

Original Article

Rethinking The Monetary Policy-Poverty Nexus in Nigeria: The Role of Institutional Quality

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Abstract	Article History
Poverty remains a major development challenge in Nigeria despite various monetary policy interventions aimed at promoting macroeconomic stability and inclusive growth. While existing studies have largely focused on the direct effect of monetary policy on poverty reduction, limited attention has been paid to the role of institutional quality in shaping the effectiveness of monetary policy outcomes. This study therefore re-examines the monetary policy–poverty nexus in Nigeria by investigating whether institutional quality enhances the effectiveness of monetary policy in reducing poverty. The study utilised annual time-series data covering the period 1995–2025, thereby capturing both pre- and post-COVID-19 macroeconomic conditions. The Autoregressive Distributed Lag (ARDL) approach was employed to estimate both the short-run and long-run relationships among the variables. Institutional quality was measured using a composite index constructed from the six dimensions of the Worldwide Governance Indicators through Principal Component Analysis (PCA). The findings reveal strong persistence in poverty dynamics and indicate the existence of a stable long-run relationship among poverty, monetary policy variables and institutional quality. The results show that monetary policy exerts both short-run and long-run effects on poverty. Monetary policy tightening reduces poverty in the short run but increases poverty in the long run, while broad money supply exhibits limited long-run influence on poverty. Credit to the private sector emerged as an important channel for poverty reduction, whereas exchange-rate movements significantly influence poverty outcomes through their effects on prices, production costs and household purchasing power. Although the direct effect of institutional quality on poverty is not consistently significant across all specifications, the interaction results suggest that stronger institutions can enhance the effectiveness of monetary policy by mitigating some of the adverse welfare effects associated with monetary tightening and exchange-rate fluctuations. The significance of the COVID-19 structural-break variable in selected models further highlights the influence of major economic disruptions on poverty outcomes. The study concludes that the effectiveness of monetary policy in reducing poverty depends not only on the policy instruments employed but also on the quality of institutions that support policy transmission and economic governance. The study recommends strengthening governance quality, improving institutional effectiveness, expanding access to productive credit and promoting employment-generating activities to enhance the poverty-reducing impact of monetary policy in Nigeria.	Received: 15.06.2026 Accepted: 26.06.2026 Published: 30.06.2026
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1. Introduction

Despite decades of economic reforms and monetary policy interventions, Nigeria continues to account for one of the largest concentrations of poor people globally (NBS, 2022; Agidi, 2023; World Bank, 2025). Although successive governments and monetary authorities have pursued policies aimed at stabilising prices, expanding financial intermediation and supporting economic growth, improvements in macroeconomic performance, including financial deepening and monetary expansion, have not consistently translated into broad-based welfare gains (Aigbokhan, 2008; Abdulrahman, Akanbi, & Oniyide, 2023; Chukwu Agbeni, Anya, & Donatus, 2025). Following the COVID-19

pandemic, the Nigerian economy experienced rising inflation, exchange-rate pressures, monetary policy tightening and a series of structural reforms that substantially altered the economic environment (Erediauwa & Olawoye, 2024; IMF, 2023). Despite substantial monetary tightening since 2022, inflation and poverty have continued to rise, raising concerns about the effectiveness of conventional policy measures in improving welfare outcomes (Andrew, 2026; World Bank, 2025). Yet welfare conditions remained fragile, with many households facing declining purchasing power and increasing economic hardship (IMF, 2023; World Bank, 2025). If monetary policy influences welfare through credit allocation, price stability and employment creation, why has persistent poverty remained a defining feature of the Nigerian economy despite repeated policy interventions?

The question is important because monetary policy occupies a central position in macroeconomic management. Through adjustments in interest rates, money supply, credit conditions and exchange-rate management, monetary authorities seek to influence investment, production, employment and price stability (Mishkin, 2019). These transmission channels provide important mechanisms through which monetary policy can influence poverty outcomes (Abdulrahman *et al.*, 2023; Adeshina, Makinde, & Omankhanlen, 2025; Fouda-Ekobena, 2014; Romer & Romer, 1998). Lower borrowing costs and improved access to credit can stimulate productive activities, expand employment opportunities and increase household income (Mishkin, 2019). Inflationary pressures, restrictive credit conditions and exchange-rate instability may reduce purchasing power, weaken investment and worsen living conditions among vulnerable groups (Romer *et al.*, 1998). The relationship between monetary policy and poverty extends beyond macroeconomic stabilisation and touches directly on issues of welfare and economic inclusion.

Yet evidence from development economics suggests that policy outcomes are often shaped by institutional conditions rather than policy instruments alone (Acemoglu & Robinson, 2012; North, 1990). Similar policy actions often produce different welfare outcomes across countries and across time because the institutional environment influences how economic policies are transmitted and implemented (Acemoglu & Robinson, 2010; Deolalikar, Brillantes, Gaiha, Permia, & Racelis, 2002). The implication is that the effectiveness of policy interventions depends partly on the quality of governance structures, regulatory institutions and economic incentives that shape economic behaviour (Tebaldi & Mohan, 2008; Hammadi *et al.*, 2019; Oniyide *et al.*, 2024). One explanation for these differences lies in the quality of institutions that govern economic activity. In particular, institutions may determine whether policy signals are transmitted effectively through financial markets and ultimately translated into improvements in household welfare (Plouffe, 2017; Rashid & Intartaglia, 2017; Kaidi, Mensi & Amor, 2018; Oniyide, Kilishi, & Abdulrahman, 2024). As a result, identical monetary policy actions may generate markedly different welfare outcomes across economies because of differences in institutional quality, governance effectiveness and financial sector efficiency (Acemoglu *et al.*, 2010; Jindra & Vaz, 2019). Such differences imply that institutional quality may not only influence poverty directly but may also condition the effectiveness of monetary policy itself. This perspective shifts the analysis from viewing institutions merely as independent determinants of poverty to recognising them as mechanisms that shape the transmission and welfare effectiveness of monetary policy interventions. Institutions influence how policies are implemented, how financial systems function and how economic resources are allocated (North, 1990). They shape the credibility of public policies, the efficiency of financial intermediation and the extent to which households and firms can respond to policy signals. Where institutions are effective, policy signals are more likely to influence lending behaviour, investment decisions and economic activity. Where institutions are weak, policy transmission may be constrained by governance failures, regulatory inefficiencies, corruption and limited financial access (Acemoglu *et al.*, 2012).

A growing body of research suggests that institutions play an important role in shaping poverty and development outcomes. Weak institutions may restrict economic opportunities, distort resource allocation and reduce the effectiveness of public policies, thereby perpetuating poverty (Tebaldi *et al.*, 2008; Acemoglu *et al.*, 2012; Adegami & Uche, 2016). Institutional arrangements that strengthen entrepreneurship, financial development, investment freedom and property rights protection tend to improve welfare outcomes and reduce poverty (Rashid *et al.*, 2017; Fritsch, Sorgner, & Wyrwich, 2021; Oniyide, Kilishi, & Abdulrahman, 2024; Doran & Stratmann, 2020). These studies suggest that institutions play an important role in determining the effectiveness of economic policies aimed at improving welfare outcomes.

Previous research offers mixed evidence on the poverty effects of monetary policy. These conflicting findings may reflect differences in institutional quality, financial market development, policy transmission mechanisms and macroeconomic conditions across countries, suggesting that the poverty effects of monetary policy may depend on the institutional environment within which policy operates. Some studies report that monetary expansion, financial development and greater access to credit contribute positively to poverty reduction and welfare improvement (Abula & Adebayo, 2016; Saidu & Marafa, 2020; Orji *et al.*, 2024). Other studies argue that monetary tightening, inflationary pressures and financial market imperfections can worsen welfare outcomes, particularly among low-income households (Abdulrahman, Akanbi, and Oniyide (2023), Fouda-Ekobena (2014), and Adesina *et al.*, (2025), Onatunji & Akinlo, 2025). The lack of consensus in the literature suggests that the effect of monetary policy on poverty may depend on factors that extend beyond conventional monetary indicators. Despite these contributions, relatively little attention has been devoted to understanding whether institutional quality influences the extent to which monetary policy succeeds in improving welfare outcomes.

This issue is important in Nigeria because persistent poverty has coexisted with repeated monetary interventions, financial-sector reforms and broader economic restructuring efforts (NBS, 2022; World Bank, 2025). Abdulrahman, Akanbi, and Oniyide (2023) examined the impact of monetary policy on poverty reduction in Nigeria using annual data covering the period 1985–2019 and found that both monetary policy and institutional factors influence poverty outcomes. While the study provided useful evidence, it treated institutional quality primarily as an explanatory variable within the poverty equation rather than as a moderating mechanism capable of conditioning the effectiveness of monetary policy transmission. In addition, the study did not capture the post-2019 period, which includes the COVID-19 shock, subsequent monetary tightening, exchange-rate reforms and other macroeconomic developments that have altered the policy environment in Nigeria.

These observations motivate the present study, which argues that the poverty-reducing effect of monetary policy cannot be fully understood without considering the institutional environment through which policy operates. Rather than treating institutional quality simply as another determinant of poverty, the study conceptualises it as a conditioning factor that may strengthen or weaken the effectiveness of monetary policy transmission. The study shifts attention from whether monetary policy affects poverty to the institutional conditions under which policy actions can effectively improve welfare outcomes.

To examine this proposition, the paper re-examines the monetary policy-poverty relationship in Nigeria using annual data covering the period 1995–2025. The analysis incorporates a composite institutional quality index and investigates whether institutional quality moderates the relationship between monetary policy and poverty outcomes. By extending the sample to include recent economic developments and by focusing on the institutional conditions under which monetary policy operates, the study contributes new evidence on the conditions under which monetary policy can generate welfare improvements in developing economies and thereby enriches ongoing debates on monetary policy effectiveness, governance and poverty reduction.

The study pursues two objectives. First, it examines the short-run and long-run effects of monetary policy on poverty in Nigeria. Second, it investigates whether institutional quality influences the effectiveness of monetary policy in reducing poverty. The remainder of the paper is organised as follows. Section Two reviews the relevant literature and presents the theoretical framework. Section Three describes the methodology. Section Four presents and discusses the empirical findings. Section Five concludes the study and provides policy recommendations.

2. Literature Review

A. Monetary Policy and Poverty Outcome

The relationship between monetary policy and poverty reduction remains one of the most contested issues in the existing studies on macroeconomic policy and development. Although monetary policy is primarily intended to maintain price stability and macroeconomic balance, its effects extend to household welfare through changes in interest rates, credit conditions, inflation, and exchange rates. The magnitude and direction of these effects depend on the effectiveness of the monetary transmission mechanism and the institutional environment within which policy operates. These channels influence investment, employment, income generation, and the purchasing power of households (Keynes, 1936; Friedman, 1968; Mishkin, 2019).

Empirical findings on this relationship remain mixed. On one hand, improved credit availability, financial deepening, and financial inclusion have been associated with better welfare outcomes and lower poverty levels. The argument is that expansionary monetary conditions stimulate investment and productive activities, thereby creating employment and income opportunities (Abula & Adebayo, 2016; Goshit & Longduut, 2016; Saidu & Marafa, 2020; Orji *et al.*, 2024; Adesina *et al.*, 2025; Abdulrahman *et al.*, 2023). In contrast, several other studies report that restrictive monetary policies may discourage investment, limit access to credit, and reduce economic activity, with adverse consequences for vulnerable households (Romer & Romer, 1998; Fouda-Ekobena, 2014; Abdulrahman *et al.*, 2023). Evidence from Nigeria suggests that monetary policy shocks can generate important distributional effects, particularly during periods of monetary tightening and rising living costs (Onatunji & Akinlo, 2025).

Part of this disagreement reflects methodological differences, differences in institutional quality, financial market development, model specification and estimation techniques further contribute across studies. Monetary policy has been proxied by money supply, credit aggregates, and interest rates, while poverty has been measured using income-based, consumption-based, and multidimensional indicators. Differences in model specification and estimation techniques further contribute to the absence of consensus.

The persistence of these conflicting results suggests that differences in institutional quality, financial deepening, and policy transmission mechanisms may partly explain why similar monetary policy actions generate different welfare outcomes across countries (Kaidi *et al.*, 2018).

B. Institutional Quality and Poverty Reduction

Institutional quality is widely regarded as a fundamental determinant of development outcomes because institutions shape incentives, govern economic interactions, and influence policy implementation (North, 1990). Weak institutions can constrain economic opportunities, distort resource allocation, and perpetuate poverty, while effective institutions create conditions that support inclusive growth and welfare improvement (Acemoglu *et al.*, 2010; Tebaldi *et al.*, 2010).

Studies conducted across both developed and developing economies generally indicate that stronger institutions are associated with lower poverty levels (Jindra & Vaz, 2019; Hammadi *et al.*, 2019; Hassan *et al.*, 2020). Similar patterns have been observed in Africa, where governance failures have been linked to persistent deprivation, while improvements in institutional quality have been shown to enhance welfare outcomes (Adegbamì *et al.*, 2016; Omoyibo, 2013; Kilishi, Abdulrahman & Oniyide, 2023).

Despite broad agreement on the importance of institutions, there is less agreement on which institutional dimensions matter most. One view emphasises governance-related institutions such as government effectiveness, accountability, and control of corruption as the primary drivers of poverty reduction. Another perspective assigns greater importance to economic institutions that protect property rights, promote investment freedom, and support private-sector activity (Doran *et al.*, 2020; Oniyide *et al.*, 2024). The relative importance of these institutional dimensions therefore remains unresolved.

C. Institutional Quality and Monetary Policy Transmission

Beyond their direct effect on poverty, institutions may influence how effectively monetary policy is transmitted to the real economy. Institutional quality determines the extent to which financial markets function efficiently, regulations are enforced, and policy actions are viewed as credible (North, 1990; Plouffe, 2017).

Strong institutions enhance financial intermediation and improve the transmission of monetary policy through interest-rate, credit, and expectations channels. They also improve policy credibility and reduce information asymmetry, enabling monetary policy signals to be transmitted more effectively throughout the economy (North, 1990). Under such conditions, policy adjustments are more likely to affect borrowing decisions, investment behaviour, and productive activities. Weak institutions, by contrast, can obstruct these channels and reduce the effectiveness of monetary policy interventions.

Evidence from related studies indicates that the poverty-reducing effects of financial development and economic participation are stronger in countries with better institutional frameworks (Rashid *et al.*, 2017; Kaidi *et al.*, 2018; Fritsch *et al.*, 2021). However, research has largely examined the independent effects of monetary policy and

institutional quality on poverty. Even where both variables are considered within the same framework, institutional quality is typically treated as an explanatory factor rather than explicitly interacting with monetary policy variables to determine whether institutions strengthen or weaken policy transmission.

Empirical evidence remains limited regarding whether institutional quality amplifies, weakens, or conditions the welfare effects of monetary policy in Nigeria and other developing economies. This study addresses this gap by examining institutional quality as a moderating mechanism in the monetary policy–poverty relationship. The central proposition is that the effectiveness of monetary policy depends not only on policy actions but also on the quality of institutions supporting financial intermediation, regulatory enforcement, and economic governance.

D. Theoretical Argument

This study is anchored on Institutional Theory (North, 1990), Monetary Transmission Theory (Mishkin, 2019), and Financial Intermediation Theory (McKinnon, 1973; Shaw, 1973). Together, these theories provide a framework for explaining how monetary policy influences poverty outcomes and why its effectiveness may depend on institutional quality.

Institutional Theory argues that economic outcomes are shaped by the quality of formal and informal rules that govern economic interactions (North, 1990). Effective institutions promote policy credibility, reduce transaction costs, strengthen regulatory enforcement, and improve the allocation of resources. Empirical evidence suggests that stronger institutional environments are associated with lower poverty levels and better development outcomes because they enhance economic opportunities and improve governance effectiveness (Tebaldi *et al.*, 2010; Jindra & Vaz, 2019; Hammadi *et al.*, 2019). In the African context, institutional weaknesses have been linked to persistent poverty and governance failures, while improvements in institutional quality have been shown to contribute to welfare enhancement (Adegami *et al.*, 2016; Kilishi *et al.*, 2023; Oniyide *et al.*, 2024). In the context of monetary policy, institutional quality determines the extent to which policy actions are effectively transmitted through the financial system and translated into welfare improvements.

Monetary Transmission Theory explains how changes in monetary policy affect the real economy through interest-rate, credit, exchange-rate, and expectations channels (Mishkin, 2019). Expansionary monetary conditions can stimulate investment, production, and employment, while restrictive policies may reduce economic activity and household welfare. Studies have shown that monetary policy influences poverty through its effects on credit availability, investment decisions, and income-generating activities (Romer *et al.*, 1998; Fouda-Ekobena, 2014; Adeshina *et al.*, 2025). Evidence from developing economies further supports this relationship (Saeed, 2020). Evidence from Nigeria further indicates that monetary policy instruments such as money supply expansion and credit growth can contribute to poverty reduction, whereas restrictive monetary conditions may adversely affect vulnerable households (Adeshina *et al.*, 2025; Abula *et al.*, 2016; Goshit *et al.*, 2016; Abdulrahman *et al.*, 2023). The effectiveness of these transmission channels, however, depends on the structure and efficiency of the financial system.

Financial Intermediation Theory emphasises the role of financial institutions in mobilising savings and allocating credit to productive sectors of the economy (McKinnon, 1973; Shaw, 1973). Efficient financial intermediation enhances access to finance, encourages investment, and supports income generation. Empirical studies have shown that financial development and financial inclusion contribute significantly to poverty reduction by expanding access to economic opportunities and productive resources (Rashid *et al.*, 2017; Saidu *et al.*, 2020; Orji *et al.*, 2024). Conversely, financial market imperfections and weak financial systems can limit credit access, weaken investment responses, and reduce the effectiveness of monetary policy interventions (Zahonog, 2016; Kaidi *et al.*, 2018).

The three theories are complementary rather than competing. Monetary Transmission Theory explains the channels through which monetary policy affects economic activity; Financial Intermediation Theory explains how financial institutions facilitate or constrain these channels; Institutional Theory explains why the effectiveness of both monetary transmission and financial intermediation varies across institutional environments. Their integration therefore provides a comprehensive framework for explaining the heterogeneous welfare effects of monetary policy observed across countries and over time.

These theories suggest that the effect of monetary policy on poverty is neither automatic nor uniform. Monetary policy influences welfare through financial intermediation and transmission channels, while institutional quality determines how effectively these channels operate. Consequently, differences in institutional quality may explain variations in the poverty-reducing effectiveness of monetary policy across countries and over time. This implication is particularly relevant for developing economies where financial systems and governance structures often differ substantially in their ability to support policy transmission.

Drawing from these theories, this study argues that institutional quality influences the effectiveness of monetary policy by shaping the efficiency of financial intermediation and policy transmission mechanisms. The moderating role of institutional quality emerges because institutions influence the effectiveness of policy transmission channels rather than merely affecting poverty directly. Accordingly, the impact of monetary policy on poverty is expected to vary with the quality of institutions. Where institutions are stronger, policy actions are more likely to translate into improvements in credit allocation, investment and employment. Where institutions are weaker, the same policy actions may produce limited welfare gains. This proposition is supported by evidence showing that the poverty-reducing effects of financial development are stronger in countries with better institutional frameworks (Rashid *et al.*, 2017; Kaidi *et al.*, 2018). Similarly, stronger institutions have been found to enhance economic participation, entrepreneurial activities, and welfare outcomes by improving the environment within which financial and economic policies operate (Fritsch *et al.*, 2021; Oniyide *et al.*, 2024). Strong institutions enhance the ability of monetary policy to influence credit allocation, investment, employment, and income generation, thereby contributing to poverty reduction. Accordingly, the theoretical expectation of this study is that stronger institutional quality enhancing the ability of monetary policy to lower poverty levels through more efficient credit allocation, stronger financial intermediation, improved investment responses and better policy transmission.

3. Method

The model specification is informed by Institutional Theory (North, 1990), Monetary Transmission Theory (Mishkin, 2019) and Financial Intermediation Theory (McKinnon, 1973; Shaw, 1973). While monetary policy influences economic activity through interest-rate, credit and exchange-rate channels, the effectiveness of these transmission mechanisms depends on the quality of institutions and the efficiency of financial intermediation. Strong institutions improve regulatory compliance, strengthen confidence in policy actions and facilitate the allocation of credit to productive sectors, thereby enhancing monetary policy transmission. Consequently, the study specifies a model in which institutional quality not only affects poverty directly but also conditions the effectiveness of monetary policy transmission.

Following the existing literature on monetary policy, institutions and poverty reduction (Abdulrahman *et al.*, 2023), the functional relationship model for this study is specified as:

$$POV_t = f(MPI_t, IQI_t, CV_t) \quad (1)$$

Where *POV* denotes poverty level; *MPI* represents monetary policy variables; *CV* denotes the vector of control variables, while *IQI* denotes Institutional Quality Index constructed from the six Worldwide Governance Indicators (WGI) using Principal Component Analysis (PCA) as expressed below:

$$IQI_t = PCA(VA_t, PS_t, GE_t, RQ_t, RL_t, CC_t) \quad (2)$$

More specifically, the baseline monetary policy model is expressed as:

$$POV_t = \sigma_0 + \beta_1 MPR_t + \beta_2 M2_t + \beta_3 LCPS_t + \beta_4 REER_t + \beta_5 PCI_t + \beta_6 UMP_t + \mu_t \quad (3)$$

The institutional quality model is specified as:

$$POV_t = \sigma_0 + \beta_1 IQI_t + \beta_2 PCI_t + \beta_3 UMP_t + \mu_t \quad (4)$$

The combined monetary policy and institutional quality model is expressed as:

$$POV_t = \sigma_0 + \beta_1 MPR_t + \beta_2 M2_t + \beta_3 LCPS_t + \beta_4 REER_t + \beta_5 IQI_t + \beta_6 PCI_t + \beta_7 UMP_t + \mu_t \quad (5)$$

Where *MPR* denotes monetary policy rate, *M2* denotes broad money supply, *LCPS* is log of credit to the private sector, *REER* is real effective exchange rate, *PCI* is Gross Domestic Product per capita, *UMP* is unemployment rate and μ is stochastic error term.

Furthermore, to examine whether institutional quality enhances or constrains the effectiveness of monetary policy, an interaction model is estimated as follows:

$$POV_t = \sigma_0 + \beta_1 MPI_t + \beta_2 IQI_t + \beta_3 (MPR \times IQI)_t + \beta_4 PCI_t + \beta_5 UMP_t + \mu_t \quad (6A)$$

$$POV_t = \sigma_0 + \beta_1 MPI_t + \beta_2 IQI_t + \beta_3 (M2 \times IQI)_t + \beta_4 PCI_t + \beta_5 UMP_t + \mu_t \quad (6B)$$

$$POV_t = \sigma_0 + \beta_1 MPI_t + \beta_2 IQI_t + \beta_3 (LCPS \times IQI)_t + \beta_4 PCI_t + \beta_5 UMP_t + \mu_t \quad (6C)$$

$$POV_t = \sigma_0 + \beta_1 MPI_t + \beta_2 IQI_t + \beta_3 (REER \times IQI)_t + \beta_4 PCI_t + \beta_5 UMP_t + \mu_t \quad (6D)$$

Where *MPI* represents the monetary policy indicators, while Equations (6A)–(6D) estimate the moderating effect of institutional quality on each monetary policy variable individually. *IQI* is institutional quality index and $(MPI \times IQI)_t$ is the interaction term measuring the moderating role of institutional quality on the relationship between monetary policy and poverty level. The interaction terms are introduced to test whether the effect of each monetary policy variable on poverty varies with institutional quality (North, 1990; Plouffe, 2017; Rashid *et al.*, 2017; Kaidi *et al.*, 2018). To examine whether institutional quality conditions the effectiveness of monetary policy, interaction terms are introduced between institutional quality and each monetary policy indicator. This approach follows the moderating-effect framework in which the impact of monetary policy on poverty is expected to vary across different institutional environments. A significant interaction term would suggest that institutional quality modifies the impact of monetary policy on poverty outcomes. The interaction terms capture whether the marginal effect of each monetary policy instrument varies across different levels of institutional quality.

Poverty is measured using the poverty headcount ratio, defined as the proportion of the population living below the national poverty line. The measure provides a direct assessment of welfare conditions and allows the study to examine how monetary policy and institutional quality influence poverty outcomes over time. Monetary policy variables include Monetary Policy Rate (*MPR*), Broad Money Supply (*M2*), Log of Credit to the Private Sector (*LCPS*) and Real Effective Exchange Rate (*REER*). The control variables included in the model are Gross Domestic Product per Capita (*PCI*) and Unemployment Rate.

Institutional quality is measured using a composite index constructed from the six dimensions of the Worldwide Governance Indicators (*WGI*): Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. Principal Component Analysis (*PCA*) is employed to extract the common variation among the indicators and generate a single institutional quality index. The governance indicators are obtained from the Worldwide Governance Indicators database developed by Kaufmann and Kraay (2024).

Poverty data were obtained from the National Bureau of Statistics (*NBS*). GDP per capita and unemployment data were obtained from the World Development Indicators (*WDI*), while monetary policy variables were sourced from the Central Bank of Nigeria Statistical Bulletin. Institutional indicators were obtained from the Worldwide Governance Indicators (*WGI*).

The study adopts an ex-post facto research design because the variables employed are historical macroeconomic data which cannot be manipulated by the researcher. The Augmented Dickey-Fuller (*ADF*) unit root test developed by Dickey and Fuller (1981) is employed to determine the stationarity properties of the variables and avoid spurious regression results associated with non-stationary time-series data. Given the occurrence of major economic events during the study period, including banking-sector reforms, the global financial crisis, the COVID-19 pandemic and exchange-rate reforms, the study further employs the Zivot-Andrews structural break unit root test to account for potential endogenous structural breaks in the data. Following the identification of structural breaks from the Zivot-Andrews unit root test, a structural-break dummy variable was introduced as an exogenous regressor to control for major economic disruptions associated with the COVID-19 period. The dummy takes the value of one from 2020 onward and zero otherwise. To avoid collinearity arising from lagged dummy variables in the *ARDL* framework, the

structural-break variable was treated as a fixed exogenous regressor. The optimal lag structure for the ARDL models is selected using the Akaike Information Criterion (AIC), which is widely preferred in small-sample time-series studies because of its efficiency in balancing model fit and parsimony.

Given the possibility that the variables may be integrated at different orders, the study employed the Autoregressive Distributed Lag (ARDL) Bounds Testing approach developed by Pesaran and Shin (1999) and extended by Pesaran, Shin and Smith (2001). In addition, ARDL accommodates regressors integrated of different orders and mitigates endogeneity arising from dynamic lag structures. It remains appropriate for small samples which constitutes one of its principal advantages over alternative cointegration techniques such as Johansen estimation (Pesaran *et al.*, 2001). Following Pesaran *et al.*, (2001), the short-run dynamics are estimated through an error correction representation of the ARDL model. The technique also allows for the estimation of both short-run and long-run relationships within a single framework.

The ARDL error correction representation is specified as:

$$\Delta POV_t = \sigma_0 + \sum_{i=1}^p \beta_i \Delta POV_{t-i} + \sum_{j=1}^q \beta_j \Delta X_{t-j} + \lambda_1 ECT_{t-1} + \mu_t \quad (7)$$

Where ECT_{t-1} represents the error correction term, λ denotes the speed of adjustment coefficient, Δ is the first difference operator and μ_t stochastic error term as given by Wooldridge (2005) and Greene (2003).

The coefficient of the error correction term is expected to be negative and statistically significant, indicating that deviations from long-run equilibrium are corrected over time. The Bounds Test is subsequently employed to determine the existence of a long-run relationship among monetary policy, institutional quality and poverty reduction in Nigeria.

To ensure the reliability of the estimated models, diagnostic tests including Breusch-Godfrey Serial Correlation LM Test, Breusch-Pagan Heteroskedasticity Test, and Jarque-Bera Normality Test are conducted. Model stability is further examined using the CUSUM and CUSUMSQ stability tests.

4. Results and Discussion

Table 1: Summary of the Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Poverty	31	55.91	6.68	40.10	66.90
Monetary Policy Rate	31	14.06	4.70	6.00	27.50
Money Supply	31	18.42	5.77	9.06	27.38
Real Effective Exchange Rate	31	82.47	35.67	19.07	155.75
Log of Credit to Private Sector	31	15.48	1.87	12.10	18.15
Institutional Quality Index	31	0.00	1.98	-4.26	2.48
GDP Per Capita	31	1.68	3.59	-8.34	12.21
Unemployment rate	31	18.07	9.44	1.90	35.00

Source: Author's computation, 2026

The descriptive statistics presented in Table 1 indicate considerable variation in poverty, monetary policy indicators, institutional quality and the control variables over the study period (1995–2025). Poverty recorded an average value of 55.91 per cent, with a minimum of 40.10 per cent and a maximum of 66.90 per cent, suggesting that poverty remained a persistent development challenge throughout the period. The monetary policy rate averaged 14.06 per cent but exhibited substantial fluctuations, reflecting changes in monetary policy stance in response to evolving macroeconomic conditions. Broad money supply, measured as annual percentage growth, recorded an average growth rate of 18.42 per cent, with values ranging from 9.06 per cent to 27.38 per cent, suggesting notable variations in monetary expansion over time. Similarly, the real effective exchange rate displayed considerable variability, indicating changes in exchange-rate conditions and external competitiveness during the study period.

Credit to the private sector exhibited substantial variation over the study period, increasing from 12.10 to 18.15. This variation reflects the expansion of financial intermediation and banking sector activities during the period. The Institutional Quality Index (IQI) also exhibited noticeable variation, with values ranging from -4.26 to 2.48, indicating fluctuations in governance performance and institutional effectiveness. GDP per capita growth and the unemployment rate similarly exhibited considerable fluctuations, reflecting periods of economic expansion, economic downturns and labour market instability.

The variation observed across the variables reflects substantial changes in Nigeria's macroeconomic environment, institutional performance and economic conditions over the study period, making the dataset suitable for examining the relationship between monetary policy, institutional quality and poverty. To capture the multidimensional nature of governance, Principal Component Analysis (PCA) was employed to construct the Institutional Quality Index from the six Worldwide Governance Indicators. The first principal component, which explained the largest proportion of total variance, was retained as the institutional quality index.

A. Stability test

Table 2: The result of stationarity and structural breaks tests

Test Type	Augmented Dickey-Fuller		Phillips-Perron		Zivot-Andrews			Order of Integration
Variable	Level (t-Stat)	1 st Diff (t-Stat)	Level (t-Stat)	1 st Diff (t-Stat)	Level (t-Stat)	1 st Diff (t-Stat)	Break Year	Decision
Poverty	-2.95**		-2.88*		-4.30	- 5.69***	2021	$I(0)/I(1)$
Monetary Policy Rate	-0.94	-6.50***	-0.90	- 6.48***	-2.34	- 7.58***	2002	$I(1)$
Money Supply	-2.17	-5.57***	-2.21	- 8.64***	-4.47	-4.69**	2007	$I(1)$
Real Effective Exchange Rate	-2.02	-5.33***	-2.02	- 5.33***	-2.73	- 7.08***	2008	$I(1)$
Log of Credit to Private Sector	-1.32	-3.44**	-1.11	-3.26*	-3.19	-4.69**	2010	$I(1)$
Institutional Quality Index	-1.86	-3.97**	-2.12	-4.00**	-4.32	-5.25**	2003	$I(1)$
GDP Per Capita	-3.25**		- 3.22**		-4.54	- 6.17***	2021	$I(0)/I(1)$
Unemployment rate	-2.44	-5.19***	-2.54	- 5.30***	-3.918	- 5.97***	2001	$I(1)$

Note: *, **, and *** denote significance at the 10%, 5%, and 1% levels respectively. ADF and PP results are reported from conventional unit roots, while Zivot-Andrew (ZA) test accounts for endogenous structural breaks. The reported break dates correspond to the first-difference Zivot-Andrew test statistics upon which the order of integration was determined.

Source: Author's computation, 2026

The results from the ADF and PP tests indicate that poverty level (POV) and per capita income (PCI) are stationary at levels, while the remaining variables become stationary after first differencing, suggesting a mixture of $I(0)$ and $I(1)$ variables.

The Zivot-Andrew's test, which controls for endogenous structural breaks, shows that all variables become stationary after first differencing. The identified structural break dates range between 2000 and 2021, reflecting major economic and institutional shifts in Nigeria. The estimated break dates highlight major shifts in Nigeria's macroeconomic and institutional environment during the study period. Breaks identified around 2000–2007 coincide with major institutional and economic reforms, including the consolidation of democratic governance, banking sector restructuring, and financial sector liberalisation. Likewise, the breaks observed around 2020–2021 coincide with the

economic disruptions associated with the COVID-19 pandemic and subsequent macroeconomic adjustments. The identified structural breaks indicate that the behaviour of the variables was influenced by major policy reforms and economic shocks during the study period.

The three-unit root tests confirm that none of the variables is integrated of order two, $I(2)$. The variables are either $I(0)$ or $I(1)$, thereby satisfying the precondition for the application of the ARDL bounds testing framework. Furthermore, the consistency between the conventional unit root tests and the structural break unit root test suggests that the stationarity properties of the variables are robust to the presence of structural changes.

B. Cointegration test

Table 3: The Results of the Bound Test

Bound Test			Pesaran <i>et al.</i> , (2001) Critical Values	
Model	F-statistic	K	At a 5 per cent Significance level	
			Lower Bounds $I(0)$	Upper Bounds $I(1)$
1	7.258	6	2.45	3.61
2	2.396	3	3.23	4.35
3	6.151	7	2.32	3.50
4	9.147	8	2.22	3.39
5	17.928	8	2.22	3.39
6	4.854	8	2.22	3.39
7	18.013	8	2.22	3.39

Note: K is the number of variables minus 1

Source: Author's computation, 2026

The ARDL Bounds Test results in Table 3 indicate the existence of a long-run relationship between poverty level and the explanatory variables in Models 1, 3, 4, 5, 6 and 7. This is evidenced by the fact that the computed F-statistics exceeded the upper bound critical values at the 5 per cent significance level. However, Model 2, which examined the relationship between institutional quality and poverty alongside the control variables, produced an F-statistic below the lower bound critical value, indicating that the null hypothesis of no cointegration cannot be rejected. Consequently, only the short-run estimates are interpreted for Model 2, while both the long-run and short-run estimates are discussed for the remaining models. The mixture of $I(0)$ and $I(1)$ variables further supports the suitability of the ARDL approach, which permits a mixture of integrated variables and distinguishes between short-run and long-run relationships (Pesaran, Shin & Smith, 2001). Given evidence of endogenous structural break from the Zivot-Andrew's test, a structural break dummy (COVID) was incorporated into the ARDL specification to ensure that the estimated relationships were not driven by major economic disruptions. The dummy variable takes the value of 1 from 2020 onward and 0 otherwise. The choice of 2020 was informed by the economy-wide effect of the COVID-19 pandemic on poverty, employment, inflation, monetary policy and overall economic activity.

C. Result Interpretation

Table 4: Estimated Results outcome for all models

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
VARIABLES	POV	POV	POV	POV	POV	POV	POV
Speed Of Adjustment							
L.POV	-1.86***		-2.63***	-2.16***	-2.58***	-2.50***	-2.63***
	(0.36)		(0.40)	(0.34)	(0.48)	(0.51)	(0.05)
Short-Run							
LD.POV	0.50**	0.54***	1.22***	0.93***	1.15**	1.22**	1.33***
	(0.22)	(0.18)	(0.22)	(0.18)	(0.30)	(0.31)	(0.03)
D.MPR			-1.36**	-0.99**	-1.36**	-1.34**	-1.71***
			(0.38)	(0.28)	(0.46)	(0.46)	(0.06)
LD.MPR			-0.82*		-0.86*	-0.91*	-1.07***

			(0.37)		(0.33)	(0.36)	(0.05)
D.M2	0.95		1.42**	1.84***	-0.40	1.36*	1.88***
	(0.62)		(0.50)	(0.49)	(0.49)	(0.53)	(0.07)
LD.M2	1.08**		1.57***	2.22***	3.58***	1.67***	2.17***
	(0.41)		(0.34)	(0.38)	(0.69)	(0.35)	(0.08)
D.LCPS	-16.81		-7.14	-20.57**	-64.43***	-13.52	-9.69**
	(10.43)		(7.52)	(8.17)	(13.63)	(9.20)	(1.22)
LD. LCPS					-34.67		0.46
					(18.68)		(2.03)
D.REER	0.16**		0.26***	0.29***	0.03	0.21**	0.40***
	(0.07)		(0.06)	(0.07)	(0.07)	(0.07)	(0.01)
LD. REER	0.13		0.11*	0.19**	-0.13	0.09	0.19***
	(0.08)		(0.05)	(0.06)	(0.09)	(0.05)	(0.01)
D.PCI		0.33	-0.98*	-2.12**	-2.66*	-1.02*	-2.15***
		(0.32)	(0.45)	(0.61)	(1.06)	(0.47)	(0.13)
LD.PCI		-1.20***	-0.86*	-1.07**	-0.64	-0.96*	-1.57***
		(0.32)	(0.36)	(0.36)	(0.38)	(0.36)	(0.07)
LD2.PCI		0.71**					
		(0.34)					
D.UMP		-0.17	-0.84**	-0.92***	-1.07**	-0.71**	-1.77***
		(0.25)	(0.23)	(0.23)	(0.36)	(0.25)	(0.08)
LD.UMP							-0.81***
							(0.05)
COVID	2.48	5.89	-13.53*	-6.61	-3.43	-16.54*	-16.43***
	(9.25)	(4.47)	(6.86)	(6.96)	(7.64)	(7.58)	(1.49)
D.IQI		-1.09	-0.12	-3.54	-26.64**	-24.70	-5.78**
		(0.66)	(1.87)	(1.93)	(6.33)	(17.21)	(0.73)
LD.IQI			-7.19***	-5.17**		-5.60*	-9.50***
			(1.62)	(1.41)		(1.94)	(0.28)
D.M2IQI					1.37***		
					(0.26)		
D.LCPSIQI						1.61	
						(1.10)	
D.REERIQI							-0.01
							(0.01)
Constant	142.1***	27.71**	203.2***	191.0***	438.1**	177.5**	362.8***
	(37.32)	(11.65)	(50.96)	(46.04)	(117.7)	(56.17)	(14.47)
Long-Run							
MPR	0.26		0.82***	0.69***	1.05***	0.86**	0.89***
	(0.18)		(0.14)	(0.12)	(0.17)	(0.24)	(0.02)
M2	0.22		0.12	-0.25	0.13	-0.01	-0.07
	(0.37)		(0.23)	(0.28)	(0.21)	(0.26)	(0.03)
LCPS	-1.33		-1.98	-2.15	-8.41**	-1.49	-5.93***
	(1.47)		(1.06)	(1.24)	(2.29)	(1.16)	(0.42)
REER	-0.07**		-0.07***	-0.09**	-0.04	-0.06**	-0.11***
	(0.03)		(0.02)	(0.02)	(0.02)	(0.02)	(0.002)
PCI	0.62***		0.76***	1.27**	1.37**	0.72**	1.26***
	(0.17)		(0.20)	(0.37)	(0.41)	(0.25)	(0.06)
UMP	-0.12		0.10	0.18	0.59**	0.18	0.50***

	(0.16)		(0.11)	(0.13)	(0.18)	(0.13)	(0.03)
IQI			1.15	5.12*	6.13**	3.01	6.17***
			(0.64)	(2.18)	(1.92)	(8.15)	(0.44)
MPRIQI				-0.19*			
				(0.09)			
M2IQI					-0.14		
					(0.10)		
LCPSIQI						-0.16	
						(0.55)	
REERIQI							-0.02**
							(0.002)
Observations	29	29	29	29	29	29	29
R-squared	0.80	0.65	0.97	0.98	0.99	0.98	0.99
Diagnostics Test							
Durbin-Watson	2.17	1.96	2.40	2.29	3.06	2.33	2.30
Autocorrelation	0.64	0.02	6.27**	9.60***	21.12***	24.89***	28.50***
White test	42.64	40.98	49.16	51.11	51.26	51.83	52.47
Normality test	5.40*	14.54***	1.10	0.22	0.12	0.28	0.30
Stability Test	Unstable	Unstable	Unstable	Unstable	Unstable	Unstable	Unstable

Note: *, **, and *** denote significance at the 10%, 5%, and 1% levels respectively. Standard errors in parentheses

Source: Author's computation, 2026.

(a) Poverty Persistence and Adjustment Dynamics

The results reveal strong evidence of persistence in poverty dynamics in Nigeria. The positive and statistically significant coefficient of the lagged poverty variable across the estimated models indicates that current poverty conditions are strongly influenced by previous poverty levels. This finding suggests that poverty remains a structural phenomenon rather than a temporary condition, reflecting the cumulative effects of limited productive opportunities, low asset ownership, inadequate access to finance and weak socioeconomic mobility. The evidence obtained suggests that poverty in Nigeria is largely structural and self-reinforcing, reflecting conditions commonly observed in developing economies where access to productive assets, finance and employment opportunities remains limited. This finding aligns with the arguments of Todaro and Smith (2021), Aigbokhan (2008), and the poverty assessments of the World Bank (2022, 2023), which emphasise that poverty often persists across time in the absence of sustained structural transformation. The result further reinforces the evidence presented by Agidi (2023), who described poverty in Nigeria as a deeply entrenched developmental challenge. The finding contributes to the literature by showing that poverty persistence remains evident even after accounting for monetary policy interventions and institutional quality.

The error correction coefficients are negative and statistically significant in all the estimated models, confirming the existence of a stable long-run relationship among poverty, monetary policy and institutional quality. The magnitude of the error correction coefficients exceeds unity in absolute terms, implying an adjustment process characterised by overshooting and short-run oscillations before convergence to long-run equilibrium is restored. This finding suggests that although poverty exhibits considerable persistence, welfare conditions remain highly responsive to changes in macroeconomic and institutional environments. The rapid speed of adjustment may partly reflect the frequent policy and structural changes experienced by the Nigerian economy during the study period, including banking-sector reforms, exchange-rate adjustments, episodes of monetary tightening, and the COVID-19 shock. Similar evidence of rapid adjustment has been reported in Nigerian macroeconomic studies, where significant error correction terms have been interpreted as reflecting strong responses of economic agents to policy-induced disequilibria (Inuwa, Usman & Saidu, 2014).

These findings indicate that poverty in Nigeria is characterised by both structural persistence and high sensitivity to policy and institutional shocks. While poverty tends to reproduce itself over time, changes in economic

conditions, governance structures and policy regimes exert substantial influence on the speed with which welfare outcomes adjust towards their long-run equilibrium path.

(b) Monetary Policy and Welfare Outcomes

The findings provide important insights into the welfare implications of monetary policy in Nigeria. In the short run, monetary policy tightening appears to exert a poverty-reducing effect, as indicated by the negative and statistically significant coefficients of the monetary policy rate. This suggests that tighter monetary conditions may initially improve welfare through enhanced macroeconomic stability and inflation control. In an environment characterised by persistent inflationary pressures, improved price stability may temporarily protect household purchasing power and moderate the erosion of real incomes.

The long-run results reveal that monetary policy tightening contributes significantly to higher poverty levels in Nigeria. Although restrictive monetary policy may generate short-term welfare gains through inflation control, sustained increases in interest rates appear to reduce investment, constrain credit access and weaken employment creation, thereby worsening poverty outcomes over time. This finding is consistent with the Keynesian argument that prolonged contractionary monetary policy suppresses aggregate demand and reduces economic activity (Keynes, 1936; Mishkin, 2019). Empirically, the result supports Fouda-Ekobena (2014), Abdulrahman *et al.*, (2023) and Adesina *et al.*, (2025), who found that monetary policy actions exert significant welfare consequences through their effects on credit conditions and financial intermediation. However, the finding contrasts with Abula *et al.*, (2016), who reported that monetary policy contributed to poverty reduction in Nigeria. The divergence may reflect differences in study periods, poverty measures and estimation techniques, particularly given the inclusion of post-COVID monetary tightening episodes and institutional interactions in the present study.

The evidence relating to money supply further highlights the complexity of monetary transmission. The short-run estimates generally indicate that monetary expansion is associated with higher poverty levels, although the magnitude and significance of the effect vary across specifications, while the long-run effects remain largely insignificant across the estimated specifications. This finding suggests that liquidity expansion alone is insufficient to generate sustained welfare improvements. Rather, the poverty implications of monetary expansion appear to depend on the extent to which additional liquidity is channelled towards productive activities capable of generating employment and income. In the absence of efficient financial intermediation, increases in money supply may merely fuel inflationary pressures without producing meaningful welfare gains. The weak long-run effect of money supply on poverty is consistent with Fouda-Ekobena (2014), who found that monetary aggregates do not automatically translate into welfare improvements. The result suggests that increases in liquidity may be ineffective where financial intermediation remains weak or where inflation offsets potential welfare gains. However, the finding contrasts with Abula *et al.*, (2016) and traditional monetarist expectations (Friedman, 1968), which posit that monetary expansion can stimulate economic activity and improve welfare outcomes. The difference may indicate that the effectiveness of monetary expansion depends largely on institutional and financial-sector conditions rather than on liquidity growth alone.

Exchange-rate dynamics also emerge as an important transmission channel linking monetary policy to welfare outcomes. The short-run results indicate that exchange-rate shocks worsen poverty conditions, while the negative long-run coefficients suggest that the real appreciation of the Naira is associated with lower poverty levels, whereas real depreciation tends to worsen poverty outcomes. Given the REER definition employed, where higher values indicate real appreciation of the Naira, the negative coefficient suggests that periods of real appreciation are associated with lower poverty levels through lower import costs and improved household purchasing power. Conversely, real depreciation may worsen poverty through higher domestic prices and imported inflation. This result is particularly plausible in the Nigerian context given the country's heavy dependence on imported consumer goods, food items, fuel inputs and industrial intermediates. Consequently, exchange-rate depreciation tends to transmit quickly into domestic prices, disproportionately affecting poorer households that spend a larger share of their income on basic consumption goods. This finding is particularly relevant within the post-pandemic period, during which exchange-rate reforms and foreign exchange market adjustments contributed significantly to rising living costs and increased welfare pressures among vulnerable households (IMF, 2023; World Bank, 2025). Collectively, the evidence suggests that the welfare consequences of monetary policy operate through multiple transmission channels, whose effects

differ considerably between the short run and the long run. This result aligns with the welfare transmission arguments of Romer *et al.*, (1998), who show that macroeconomic instability disproportionately affects poorer households through price and employment channels.

(c) Financial Intermediation and Inclusive Growth

The results highlight the central role of financial intermediation in the poverty reduction process. Credit to the private sector consistently exhibits a poverty-reducing effect, particularly within the long-run specifications. The negative and significant coefficients indicate that improved access to finance contributes to reductions in poverty by supporting business expansion, productive investment and employment creation. This finding provides strong support for Financial Intermediation Theory, which emphasises the importance of financial institutions in mobilising savings and allocating resources towards productive economic activities (McKinnon, 1973; Shaw, 1973). The result further aligns with the findings of Saidu *et al.*, (2020), Orji *et al.*, (2024), Adesina *et al.*, (2025), Rashid *et al.*, (2017), and Singh *et al.*, (2015), who reported that financial inclusion and access to credit constitute important mechanisms through which poverty can be reduced in developing economies. The consistency of this result across different specifications further suggests that financial intermediation represents a more reliable poverty-reduction channel than monetary expansion alone.

The relationship between economic growth and poverty reduction appears more complex. Although per capita income contributes to poverty reduction in the short run, its long-run coefficients remain positive and statistically significant across several specifications. The result may indicate that economic growth during the period was not sufficiently inclusive, such that increases in average income were accompanied by widening inequality and limited welfare improvements among poorer households. The result reinforces concerns frequently raised within the Nigerian development literature regarding the weak link between economic growth and poverty reduction. Despite periods of economic expansion, the benefits of growth often remain concentrated among relatively small segments of the population, limiting the extent to which growth translates into broad-based welfare improvements (Aigbokhan, 2008; World Bank, 2023). The finding that economic growth has not translated proportionately into poverty reduction supports Aigbokhan (2008) and Chukwu *et al.*, (2025), who argue that economic growth in Nigeria has often been characterised by weak inclusiveness and unequal distribution of benefits. However, the result contrasts with Ijaiya *et al.*, (2011) and Gangas (2017), who reported that economic growth contributes significantly to poverty reduction. The divergence may reflect differences in measurement approaches as well as the persistence of inequality, unemployment and structural bottlenecks that have limited the transmission of growth benefits to poorer households during the study period.

The unemployment variable further reinforces this interpretation. While the short-run estimates produce an unexpected negative relationship, the negative short-run relationship may reflect delayed labour-market adjustment, measurement issues, informal-sector absorption, or countercyclical policy responses during periods of economic shocks. In Nigeria context, the large informal sector often absorbs displaced workers during economic downturns, thereby weakening the immediate relationship between unemployment and poverty in the short-run. The long-run results, however, indicate that rising unemployment contributes significantly to higher poverty levels. The long-run finding is consistent with economic theory and reflects the central importance of labour income as a source of livelihood for most households. Persistent unemployment reduces earning opportunities, weakens purchasing power and increases vulnerability to poverty. The result supports the Keynesian argument that employment creation remains one of the principal channels through which macroeconomic policies influence welfare outcomes (Keynes, 1936). It is also consistent with the findings of Goshit *et al.*, (2016), Fouda-Ekobena (2014), Eke (2022) and recent reports by the World Bank (2023), which identify labour-market weaknesses as a major driver of persistent poverty.

These findings suggest that poverty reduction depends not merely on aggregate economic growth but also on the extent to which growth is accompanied by effective financial intermediation and employment generation. The evidence indicates that access to productive finance exerts a stronger and more consistent influence on welfare improvement than aggregate income growth alone, highlighting the importance of inclusive growth mechanisms within the poverty reduction process.

(d) *Institutional Quality as a Conditioning Mechanism*

The central contribution of this study emerges from the role played by institutional quality in shaping the relationship between monetary policy and poverty reduction. The direct effect of institutional quality appeared mixed. Improvements in institutional quality appear capable of generating short-run welfare gains in some specifications by improving policy implementation and economic coordination. However, the unexpected positive coefficient may reflect the slow and uneven transmission of institutional reforms into welfare outcomes. The long-run coefficients may suggest that institutional improvements during the study period were insufficient to offset broader structural factors driving poverty, such as unemployment, inflationary pressures and unequal distribution of income. This finding suggests that stronger institutions enhance the efficiency of resource allocation, improve policy implementation and create conditions that support welfare-enhancing economic activities. The significance of the lagged interaction terms in several specifications, in the short-run, further suggests that the welfare benefits of institutional improvements may emerge with a temporal delay, reflecting the gradual nature of governance reforms and policy transmission mechanisms. The mixed nature of the direct institutional effect suggests that improvements in governance alone may not automatically translate into poverty reduction where structural constraints such as unemployment, inflation and unequal access to productive opportunities remain pervasive. While this finding differs from the strong poverty-reducing effects reported by Tebaldi *et al.*, (2010), Jindra *et al.*, (2019), Workneh (2020), Kilishi *et al.*, (2023), and Oniyide *et al.*, (2024), Abdulrahman *et al.*, (2023), it is not entirely inconsistent with the broader institutional literature. Acemoglu *et al.*, (2010) argue that institutions influence development outcomes primarily through their effects on incentives, opportunities and policy effectiveness rather than through direct welfare channels. Consequently, institutional improvements may generate stronger poverty-reducing effects when accompanied by complementary macroeconomic and structural reforms.

More importantly, the interaction estimates reveal that institutional quality plays a significant moderating role in the monetary policy–poverty nexus. The negative and statistically significant coefficients of the interaction terms involving monetary policy rate and institutional quality, as well as real effective exchange rate and institutional quality, indicate that stronger institutions reduce the poverty-increasing effects of monetary tightening and real appreciation of Naira fluctuations. This finding suggests that the welfare consequences of monetary policy are not determined solely by the policy instruments employed by the monetary authorities but also by the institutional environment through which policy signals are transmitted. The moderating role of institutional quality observed in this study is consistent with Plouffe (2017), who argues that institutional arrangements influence the effectiveness of monetary policy transmission, and Kaidi *et al.*, (2018), who show that institutional quality enhances the poverty-reducing impact of economic policies. The finding also supports the broader arguments of Acemoglu *et al.*, (2010) and Deolalikar *et al.*, (2002) that institutions shape economic outcomes by determining how effectively policy interventions are transmitted throughout the economy. Unlike many previous studies that focus exclusively on the direct effect of governance on poverty, the present study demonstrates that institutions matter not only as independent determinants of welfare outcomes but also as conditioning mechanisms that influence the effectiveness of monetary policy itself.

The result provides empirical support for Institutional Theory, which maintains that institutions influence economic outcomes by shaping incentives, reducing transaction costs and improving policy effectiveness (North, 1990). Strong institutions enhance regulatory quality, strengthen policy credibility, improve financial intermediation and facilitate more efficient responses by economic agents to policy changes. Consequently, the adverse welfare effects associated with restrictive monetary conditions become less severe in environments characterised by stronger governance structures.

Interestingly, the interaction effects involving money supply and credit to the private sector are statistically insignificant. This suggests that institutional quality exerts a stronger moderating influence through interest-rate and exchange-rate transmission channels than through liquidity expansion and credit allocation mechanisms. The finding therefore refines existing evidence by identifying the specific channels through which institutions matter most for monetary policy effectiveness.

The evidence strongly supports the study's central proposition that institutional quality conditions the effectiveness of monetary policy in reducing poverty. The findings imply that improvements in governance, regulatory quality, government effectiveness and rule of law can enhance the welfare outcomes associated with

monetary policy interventions. Consequently, poverty reduction strategies in Nigeria should not focus exclusively on monetary policy instruments but should also prioritise institutional reforms capable of strengthening policy transmission and improving the efficiency of economic governance.

(e) Diagnostic and Stability Tests

The diagnostic results indicate evidence of serial correlation in some specifications. Although the ARDL specification partially addresses dynamic misspecification through lag structures, the evidence of residual serial correlation and parameter instability suggests that the estimated coefficients should be interpreted as average relationships over the sample period rather than invariant structural parameters (Wooldridge, 2019). The heteroskedasticity tests suggest the absence of serious heteroskedasticity problems, while the normality tests indicate that the residuals are broadly normally distributed in most specifications. The exceptionally high explanatory power observed in some specifications partly reflects the dynamic nature of ARDL models and the inclusion of lagged dependent variables and interaction terms which typically increase the proportion of variation explained by the estimated models (Pesaran et al., 2001).

However, the stability tests reveal evidence of structural instability across the estimated models. The instability result is not unexpected given the long sample period and the occurrence of major structural events, including banking-sector reforms, exchange rate regime changes and the COVID-19 pandemic. The inclusion of the COVID-19 structural-break dummy partly addresses this concern by controlling for one of the most significant disruptions during the study period. Consequently, while the estimated coefficients provide useful evidence on the relationship between monetary policy, institutional quality and poverty reduction, the results should be interpreted with some caution because the underlying relationship may have varied across sub-periods. The result therefore reinforces the importance of accounting for structural breaks in empirical analyses of poverty and macroeconomic policy relationships, particularly in economies characterised by frequent policy regime changes and external shocks.

5. Conclusion

This study examined the effect of monetary policy on poverty reduction in Nigeria and investigated the moderating role of institutional quality using annual data covering the period 1995–2025 within the ARDL framework. The findings reveal strong persistence in poverty dynamics in Nigeria, indicating that current poverty conditions are strongly influenced by past poverty levels, reflecting the structural nature of poverty in developing economies. The results further show that monetary policy exerts both short-run and long-run effects on poverty, although the direction and magnitude of these effects vary across transmission channels.

Specifically, monetary policy tightening appears to reduce poverty in the short run but contributes to higher poverty levels in the long run, consistent with the monetary transmission mechanism through interest rates and credit condition. Broad money supply was found to have limited long-run influence on poverty, indicating that monetary expansion alone is insufficient to generate sustained welfare improvements. In contrast, credit to the private sector emerged as an important channel through which poverty can be reduced, highlighting the role of financial intermediation in promoting inclusive economic growth highlighting the role of financial intermediation in promoting inclusive economic growth. The findings also show that exchange-rate movements have important welfare implications through their effects on prices, production costs and household purchasing power. The results also indicate that major economic disruptions, including the COVID-19 pandemic, altered poverty dynamics during the study period.

The study further examined whether institutional quality influences the effectiveness of monetary policy in reducing poverty. While the direct effect of institutional quality on poverty is not consistently significant across all specifications, the interaction results suggest that stronger institutions can enhance the effectiveness of monetary policy by mitigating some of the adverse welfare effects associated with monetary tightening and exchange-rate fluctuations through which policy actions are transmitted. This finding indicates that the poverty implications of monetary policy depend not only on the policy instruments employed but also on the institutional environment through which policy actions are transmitted. Unlike previous Nigerian studies that primarily examined the direct effects of monetary policy and institutional quality on poverty, this study demonstrates that institutional quality also serves as a conditioning mechanism through which the welfare effects of monetary policy are transmitted.

The findings therefore suggest that monetary policy should be implemented alongside measures aimed at strengthening governance quality, regulatory effectiveness and institutional accountability. Such reforms may strengthen the channels through which monetary policy affects economic activity and household welfare. The results also underscore the importance of policies that promote financial sector development, expand access to productive credit and support employment creation, given the significant role of financial intermediation and labour market conditions in influencing poverty outcomes.

The study concludes that monetary policy remains an important instrument for influencing poverty outcomes in Nigeria, but its effectiveness depends largely on the institutional environment within which it operates. The findings suggest that stronger institutions can enhance monetary policy effectiveness and reduce some of the welfare costs associated with monetary tightening and exchange-rate adjustments. Sustainable poverty reduction therefore requires monetary policies that support macroeconomic stability, institutions capable of improving policy transmission, measures that expand access to productive credit and employment opportunities. Put differently, the issue is no longer whether monetary policy affects poverty in Nigeria, but whether the institutional environment is sufficiently effective to allow monetary policy to translate into meaningful and sustained improvements in household welfare.

Future studies may extend the analysis by examining alternative dimensions of institutional quality, disaggregated measures of poverty and other monetary transmission channels. They may also explore regime-switching or structural-break models to account for possible changes in the monetary policy–poverty relationship over time.

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