

Monetary Policy and Private Sector Growth in Nigeria

Ere Boboyilayefa David and Prof. Andabai, Priye Werigbelegha

Department of Banking and Finance.

Niger Delta University, Bayelsa State, Nigeria.

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Abstract

This study investigates the impact of monetary policy on private sector growth in Nigeria, utilizing data from 1998 to 2025, sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin. The study aims to assess the effects of money supply, monetary policy rate (MPR), and reserve ratio on private sector output in the country. Using descriptive statistics and the Ordinary Least Squares (OLS) model for analysis, the findings reveal that an increase in money supply positively and significantly influences private sector output, highlighting the critical role of liquidity in promoting economic growth. Conversely, the study finds that both the MPR and the reserve ratio have significant negative effects on private sector performance, with higher MPR leading to reduced credit access and increased borrowing costs, while higher reserve ratios limit banks' lending capacity. These results suggest that monetary policy, through its control of money supply, interest rates, and reserve requirements, plays a pivotal role in shaping private sector growth. The study emphasizes the importance of ensuring adequate liquidity in the economy while maintaining a balance between credit access and macroeconomic stability. Based on the findings, the study recommends a more accommodative monetary policy approach that focuses on boosting liquidity, lowering the MPR to promote affordable credit, and adjusting reserve ratios to foster credit flow to the private sector. These measures are essential for stimulating private sector investment and enhancing economic growth in Nigeria.

Keywords: Monetary Policy, Private Sector, Growth, Nigeria,

Introduction

The private sector is often regarded as the engine of economic growth in many developing economies, including Nigeria. It encompasses businesses and industries that are not controlled by the government, contributing significantly to employment generation, innovation, and the overall economic development of a nation (Akinola, 2023). Growth in the private sector is measured through various indicators, such as increased investment, higher production outputs, and the expansion of small, medium, and large enterprises. This growth is crucial for sustainable development, as it drives productivity and enhances the competitive edge of an economy in the global market (Eboh & Ugwuanyi, 2021). In Nigeria, private sector growth has been pivotal in driving the non-oil sectors of the economy, fostering economic diversification, and reducing the overreliance on oil revenues (Ogbonna & Okoro, 2022). However, its expansion is deeply influenced by various macroeconomic policies, including monetary policies enacted by the government. Monetary policy refers to the actions taken by a nation's central bank to control the supply of money and interest rates to achieve economic objectives such as controlling inflation, stabilizing the currency, and promoting employment (Musa, 2023). Key instruments of monetary policy include the money supply, the monetary policy rate (MPR), and the reserve ratio. These tools are essential in regulating liquidity in the economy

and influencing credit availability for businesses (Adetunji & Adebayo, 2022). In the context of Nigeria, the Central Bank of Nigeria (CBN) implements monetary policies with the goal of achieving macroeconomic stability, which directly impacts the business environment and the ability of the private sector to thrive. The monetary policy rate, in particular, determines the cost of borrowing, which influences the investment decisions of private firms (Ayinde, 2022). Money supply, which refers to the total amount of money available in an economy, plays a crucial role in determining private sector growth. An increase in the money supply can lead to lower interest rates, making credit more accessible to businesses and encouraging investment in new projects and expansions (Uche & Onuoha, 2023). However, an excessive increase in money supply could fuel inflationary pressures, reducing the purchasing power of consumers and increasing the cost of inputs for businesses (Eze & Nwankwo, 2021). In Nigeria, the effectiveness of money supply in stimulating private sector growth has often been constrained by structural challenges such as poor infrastructure, insecurity, and policy uncertainties, which limit the potential benefits of expansionary monetary policies (Nwosu et al., 2023).

Statement of the Problem

The private sector in Nigeria plays a crucial role in driving economic growth, generating employment, and fostering innovation. However, its expansion is significantly influenced by the country's monetary policy, which seeks to regulate money supply, interest rates, and credit availability through instruments such as the money supply, reserve ratio, and monetary policy rate (Adetunji & Adebayo, 2022). Several studies have examined the relationship between monetary policy and economic growth, with some focusing on general macroeconomic performance and others looking specifically at sectors like manufacturing or agriculture (Ayinde, 2022; Musa, 2023). This study intends to address these gaps by conducting an in-depth analysis of the effects of money supply, reserve ratio, and monetary policy rate on private sector output in Nigeria, an area that has been underexplored in previous literature.

By focusing on the private sector as a whole, rather than isolated industries or broad economic performance, this study aims to provide a clearer understanding of how monetary policy influences business growth and investment decisions within the Nigerian economy. Furthermore, the study will utilize recent data and advanced econometric techniques, thus contributing to more contemporary discussions in the literature on monetary policy and economic growth. It will offer insights into how policymakers can better use monetary policy tools to stimulate private sector growth, thereby addressing the challenges identified in previous studies (Yusuf & Adamu, 2023). This focus on private sector output, in conjunction with the three key monetary policy variables, distinguishes this study from earlier works and provides a pathway for more targeted economic interventions.

Research Questions What is the effect of money supply on private sector output in Nigeria?, How does the reserve ratio influence private sector output in Nigeria?, What is the effect of the monetary policy rate on private sector output in Nigeria?

Research Hypotheses H₀₁: Money supply has no significant effect on private sector output in Nigeria, H₀₂: The reserve ratio has no significant effect on private sector output in Nigeria, H₀₃: The monetary policy rate has no significant effect on private sector output in Nigeria.

Literature Review

Monetary Policy

Monetary policy refers to the actions and strategies employed by a country's central bank to regulate the economy by controlling the supply of money and the cost of borrowing (Obi & Okeke, 2021). In Nigeria, the Central Bank of Nigeria (CBN) is responsible for implementing

monetary policy with the goal of achieving macroeconomic stability. Monetary policy primarily involves adjusting key economic tools like the money supply, interest rates, and reserve requirements to influence economic activities (Adeyemi, 2022). Through these actions, the central bank can either stimulate the economy by encouraging investment and consumption or curb inflationary pressures by reducing liquidity. Monetary policy is broadly classified into two types: expansionary and contractionary. Expansionary monetary policy is employed during economic downturns to boost growth by increasing the money supply and lowering interest rates, making credit more accessible to businesses and consumers. Conversely, contractionary monetary policy is used to fight inflation by reducing the money supply and increasing interest rates, which tends to lower consumption and investment (Ibrahim, 2021). The CBN has been actively using monetary policy as a tool for economic management, particularly in times of global financial crises and inflationary pressures, to ensure economic stability. The implementation of monetary policy in Nigeria involves using various instruments such as open market operations (OMO), the monetary policy rate (MPR), the cash reserve ratio (CRR), and the liquidity ratio (LR). These instruments affect the overall demand and supply of credit in the economy, influencing investment decisions and economic growth. Open market operations involve buying and selling government securities to regulate the money supply, while the MPR serves as the benchmark interest rate for other lending rates in the economy (Obi & Okeke, 2021). Despite the significance of monetary policy, its effectiveness in Nigeria has been subject to challenges such as high inflation, political instability, and structural economic issues like infrastructure deficits and exchange rate volatility (Adeyemi, 2022). These challenges complicate the transmission mechanisms of monetary policy and limit its impact on key sectors of the economy, including the private sector.

Objectives of Monetary Policy in Nigeria

The primary objective of monetary policy in Nigeria is to maintain price stability and promote economic growth. The CBN aims to ensure that inflation is kept within manageable levels, as excessive inflation can erode purchasing power and create uncertainty in the economy (Adebayo & Eze, 2022). Maintaining price stability is essential for fostering a conducive environment for investment and ensuring that the economy remains competitive in the global market. In addition, monetary policy seeks to achieve a balance of payments equilibrium, ensuring that the country's external reserves remain healthy to meet international obligations. Another objective of monetary policy is to achieve full employment. The central bank uses expansionary monetary policies during periods of economic recession to stimulate job creation by lowering interest rates and increasing the money supply (Ibrahim, 2021). By making credit more accessible to businesses, it encourages expansion and investment, which leads to job creation. The ultimate aim is to reduce unemployment levels and increase the productive capacity of the economy. Furthermore, the CBN aims to ensure financial stability. The stability of the financial system is critical for economic growth, and monetary policy plays a pivotal role in maintaining confidence in financial institutions (Adeyemi, 2022). By regulating the supply of credit and overseeing interest rates, the CBN helps to prevent speculative bubbles and financial crises that could disrupt the economy.

Variables for Measuring Monetary Policy

Money Supply

Money supply refers to the total amount of money available in an economy at a particular time, including cash, coins, and balances held in checking and savings accounts (Ogunleye, 2020). It is one of the key variables used by central banks to influence economic activity. In Nigeria, the money supply is regulated by the CBN through various monetary policy tools such as open market operations and reserve requirements. Increasing the money supply is a common strategy

used to stimulate economic growth, as it lowers interest rates and encourages borrowing by businesses and consumers.

In the context of private sector growth, an increase in the money supply can lead to greater access to credit, which allows businesses to invest in expansion, production, and hiring (Akinola, 2021). Conversely, a decrease in money supply can raise interest rates, making credit more expensive and slowing down business activities. Therefore, understanding the dynamics of money supply is essential for analyzing its impact on private sector output.

Reserve Ratio

The reserve ratio is the portion of depositors' balances that commercial banks are required to hold in reserve and not lend out (Adebayo & Eze, 2022). This ratio is set by the central bank and is used as a monetary policy tool to control the amount of money that banks can lend to businesses and consumers. A higher reserve ratio means that banks have less money to lend, which can slow down economic activity, while a lower reserve ratio increases the availability of credit, stimulating investment and growth.

In Nigeria, the reserve ratio has been an important tool in managing inflation and controlling the money supply. When the CBN raises the reserve ratio, it reduces the liquidity in the banking system, making it more difficult for businesses to access credit (Obi & Okeke, 2021). On the other hand, a reduction in the reserve ratio increases liquidity, encouraging lending and investment in the private sector.

Monetary Policy Rate

The monetary policy rate (MPR) is the benchmark interest rate set by the CBN, which determines the cost of borrowing in the economy (Ogunleye, 2020). The MPR serves as a guide for commercial banks in setting their own lending rates, and any changes in the MPR directly influence the availability and cost of credit. A lower MPR encourages borrowing by reducing the cost of credit, which can lead to increased investment and consumption, stimulating private sector growth. Conversely, an increase in the MPR raises borrowing costs, which can slow down business activities by discouraging investment (Ibrahim, 2021). In Nigeria, the MPR is a critical tool for controlling inflation and ensuring macroeconomic stability. By influencing the lending rates of commercial banks, the CBN can either stimulate or contract economic activity, depending on the prevailing economic conditions.

Measures of Private Sector Growth

Private Sector Output

Private sector output refers to the total value of goods and services produced by privately-owned businesses within a specific period. It is a key measure of private sector growth and is often used as an indicator of the health and performance of the economy. In Nigeria, private sector output is critical for overall economic development, contributing significantly to the nation's GDP. Monetary policy influences private sector output by affecting the availability of capital for investment. When the central bank adopts expansionary monetary policies, businesses have greater access to credit, which enables them to increase production and expand operations (Adeyemi, 2022). Conversely, contractionary policies that limit access to credit can reduce private sector output, leading to slower economic growth.

Theoretical Review

The classical theory of interest posits that interest rates are determined by the supply and demand for capital. In this theory, savings provide the supply of capital, while investment represents the demand for capital. The interaction between these two forces determines the equilibrium interest rate, which in turn influences borrowing and lending activities in the

economy (Keynes, 1936). This theory is relevant to monetary policy as it highlights the role of interest rates in shaping economic activities.

Empirical Review

Adegbite and Oluwole (2021) investigated the impact of monetary policy rate (MPR) on private sector growth in Nigeria from 1990 to 2020 using an autoregressive distributed lag (ARDL) approach. The study found that the MPR significantly influences private sector investments, with higher rates discouraging borrowing and investment due to increased cost of capital. Conversely, a reduced MPR stimulates economic activities by encouraging access to affordable credit. They highlighted the role of complementary fiscal policies to offset inflationary tendencies that may arise from expansive monetary policies. Their findings advocate for a stable and predictable monetary policy framework to foster private sector confidence, recommending a synergy between monetary and fiscal authorities to achieve sustainable growth. Chinedu et al. (2020) analyzed the effect of monetary policy on private sector output in Nigeria, focusing on the period 1986–2019. Employing the vector error correction model (VECM), they examined the short- and long-term dynamics between MPR, credit to the private sector, inflation, and private sector growth. The findings revealed that a high MPR negatively affects private sector output in the short term due to its restrictive impact on credit access. In the long term, however, the effect moderates as businesses adapt to changing economic conditions. The study emphasized the need for gradual adjustments in the MPR to minimize shocks to the private sector and suggested enhancing financial literacy to help businesses effectively navigate interest rate changes. Yusuf and Adeola (2022) assessed the relationship between monetary policy and private sector performance in Nigeria using quarterly data from 2000 to 2021. Through a structural vector autoregression (SVAR) analysis, the study identified MPR as a significant determinant of private sector credit flow. A rise in the MPR was associated with reduced credit availability, constraining private sector activities. They also found that inflation targeting through the MPR indirectly affects private sector growth by stabilizing prices and ensuring a predictable investment environment. The study proposed a balanced approach where monetary policy supports price stability without stifling private sector development, alongside targeted interventions to address sector-specific credit challenges. Ibrahim and Salisu (2021) explored how monetary policy influence private sector growth in Nigeria, emphasizing the mediating role of credit accessibility. Using the generalized method of moments (GMM) technique on data spanning 1995–2020, they found that restrictive monetary policy regimes often lead to credit crunches in the private sector. Additionally, the study highlighted the asymmetric effects of monetary tightening versus easing, with the former having a more pronounced adverse effect. The authors recommended policies that prioritize financial sector reforms to enhance credit access, arguing that monetary policy should be complemented by initiatives aimed at reducing non-performing loans to improve lending efficiency. Adebayo and Chukwu (2023) assessed the effects of monetary policy on private sector productivity in Nigeria from 1990 to 2022 using a time series analysis. They found that while a higher MPR restricts credit flows and investment in the short term, it can encourage efficiency by pushing firms to optimize resource allocation. The study emphasized the importance of gradual policy adjustments to minimize disruptions and proposed strengthening financial intermediation to cushion the private sector from adverse monetary shocks. Sanni and Yusuf (2021) examined the impact of MPR on private sector credit in Nigeria, utilizing quarterly data from 1995 to 2020 and employing the bounds testing approach to cointegration. The results showed a significant inverse relationship between MPR and credit to the private sector, with SMEs being the most affected. The study also found that high MPR increases the cost of capital, discouraging investments. The authors recommended policies that

facilitate affordable credit for the private sector, including subsidized lending programs and the establishment of credit guarantee schemes.

Methodology

This study adopts an *ex-post facto* research design to examine the effect of monetary policy on private sector growth in Nigeria. In this context, the study analyzes the impact of various monetary policy instruments such as monetary policy rate (MPR), money supply, and reserve ratio on private sector growth using secondary data from the past. This design allows for the exploration of relationships between monetary policy and economic growth without direct interference or control over the variables, ensuring a natural observation of how policy changes affect the private sector (Achike, 2025).

Model Specification

The econometric model for this study is designed to capture the relationship between monetary policy instruments and private sector growth in Nigeria. The model specification in its functional form is as follows:

$$PSO = f(MNS, RSRatio, MPR) \quad (i)$$

The linear regression models for this study are defined as:

$$PSO = \beta_0 + \beta_1 MNS_1 + \beta_2 RSRatio_2 + \beta_3 MPR + e \quad (ii)$$

Log Transformation of the variables

$$LnPSO = \beta_0 + \beta_1 LnMNS_1 + \beta_2 LnRSRatio_2 + \beta_3 LnMPR + e \quad (iii)$$

Where:

PSO represents the dependent variable, **private sector Output** (measured as private sector GDP).

MPR is the Monetary Policy Rate (MPR).

RSRatio is Reserve Ratio.

MNS is the Money Supply (M2).

Ln is the natural logarithm

ϵ is the error term, capturing all other factors not included in the model that may influence private sector growth.

Data Presentation

The study is on impact of monetary policy on private sector growth in Nigeria. Data for this study consist of 28-years annual observation period of (1998-2025), as indicated on appendix 1.

Descriptive Statistics

Table 1 Descriptive Statistics Result

	LnPSO	LnMNS	LnMPR	LnRSRATIO
Mean	8.012163	8.431921	2.591657	1.782800
Median	8.961802	9.064555	2.602690	1.144860
Maximum	10.44147	11.27166	3.258097	3.481240
Minimum	4.323554	4.710542	1.791759	0.000000
Std. Dev.	1.909632	1.969672	0.299440	1.150737
Skewness	-0.488262	-0.346976	-0.573963	0.244436
Kurtosis	1.829204	1.786012	4.323082	1.495497
Jarque-Bera	3.195999	2.688588	4.218885	3.440972
Probability	0.020301	0.260724	0.121306	0.178979
Sum	264.4014	278.2534	85.52469	58.83240
Sum Sq. Dev.	116.6942	124.1474	2.869259	42.37423

Observations	28	28	28	28
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Source: Eviews 10, 2025

The descriptive statistics for the variables on Table 1 provide insight into their central tendencies, dispersion, and distributional properties. LnPSO (Private Sector Output) has a mean of 8.012 with a standard deviation of 1.91, indicating moderate variability around its average value, while its skewness (-0.488) and kurtosis (1.829) suggest a left-skewed and relatively flat distribution. LnMNS (Money Supply) shows a similar pattern, with a mean of 8.43 and standard deviation of 1.97, reflecting consistent growth over time. Its skewness (-0.347) and kurtosis (1.786) confirm a left-skewed and less peaked distribution. LnMPR (Monetary Policy Rate) has the lowest standard deviation (0.299), indicating relatively stable variations, while its kurtosis (4.323) and negative skewness (-0.574) imply a sharper peak and a left-leaning distribution. LnRSRATIO (Reserve Ratio) exhibits the most variation (standard deviation of 1.15), with a mean of 1.78 and a maximum of 3.48, indicating significant adjustments over time. The reserve ratio is also slightly positively skewed (0.244) with a flat distribution (kurtosis of 1.495). The Jarque-Bera probabilities for all variables are above 0.05, suggesting that none of the distributions deviate significantly from normality. Overall, these descriptive statistics highlight the variability and distributional characteristics of the variables, providing foundational insights for understanding their dynamics and informing subsequent econometric analyses.

Table 2: Ordinary Least Squares (OLS) Result

Dependent Variable: LNPSO

Method: Least Squares

Date: 27/07/26 Time: 13:26

Sample: 1998 2025

Included observations:28

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.785313	0.300360	2.614571	0.0140
LNPMNS	0.984667	0.019042	51.71105	0.0000
LNMPR	-0.363383	0.083183	-4.368500	0.0001
LNRSRATIO	-0.075173	0.032351	-2.323645	0.0274
R-squared	0.697513	Mean dependent var		8.012163
Adjusted R-squared	0.597255	S.D. dependent var		1.909632
S.E. of regression	0.100042	Akaike info criterion		-1.653243
Sum squared resid	0.290243	Schwarz criterion		-1.471848
Log likelihood	31.27851	Hannan-Quinn criter.		-1.592209
F-statistic	3876.883	Durbin-Watson stat		1.784671
Prob(F-statistic)	0.000000			

Source: Eviews 10

The Ordinary Least Squares (OLS) regression results presented in Table 2 reveal significant relationships among the variables under study. The constant term (C) has a positive coefficient (0.785) and is statistically significant at the 5% level ($p = 0.014$), indicating the baseline effect on private sector output (LNPSO) when other predictors are zero. LnMNS (Money Supply) has a positive and highly significant coefficient (0.985, $p = 0.000$), suggesting that a 1% increase in money supply is associated with a nearly proportional increase (0.985%) in private sector output, underscoring the critical role of liquidity in driving private sector growth. Conversely,

LnMPR (Monetary Policy Rate) exhibits a negative coefficient (-0.363, $p = 0.0001$), implying that higher policy rates adversely affect private sector output by raising borrowing costs. Similarly, LnRSRATIO (Reserve Ratio) has a negative coefficient (-0.075, $p = 0.027$), indicating that an increase in the reserve ratio reduces private sector output, likely by constraining credit availability.

Test of Hypotheses

The hypotheses for this study will be tested @5% significance level below: H_{01} : Money supply has no significant effect on private sector output in Nigeria. The coefficient for LnMNS (Money Supply) is 0.985, with a t-statistic of 51.71 and a p-value of 0.000. Since the p-value is less than the 5% significance level ($p < 0.05$), we reject the null hypothesis (H_{01}). This result indicates that money supply has a highly significant and positive effect on private sector output in Nigeria. The magnitude of the effect suggests that money supply is a critical determinant of private sector growth, supporting the role of liquidity in driving economic activities.

H_{02} : The reserve ratio has no significant influence on private sector output in Nigeria.

The coefficient for LnRSRATIO (Reserve Ratio) is -0.075, with a t-statistic of -2.32 and a p-value of 0.027. Since the p-value is less than the 5% significance level ($p < 0.05$), we reject the null hypothesis (H_{02}). This implies that the reserve ratio has a statistically significant and negative influence on private sector output in Nigeria. The negative sign suggests that higher reserve requirements constrain credit availability, thereby reducing private sector growth.

H_{03} : The monetary policy rate has no significant impact on private sector output in Nigeria.

The coefficient for LnMPR (Monetary Policy Rate) is -0.363, with a t-statistic of -4.37 and a p-value of 0.0001. Since the p-value is less than the 5% significance level ($p < 0.05$), we reject the null hypothesis (H_{03}). This finding indicates that the monetary policy rate has a statistically significant and negative impact on private sector output in Nigeria. The result reflects the adverse effect of higher interest rates on borrowing costs, which can hinder investment and reduce private sector growth.

Conclusion and Recommendations

The study examines the effects of money supply, monetary policy rate, and reserve ratio on private sector output in Nigeria, providing empirical evidence on the significant influence of monetary policy variables. The findings reveal that money supply positively and significantly enhances private sector output, underscoring the importance of liquidity in fostering economic growth. Based on the findings, the following recommendations are: Since the study finds that an increase in money supply significantly enhances private sector output, policymakers should ensure adequate liquidity in the economy by implementing expansionary monetary policies. The Central Bank of Nigeria (CBN) should balance money supply growth with inflation control, ensuring that credit availability supports private sector activities without leading to overheating of the economy. Strengthening financial institutions to effectively channel funds to productive sectors can further amplify the positive effects of money supply. The negative impact of a higher monetary policy rate on private sector output suggests that lowering the MPR can promote affordable credit access, thereby encouraging borrowing and investment. The CBN should consider a more accommodative monetary policy stance during periods of economic downturn to stimulate private sector activities. Additionally, interest rate reforms that support small and medium-sized enterprises (SMEs) by providing subsidized loan facilities can mitigate the adverse effects of high borrowing costs. The study's findings that an increased reserve ratio negatively impacts private sector output indicate the need for a cautious approach in setting reserve requirements for commercial banks. Reducing the reserve ratio can enhance banks' capacity to extend credit to the private sector, thereby spurring investment and output growth.

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Appendix 1:
Monetary Policy and Private Sector Growth in Nigeria (2025)

YEAR	Money Supply (₦, Bill)	Monetary Policy Rate %	Reserve Ratio %	Private Sector Output (₦, Bill)
1998	488.15	13.50	2.814	366.54
1999	628.95	18.00	2.896	449.05
2000	878.46	14.00	2.98	588.00
2001	1,269.32	20.50	3.1	844.49
2002	1,505.96	16.50	3.142	948.46
2003	1,952.92	15.00	3.224	1,203.20
2004	2,131.82	15.00	3.31	1,519.24
2005	2,637.91	13.00	2.3	1,991.15
2006	3,797.91	10.00	2.01	2,609.29
2007	5,127.40	9.50	1.56	4,820.70
2008	8,643.43	9.75	3.0	7,799.40
2009	9,687.51	6.00	1.3	9,667.88
2010	11,101.46	6.25	1.0	9,198.17
2011	12,628.32	12.00	8.0	9,614.45
2012	15,503.41	12.00	12.0	10,440.96
2013	18,743.07	12.00	12.0	11,543.65
2014	20,415.61	13.00	20.0	13,179.60
2015	20,885.52	11.00	20.0	13,568.54
2016	24,259.00	14.00	22.5	16,500.15
2017	28,604.47	14.00	22.5	16,193.86
2018	29,774.43	14.00	22.5	15,438.60
2019	34,257.90	13.50	22.50	17,436.99
2020	36,038.01	11.50	27.50	19,818.38
2021	40,370.41	11.50	27.50	22,026.37
2022	48,461.42	16.50	27.50	26,101.22
2023	63,512.40	18.75	32.50	30,176.07
2024	78,563.38	21.00	32.50	34,250.92
2025	63,512.40	18.75	32.50	30,176.07

Source: CBN Statistical Bulletin, 2025