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Money Market Instruments and Manufacturing Sector Output in Nigeria

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ABSTRACT
Money market is a market for short term-funds. It is a market in which money is bought and sold. Money market instruments are documents of short term maturities evidencing claims and obligations among economic units, which are used to mobilize funds from the surplus units of the economy to the deficit unit. The link between money market instruments and manufacturing sector output has widely attracted academic discourse as revealed by extant studies. The outcome of these studies has produced mixed results arising essentially from variable composition, methodology, statistical tools for analysis, geographical location. The problem therefore exists and revolves around the scenario whether money market instruments would have deepened the manufacturing sector output in Nigeria. The study examined the effect of money market instruments on manufacturing sector output in Nigeria. The specific objectives were to: determine the effect of treasury bills on manufacturing sector output, examine the effect of bankers acceptance on manufacturing sector output, ascertain the effect of commercial paper on manufacturing sector output and assess the effect of certificate of deposit on manufacturing sector output in Nigeria. The study adopted *ex-post facto* research design while secondary data were sourced from the Central Bank of Nigeria Statistical Bulletin. The researchers conducted preliminary tests including Augmented Dickey Fuller for Unit Roots while the Autoregressive Distributive Lag (ARDL) was used for the data analysis. The result of the study revealed that treasury bill, bankers acceptances, commercial papers and certificate of deposit have no long run effect on manufacturing sector output but have positive and significant short run effect on manufacturing sector output in Nigeria. The study therefore concludes that money market instruments have been effective short run policy instruments that largely influenced manufacturing sector output in Nigeria. Amongst the recommendations is that regulatory agencies in the money market should focus on enhancing the efficiency and transparency of the market in order to improve investor's confidence on treasury bill. Institutions in the money market should actively involved in making systemic checks and appropriate policy innovations to ensure that bankers acceptances enhance manufacturing sector output in Nigeria. Government should give adequate publicity to the activities of the money market, most especially emphasizing it as a source of cheap short-term funds for economic growth and development. Government should provide the support that will induce greater investment in money market. The study contributed to knowledge by modifying the model used by the previous authors for investigating the effect of money market instruments on manufacturing sector output in Nigeria. Further studies could increase the number of years of studies to ascertain a longer term result and include other variables, such as equity traded, corporate bond, industrial loan, stock market index, consumer price index, investment per capita, savings and investment. Further studies should also apply other econometric tools like VAR, OLS and ECM
Keywords: Money Market Instruments, Manufacturing Sector Output, Nigeria

INTRODUCTION

Many developing economies specialize in the production of primary unprocessed raw materials like agricultural products and exploration of natural resources such as crude oil and gold. These economies are largely under-industrialized and prone to substantial shocks, which open the economies to enormous supply-side shocks (Adegbemi, 2018). Economic development theories have explained that industrialization is the way to achieve faster growth and poverty reduction (Adekunle, Alalade, & Okulenu, 2016). Nigeria has made concerted efforts at diversifying her economy. These efforts are in the form of policies that encourage growth of the different sectors of the economy. Monetary policy has been largely debated as an indispensable tool for industrialization. According to the classification by the Central Bank of Nigeria (CBN), an industrial sector is a group of firms engaged in similar business interest and production/service line. According to the CBN (2017), the industrial activities in Nigeria are grouped in terms of "activity sector".

Financial markets are institutions or arrangements which facilitate the exchange of financial assets such as deposits and loans, stock and government securities (Adigwe, Nwanna, & Amala, 2015). The market is classified into money market and capital market. Financial markets are vital components of the financial system of every country. In Nigeria, the financial market constitutes primarily of Money and Capital market. Capital market provides long-term funds with maturity period of over one year through bonds and equity, thus it serves as the mechanism by which the savings of surplus economic units may be used to finance medium and long-term investments (Odo, Anoke, Onyeisi, & Chukwu, 2017).

The growing potentials of manufacturing sector of an economy is strategic to the macroeconomic framework of a nation, to the extent that the sector plays a catalytic role and has many dynamic benefits that are crucial for economic transformation. It is an avenue for increasing productivity in relation to import substitution and export expansion, creating foreign exchange earning capacity, raising employment, promoting the growth of investment at a faster rate than any other sector of the economy, as well as wider and more efficient linkage among different sectors (Fakiyesi, 2005). In many economies, the performance of the manufacturing sector is the gauge for assessing the effectiveness of macroeconomic policies. Government policies; particularly exchange rate policies can only be deemed successful if they impact positively on the production and distribution of goods and services. A vibrant and productive industrial arm of the economy creates more linkages in the economy and promotes internal and external balance. Monetary policy is an important endogenous factor that affects economic performance, due to its impact on macroeconomic variables like outputs, imports, export, prices, interest rate and inflation rate. A sound and appropriate macroeconomic policy is crucial condition for improving manufacturing sector (Adedoyin & Ernest, 2018).

Financial markets are vital components of the financial system of every country. In Nigeria, the financial market constitutes primarily of Money and Capital markets. Onyido (1994) opined that the Money market primarily exists as a means of liquidity adjustment. In other words, it provides the mechanism for short-term funds of less than one year.

The financial system of any nation is a function of the size of its economy. A growing economy places more responsibilities on the financial sector to mobilize the needed capital to facilitate production, generate employment and income. An economy that does not experience growth on sustained basis is likely to have a very passive financial sector as there are no incentives for investment. Through the process of growth, financial system offers a wide range of portfolio options for savers and issuable instruments for investors, a function often referred to as financial intermediation (Ndugbu, Duruechi, & Josephine, 2016).

Consequently, management of Nigerian financial institutions is faced with tremendous challenges and should brace up to these challenges. Thus only those institutions that are well positioned will become relevant and will be able to withstand the storm of competition. It is based on the foregoing that the study intends to examine the effects of money market instruments on manufacturing sector output in Nigeria 1988-2023

Statement of the Problem

Series of money market crises and regulatory challenges have hampered the efficiency of the Nigerian money market in modifying the financing of the manufacturing output (Ikechukwu, Mahmud & Akinpelumi, 2017). The mismatch in the availability of short and long term financial instruments is capable of truncating flow of funds. For the manufacturing sector of an economy to function effectively and grow, there must be a mechanism by which the appropriate surplus funds are transferred to investors at the appropriate tenure and needs. The quest to balance the financial disequilibrium that exists between money market instruments and manufacturing sector output of the economy has been militating against the efficient and effective facilitating of the exchange of financial assets such as deposits and loans, stocks and government securities (Martins, 2014).

Various empirical reviews on the effect of money market instruments on manufacturing sector output in Nigeria have shown conflicting findings. A number of the findings posit significant influence from money market instruments especially the moderating effect of market capitalization (Okpoto, 2015; Odo, Anoke, Onyeisi, & Chukwu, 2017; Ndugbu, Duruechi, & Josephine, 2016). Despite agreeing that manufacturing output respond to money market instruments variables, these studies are at variance to the direction of the effects. This conflict makes it implausible to employ money market instruments for sound management of the manufacturing sector. For instance Henry, (2019) and Taiwo, Muftau, Ahmed, and Mobolaji,. (2017), submit that all the money market instruments employed have a negative effect on the manufacturing sector in both long and short run. This implies that growing money market instruments and credit extension will rather hamper the manufacturing output in Nigeria; as against the belief from studies of (Mohammad, 2018; Nicodemus, Oluoch, & Paul,2018); that money market instruments enhances the manufacturing sector in Nigeria.

Even at this, a number of studies out rightly argued that money market instruments variables have no effect on manufacturing output (Ibi, Joshua, Eja, & Olatunbosun, 2015); Isibor, Ikpefan, & Okafor, 2016; Okoye, Modebe, Taiwo & Okorie, 2016). These studies posit that money market instruments had insignificant effect on the manufacturing sector output (Okoh, & Eke, 2015) and Hassan (2015). They noted that market capitalization, all share index were not statistically significant tools for enhancing the manufacturing sector output

The review had pointed out a strong disagreement on the effects of money market instruments on manufacturing sector output in Nigeria. This disagreement comes in the form of the direction of relationship as well as the level of significance of the effects. Geographical proximity, some of these studies were done in environments outside that of Nigeria while some of the studies done in Nigeria did not include some key variables. Furthermore the time frames considered in some of the past studies were short and not expansive enough and gave conflicting findings. These shortcomings have contributed to the knowledge gap in the literature, thus warranting more systematic and comprehensive study on the effects of financial market instruments on real sector in Nigeria. Besides, the coverage of money market instruments employed in the investigation of money market instruments hardly incorporated the core money market instruments variables in their model. The present study aims to building five models which will include the entire core money market instruments such as market capitalization, banker's acceptance, commercial paper, treasury bill to determine the actual effects of money market on manufacturing output in Nigeria 1988-2023

REVIEW OF RELATED LITERATURE

Conceptual Review

Money Market

Money market is a market for short term-funds. It is a market in which money is bought and sold. Unlike the organized Securities and Commodities Exchanges, the money market has no specific location. Trade can be carried out online and executed via what is generally referred to as money market instruments. The major participants in the money market are Deposit Money Banks, government, Corporations, enterprises, money market mutual funds, CBN (Ndugbu, Duruechi, & Josephine, 2016).

Money market instruments are documents of short term maturities evidencing claims and obligations among economic units, which are used to mobilize funds from the surplus units of the economy to the deficit unit. They are used by intermediary agents especially banks to bridge financial gaps or disequilibrium in an economy. Essentially, it is a market for short-term debt instruments with maturities of one year or less (Ezirim, 2005).

The instruments are used by businesses to raise, funds for economic activities, especially banks to finance temporary reserve loss or invest excess liquid cash. Government through its agencies like CBN play dominant role in the use of money market instruments to bridge the gap between its receipts and expenditure or attain certain monetary policy objectives.

Mohammad (2014) observed that money market instruments such as treasury bills, Commercial Papers, Bankers acceptance, certificate of deposit are very liquid and considered extraordinarily safe. Most money market instruments are traded in high denominations. This limits the access of individual investors. Thus, Ubesie, and Ude, (2019) noted that these financial instruments enable borrowing and lending for periods of a year or less and also facilitates the transfer of large sums of money quickly at a low cost from one economic unit(business, government bank etc) to another for relatively short periods of time. They are characterized by high degree of safety of principal and are most commonly issued in units of millions of currencies or more. Some of them (market instruments), yield interest at maturity and are generally exempted from government income taxes, which makes them particularly attractive to investors in high income tax brackets, for instance treasury bills. (Much has not been done to empirically examine money market instruments and Banks are performance in Nigeria.) Ola (2015) in a study money market instruments in Conventional and Islamic Banks in Egypt observed that money market instruments affect the efficiency of liquidity management. Money make instruments are important for banks to remain solvent. Banks challenged by the need to have enough liquidity to meet any mismatch of the term structure (maturity dates) of assets and liabilities.

Money market a market for short-term debt instruments. The major function of the money market is to facilitate the raising of short-term funds from the surplus sectors to the deficit sectors of the economy. The deficit units, which could be public or private, obtain funds from the market to bridge budgetary gaps by either engaging in inter-bank taking or trading in short-term securities such as Treasury Bills, Treasury Certificates, Call Money, Certificates of Deposit (CD), and Commercial Papers (CP). With the commencement of Open Market Operations (OMO) by the CBN, the money market has been expanded (Aduda, Chogii & Murayi, 2014).

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engaging in inter-bank taking or trading in short-term securities such as Treasury Bills, Treasury Certificates, Call Money, Certificates of Deposit (CD), and Commercial Papers (CP).

Money market instruments are issued by obligor or oblige of the highest credit rating, and are characterized by a high degree of safety of principal (Uremadu, 2005). Maturities of money market instruments may be as long as one year, but normally they are of three months (90 days) or less. As a practical matter these instruments can be arranged to span only a few days or even one day. Accordingly, these instruments involve small risk of loss due to change in interest rates (Ogunleye, 2001).

Treasury Bill

Treasury bills are short term debt instruments used majorly by the government to borrow short-term funds with maturity period of 91, 182, 273 and 364 days. They are short term debt instrument issued by the Federal Government and sold to the lenders of funds to obtain funds. They are issued by the Central Bank of Nigeria acting as agent of the government and sold to lenders of funds. Treasury bills are debt instruments issued by the Federal government to borrow funds for short periods of about three months pending the collection of its revenue (Nzotta, 2014). They are instruments for short-term borrowing issued by the Central Bank on behalf of the Federal Government to meet its short term treasury needs.

Treasury bills are paperless short-borrowing instrument issued by the government through the Central Bank of Nigeria (as a fiscal agent) to raise money on short term bases – for a period of up to one year (Emodi, 2016). They constitute the major instrument used to borrow money on short period. At the end of the period, the CBN repays the loans and retrieves the treasury bills from the holders. Treasury bills are also used as an instrument of momentary policy by the CBN particularly in the execution of open market operation (OMO) to mop up excess liquidity in the economy. Treasury bills offer investors a number of attractive features (Nzotta, 2014):

- They expose investors to zero credit disk
- They are the most liquid instrument traded in the money market
- Interest incomes earned on treasury bills are not subjected to withholding tax.

Treasury bills are highly liquid instrument because the holder can resell it in the secondary market and gets back his money. The instrument is default-free because it is guaranteed by the Federal Government, as such it is regarded as a risk-free investment (Andrew & Deborah, 2015). Treasury bills are sold at a discounted price to reflect investor's return and redeemed at face (par) value (Emodi, 2016).

Commercial Papers

These consist of promissory notes of blue chip companies which are sold to mobilize funds usually for three months at lower rates. When a company feels that it is not worth paying intermediaries, especially the credit worthy companies may look beyond the banking system by going on their own, to issue short term unsecured notes called commercial paper with a maximum maturity period of 90 days which will enable the borrower to borrow at a discount rate of 1 or 1½% below the prime lending rate that may be charged by banks (Ayodeji & Ajala, 2019). Investment in commercial papers is supplementary to bank credit to the private sector (Ime. & Emem, 2017).

Succinctly, a commercial paper is short-term promissory notes issued by corporations and finance companies to raise funds for current expenses, working capital and other corporate purposes. When investors buy commercial papers, they are lending money to the issuing corporation. In return for this loan, the issuer agrees to pay interest and return principal when the note matures at a specified date in the future (Ayodeji & Ajala, 2019).

Commercial papers are the means by which commercial houses, through their bankers (mostly merchant or investment banks) raise short-term funds of three to six months (Ezema, 1993). This is only possible if such funds attract interest rates less than bank overdrafts. For instance, if the interest on an overdraft is 18%, and the commercial paper rate is between 16% and 17%, the company may opt for commercial paper. It is the standing of the company that matters and not that of the agent bank, since the paper does not carry the guarantee of the agent bank. This observation will compel companies that want to issue CPs to strive to raise their market value through better performance and other indices of performance rating

(Uremadu, 2004). The main attraction to an investor is that interest is paid up front. It means that the investor only pays the discounted value, while at maturity he receives the face value of the commercial papers. The risk therefore is that if the borrower should go bankrupt suddenly the investor may lose his investment (Ezema, 1993). It is usually for investors in commercial papers to just seek the advice of their bankers and credit rating agencies, before investing in CPs

Certificate of Deposit

Certificate of Deposit were introduced in Nigeria in 1975 as interbank debit instruments at a time where there was a shortage of government short-term debt instruments and the banking system was also experiencing excess liquidity (Falegan, 1987 & Uremadu, 2005). It was introduced to mop up excess liquidity. The main advantage of CDs are that they can be discounted in the event of urgent needs for cash, the commercial banks invest their excess funds to earn interest returns on them; and they can be purchased by banks, in preference to making interbank loans for fixed terms (Ezema, 1993; Beecham, 1994 and Uremadu, 2005).

It is again an important segment of the Nigerian money market. The certificate of deposits is issued by the commercial banks. These are the transferable investment instrument in a money market. The government initiated a market of CDs in order to widen the range of instruments in the money market and to provide a higher flexibility to investors for investing their short term money (Ayodeji, & Ajala, 2019).

A certificate of deposit (CD) is a savings product that earns interest on a lump sum for a fixed period of time. CDs differ from savings accounts because the money must remain untouched for the entirety of their term or risk penalty fees or lost interest. CDs usually have higher interest rates than savings accounts as an incentive for lost liquidity (Babajide, Lawal & Somoye, 2016).

Certificate of deposit is a kind of fixed tenure investment instrument offered by banks, credit unions, and brokers working for a financial entity. Usually, a CD is understood as a kind of savings account that offers a higher interest rate than an ordinary savings account. Although this edge over savings accounts comes at the cost of a lack of liquidity. While an ordinary bank account has no rules against using the deposit money as and when needed, CDs typically don't allow withdrawals before the tenure ends. This hinders liquidity if an investor runs into a sudden cash requirement. The only way to withdraw the funds is by paying a penalty fee. At the end of the term, investors receive the original investment value along with compounded interest earnings. Add to that the safety and low risks they bring; CDs still remain a highly sought after investment. An investor can look through the web or visit a bank to learn about the various types of CDs offered. Maturity terms, interest rates, minimum balance requirement, penalty fees will all vary with the financial entity (Ejuvbekpokpo, & Edesiri, 2014).

Manufacturing Sector Output

Manufacturing involves the conversion of raw material into finished consumer goods or intermediate goods. Manufacturing sector refers to those industries which are involved in the manufacturing and processing of items and indulge in either creation of new commodities or in value addition (Egbe, Joshua, Eja & Uzezi, 2015).

According to Idyu, Ajekwe, Johnmark (2013), manufacturing sector accounts for a significant share of the industrial sector in developed countries. The final products can either serve as finished goods for sale to customers or as intermediate goods used in the production process. Manufacturing sector as seen by (Eze, Atuma and Ogbonna, (2019) refers to an avenue for increasing productivity in relation to import replacement and export expansion, creating foreign exchange earning capacity, raising employment and per capital income which causes unrepeatable consumption pattern. Okoye, Nwisienyi & Eze, (2013) opined that manufacturing sector is involved in the process of adding value to raw materials by turning them into product. Thus, manufacturing industries is the key variable in an economy and motivates conversion of raw material into finished goods.

Manufacturing industries create employment which helps to boost the money market and diversify the economy while helping the nation to increase its foreign exchange earnings, and enabling local labour to acquire skills. From the on-going, one can rightly say that, manufacturing is the process of transforming

raw materials into usable forms either for direct consumption or further production. The history of manufacturing in Nigeria can be traced to pre-colonial times. In village based societies of the Hausa, Bini and Yoruba among others, small scale manufacturing of goods for trade, social and other purposes prevailed. The manufacturing industry in Nigeria is believed to be the main instrument of rapid growth, structural change and self-sufficiency. Therefore, it represents a major plank in government plan to restructure the economy and diversify its productive base (Bessong, & Tapang, 2012). Though the high cost conditions in the country occasioned by poor and inadequate infrastructural support services and other policy induced costs pose a serious threat, not only for output growth in the manufacturing sector but also for competitiveness.

Theoretical Framework

This research will be anchored upon the financial intermediation theory which was first formalized in the works of Goldsmith (1969), McKinnon (1973), and Shaw (1973) who saw financial markets, both money and capital markets playing a pivotal role in real sector, attributing the differences in real sector across countries to the quantity and quality of services provided by financial institutions. Financial intermediation theory viewed the financial markets and operating institutions therein as established formal institutions that function to facilitate efficient fund intermediation at optimal prices desired for rapid development of the real sector. Financial intermediation theory analyzed the varying capacities of financial markets and inherent financial institutions to function in different perspectives.

First as hand maid to industry, financial intermediation theory perceives financial institutions and markets to be demand following and only follow while enterprise leads. Financial intermediation theory viewed the financial sector as playing supply leading roles. The vital dimensions of the postulations on the employment of market determined and flexible real interest rates and other financial market induced measures for the purpose of financial liberalization which accelerates the growth of savings and investments. Administrative control of financial market variables would introduce a repressive financial environment and consequent suppression of savings mobilization, investment and real sector.

The theory of financial intermediation advocates that financial intermediaries play a crucial role of intermediation in the growth process by transferring financial resources from the net savers to net borrowers, thus influencing investment and thereby economic growth. The theory suggests that financial intermediaries can overcome a market failure and resolve an information asymmetry problem by transforming the risk characteristics of assets. These asymmetries in credit markets arise because borrowers generally know more about their investment projects than lenders do. Information failures lead to specific forms of transaction costs and financial intermediaries appear to overcome these costs, at least partially. The notion of transaction costs encompasses not only exchange or monetary transaction costs but also searches, monitoring and auditing costs.

The work of Schumpeter supports the view that well-functioning financial intermediaries can promote the overall real sector. By pooling and allocating funds, financial intermediation promotes entrepreneurship and innovation which are necessary components for real sector. Financial intermediaries are an opportunity to enhance borrower's financial capacity in the savings and investment process. Thus, the higher the intermediation level in the financial sector, the higher the savings mobilized and higher would be investments, which in turn will improve the performance of the real sector.

The study thus hinges on the Schumpeter theory that projects that financial intermediation promotes the development of the real sector. The financial instruments in various forms enhance the development of the real sector.

Empirical Review

Okwuosa, (2021) examined the effect of money market instruments on manufacturing output in from Nigeria. Ordinary least square methods were used as data analysis methods. The study found that 37.9 percent variation in manufacturing output was traced to the money market instruments. The estimated model found that government bonds, banker acceptance and treasury certificate have negative effect on

manufacturing output within the periods of the study. The negative effect of the variables contradicts our a-priori expectation and justifies reforms in the Nigeria money market. The coefficient indicates that a unit increase in the variables reduces manufacturing output by 0.001, 0.29 and 0.39 percent. Commercial paper, certificate of deposits and treasury bills have positive effect on manufacturing output such that a unit increase in the variables increases manufacturing output by 0.05, 0.03 and 0.001 percent.

Ikechukwu, Mahmud and Akinpelumi (2017) examine the impact of financial market funds on manufacturing sector in Nigerian economy. Secondary data were sourced from the Statistical Bulletin of the Central Bank of Nigeria and processed through the employment of statistical techniques, which include Multiple Regression, Stationarity, Johansen Co-integration, Error Correction and Granger Causality. The results provide evidence of valuable short and long-run interrelationships between contributions of the manufacturing sector to Nigeria's gross domestic product and three out of the four components of capital and money market funds employed in the study. Further, the Granger Causality results indicate two (2 no) unidirectional causalities which flow from manufacturing sector's output to bank credits to the private sector and (ii) government securities.

Okoye, Nwisienyi and Eze (2013) examined the relationships between the money market and the industrial sector, such as the proportion of the manufacturing sector in the total market capitalization, manufacturing index, New issues, market access to credit, trading values etc to determine the types of influence exerted on the industrial sector by the money market. The significance of this study is that it well help the policy makers to really know the relationship between capital market and industrial sector.

Saka, (2018) made a comparative appraisal of the efficacy of the money market and the construction sector as lead indicators of the Nigerian economy. Annualized time series data of indices of the capital market, the construction sector and the Gross Domestic Product (GDP) were extracted from Central Bank of Nigeria (CBN) Statistical Bulletin. Econometric techniques including unit root test, cointegration test and Granger causality test were used to analyze the data. The unit root test indicated that the data are stationary at second difference of their natural logarithm. The cointegration test indicated that the GDP and construction investment (CNV) and Value of Trade (VOT) are co-integrated. Granger causality test among co-integrating variables indicated that the CNV granger causes or leads the GDP far more than the VOT. The study therefore concluded that the construction sector is a better indicator of the Nigerian economy than the capital market.

Isibor, Ikpefan and Okafor, (2016) examined the impact of the Nigerian money market instruments on the liquidity of ten selected quoted banks from 2005 to 2014. Secondary data were used and the multiple regression econometric technique was used to analyze the data. The study found that firms' working capital and profitability have a significant impact on the money market instrument, since the money market is very vital for financial managers to raise short-term funds,

Gideon and Joseph, (2019) examined the relationship between liquidity and profitability of manufacturing firms in Nigeria. The study specifically analyzed the effect of cash ratio, current ratio and quick ratio on profit after tax of the manufacturing firms in Nigeria. Secondary data were collected from annual reports of sampled firms over a period of ten years (2007-2016) and were analyzed using panel data estimators such as pooled OLS estimator, fixed effect estimator, random effect estimator, Hausman test, panel co-integration and pooled granger causality tests. The findings revealed that financial liquidity proxy in terms of quick ratio (QR) had a negative and insignificant impact on profit after tax with coefficient estimate of -0.094121 ($p=0.2247 > 0.05$). Financial liquidity measured in terms of Cash ratio (CR) exert positive and significant impact on profit after tax with coefficient estimate of 0.379774 ($p=0.0121< 0.05$). Result also showed that financial liquidity measured in terms of Current ratio (CNR) exert insignificant negative impact on profit after tax with coefficient estimate of -0.024989 ($p=0.1163 > 0.05$). Meanwhile the study revealed that quick ratio (QR), cash ratio (CR) and current ratio (CNR) has 0.581533 (58.1%) variation in profit after tax (PAT). Result further revealed that there is no long-run relationship between liquidity and profitability of manufacturing firms in Nigeria

Gap in Literature

The review had pointed out a strong disagreement on money market and manufacturing output in Nigeria. This disagreement comes in the form of the direction of relationship as well as the level of significance of the effects. Some of these studies were done in environments outside that of Nigeria while some of the studies done in Nigeria did not include some key variables. Furthermore some of the studies did not use the standard econometric methodology which leads to structural problems; the time frames considered in some of the past studies were short and not expansive enough and gave conflicting findings. These shortcomings have contributed to the knowledge gap in the literature, thus warranting more systematic and comprehensive study on the effects of money market instruments on manufacturing sector output in Nigeria. Another gap in literature is the coverage of money market instruments employed in the investigation of money market instruments and manufacturing sector output in Nigeria. The existing literature hardly incorporated the core money market instruments variables in their model. The present study aims to include more money market instruments such as treasury bill, commercial paper, certificate of deposit and bankers acceptance to determine the actual effect of money market on manufacturing sector output in Nigeria

METHODOLOGY

Research Design

The study will adopt *ex-post facto* research design because the data for the study are secondary data that already exist in various international and national publications. These data are reliable and authoritative

Model Specification

The model to be used for this investigation is the adaption and modification of the work of Uchenna and Ogbanja (2016).

The model is stated thus:

MOT = f (TB, BAP, CPP)

MOT = Manufacturing Output

TR= Treasury Bill

BAP= Bankers Acceptance

CPP = Commercial Paper

The Model was modified by introducing certificate of deposit as one of the explanatory variables

MOT = f (TB, BAP, CPP, CD)

The Econometric Equation Form of the Model will be:

$MOT = \beta_0 + \beta_1 TB + \beta_2 BAP + \beta_3 CPP + \beta_4 CD\mu$- - -- - - - - - 1

Where:

MOT = Manufacturing Output

TB= Treasury Bill

BAP= Bankers Acceptance

CPP = Commercial Paper

CD= Certificate of Deposit

μ = Stochastic Disturbance (Error Term)

$\beta 0$ = Intercept of Relationship in the Model Constant $\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, = are the Coefficients of the Independent Variables

Method of Analyses

Data for the study will be subjected to preliminary test to confirm the behavior of the data set. The data will be analyzed with econometric techniques involving Descriptive Statistics, Augmented Dickey Fuller Tests for Unit Roots. The result of the Augmented Dickey Fuller Tests for Unit Roots will determine if the study will use The Ordinary Least Squire (OLS), Vector Auto regression Estimates (VAR) or The Autoregressive Distributive Lag (ARDL) Approach for the data analysis

DATA ANALYSIS

Unit Root Test

Table 4.2 Summary Unit Root test for Stationarity

Variables	At Level 1(0)	At First Difference 1(1)	At Second Difference	Order of Integration	Probability
MOT	-3.730558			1(0)	0.0039
TB	-4.561864			1(0)	0.0112
BAP		-4.595801		1(1)	0.0016
CPP	-5.814004			1(0)	0.0022
CD		-4.818888		1(0)	0.0048

Source: Researcher's Estimation using Eviews 9.0

The study employed the Augmented Dickey Fuller (ADF) Unit root test technique to ascertain the stationarity of the variables of the time series data. The Augmented Dickey Fuller is one of the most prominent unit root test techniques and has been used to determine whether the variables are stationary series or non-stationary series.

From the summary of the result, it can be seen that there is a mixed order of integration, that is I(0) and I(1). In such circumstances, it becomes necessary to make use of the ARDL bound testing technique for cointegration test and ARDL estimation technique for estimating the coefficients of the econometric model. This is because the commonly used Engel- Granger, and Johansen cointegration techniques are only employed when the order of integration of each variable in the model is I(1).

Furthermore, table above showed that manufacturing sector output, treasury bills and commercial paper were stationary at level, I(0), while bankers acceptance and certificate of deposit were stationary at 1st difference, I(1).

ARDL (Bounds) Test for Cointegration

Table 2. Result of the ARDL (Bounds) Test for Cointegration for Money Market Instruments and manufacturing Sector Output

ARDL Bounds Test
Date: 11/04/24 Time: 13:31
Sample: 1988 2023
Included observations: 35
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	4.807187	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	3.01
2.5%	3.25	4.49
1%	3.74	4.06

Source: Eviews 9.0

The result of the study revealed that the F-statistics from the bound test is greater than the lower and upper critical values. This connotes the existence of co-integration or long run relationship between money market instruments and manufacturing sector output. The value of F-statistic of 4.807187 is

greater than the upper bound value of 2.45 and 2.86 at 5% level of significance and even greater than all the upper bond values at 1%, 2.5% and 10% respectively. This is a clear case of cointegration indicating that long run relationship exists between the money market instruments and manufacturing sector output. Since we have established the stationarity of the variables and a long run relationship between the endogenous and exogenous variables, we proceeded to estimate the coefficients in the econometric model and equally test the hypotheses of the study using ARDL estimation technique.

Nature of ARDL Long Run Relationship and Speed of Correction to Equilibrium

Table 3: Model of the Long Run Relationship Between Money Market Instruments and manufacturing Sector Output

ARDL Cointegrating And Long Run Form
Dependent Variable: MOT
Selected Model: ARDL
Date: 11/04/24 Time: 15:35
Sample: 1988 2023
Included observations: 35

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(TB)	0.440569	0.260218	1.693073	0.0029
D(BAP)	0.075244	0.100613	2.747855	0.0615
D(CPP)	0.013770	1.252775	0.010991	0.9913
D(CD)	-0.743069	0.402146	1.847758	0.0765
CointEq(-1)	-5.816499	0.163788	-2.079510	0.0339
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
TB	1.293514	0.751385	1.721506	0.3275
BAP	-0.220916	0.294682	-0.749677	0.4604
CPP	-0.040428	3.679439	0.010987	0.7113
CD	2.181658	1.307951	3.667997	0.0078
C	3.113743	11.418334	0.272697	0.7873

Source: Eviews 9.0

The result from money market instruments and manufacturing sector output showed that the error correction term [CointEq(-1)] is rightly signed. The negative value indicates that money market instruments can be used to return deviations of manufacturing sector output to the equilibrium point. This implies that any fluctuation in manufacturing sector output can be restored to equilibrium through money market instruments. The coefficient indicates about -5.816499% errors in manufacturing sector output from money market instruments can be corrected within a year. The probability value is 0.0339 which is less than 0.05 indicating a statistically significant effect of the speed of adjustment. This suggests that money market instruments have a significant policy adjustment effect on manufacturing sector output.

Short Run Relationship

Table 4: Short Run Model of the Relationship Between Money Market Instruments and Manufacturing Sector Output

Dependent Variable: MOT
Method: ARDL
Date: 11/04/24 Time: 15:34
Sample (adjusted): 1988 2023
Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
MOT(-1)	0.659402	0.163788	3.025955	0.0005
TB	0.440569	0.260218	2.693073	0.0029
BAP	0.075244	0.100613	3.747855	0.0615
CPP	0.013770	1.252775	2.010991	0.0013
CD	0.743069	0.402146	4.847758	0.0365
C	1.060535	3.969493	0.267171	0.7915

R-squared	0.679881	Mean dependent var	6.171040
Adjusted R-squared	0.649053	S.D. dependent var	1.323823
S.E. of regression	0.955491	Akaike info criterion	2.937457
Sum squared resid	22.82408	Schwarz criterion	3.258087
Log likelihood	-39.99932	Hannan-Quinn criter.	3.043737
F-statistic	5.751165	Durbin-Watson stat	2.167160
Prob(F-statistic)	0.000718		

Source: Eviews 9.0

The ARDL revealed that the constant parameter manufacturing output is positive at 0.659402 which implies that if all the independent variables are held constant, manufacturing output as the dependent variable will grow by 3.025955 units. The result of the analysis indicates that manufacturing output is an endogenous variable in the money market instruments and manufacturing sector output model

Treasury Bill: The coefficient of the estimated parameters is 0.440569. The value shows that treasury bill has positive effect on manufacturing output in Nigeria. Again, the value of the t-Statistic is 2.693073 with probability values of 0.0029 which is less than 0.05 levels. The implication is that treasury bill has significant and positive short run effect on manufacturing output in Nigeria

Bankers Acceptance: the coefficient of bankers acceptance is0.013770. The values show that bankers acceptance have negative effect on manufacturing output in Nigeria. Again, the value of the t-Statistic is 3.747855 with probability values of 0.0615 which greater than 0.05 levels. The implication is that bankers acceptance has insignificant short run effect on manufacturing output in Nigeria

Commercial Paper: The coefficient of commercial paper is positive at 0.013770 with t-Statistics of 2.010991 and p-value of 0.0013 which means that commercial paper has positive and significant effect on manufacturing output in Nigeria

Certificate of Deposit: The coefficient of certificate of deposit is positive at 0.743069 with t-Statistics of 4.847758 and p-value of 0.0365which means that certificate of deposit has positive and significant effect on manufacturing output in Nigeria

CONCLUSION

Our findings revealed that treasury bill, bankers acceptances, commercial papers and certificate of deposit have no long run effect on manufacturing sector output but have positive and significant short run effect on manufacturing sector output in Nigeria.

The study therefore concludes that money market instruments have been effective short run policy instruments that largely influenced manufacturing sector output in Nigeria

RECOMMENDATIONS

In line with the findings, the study recommends as follows

1. Treasury bill has positive and significant short run effect on manufacturing sector output Regulatory agencies in the money market should focus on enhancing the efficiency and transparency of the market in order to improve investor's confidence on treasury bill
2. Bankers acceptances has positive and significant short run effect on manufacturing sector output. Institutions in the money market should actively involved in making systemic checks and appropriate policy innovations to ensure that bankers acceptances enhance manufacturing sector output in Nigeria
3. Commercial papers has positive and significant short run effect on manufacturing sector output. Government should give adequate publicity to the activities of the money market, most especially emphasizing it as a source of cheap short-term funds for economic growth and development
4. Certificate of deposit has positive and significant short run effect on manufacturing sector output. Government should provide the support that will induce greater investment in money market instruments to promote manufacturing sector output, income generation, job creation and inclusive economic growth and development in Nigeria.

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