking system [6]. The combination of these measures is designed to regulate the value, supply and cost of money in an economy, in line with the level of economic activity. Excess supply of money will result in an excess demand for goods and services, prices will rise and balance of payments will deteriorate. The most popular instrument of Financial management was the issuance of credit rationing guideline, which primarily set the rates of change for the components and aggregate commercial bank loans and advances to the sector. The sectorial allocation of bank credit in CBN guidelines was to stimulate the productive sector and thereby stem inflationary pressures. The fixing of interest rates at relatively low levels was done mainly to promote investment and growth. Occasionally, special deposits were imposed to reduce the amount of free reserves and credit-creating capacity of the banks.

The challenges of financial management rest wholly on CBN which has over the years been committed to its effective control. Although the performances of monetary authority in the area of financial institutions stability seemed to have improved greatly in recent times, macroeconomic indicators of interest rate and inflation have remained at immoderate levels. This is why the huge increases in the country’s economic growth have failed to translate into high standard of living for the citizenry.

Economists however differ in their opinion on how economic indicators affect output. This has given rise to different schools of thought on the issue. While the Keynes [7] believe that money supply affects output indirectly through interest rate, monetarists led by Milton Friedman [8] on the other hand, believe that money supply affects output directly. Nevertheless, both agreed that the stock of money is important and should be kept growing at a slow and steady rate in order to achieve its targets. Financial management is known to be a vital instrument that a country can deploy for the maintenance of domestic price and exchange rate stability as a critical condition for the achievement of a sustainable economic growth and external viability. It is against this background that this study would investigate the impact of Central Bank of Nigeria financial management on Nigeria’s economy.

Statement of the Problem: One of the major objectives of financial management in Nigeria is macroeconomic stability. But despite the various monetary regimes that have been adopted by the Central Bank of Nigeria over the years, instability still remains a major threat to Nigeria’s economic growth. An unstable financial environment is manifested in the inadequacy of monetary and capital markets to play supporting role in the economy and this problem has led to the non-availability of idle funds to execute development programmes. As a direct result, capacity utilization has been on the decrease and has alongside acute political instability which has led to the stunted growth of investment behaviour in the country [9].
The role of financial management has been exemplified in numerous literatures of finance. Besides the performance of specialized tasks, several theoretical models posit that they mitigate the costs associated with information acquisition and the conduct of financial transactions Balogun (2007)[10]. Monetary policy and economic performance of West African monetary zone. Journal of money, credit and banking, 41(1), 187-196

In addition to these, several studies have revealed that financial management does more than cost mitigation. It makes provision for insurances and risk sharing (Allen and Gale; 2004), stimulates the funding of liquidity needs through credit lines [11] and aids the creation of specialized products [12].

Prior to June, 2004, there were eighty-nine commercial banks, among other financial intermediaries, with capitalization of less than 10 million USD and 3,330 branches, while the top ten banks accounted for about 50 percent of the industry’s total assets/liabilities [13]. Besides the poor capital base of these banks, there are other issues hindering the effective performance of these banks. Some of the issues include inefficiency in management, operational incompetency, poor corporate governance and unhealthy competition. Thus, these culminated in gross performance, which was below expectation. These hindered the financial sector from delivering financial services optimally to the satisfaction of both investors and customers. The Central Bank of Nigeria (CBN) has been trying hard to ensure that the financial sector in Nigeria maintain a considerable depth and remain liquid with a view to competing effectively globally. Beyond competition at the global scale, the CBN seeks to ensure that the financial sector plays its role in the achievement of growth and development in Nigeria. In view of these, several reforms have been implemented. The reformation exercise led to the increase in the minimum capital requirements for the commercial banks and micro-finance banks respectively. This brings to bear the existence of twenty-five commercial banks. In the post-consolidation era, there are fewer banks now with improved minimum capital requirement of ≤25 billion each. Unfortunately, the fear of systemic risk lingers, the supply of credit to investors is still questionable, while economic growth relatively stable.

One of the financial management strategy adopted by the CBN is the introduction and implementation of cashless policy which began in Lagos State, Nigeria. According to Central Bank of Nigeria (CBN, 2011) Lagos state accounted for 85% of POS and 66% of cheques transaction in Nigeria. Cashless economy aims at reducing the amount of physical cash circulating in the Nigeria economy and thereby encouraging more electronic-based transaction. According to Central Bank of Nigeria (CBN, 2011) the policy is expected to reduce cost incurred in maintaining cash-based economy by 90% upon its full implementation in Nigeria.

The concept of financial management is not relatively new. For decades, it has been a subject of study at both the macro-level and the micro-level. At the macro-level, the significance of financial management cannot be over-emphasised. However, there are mixed feelings about this. While some argue that it facilitate the efficiency of the financial system Alt and Chrystal (1979), Amassoma and Nwosa, Olaiya, [14], [15], others have also argued that it is passive in nature and serves as a conduit through which monetary policy is effected Friedman and Schwartz [16] and contracts, not available in the financial market, are implemented [17].

At micro-level, studies have shown that financial management stimulates the restructuring and liquidation of distressed firms [18], as well as eliminating the inefficiencies associated with the absence of inter-temporal smoothing, as a result of incomplete market [19].

Recently, the impact of financial management on the growth of an economy generated a heated debate. While some studies opined that CBN’s financial management drives economic growth [20], [21], [22], others have argued that economic growth drives financial management. However, there are studies, which have argue that a bi-directional causality exists between CBN’s financial management and economic growth [23]. This study seeks to contribute to the body of literature by examining the impact of Central Bank’s financial management on the economic growth of Nigeria and thus fill the gap in knowledge.

Research Questions: The above problems give rise to the following questions.

- Does Central Bank’s financial management strategies have any significant impact on Nigeria's economic growth?
- Is there any long-run relationship between Central Bank of Nigeria’s financial management strategies and economic growth in Nigeria?
- Is there any causal relationship between Central Bank’s financial management strategies and Nigeria’s economic growth?
Objectives of the Study: The following form the objectives of this study thus:

- To determine if Central Bank’s financial management strategies have any significant impact on Nigeria’s economic growth.
- To ascertain the long-run relationship between Central Bank’s financial management strategies and economic growth of Nigeria.
- To ascertain the causal relationship between Central Bank’s financial management strategies and Nigeria’s economy.

Statement of Hypotheses:

H₀: Central Bank’s financial management does not have any significant impact on Nigeria's economic growth.
H₁: Central Bank’s financial management have significant impact on Nigeria's economic growth.
H₀: There is no long-run relationship between Central Bank’s financial management and economic growth of Nigeria.
H₁: There is long-run relationship between Central Bank’s financial management and economic growth of Nigeria.
H₀: There is no causal relationship between Central Bank’s financial management and Nigeria’s economy.
H₁: There is causal relationship between Central Bank’s financial management and Nigeria’s economy.

Significance of the Study: This study is of importance to the monetary authorities such as the ministry of finance, the budget planning board, policy makers and policy implementing executives and anyone whose interest is associated to financial management and its impact on economic growth and development.

The study will also be a useful material in the school and state libraries for students researching and referencing and also can contributes to economic literature of Nigeria.

Scope and Limitation of the Study: This research work is restricted to ascertaining the impact of Central Bank financial management on economic growth of Nigeria within the period (1981-2013). Although, at the moment, there is a problem of securing access to some information and data from the monetary authorities, efforts is made to ensure that data collected are accurate and reliable. I ensure that all figures in this work represent the actual monetary policy of the CBN.

This research work is limited to the use of secondary data gotten from secondary sources, as such if there are any errors made by those who generated these data, this research work incorporates such errors.

Theoretical Literature: The theory of financial management has undergone a vast and complex evolution since the study of the economic phenomenon first came into limelight; it has drawn the attention of many researches with different views on the role and dimensions of money in attaining macro-economic objectives. Consequently, there are quite a number of studies aimed at establishing relationship between the stock of money and other economic aggregates such as inflation and output.

This chapter we will take a look at the different schools of thought, their views of the role of money in attaining policy objectives alongside are the necessary literature relating to this study.

The Monetary Theory: The monetary are essentially, quality theorist who adopted Fisher’s equation of exchange to illustrate their theory, as a theory of demand for money and not a theory of output, prices and money income by making a functional relationship between the quantity of a real balances demanded a limited number of variables.

Monetarist like Friedman (1963) emphasized money supply as the key factor affecting the wellbeing of the economy. Thus, in other to promote steady growth rate, the money supply should grow at a fixed rate instead being regulated and altered by the monetary authorities. Keynes on the other hand maintained that monetary policy alone is ineffective in stimulating economic activity because it works through indirect interest rate mechanism.

Friedman equally argued that since money supply is substitutive not just for bonds but also for many goods and services, changes in money supply will have both direct and indirect effect on spending and investment respectively. Brunner and Neltzer modelled that the demand for money will depend upon the relative rate of returns available or different competing assets in which wealth can be held.

The Classical Monetary Theory: The classical school evolved through concerted effort and contributions of economist like Adam Smith, Jean-Baptiste Say, David-Ricardo, Thomas Malthus and others who shared the same belief. The classical model attempts to explain the determinants of such economic variables as consumption, savings and investments with respect to money.
The classical model bases on say’s law of market which states that “Supply creates its own demand” thus, classical believed that the economy automatically tended towards full employment level by laying emphasis on price level and inflation measures on how best to eliminate inflation. The classical economists decided upon the quantity theory of money as the determinant of the general price level. The theory shows how money affects, the economy. It may be considered in terms of the “Equation of Exchange” which implies that exchange in the price level can be explained by changes in the stock of money. The equation of exchange can be stated thus:

\[ MV = PV \]

Where \( PV \) = GNP
\( MV = \) Total expenditure = GNP
\( M = \) Stock of money
\( P = \) General Price Level
\( V = \) Income Velocity of Money
\( Y = \) The flows of real goods and services.

The classical economists did not introduce the role of money in their model in terms of its demand and supply; instead they introduced money by using the quantity theory. In short, they related the level of an economy’s commodity prices to the quantity of money in the economy and the level of its commodity production. To similar “Quantity theory” formulations where used to explain the level of prices; viz; the transaction formulation or the equation of exchange and the cash balances formulation.

Keynesian and Monetary Policy: The Keynesian model assumes a close and a perfect competitive market supply function. The economy is also assumed not exist at full employment equilibrium and also it works only in the short run because as Keynes apathy put it, “in the long run, we also be dead” in this analysis too, money supply is said to be exogenously determined as wealth holders that only have the choice between holding bonds.

The Keynesian theory is roofed on the nation of price rigidity and a possibility of an economy setting at a less than full employment level of output, income and employment. The Keynesian macro economy brought into focus the issue of output rather than prices as being responsible for changing economic conditions. In other words, there were not interested in the quantity theory per se.

From the Keynesian transmission mechanism, monetary policy works by influencing interest rate which influences investment decision and consequently output and income via the multiplier process [24].

In the monetarist transmission mechanism it is believed that an increase in the stock of money by the government through the purchase of securities would set off a sequence of portfolio adjustment. As the increase lowers the yield, assets holders would switch to other assets offering higher yield. An increase in the demand for any assets would lead to higher prices and lower yield.

Some analyst, usually classified as monetarist, expect changes in the money supply in sell to have a strong and predictable impact on economic activity. In their view, consumers and others increase spending on goods and services when money balances grow more rapidly than the desire. They also cut back on spending whenever money balances fall below a desired proportion of income. The actual interactions within the economy on growth and economic activity is deemed-sufficiently reliable than controlling the money supply.

An increase in money supply may not necessarily lead to an increase in output because the transmission mechanism may breakdown at either of two points such that:

- Interest rate may not always fall as money stock increases, because of the liquidity trap, people will prefer to hold cash than bonds at higher interest rate and
- Investment may not be influence by interest rate because of the more serious influence of expectation and other internal cost of making the investment decision [25].
Finally, other economist embrace the view that monetary targets are appropriate, but use more complex models of the economy to explain how financial flows and interest rates interact with monetary growth to affect the economy. They tend to see great variation the demand for money and more willing to daily monetary targets, at times to accommodate such variation [26].

Summarily, the above discussed theories of monetary policy and economic growth are all directed towards the role of monetary policy variables and its impact on the economic growth of a country either in the short run or in the long run. This research work will be anchored on the monetary theory in order to provide a guide to the restructuring and coordination of monetary policy instruments on the macro economy. The justification for the choice of this theory is because the monetarist argued that the deficiencies that surround demand and the subsequent decline in production and employment can be eliminated through monetary intervention.

**Empirical Literature:** The soundness of any theory whether economic or otherwise, is tested by its behaviour when subjected to empirical analysis. Several attempts have been made to empirically investigate the impact of Central Bank financial management on economic growth of Nigeria: These studies include:

Barro [27] carried out an empirical investigation on the critical assessment of the relationship between monetary policy and economic growth of Nigeria covering the period of 1986-2011. He regressed GDP on money supply (M$_i$), rediscount rate using OLS regression technique. He got adjust R$^2$ to be 98.56% and calculated F – ratio to be 361.14 against F tabulated that is 2.84 at 5% level of significance. The implication of the result (R$^2$) was that the model is a good fit. This implies that 98.56% of the total variation in the explanatory variable. Again, the F calculated (361.14) being greater than the F tabulated (2.84) led to the rejection of the Null hypothesis, therefore leading to the conclusion that the overall model is statistically significant.

Udude [28] on “The Evaluation of the Effectiveness of Monetary policy in the Nigeria Economy” covering the period (1995-97), he used simultaneous equation models to test the hypothesis of monetary policy effectiveness in Nigeria and came up with the result that the monetary policy instruments used by the Central Bank contributed significantly in achieving some degree of macro-economic goal effective result, the Central Bank should “Fine tune” these instruments.

Ajayi [2] emphasized that in developing economy in which Nigeria is a typical example, the emphasis is always on fiscal policy rather than monetary policy, in his works, he estimated the variables of monetary and fiscal policies using ordinary least square (OLS) techniques and found that monetary influence, are much larger and much predictable than fiscal influence. This result was confirmed with the use of beta coefficients that changes in monetary action were greater than that of fiscal action. In essence, greater reliance should be placed on monetary actions.

Barro, Sala-i-Martin [29] investigated the efficiency of monetary policy as a stabilization tool, using modified St. Louise model and date covering the period of 1970 to 1993, the study found that money matter in Nigeria economy and the appropriate monetary target is the domestic credit of the banking section.

Chuku [30] using a structural Vector Autoregressive (SVAR) approach in measuring the effect of monetary innovations in Nigeria, found that innovations on quality based nominal anchor (m$_x$) has modest effects on output and price with a very fast speed of adjustment, while innovations or price based nominal anchors have neutral and fleeting effects on output.

Christopher et al. [31], examined the relationship between money, inflation and output in Nigeria. The study adopted co-integration and granger. The co-integration result of the study showed that the variable used in the model exhibited no long run relationship among each other.

Ibeabuchi [32] assesses how fiscal and monetary policies influence economic growth and development in Nigeria. They argued that curbing the fiscal indiscipline of Government will take much more than enshrining fiscal policy rules in our statute books. This is because the statute books are replete with dormant rules and regulation. It notes that there exists a mild long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria. The paper suggest that for any meaningful progress towards fiscal prudence on the part of Government to occur, some powerful pro-stability stakeholders strong enough to challenge government fiscal recklessness will need to emerge.

Osuji and Akujuobi [33] appraised monetary policy development in Nigeria and also examined the effect of monetary policy on macroeconomic variables in Nigeria for the period 1986 to 2009. Adopting a simplified Ordinary Least Squared technique after conducting the
unit root and co-integration tests, the findings showed that monetary policy have witnessed the implementation of various policy initiatives and has therefore experienced sustained improvement over the years. The result also shows that monetary policy had a significant effect on exchange rate and money supply while monetary policy was observed to have an insignificant influence on price instability. The implication of this finding is that monetary policy has had a significant influence in maintaining price stability within the Nigeria economy. The study concluded that for monetary policy to achieve its other macroeconomic objective such as economy growth; there is the need to reduce the excessive expenditure of the government and align fiscal policy along with monetary policy measure.

Okwu, Obiakor, Falaiye and Owolabi [34] examined the effects of monetary policy innovations on stabilization of commodity prices in Nigeria. Consumer price index (CPI), broad money aggregates (BMA) and monetary policy rate (MPR) were applied to a multiple regression model specified on perceived functional link between the indicators of Central Bank of Nigeria’s monetary policy innovations and commodity prices indicator. The result showed that positive relationship existed between the respective indicators of monetary policy innovations and indicators of commodity prices; monetary policy rate had more immediate effect than broad money on consumer price index and that commodity prices responded more to monetary policy rates than to broad money aggregates; although both broad money and monetary policy rate exerted positive effect on commodity prices, only broad money exerted significant effect at 0.05 level of significance. However, overall effect of both on commodity prices was statistically significant. Consequently, the study recommended, among other things, that the Central Bank of Nigeria should always determine optimal mix of both policy variables to ensure stabilization of consumer goods and other commodity prices and engender confidence in the Bank’s monetary policy.

Beck [35] examined the efficacy of monetary policy in controlling inflation rate and exchange rate instability. The analysis performed is based on a rational expectation framework that incorporates the fiscal role of exchange rate. Using quarterly data spanning over 1980: 1 to 2000: 4 and applying time series test on the data used, the paper shows that the effort of monetary policy at influencing the finance of government fiscal deficit through the determination of the inflation tax rate affects both the rate of inflation and the real exchange rate, thereby causing volatility in their rates. The paper reveals that inflation affects volatility of its own rate, as well as the rate of real exchange. The policy import of the paper is that monetary policy should be set in such a way that the objective it is to achieve is well defined.

Mashal [36] evaluated the role of monetary policy in enhancing remittances for economic growth. The vector autoregressive methodology is applied with two stage deductions. The monetary policy rate first impacts intervening variables- exchange rate, interest rate, inflation etc- which in turn impact remittance flows. The data set were tested for temporal properties, including unit roots and co-integration. Preliminary evidence shows that domestic economic prosperity increases remittances to Nigeria, while exchange rate depreciation depresses remittances. The latter outcome reflects remitters’ perception that a stronger Naira is a sign of things-getting-better-back-home.

Devereux [37] presented a review of how the decisions of monetary authorities influence the macro variables like GDP, money supply, interest rates, exchange rates and inflation. The method of least square OLS explains the relationship between the variables under study. Tight monetary policy with balanced adjustments in independent variables shows a positive relationship with dependent variable.

Emeka [38] note that the relative effectiveness of monetary and fiscal policy on economic activity in Nigeria was determined through cointegration and error correction modeling techniques. The time series properties of the variables were investigated by conducting a unit root test using annual series data for the period 1970-1998 and the data source was mainly CBN Statistical Bulletin. The result of our analysis shows that monetary rather than fiscal policy exerts a great impact on economic activity in Nigeria. The emphasis on fiscal action of the government has led to greater distortion in the Nigerian economy. Fakiyesi [39] are, however, of the opinion that both monetary and fiscal policies should be complementary.

Elsewhere, Friedman [40] investigated the impact of monetary policy on the exchange rate using an event study with intraday data for four countries. Carefully selecting the sample periods ensures that the policy change is exogenous to the exchange rate. An unanticipated tightening of 25 basis points leads to a rapid appreciation of around 0.35 percent. We also show that the impact depends on how the surprise affects
expectations of future monetary policy. If expectations of future policy are revised by the full amount of the surprise, then the impact on the exchange rate is larger (0.4 percent) than if the surprise only brings forward an anticipated change in policy (0.2 percent).

Iyaji, Musa and Ejura [41] present the findings of a meta-analysis identifying the causes of variation in the impact of monetary policies on economic development. The sample of observations included in their meta-analysis is drawn from primary studies that uniformly employ Vector Autoregressive (VAR) models. Their findings reveal that capital intensity, financial deepening, the inflation rate and economic size are important in explaining the variation in outcomes across regions and over time. Differences in the type of models used in the primary studies also significantly contribute to the explanation of the variation in study outcomes.

Friedman [42] using SVAR model with orthogonalized identification find little evidence of real effect of monetary policy in five common wealth of independent states(CIS) with the notable exception that interest rate have a significant impact on output in Russia.

From the above summaries made, it is observed that some researchers tried seriously to examine the effectiveness of monetary policy on the economy of Nigeria, but none has shown an accurate long run effect of monetary policy instruments on the economy of Nigeria. This is because of their inability to either utilize all necessary variables in their model or apply all the correct econometrics method in their test. This research therefore as an improvement of other works will adopt the method of Miskin [43], but will make use of the ordinary least square and a large span of data ranging from 1986 to 2011 in order to determine the impact of monetary policy on the economic growth of Nigeria.

Therefore, this research work fills the gap that has been overlooked by the previous researchers on this topic, by incorporating all the necessary variables and econometric tests that have been ignored by the previous researchers so as to ascertain the accurate long run effect of Central Bank financial management on economic growth of Nigeria.

**The Relationship Between Monetary Policy and Economic Growth:** The relationship between Central bank financial management and economic growth is mainly the manner in which the judicious application of monetary policy can be used to foster or facilitate the growth of the economy. Monetary policies include all the tools used by the financial regulatory authorities are usually the apex bank, the Federal Reserve Bank, or simply the financial top authority. The link between monetary policy and economic growth can be seen in the manner in which monetary policies, such as decisions to increase interest rates or the reverse of the same, can be used to maintain stability in the economy.

Increase in the interest rate is used to decrease the rate of demand for goods and other consumables. They are also used to decrease the amount of money supply in the economy at a given point in time. The connection between monetary policy and economic growth is the fact that monetary policies are designed and applies at calculated points in the business cycle to remove unwanted economic factors like persistent inflation. It is also used to control the economy through a reduction in negative economic trends like excessive spending, which often lead to an overheating of the economy and consequent crashes or recessions. In that sense, it may be said that monetary policy and economic growth are related by the manner in which well-applied monetary policies serve as catalysts for sustained economic growth.

For example, when there is a boom in the economy and people are cashing in on the easy availability of cash and credit to make a lot of purchases, if various business strive to keep up with the excessive consumerism. Most times, the rate of production and supply are not equal to the level of demand, causing an imbalance in the economy that is capable of derailing it. The ideal types of economy should not have any imbalances where the supply far exceeds the demand or the demand more than can be handled by the available supply. Neither one is desirable, as either could act as an inhibitor of proper economic growth. As such, the financial regulatory authorities usually try to maintain a healthy balance by constantly analysing economic trends with to increase or decrease the interest rate.

**Evaluation of Monetary Policy in Nigeria Between 1986 and 2010:** The implementation of the structural adjustment programme (SAP) in 1986 and de-regulation of financial sector in Nigeria offered a lot of policy change in monetary policy development in Nigeria. The deregulation brought an establishment of exchange markets in 1986. In 1987, there was a removal of interest rate, unification of foreign exchange markets and liberalization of bank licensing. The third high inflation episode started in the last quarter of 1987 and accelerated through 1988 to 1989. This episode is related to the fiscal expansion that accompanied the 1988 budget.
In 1989, banks were permitted to pay interest on demand deposits, ban on credit extension based on foreign exchange deposits. In 1990, a uniform accounting standards was introduced for banks while a stabilization security to mop up excess liquidity was also introduced. In 1991, inflation fell reaching one of its lowest points in 1991 i.e. 13% (CBN 2009). There was an embargo on bank licensing while the administration of interest rate was introduced. Central Bank was also empowered to regulate and supervise all financial institutions in the economy. In 1992, privatization of government-owned banks commenced, credit control was removed in 1993, indirect monetary instrument were introduced while in 1994, re-imposition of interest and exchange rate controls were made. In 1997, the minimum paid up capital of merchant and commercial bank was further raised to a uniform level of N500million. In 2001, universal banking system was introduced. In 2005, CBN compelled all commercial banks to raise their capital base from N2billion toN25billion.

In 2006, the CBN introduced a new monetary policy implementation framework (Monetary Policy Rate (MPR) to replace the minimum Re-discount Rate (MRR). The various policies initiated were to bring about stability in the macroeconomic variables. Overall, the CBN’s amended Act granted the Bank more discretion and autonomy in the conduct of monetary policy. Consequently, the focus of monetary policy during this period shifted significantly from growth and developmental objectives to price stability. The operational framework for indirect monetary policy management involved the use of market (indirect) instruments to regulate the growth of major monetary aggregates.

Under this framework, only the operating variables, the monetary base or its components are targeted, while the market is left to determine the interest rates and allocate credit. Essentially, the regime involves an econometric exercise, which estimates the optimal monetary stock, which is deemed consistent with the assumed targets for GDP growth, the inflation rate and external reserves. Thereafter, market instruments are used to limit banks’ reserve balances as well as their credit creating capacity.

Monetary Policy in Nigeria: The researcher have taken part of the view Nigeria’s monetary policies since 1986 and asserted that they have not been effective, since they failed to redress the economic problems, inhabiting growth in the Nigeria economy. Our central theoretical position has been that id the conduct of monetary policy in Nigeria does not change; economic stabilization will be an illusion and increasing the standard of living. This contention is based on the lack of correspondence between policy goals and policy targets. Monetary policy in Nigeria aims at reducing inflationary pressures and the rate of unemployment, yet this problem have persisted and are even worsening. The occurrence of stagflation is still fresh in our memories. Besides, the economy is depressed and there is a general decline in the standard of living even though one of the objectives of monetary policy is to improve the GDP and hence the standard of living of the masses.

In view of the fact that past policies have not been able to redress our economic problems, there is a need for government and our monetary authority to adopt a sound monetary policy framework and a more promising implementation strategy. We believe that any monetary policy that is not derived from a strong theoretical framework or does not capture the deny essence character and structure of the economy is bound to produce undesirable result [44].

There Are Some of the Basic Objectives of Monetary Policy:
- Price Stability
- Exchange rate stability
- To crease the level of employment
- To maintain external trade balance
- Growth of total output and national income

Price Stability: This is brought about by keeping inflation pressure under control via government control of the lending operations of financial institutions, also excess liquidity is curtailed.

Exchange Rate Stability: An exchange rate is the price of one country’s currency in terms of another. In a free market, the exchange rate is determines by the demand and supply of foreign exchange because of the impact of foreign exchange on the balance of payment, monetary authorities formulate polices that will help achieve and maintain exchange rate stability.

Increase in the Level of Employment: One of the advantages of economic growth and development is that National income is increase due to the increase in the production of goods and services; this also leads to increase in the employment of labour. Increase in the level of employment will also lead to a maximum use of the countries recourses (both human and non-human resources).
To Maintain External Trade Balance: One of the monetary policy objectives is to maintain balance between receipt and payment of a country in the international trade relationship; so as to achieve a balance of payment equilibrium.

Monetary Policy Instrument: Monetary policy instrument can be classified into indirect or market based instrument and direct instrument of monetary control. The use of this instruments depend on the desired objectives which the monetary policy hopes to achieve, since monetary policy objectives may be very difficult, hence, the achievement of any single objectives or a combination of objective would depend on the mechanism of transmission of the policy pulse to the relevant targets. The type of policy instrument used is also relevant in achieving policy objectives[45].

Indirect or Market Based Instrument: The use of the indirect instrument is the strategy in a market based economy and they operate by taking advantage of the relationship between the money supply and reserve money and the ability of the monetary authorities to influence the creation of reserve money.

These are three instruments through which the monetary authorities control the money supply.

- Open market Operation (OMO)
- Reserved Requirements
- Discount Rate

Open Market Instruments (OMO): It is the buying or selling of government bonds by the central bank in the open market. If the central bank were to buy bonds, the effect would be to expand the money supply and hence lower the interest rate. This is the most widely used instrument in the day to day control of the money supply due to the ease of use and the relatively smooth interaction it has with the economy as a whole.

The CBN embarks on OMO with a view to influencing the bank’s credit operations through causing changes in the cost and availability of credit. However, the effective use of this technique require the existence of well-developed markets in which the amount of government and other securities held by the banks and the non-bank public (private sector) is large and actions are sensitive’s to interest rate [46].

In Nigeria the OMO seeks to control the base money by targeting bank reserves. By so doing, the CBN expects to keep the base money and eventually, broad money supply (M2) at levels adequate for inflationary activities.

Analysis and Appraisal of Monetary Development During the Structural Adjustment Programme: Monetary growth was significantly restrained in 1986 and 1987, but virtually exploded in 1988 following the reflationary budget of that year. Therefore after, money stock growth moderated in 1989 but escalated again in 1990 owing to significant external inflow following increase prices of petroleum products.

Monetary expansion became more rapid between 1991 and 1994 because of the corresponding increase in the monetary base. Narrow money (M1) declined by 4.5 percent in 1986 as against the 9.1 percent increase in 1985. Contraction in narrow money was attributed largely to the transfer of N4.2 billion to CBN from banks being naira lodgments for foreign payment arrears which the CBN could not effect due to foreign exchange scarcity.

Monetary restraint weakened somewhat in 1987 following an increase in the fiscal deficit which was partly sourced from the banking system. Consequently, M1 rose by 17.3 percent, exceeding 11.8% target for the year. In an attempt to moderate an apparent excess in money growth, CBN increased the liquidity ratio from 25.0 to 30.0 percent, deregulated interest rates and increased its minimum rediscount rate from 13.0 to 15.0 percent so as to make funds more expensive and thereby discourage marginal borrowers. However, in response to the reflationary budget of 1988, the monetary authorities lowered the liquidity ratio, reduced the minimum rediscount rate to 12.75% from 15% and increased the credit growth target to the domestic economy from 4.4% in 1987 to 1.1% in 1988. Money Supply (M1), consequently, rose by as high as 42.3%, reflecting largely the inflationary financing of the federal deficit, which amounted to 7.1% of GDP.

As a result of the policy slippage of 1988 and the subsequent increase in budgets deficit and the monetary aggregates, the monetary authorities tightened up monetary policy in 1989. It therefore increased the rediscount rate from 12.75% to 18.5%, increased the cash ratio, raised the liquidity ratio for banks to 30.3%, adjusted the capital adequacy ratio from 1.12 to 1.10 and ordered the transfer of public sector deposits in banks to CBN, when this was discovered to be the source of liquidity pressure.

These contractionary measures impacted on the money supply as the expansion of M1 moderated from 42.3% in 1988 to 21.2% in 1989. In 1990, M1 rose again by 44.7% largely due to the significant foreign exchange inflow from the increase in petroleum prices. Between 1991 and 1994, M1 grew more rapidly, recording a record level of 66.4% in 1992. The pattern of growth of broad money (M2) was similar to that of M1 during the entire period.
The annual increase in $M_1$ recorded a peak of 49.8% in 1993. However, the growth rates of both $M_1$ and $M_2$ decelerated in 1995, with $M_1$ increasing by 10.1% while $M_4$ recorded an increase of 5.6%. The renewed liquidity pressures in the system led to the introduction of stabilization securities to mop-up excess liquidity in the banking sector [47].

In spite of intense pressures in the financial sector, the CBN introduced the use of Open Market Operation (OMOs) as a tool of monetary control in just 1993, while it gradually dismantled the direct credit control. The use of the instrument was a huge success in 1993 mainly because of the prevailing high level of interest rates, which made investments in treasury securities very attractive. In 1993, treasuring bills worth N44.95 were offered for sales in the market while bills worth N49.2 billion were sold. The average yield of the bills ranges between 22.8 and 27.8 percent.

In 1994, the volume of OMOs expanded significantly although its upward direction was threatened by the sudden policy changes announced in the 1994 budget. An example of such changes was the capping of interest rates, which brought down the yield of treasuring bills for OMOs to 12.4%. Even with a slightly higher average yield in 1995, the volume of OMO transactions was significantly down compared to 1994. On the whole, the OMO instrument was quite useful in checking the growth of bank reserve during the period.

The real interest rates were positive in 1986, 1987 and 1990, while the rates remained negative in the remaining years. Interest rates were deregulated in August 1987 and between that time and 1990, the CBN adopted the policy adjusting its minimum rediscount rate to indicate the desired direction of policy. However, the resulting higher lending rates following the deregulation appeared to have increased the incidence of unserviced loans which banks recapitalized. Consequently, aggregate bank loans increased with substantial part of these being attributed to interest payment due and unpaid but compounded as principal. The persistence of this accounting procedure complicated the problem of non-performing assets in banks book. In an attempt to correct this, the CBN introduced the new prudential guidelines which required bank to make adequate provision for bad and doubtful debt in their books. The increased level of bad and doubtful debts, substantial erosion of the general down turn of the economy resulted in the increased incidence of financial distress in the economy[48].

**MATERIALS AND METHODS**

This study examines the impact of central bank financial management on Nigeria’s economic growth, from 1982 - 2013. The methodology is essentially econometric analysis which will be used to estimate and analyze the influence of the explanatory variables; broad money supply ($M_1$), interest rate (INT), exchange rate (EXR) and liquidity ratio (LR) on Gross Domestic Product (GDP). The ordinary least square (OLS) technique of estimation would be used in estimating the models. This technique was chosen because its parameter estimators have optimal properties that are best, linear and unbiased estimator furthermore, OLS techniques are simple to apply, easy to understand and interpret Koutsoannis (2003). The estimation covered the period between 1981 and 2012 while the secondary data obtained was analysed using E-View 7 econometric package [49].

**Model Specification:** In this study, hypothesis has been stated with the view of examining the impact of central bank financial management on the growth of Nigerian economy. In capturing the study, gross domestic product (GDP) was used as the endogenous variable while broad money supply ($M_1$), interest rate (INT), exchange rate (EXR), liquidity ratio (LR) were used as the exogenous variables. The model is represented in a functional form. It is shown as below:

$$GDP = f (M_1, INT, EXR, LR)$$

And the Statistical form is expressed as:

$$GDP_t = b_0 + b_1 M_{1t} + b_2 INT_t + b_3 EXR_t + b_4 LR_t + u_t$$

where:

- $GDP$ = Gross Domestic Product
- $M_1$ = Broad Money Supply
- INT = Interest Rate
- EXR = Exchange Rate
- LR = Liquidity Ratio
- $u_t$ = Stochastic variable or error term
- $b_0$ = constant term
- $b_1$, $b_2$, $b_3$, and $b_4$ = parameters to be estimated

**Estimation Procedure:** The specified multiple regression models will be estimated using the Ordinary Least Squares (OLS) technique. The following econometric and statistical diagnostic tests will be performed in order to ascertain the validity of the regression results:
Unit Root Test: This study will employ quantitative tools of data analysis and interpretations will be based on standard econometric principles. First, a unit root test will be conducted to determine the time series properties of data collected on the variables. This is with a view to establishing whether there is a presence of unit root in the series because when time series data is characterized by a unit root or in other words is non-stationary, regression analysis conducted in a conventional way, yields spurious regression results. Augmented Dickey fuller (ADF) test was employed for this study. To determine whether there is unit root or not in the series involved, Augmented Dickey fuller (ADF) test statistics shall be compared with the critical values at 5% level of significance [50].

Decision Rule: Reject the null hypothesis (H₀) of unit root if ADF calculated value is greater than the critical value in absolute terms otherwise accept the null hypothesis.

A situation whereby the (ADF) test statistics is greater than the critical values with consideration on the absolute values, the data at the tested order will be said to be stationary. Augmented Dickey-Fuller test relies on rejecting a null hypothesis of unit root in favour of the alternative hypotheses of stationarity.

Co-Integration Test: Additionally, according to Engle-Granger (1987) when variables were found to be 1(1), stationarity of residual (obtained from a static regression) implies co-integration, meaning that a long run equilibrium condition exists between the dependent and the independent variables. The residual series is included in the regression as an error correcting mechanism. Long run regression results are obtained by traditional Ordinary Least Squares (OLS) technique. Therefore to observe the nature of co-integration we employ the Johansen model.

Error Correction Mechanisms (ECM): The purpose of the vector error correction model is to indicate the speed of adjustment from the short-run to long-run equilibrium state. If co-integration is accepted, it suggests that the model is best specified in the first difference of its variables with one period lag of the residual \{ECM (-1)} as an additional regressor. Hence, the ECM strategy provides an answer to the problem of spurious correlations. It follows that the greater the coefficient of the parameter, the higher the speed of adjustment of the model from short-run to long-run equilibrium.

The ECM (p) form is written as:

\[ \Delta y_t = \delta + \rho \Delta y_{t-1} + \sum \Phi_i \Delta y_{t-1} + \epsilon_t \]  \hspace{1cm} (1)

where \( \Delta \) is the differencing operator, such that \( \Delta y_{t-1} = y_t - y_{t-1} \).

Sources of Data: The data used for this research work are secondary data. They are sourced from Central Bank of Nigeria (CBN) statistical bulletin, for various years.

Presentation of Results: For proper examination of the impact of Central Bank’s financial management on Nigeria’s economy from 1982 – 2013; the researcher employed some macroeconomic variables that was considered to have influential impact on the economic growth of Nigeria. These variables are Gross Domestic Product (GDP) (Dependent variable), broad money supply (MS), Interest rate (INT), exchange rate (EXR) and liquidity ratio (LR) as independent variables.

Data collected for the empirical analysis were subjected to Unit Root, Cointegration, Granger causality and Error Correction tests. The results and their discussions are presented hereunder.

Unit Root Test: The Augmented Dickey-Fuller (ADF) test was employed to test for stationarity or the existence of unit roots in the data. The test results are as presented below;

<table>
<thead>
<tr>
<th>Series</th>
<th>ADF Test Statistic</th>
<th>5% critical values</th>
<th>Order</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>DGDP</td>
<td>-6.203966</td>
<td>-3.568379</td>
<td>I(1)</td>
<td>Stationary</td>
</tr>
<tr>
<td>D,M₁</td>
<td>-8.433386</td>
<td>-3.574244</td>
<td>I(2)</td>
<td>Stationary</td>
</tr>
<tr>
<td>DINT</td>
<td>-8.796299</td>
<td>-3.568379</td>
<td>I(1)</td>
<td>Stationary</td>
</tr>
<tr>
<td>DEXR</td>
<td>-4.218399</td>
<td>-3.568379</td>
<td>I(1)</td>
<td>Stationary</td>
</tr>
<tr>
<td>DLR</td>
<td>-5.456200</td>
<td>-3.568379</td>
<td>I(1)</td>
<td>Stationary</td>
</tr>
</tbody>
</table>

From the table above, the results of the Augmented Dickey Fuller unit root tests is at first difference and second difference respectively. From the table, at 5 percent level of significance, the variables namely; GDP, INT, EXR and LR were stationary at first difference since by comparison, their critical values were less in absolute values than their augmented dicey fuller (ADF) test statistics. Similarly, M₂ was stationary at second difference because the ADF test statistics is greater than the critical values at 5%. Thus, the series are stationary and integrated of order one and two i.e. 1(1) and 1(2).
Cointegration Test

Table 2: Co-Integration Result

<table>
<thead>
<tr>
<th>Eigen value</th>
<th>Trace statistics</th>
<th>0.05 Critical Value</th>
<th>Hypothesized No. of CE(s)</th>
<th>Prob. **</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.790394</td>
<td>97.14515</td>
<td>69.81889</td>
<td>None *</td>
<td>0.0001</td>
</tr>
<tr>
<td>0.556369</td>
<td>50.26932</td>
<td>47.85613</td>
<td>At most 1</td>
<td>0.0291</td>
</tr>
<tr>
<td>0.404236</td>
<td>25.88645</td>
<td>29.79707</td>
<td>At most 2</td>
<td>0.1321</td>
</tr>
<tr>
<td>0.265854</td>
<td>10.34912</td>
<td>15.49471</td>
<td>At most 1</td>
<td>0.2548</td>
</tr>
<tr>
<td>0.035286</td>
<td>1.077699</td>
<td>3.841466</td>
<td>At most 2</td>
<td>0.2992</td>
</tr>
</tbody>
</table>

Under the Johansen Co-integration Test, there are two co-integrated vectors. In Johansen’s Method, the eigenvalue statistic is used to determine whether co-integrated variables exist. From the trace statistics, two of the absolute values of these variables are greater than 5% critical values (i.e. GDP [97.145 > 69.818], M₂ [50.269 > 47.856], INT [25.886 < 29.797], EXR [10.349 < 15.494]) while LR [1.077 < 3.841]. However, looking at their eigenvalues [0.790394], [0.556369], [0.404236], [0.265854] and [0.035286] respectively, the trace test indicates 2 co-integrating equation at 5% level of significance. In other words, the null hypothesis of no co-integration among the variables is rejected since at least two equations at 5% were statistically significant. The test result shows the existence of a long-run equilibrium relationship among the variables. The normalized co-integrating adjusted coefficients for one co-integrating equation given by the long-run relationship is

\[
\begin{align*}
\text{GDP} & \quad \text{M₂} \quad \text{INT} \quad \text{EXR} \quad \text{LR} \\
1.000000 & \quad 1.988544 \quad -22652.54 \quad 41027.73 \quad -225225.2 \\
(0.25709) & \quad (110055.) \quad (15184.8) \quad (56859.3)
\end{align*}
\]

where GDP is the dependent variable, 1.988544 is the coefficient of M₂, -22652.54 is the coefficient of INT, 41027.73 is the coefficient of EXR while -225225.2 is the coefficient of LR. The signs borne by the adjusted coefficient estimates of M₂ and EXR are positive while that of INT and LR are negative. Specifically, the results of the cointegration test suggested that economic growth, proxied by Gross Domestic Product (GDP) had equilibrium relationship with Money supply (M₂), interest rate (INT), exchange rate (EXR) and liquidity ratio (LR) which kept them in proportion to each other in the long run.

Error Correction Mechanism (ECM):

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>457533.2</td>
<td>300310.6</td>
<td>1.523533</td>
<td>0.1402</td>
</tr>
<tr>
<td>D(M₂)</td>
<td>1.867983</td>
<td>0.365215</td>
<td>5.114757</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(INT)</td>
<td>15875.67</td>
<td>60164.26</td>
<td>0.263872</td>
<td>0.7940</td>
</tr>
<tr>
<td>D(EXR)</td>
<td>13917.37</td>
<td>16699.29</td>
<td>0.833411</td>
<td>0.4125</td>
</tr>
<tr>
<td>D(LR)</td>
<td>7208.863</td>
<td>26740.28</td>
<td>0.269588</td>
<td>0.7897</td>
</tr>
<tr>
<td>ECM(-1)</td>
<td>-0.350635</td>
<td>0.142869</td>
<td>2.454248</td>
<td>0.0214</td>
</tr>
</tbody>
</table>

From the table ECM (-1) was consistent by assuming a negative values. It suggests that the ECM could correct any deviations from long-run equilibrium relationship between GDP and the explanatory variables. The co-efficient indicates a speedy adjustment of 35.06% per annum. This implies that following short-run disequilibrium, 35.06% of the adjustment to the long-run takes places within one year. The above result shows that the R² = 0.58451, which shows that the model explains about 58.45% of the total variations in GDP are explained by the independent variables during the period of the study.

The result also shows that only M₂ is statistically significant considering that the probability value is less than 0.05. At 1.79; the Durbin Watson statistics suggest evidence of no auto-correlation. This is an indication that the dependent variable; GDP is well explained by the independent variables namely M₂, INT, EXR and LR. The sign borne by the parameters shows that monetary policy has positive relationship with GDP.

Hypotheses II:

H₂: There is no causal relationship between economic growth and central bank financial management.
The result of the granger causality above indicates that there is evidence of uni-directional causality running from GDP to M. This is because the probability value is less than 0.05. Therefore, the null hypothesis of no causality is rejected.

**Implication of the Study:** The ECM result presented above shows that GDP has a positive relationship with LR and a positive relationship with M, INT and EXR. Only the relationship between GDP and M, GDP and EXR, GDP and LR conforms to a priori expectation while that between GDP and INT does not conform to the a priori expectation. It is expected that the higher the liquidity of the economy which is evident by high liquidity ratio, the higher the level of economy activities which could ultimately translate into higher economic growth which conforms to the findings from this study. Equally, from a priori, GDP ought to have negative relationship with interest rate but findings reveal that the reverse was the case as interest rate turned out to be positively related to gross domestic product, implying that the economy grows when interest rate is high. Hence only the coefficient of money supply (M₃), exchange rate (EXR) and Liquidity ratio (LR) conforms to a priori expectation.

**Summary of Findings:** The study investigated empirically the impact of central bank financial management on Nigeria’s economic growth for the period between 1982 and 2013 employing various techniques of econometric analysis. In the course of the study, the main objective was to determine empirically the impact of central bank financial management on Nigeria’s economic growth.

The variables used for the empirical analysis are; gross domestic product (GDP), broad money supply (M₃), interest rate (INT), exchange rate (EXR) and liquidity ratio (LR). The findings from the study are discussed below:

The result of the unit root test conducted on the variables using Augmented Dicey Fuller test shows that at 5 percent level of significance, the following variables (GDP, INT AND LR) became stationary at first difference; while M₃ was stationary at second difference. Hence, they are integrated of the order one and two.

In testing for the long run relationship using the Johansen co integration approach, the result shows that the variables are co integrated with 2 co integrating equation.

The co-efficient of ECM indicated a speedy adjustment of 35.06% per annum. This implies that following short-run disequilibrium, 35.06% of the adjustment to the long-run takes places within one year. The above result shows that the R² is 0.584541, which shows that the model explains about 58.45% of the total variations in GDP are explained by the independent variables during the period of the study.

The granger causality test runs from GDP to M, this is because the P-value is less than 5% level of significance. Hence, there exist one-way causation between the variables.

**CONCLUSION**

This study applied error correction mechanism (ECM) to determine the impact of central bank financial management on Nigeria’s economic growth for the period 1982 - 2013. From the findings, it is obvious that central bank financial management has been very effective in its role towards enhancing economic growth of the country. Therefore, this study concludes that central bank financial management significantly impacts on the economic growth of Nigeria within the period under review.

**Policy Recommendation:** In view of the findings above, the following recommendations are made:

- The government should endeavour to make the financial sector less volatile and more viable as it is in developed countries. This will allow for smooth execution of the Central Bank monetary policies. Law relating to the operation of the financial institutions could be made a bit less stringent and more favourable for the operators to have room to operate more freely.
- Monetary policies should be used to create a favourable investment climate by facilitating the emergency of market based interest rate and exchange rate regimes that attract both domestic and foreign investments, create jobs, promote non-oil export and revive industries that are currently operation far below installed capacity.
- Commercial banks and other financial intermediaries must be forced to ensure compliance with the stipulated prudential guidelines. Any deviation from the set regulations should be punished to serve as a deterrent to others.
- Since Global experience has indicated that monetary policy must work in random to create the right macroeconomic framework, in other word monetary policy to a great extent depends on coordination with fiscal policy; these two phenomena should be articulated in order to bring out effective results. Therefore, the execution of monetary policy through its techniques requires effective and prudent management on the part of the monetary authorities.
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