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Effect of Money Market Liquidity and Interest Rates on Economic Growth of Nigeria

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Abstract

Despite the critical role of the money market in mobilising short-term funds and stabilising the financial system, Nigeria's economic growth trajectory has remained volatile and inconsistent. Therefore, this study examined the effect of money market liquidity and interest rates on economic growth in Nigeria over the period of thirty-three years from 1981–2023. The study used real gross domestic product as the proxy for growth. Liquidity was measured as broad money supply minus currency outside banks divided by broad money supply, while the interest rate was measured as the face value minus purchase price divided by purchase price multiplied by 365 divided by days to maturity multiplied by 100%. The study utilised a longitudinal research design. The Discrete Threshold Regression technique was employed to uncover nonlinear relationships that conventional linear models often overlook. The results revealed that money market liquidity exerted a positive and significant effect on economic growth, with disproportionately larger impacts at lower levels of liquidity and sustained but moderate effects as liquidity deepened. Meanwhile, money market interest rates have a negative and significant effect on economic growth, as high rates discouraged borrowing and reduced credit availability for investment and consumption. These findings indicated that Nigeria's economic growth trajectory was more liquidity-driven than interest-rate dependent, underscoring the importance of financial market development in stimulating productive activities. The study concluded that deepening liquidity while maintaining interest rates at growth-friendly levels was crucial for strengthening financial intermediation and promoting sustainable economic expansion. The study recommended that the government should have deliberate reforms to enhance money market depth, ensure efficient credit allocation and stabilise interest rates, which could serve as a viable strategy for accelerating Nigeria's long-term economic growth.

Keywords: Money Market Interest Rate, Money Market Liquidity and Economic Growth

1. Introduction

Economic growth remains a central policy concern for nations across the globe, as it determines the pace of development, poverty reduction, and overall welfare improvement. Globally, countries rely on financial markets, including both the stock and money markets, to mobilise savings, allocate capital, and provide liquidity that fuels productive investment. However, persistent



challenges such as inflationary pressures, unstable interest rates, and liquidity shortages continue to undermine growth in emerging economies (International Monetary Fund, 2024). This has spurred a renewed academic and policy interest in the role of money markets as a driver of sustainable growth, especially in developing countries where financial markets are less mature.

Nigeria has experienced recurrent periods of economic expansion and contraction, with its growth performance constrained by heavy dependence on hydrocarbon revenues, macroeconomic instability, inflationary pressures, exchange-rate volatility and structural weaknesses in the economy (IMF, 2024; World Bank, 2024). As the financial system's short-term funding arm, the money market provides a platform for liquidity management and credit allocation, making it a critical channel for growth. However, fluctuations in money market liquidity and interest rates often trigger instability in investment and aggregate demand, thus affecting economic performance in Nigeria (IMF, 2025; Hardini et al., 2025; Naidoo et al., 2025). Understanding how these money market dynamics shape Nigeria's economic growth trajectory is therefore essential for evidence-based policymaking.

Money market liquidity refers to the ease with which short-term financial instruments can be bought or sold in the money market without significantly affecting their prices (Khali, 2024; Odunga & Ayoyi, 2016). High liquidity ensures that firms and governments can access short-term funding at lower costs, thereby stimulating investment and consumption (Mbongeni & Imhotep, 2025; Khali, 2024). Conversely, liquidity shortages tighten credit availability, raise borrowing costs, and constrain productive activities. Thus, adequate money market liquidity supports macroeconomic stability and fosters sustainable economic growth. Empirical evidence, however, has been skewed toward stock market liquidity (Okey-Nwala & Iwedi, 2024; Babatunde & Ojo, 2022; Adebayo & Olalere, 2019), while neglecting money market instruments such as treasury bills, commercial papers, and interbank liquidity. This narrow focus leaves an important gap in understanding the role of money market liquidity in driving growth, a gap this study seeks to fill.

Similarly, money market interest rates represent the cost of borrowing or the return on short-term financial instruments traded within the money market. They are central to economic growth because they directly influence the cost of credit, investment decisions, and consumption patterns. Lower interest rates generally stimulate private sector borrowing and investment by making credit cheaper, while excessively high rates may crowd out productive activities and dampen aggregate demand (Adeleke & Ajayi, 2018; Olayemi, 2019; Ezeaku et al., 2021). Prior studies in Nigeria (Amadi & Uzoma, 2024; Ezu, 2023; Oyedeko & Zubairu, 2021) demonstrate that interest rates exert significant effects on growth outcomes, but their findings are often limited by methodological weaknesses such as reliance on OLS regression or narrow proxies of development like unemployment rates. These limitations weaken the robustness of their conclusions, underscoring the need for more dynamic models that capture nonlinear interactions.

Against this backdrop, this study investigates the impact of money market liquidity and interest rates on Nigeria's economic growth, using real GDP as the measure of growth. Unlike previous studies that emphasise stock market variables or adopt static estimation techniques, this research



integrates money market instruments and applies threshold regression to uncover dynamic and nonlinear relationships.

Therefore, the study examined the effect of money market liquidity and interest rates on economic growth of Nigeria.

The rest of this paper is structured as follows: Section 2 presents the literature review and theoretical framework, while Section 3 outlines the research methodology, including the model specification and data analysis procedures.

2. Literature Review

This section reviews the literature on the effect of money market liquidity and interest rates on Nigeria's economic growth and empirical review of previous studies.

2.1.1 Economic Growth

Economic growth has been defined differently across the literature, often reflecting the lens through which it is studied. At its core, economic growth refers to the sustained increase in an economy's productive capacity, reflected in rising output and improved living standards over time (Cyril, 2021; Chowdhury & Miah, 2019; Alege & Ogundipe, 2016). It is also described as the process through which economies experience structural transformation, technological advancement, and efficient utilisation of resources to meet the needs of a growing population (Agbo & Nwokoye, 2021). Beyond mere expansion of output, economic growth embodies improvements in welfare, reduction of poverty, and expansion of opportunities, making it a multidimensional concept that extends beyond income to quality of life (Okere et al., 2023, Akomolafe & Dania, 2022; Audu, & Okpe, 2022).

Several methods are commonly employed to measure economic growth. Gross Domestic Product (GDP), whether nominal or real, remains the most widely used, capturing the total value of goods and services produced within an economy. Other measures include Gross National Income (GNI), which accounts for income earned by residents both domestically and abroad, and per capita income, which adjusts national output by population to indicate average welfare levels (Musa & Ibrahim, 2021; Ejem & Ogbonna, 2020; Yakubu & Affoi, 2019). Human Development Index (HDI) and composite measures that incorporate education and health outcomes are also increasingly applied, reflecting the broader dimensions of growth (Audu & Okpe, 2022; Chaudhry et al., 2021, World Bank, 2020). However, Real GDP is widely preferred as it adjusts for inflation, allowing for more accurate comparisons of economic performance over time. Unlike nominal GDP, which can be distorted by price changes, real GDP captures actual output growth, providing a clearer picture of economic dynamics (Eze & Okonkwo, 2023; Adeleye et al., 2022; Nwakoby & Okeke, 2020; Alimi & Ofose, 2018). Moreover, Real GDP's ability to benchmark long-term growth trends and facilitate cross-country comparisons makes it superior to other measures, particularly in policy evaluation and forecasting.



2.1.2 Money Market Liquidity

According to Iwedi and Onuegbu (2016), money market liquidity refers to the ease with which short-term financial instruments can be converted to cash without significant loss of value, thereby facilitating efficient allocation of capital. Musa and Ibrahim (2021) expanded this definition by emphasising that liquidity is not just about convertibility, but also about the depth and resilience of the money market in absorbing shocks while ensuring the smooth financing of productive activities. Similarly, Akinlo and Adejumo (2020) opined that liquidity in the money market enhances economic growth by channelling idle funds into short-term investments, ensuring credit availability, and stabilising the financial system. In this sense, money market liquidity directly influences economic growth by promoting financial intermediation, reducing transaction costs, and enhancing investors' confidence (Eze & Okonkwo, 2023).

Different methods are used in measuring money market liquidity, including the bid–ask spread, trading volume, turnover ratio, and liquidity ratios such as the loan-to-deposit ratio (Audu & Okpe, 2022; Chowdhury & Miah, 2019). While the bid–ask spread measures transaction cost efficiency, turnover ratios and trading volumes provide information on market depth and activity levels (Agbo & Nwokoye, 2021). However, these indicators often fail to capture the broader systemic role of liquidity in the economy, as they are largely market-centric and do not fully reflect the impact on macroeconomic performance (Musa & Ibrahim, 2021). Therefore, this study adopts turnover ratio as the most suitable measure of money market liquidity, because it reflects both the efficiency and vibrancy of financial intermediation, captures real economic interactions, and is widely recognised in empirical studies on emerging economies (Akomolafe & Oladeji, 2020; Eze & Okonkwo, 2023). Unlike bid–ask spreads, which are narrow and more applicable to advanced markets, the turnover ratio provides a better representation of liquidity in Nigeria's money market, where institutional investors dominate transactions and market efficiency is closely tied to transaction volumes and fund circulation. For this study, money market liquidity can be defined as the degree of efficiency and resilience of the short-term financial market in facilitating rapid, low-cost access to cash and credit that sustains both investment flows and macroeconomic stability.

2.1.3 Money Market Interest Rate

Money market interest rate is commonly defined as the cost of short-term borrowing in the interbank market or the return on short-term financial instruments such as treasury bills, commercial papers, and certificates of deposit. It reflects the price of liquidity and serves as a key monetary policy transmission channel in many economies (Olajide & Akinbobola, 2022; Cyril, 2021; Olaleye & Ikhide, 2019; Osuagwu & Nwosu, 2017). Several studies suggest that changes in money market interest rates influence investment, consumption, and ultimately, the pace of economic growth. For instance, higher rates may dampen liquidity and private sector borrowing, reducing growth prospects (Afolabi & Olayemi, 2018; Ojo & Adenuga, 2020), while stable and well-anchored rates foster investor confidence and support economic expansion (Yakubu & Affoi, 2021). Thus, the role of money market interest rates extends beyond financial markets into macroeconomic stability.



The measurement of money market interest rates varies across studies. Some researchers use interbank call rates, which reflect short-term liquidity conditions between banks (Igweze et al., 2020; Ibrahim & Mohammed, 2019). Others rely on treasury bill rates, as they are more transparent, widely reported, and capture government borrowing costs (Ogunleye, 2018; George-Anokwuru, 2023). A few also use weighted average money market lending rates to capture broader market dynamics (Nwachukwu & Okafor, 2020). For this study, treasury bill rates are the most suitable proxy because they are market-determined, less volatile than interbank call rates, and provide a reliable benchmark for monetary policy analysis in Nigeria. Unlike interbank call rates, which may be distorted by temporary liquidity shocks, treasury bill rates consistently reflect prevailing market sentiment and government policy stance, making them a more stable measure for assessing the relationship between money market performance and economic growth. Therefore, this study defined money market interest rate as the equilibrium short-term cost of funds that embodies both monetary authority signals and market participants' liquidity preferences, serving as a bridge between financial market efficiency and real sector productivity.



Figure 2.1: Flow Chart of Conceptual Framework

Source: Researcher's Compilation, 2026

2.2 Empirical Review

2.2.1 Money Market Liquidity and Economic Growth

Okey-Nwala and Iwedi (2024) examined the relationship between stock market liquidity and economic growth in Nigeria using annual data covering the period 1985 to 2022. The study analysed trends in Real Gross Domestic Product (RGDP), Number of Deals (NOD), All Share Index (ASI), and Market Capitalisation (MCP) within the Nigerian stock market. The results indicated a general upward trend in economic growth despite periodic fluctuations, alongside a steady increase in NOD, reflecting heightened market activity. Both ASI and MCP exhibited substantial growth, highlighting the strategic role of the stock market in Nigeria's economic development. Cointegration analysis confirmed the existence of a long-run relationship between stock market liquidity indicators and economic growth, while regression results showed that ASI and MCP have a significant positive effect on RGDP. However, causality tests yielded mixed evidence, with MCP found to Granger-cause NOD and ASI, whereas other causal links were statistically insignificant. However, its focus on stock market variables, while neglecting critical money market instruments such as liquidity levels and interest rates, limits its applicability for evaluating broader financial market performance. The present study addresses this gap by



incorporating these money market indicators, measuring economic growth with real GDP, and employing the threshold regression approach for more robust dynamic analysis.

Babatunde and Ojo (2022) evaluated the impact of stock market liquidity on economic growth in Nigeria during periods of regulation and deregulation of the stock market. Using time series data from 1960 to 2020, divided into 26 years of stock market regulation (1960-1985) and deregulation (1995-2020), they employed Two-Stage Least Squares (2SLS) and Granger Causality methods for analysis. The results showed that stock market liquidity has a positive and significant impact on economic growth in both periods, though the impact was stronger during regulation. Though their focus on liquidity alone overlooks other market performance indicators such as depth and efficiency. The periodization also leaves a ten-year data gap (1986–1994), which could distort long-run dynamics. The current study improves by applying threshold regression to capture nonlinear relationships while incorporating broader money market variables for a more holistic analysis.

Adebayo and Olalere (2019) used quarterly data from 2004 to 2018 to analyse the impact of stock market liquidity on economic growth in Nigeria. The study used the Granger causality test and findings revealed that there is unidirectional causality running from stock market liquidity to economic growth. Therefore, the study offered useful evidence of liquidity-driven growth, but their reliance on Granger causality alone limits robustness, as it does not account for structural breaks or nonlinear effects. The study also focuses narrowly on liquidity, neglecting other money market instruments. The present study addresses these gaps by adopting threshold regression and incorporating broader indicators of money market performance.

Using annual data from 1981 to 2012, Obida and Oseni (2016) investigated the relationship between stock market liquidity and economic growth in Nigeria. The study's analysis revealed a positive and significant relationship between stock market liquidity and economic growth. They concluded that a well-developed stock market with higher liquidity levels positively influences Nigeria's economic growth. The study's reliance on a single-variable approach overlooks other dimensions of money market performance, such as interest rates. Additionally, its use of annual data may mask short-term dynamics and nonlinear interactions. The present study addresses these gaps by applying threshold regression and incorporating broader money market indicators for a more comprehensive analysis.

2.2.2 Money Market Interest Rates and Economic Growth

Amadi and Uzoma (2024) examined the impact of liquidity policy, as a component of monetary policy, on economic growth in Nigeria over the period 1986 to 2020. The study used real GDP as the proxy for economic growth; it employed secondary data and applied advanced econometric techniques for analysis. The Augmented Dickey-Fuller (ADF) unit root test was conducted to determine the stationarity of the variables, which were found to be of mixed integration order. The Johansen cointegration test was used to assess the existence of long-run and short-run relationships among the variables, and the Autoregressive Distributed Lag (ARDL) model estimator confirmed the stability of the relationships. The findings indicated that money supply, interest rate, and exchange rate exerted significant effects on Nigeria's economic performance. The study concluded



that these variables, as key determinants of liquidity under monetary policy, significantly influenced economic growth during the study period. The current study addresses this gap by incorporating these instruments and retaining real GDP as the economic growth proxy within a threshold regression framework.

Ezu (2023) examined Nigeria's economic growth and money market development from 2008 to 2022. The study used commercial papers, treasury bills and monetary policy rate as proxies for money market development, and economic growth was measured as Gross Domestic Product. The data used for the study were sourced from the CBN statistical bulletin of various years. Analysis of Data was carried out using ordinary least square (OLS) regression. The result from the analyses showed that there was a negative and significant relationship between Gross Domestic Product and monetary policy rate in Nigeria. However, the exclusion of other important indicators like money market liquidity and interest rate spreads limit the comprehensiveness of the findings, while the use of OLS may not adequately address issues of endogeneity or dynamic interactions that methods like threshold regression could capture. The reliance on GDP alone as a growth proxy is also restrictive, as it overlooks other macroeconomic performance dimensions that could offer a more holistic assessment.

Oyedeko and Zubairu (2021) examined the effect of money market operation on the economic development of Nigeria. The study adopts Treasury bill, 3-month deposit rate, 6-month deposit rate, 12-month deposit rate and over 12-month deposit rate as proxies for money market operations, while unemployment rate was used as a measure of economic development. An ex-post facto research design was adopted in the study which is characterised by a quantitative or numeric description of historical data. The data for this study were obtained from secondary sources, covering a thirty-three-year period from 1985 to 2017. The study used the Vector Error Correction Mechanism to analyse data. The study found that the over 12-month deposit rate has a negative but insignificant effect on economic development in Nigeria. The 12-month deposit rate has a positive but insignificant effect on economic development in Nigeria. The result also shows that the deposit rate for 3 months and 6 months has a negative but significant effect on economic development in Nigeria. Though, the study's reliance on the unemployment rate alone as a proxy for economic development is too narrow and may not fully capture broader developmental outcomes. Additionally, the study does not account for structural breaks or institutional factors that could influence money market operations over the 33 years. The current study improves on this by employing broader and more dynamic measures of development with advanced econometric techniques.

Ikpefan and Osabuohien (2012) assessed the interactions between discount houses, money market instruments and economic growth in Nigeria. The study captured their performance indicators and employed time series data obtained from the Central Bank of Nigeria. Employing co-integration and vector error correction techniques, it was established, among others, that a long-run relationship exists between discount houses' operations and economic growth on one hand and money market instruments on the other. This implies that discount houses can serve as a veritable stimulant in Nigeria, especially in this era of global economic meltdown that is biting hard on the



Nigerian stock market. However, its focus on broad money market instruments without disaggregating key variables, such as liquidity, limits its depth of sectoral insight. The current study advances this by using real GDP as a growth proxy, including a richer set of money market variables (liquidity and interest rate), and applying threshold regression, which better captures both short- and long-run dynamics.

This paper adopts a conceptual model to explain the significance of money market liquidity and interest rates. It identifies money market liquidity and interest rates as the explanatory variables, while economic growth is considered the dependent variable.

2.3 Theoretical Framework

2.3.1 Keynesian Liquidity Preference Theory

According to Keynes (1936), the interest rate is determined by the demand and supply of money, where demand is largely influenced by liquidity preference (the desire to hold money for transactions, precautionary, and speculative motives). In this framework, money market liquidity plays a central role because an increase in money supply or liquidity reduces interest rates, which in turn stimulates investment and aggregate demand, thereby fostering economic growth. Conversely, a decline in liquidity raises interest rates, discourages borrowing, and slows down growth. This directly ties money market liquidity and interest rates to Nigeria's growth trajectory, as fluctuations in liquidity conditions affect credit availability and the cost of capital.

Empirical studies reinforce this theoretical link. For instance, Olaleye and Ikhida (2019) argue that money market liquidity significantly influences interest rate movements, which then shape the volume of investment in productive sectors. Similarly, George-Anokwuru (2023) emphasise that short-term interest rates, such as treasury bill rates, serve as transmission mechanisms through which monetary policy impacts economic activity. Yakubu and Affoi (2021) and Uzah et al. (2021) also show that liquidity shortages in Nigeria's money market often push interest rates upward, creating a contractionary effect on output. Thus, the Keynesian Liquidity Preference Theory best explains the impact of money market liquidity and interest rates on Nigeria's economic growth, as it highlights the interdependence of monetary conditions, interest rate behaviour, and investment-driven growth.

3. Methodology

This study adopts an ex-post facto research design to analyse the effect of money market liquidity and interest rate on economic growth of Nigeria, utilising data from 1981 to 2023 obtained from the Central Bank of Nigeria (CBN). To account for non-linear relationships, the Threshold Auto-Regressive (TAR) model is employed, capturing regime-switching effects when macroeconomic variables exceed certain unknown thresholds (Hanssen, 2011). The model introduces various thresholds (γ) to examine differences in market behaviour across regimes. Economic growth is formulated as a function of both regime-specific and non-regime-switching variables, ensuring a thorough assessment of fiscal patterns. The TAR model equations define multiple investment regimes, enabling a dynamic analysis of economic growth trends over time.



Using the indicator function $1(.)$ To take the value of 1 if the expression is true and 0 otherwise and defining $1_j(q_t, \gamma) = 1(\gamma_j < q_t < \gamma_{j+1})$, $m+1$ of the individual regimes is used to specify a single equation as follow:

$$y_t = X'_t\beta + \sum_{j=0}^m 1_j(q_t, \gamma) + Z'_t\delta_j + \epsilon_t \quad 1$$

3.1 Model for the Study

From the equation above the self-exciting threshold for each of the factor of determinants variable is hereby specified:

$$eg_t = C'_t\beta + \sum_{j=0}^m 1_j(q_t, \gamma) + eg'_{t-1}\delta_j \dots eg'_{t-10}\delta_j + mml'_{t-1}\delta_j \dots mml'_{t-10}\delta_j + \epsilon_t \quad 2$$

$$eg_t = C'_t\beta + \sum_{j=0}^m 1_j(q_t, \gamma) + eg'_{t-1}\delta_j \dots eg'_{t-10}\delta_j + mmir'_{t-1}\delta_j \dots mmir'_{t-10}\delta_j + \epsilon_t \quad 3$$

Where;

EG = Economic Growth, MML = Money Market Liquidity, MMIR= Money Market Interest Rate

Table 1: Variable Measurement

Variable	Explanation	Source of Data
Economic Growth (EG)	Economic growth is described as the increase in the market value of the goods and services produced by an economy over time. It is conventionally measured as a percent rate of increase in real gross domestic product (RGDP)	Okey-Nwala and Iwedi (2024), Ikpefan and Osabuohien (2012), and CBN
Money Market Liquidity (MML)	Measured as Broad Money Supply (M2) Minus Currency Outside Banks (COB) divide by Broad Money Supply (M2)	Akinbola and Ezeala (2023), Adebayo and Olalere (2019) and CBN
Money Market Interest Rate (MMIR)	Measured as the Face Value minus Purchase Price divide by Purchase Price multiplied by 365 divide by Days to Maturity multiplied by 100%	Kamal (2018)Ajayi and Oke (2012) and CBN

Source: Researcher's Compilations, 2026



4. Result and Discussion

Table 2: Descriptive Statistics

	EG	MML	MMIR
Mean	45962.28	9879.623	13.21512
Median	11501.45	764.9000	13.50000
Maximum	234425.9	75202.90	26.00000
Minimum	139.3100	5.000000	6.000000
Std. Dev.	62607.66	16119.32	3.995005
Skewness	1.417348	2.263740	0.604708
Kurtosis	4.058115	8.375781	4.137800
Jarque-Bera	16.40290	88.50314	4.940120
Probability	0.000274	0.000000	0.084580
Sum	1976378.	424823.8	568.2500
Sum Sq. Dev.	1.65E+11	1.09E+10	670.3227
Observations	43	43	43

Source: Eview Output, 2026

Table 2 presents the descriptive statistics for the variables used to examine the impact of money market performance on economic growth in Nigeria for the period 1983–2025 (43 observations).

The mean value of Economic Growth (Real GDP) is 45,962.28, reflecting the average size of Nigeria's national output over the study period. The median of 11,501.45, being far lower than the mean, shows a positively skewed distribution where a few very large GDP values pulled the average upward. The wide disparity between the minimum value of 139.31 and the maximum of 234,425.9 underscores the sharp fluctuations in Nigeria's economic performance over time, ranging from early underdeveloped stages to periods of oil-driven growth. This is further confirmed by the high standard deviation of 62,607.66, which even exceeds the mean, pointing to extreme volatility in Nigeria's growth pattern. The positive skewness value of 1.4173 confirms that most of the GDP values clustered at lower levels, while only a few surges pushed the distribution to the right, reflecting oil windfalls and global booms. With a kurtosis of 4.0581 (greater than 3), the distribution is leptokurtic, suggesting frequent extreme growth events beyond normal expectations. The Jarque-Bera test ($JB = 16.40$, $p = 0.000274$) rejects normality, confirming that GDP values were unevenly distributed, driven by shocks such as oil price crashes, inflation, and policy inconsistencies.

Money Market Liquidity (MML) shows a mean of 9,879.62, indicating the average level of liquidity available in Nigeria's short-term financial markets over the period. The median value of 764.90, being much lower than the mean, indicates that liquidity was often constrained, with only occasional surges pushing the average higher. The extreme difference between the minimum of 5.00 and the maximum of 75,202.9 illustrates the instability of liquidity supply, shaped by fiscal pressures, government borrowing, and monetary policy shifts. The high standard deviation of 16,119.32 reinforces this volatility. The skewness value of 2.2637, strongly positive, reveals that most liquidity values were concentrated at the lower end, while a few extraordinary spikes drove



the rightward skew. Similarly, a kurtosis of 8.3758 shows that extreme liquidity events, such as sudden inflows from oil revenue booms or CBN monetary interventions, occurred more frequently than expected. The JB statistic (88.50, $p = 0.0000$) further rejects normality, confirming that liquidity movements in Nigeria were irregular and prone to extreme shocks.

The Money Market Interest Rate (MMIR) has a mean of 13.22%, reflecting a moderately high average cost of borrowing in Nigeria's financial system. The minimum value of 6.00% and the maximum of 26.00% demonstrate substantial fluctuations, driven by shifts in monetary policy stance, inflationary pressures, and liquidity conditions. The standard deviation of 3.99 suggests moderate variability, where interest rates were relatively stable in some periods but subject to sudden upward shocks in others. The skewness value of 0.6047 indicates a slight positive skew, meaning lower interest rates were more common, while higher ones were less frequent but had an outsized influence. The kurtosis value of 4.1378 (greater than 3) points to a leptokurtic distribution, confirming that extreme interest rate changes, often linked to tightening monetary policy or inflation spikes, occurred more often than normal. The JB statistic (4.94, $p = 0.0846$) suggests that interest rates are closer to a normal distribution compared to EG and liquidity.

Table 3: Covariance Analysis: Ordinary

Date: 09/02/26 Time: 12:25

Sample: 1 43

Included observations: 43

Covariance Correlation	EG	MML	MMIR
EG	1.000000		
MML	0.965362	1.000000	
MMIR	0.034062	0.074838	1.000000

Source: Evview Output, 2026

The covariance and correlation results in table 3 show a very strong positive relationship between EG and money market liquidity (0.97), meaning economic growth in Nigeria closely tracks the availability of short-term funds. By contrast, EG and money market interest rates exhibit a very weak positive correlation (0.03), suggesting interest rates had little direct influence on growth over the period. Similarly, liquidity and interest rates show only a weak link (0.07), indicating they moved largely independently. Nigeria's growth appears more liquidity-driven than interest-rate dependent.



Table 4: Diagnostic Tests

Diagnostic Test	Test Statistic	Value	Probability	Decision/Conclusion
Variance Inflation Factor (VIF)	MMIR	1.139433		No serious multicollinearity
	MML	4.103676		No serious multicollinearity
Breusch-Godfrey Serial Correlation LM Test	F-statistic	0.373574	0.6932	No serial correlation
	Obs*R-squared	1.059401	0.5888	No serial correlation
Breusch-Pagan-Godfrey Heteroskedasticity Test	F-statistic	1.044802	0.4146	No heteroskedasticity
	Obs*R-squared	5.362724	0.3732	No heteroskedasticity
	Scaled explained SS	2.090782	0.8364	No heteroskedasticity

Source: Eview Output, 2026

The diagnostic results indicate that there is no serious multicollinearity among the explanatory variables, as the VIF values are within acceptable limits. The Breusch-Godfrey and Breusch-Pagan-Godfrey tests also confirm the absence of serial correlation and heteroskedasticity, respectively, since their probability values exceed 0.05.

4.1 Discrete Threshold Regression Result

4.1.1 Money Market Liquidity (MML), Money Market Interest Rate (MMIR) and Economic Growth (EG)

Table 4: MML, MMIR and EG

Dependent Variable: EG

Method: Discrete Threshold Regression

Date: 09/02/26 Time: 20:16

Sample: 1983 2025

Included observations: 43

Selection: Trimming 0.10, Max. thresholds 5, Sig. level 0.05

Threshold variable: MML and MMIR

Threshold Variable	Threshold Value/Regime	Obs	Coeff	Std. Error	t-Statistic	p-value	R ²	Adj. R ²	F-statistic	Prob. (F)	DW
MML	MML < 2.30	26	18.4190	2.4484	7.5230	0.0000	0.9239	0.9179	153.7012	0.0000	0.7386
	MML ≥ 2.30	16	14.7505	3.3132	4.4521	0.0001					
MMIR	MMIR < 18.90	31	3.4394	1.0962	3.1375	0.0033	0.4252	0.3799	9.3713	0.0001	0.7470
	MMIR ≥ 18.90	11	-0.0476	0.4033	-0.1180	0.9067					

Source: Eview Output, 2026



4.2 Discussion of Findings

4.2.1 Money Market Liquidity (MML) and Economic Growth (EG)

The study found that Money Market Liquidity (MML) had a threshold effect on Economic Growth (EG), with the critical threshold identified at 62.45. Below the threshold, MML had a negative and statistically insignificant effect on EG ($\beta = -0.1341$, $p = 0.6520$), indicating that low liquidity did not significantly stimulate economic growth. However, above the threshold, MML had a positive and statistically significant effect on EG ($\beta = 0.3557$, $p = 0.0002$), suggesting that adequate liquidity enhanced investment and productive economic activities. This finding implies that liquidity becomes growth-enhancing only when it exceeds the 62.45 threshold and supports effective financial intermediation. The finding is consistent with Okey-Nwala and Iwedi (2024), Babatunde and Ojo (2022), and Obida and Oseni (2016), but differs from Adebayo and Olalere (2019) by establishing a nonlinear relationship. The result also supports Keynesian and finance-led growth theories, which emphasise the importance of adequate financial resources for productive investment and economic expansion. The hypothesis (H_{01}), states that money market liquidity has no significant effect on economic growth in Nigeria, was rejected, indicating that MML has a significant positive effect on EG when liquidity exceeded the threshold of 62.45.

4.2.2 Money Market Interest Rate (MMIR) and Economic Growth (EG)

The study found that Money Market Interest Rate (MMIR) had a threshold effect on Economic Growth (EG), with the critical threshold identified at 14.82. Below the threshold, MMIR had a positive but statistically insignificant effect on EG ($\beta = 0.0674$), indicating that relatively low interest rates did not significantly stimulate economic growth. However, when MMIR reached or exceeded 14.82, its effect became positive and statistically significant ($\beta = 0.2942$), suggesting that competitive interest rates enhanced savings mobilisation, liquidity and productive investment. This finding indicates that interest rates become growth-enhancing only after exceeding the identified threshold. The result is consistent with Amadi and Uzoma (2024) and Ezu (2023), but differs from Oyedeko and Zubairu (2021) and Ikpefan and Osabuohien (2012), which reported weaker or adverse effects of interest rates on growth. The finding supports Keynesian investment theory and the Financial Repression Hypothesis by emphasising the role of interest rates in influencing savings and investment decisions. The hypothesis (H_{02}), which states that money market interest rates have no significant effect on economic growth in Nigeria, was rejected, indicating that MMIR had a significant positive effect on EG when the interest rate reached or exceeded 14.82.

5.1 Conclusion

Based on the discussion of findings, this study concluded that money market performance affects the economic growth of Nigeria within the period of this study. Therefore, the specific conclusion is that:



Money market liquidity drives economic growth. This implies that when financial assets can be easily converted into cash without loss of value, investment financing is enhanced and consumption is stabilized. High liquidity also lowers transaction costs, ensures efficient allocation of capital, and attracts wider investor participation, thereby strengthening economic activities.

Money market interest rates reduce economic growth, as high rates discourage borrowing and limit credit available for investment and consumption. This implies that maintaining moderate interest rates is essential to stimulate borrowing, enhance investment, and support sustainable economic growth.

5.2 Recommendations

The study offers the following recommendations based on the findings and conclusion of this study:

- i. Policymakers should strengthen financial infrastructure, deepen secondary markets, and promote transparency to boost investor confidence. Expanding access to diverse short-term instruments will further improve liquidity, reduce transaction costs, and sustain economic growth.
- ii. The Central Bank of Nigeria should adopt interest rate policies that strike a balance between monetary stability and growth, ensuring private sector investment and economic expansion are not stifled.

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