MONETARY POLICY AND MANUFACTURING SECTOR OUTPUT IN NIGERIA: A STRUCTURAL VAR APPROACH

BY

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BEING

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2017

DECLARATION

I, UZOMA Obinna Austin hereby declare that this dissertation is my original work and that no portion of this work has been or will be submitted in support of an application for another degree or qualification of this or any other Universities or other institution of learning.

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Signature and Date

CERTIFICATION

This is to certify that this research work, written by UZOMA Obinna Austin was supervised and approved in partial fulfilment of the requirements for the award of Master of Science (M.Sc.) Degree in Economics of the Department of Economics and Development Studies, Covenant University, Ota, Ogun State, Nigeria.

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DEDICATION

I dedicate this research work to the glory of the only wise and gracious loving God who had brought my humble self this far in my academic pursuit despite the challenges faced.

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ABSTRACT

Over the years, the manufacturing sector has responded relatively low compared to other sectors such as services, agriculture, crude petroleum and natural gas despite its huge potential and policy actions proposed towards a growth in the sector. This study investigated the effect of monetary policy on the manufacturing sector output in Nigeria using a quarterly data from 1981 to 2015 employing the structural vector autoregressive (SVAR) framework. An eight variable SVAR for manufacturing sector output was employed. The study examined the effect of monetary policy using the four monetary transmission mechanism channels and included a fiscal policy variable as well as labour and capital in the model. The short-run SVAR showed that given a positive shock, only monetary policy rate and money supply conformed to theory as the manufacturing sector output contemporaneously responded with a marginal decline and increase respectively. The impulse response functions showed that all monetary variables (monetary policy rate, money supply, lending interest rate and exchange rate) as well as other variables (labour and capital) with the exception of government expenditure conformed to economic theory. One major finding of the study is that the lending interest rate accounted for the biggest variance in the manufacturing contribution to gross domestic product as shown by the forecast error variance decomposition. The study recommends that the monetary authority should ensure that the lending interest rate to the manufacturing sector is within a single digit, accessible, affordable and sustainable so as to ensure a greater productivity in the sector.