Journal homepage: https://resources.jaze.com.ng/index.php/jaze/login

Article: <u>https://bit.ly/Jazelssue</u>xxx Journal of Arid Zone Economy 4(4): (2024) 83 – 92 ISSN: 2992–4952



Impact of Monetary Policy Instruments on Commercial Banks Performance in Nigeria: 1992-2023

Ayodeji Salihu (PhD)¹, Mustapha Musa Kuta¹ and Moses Gosele Danpome¹

¹Department of Economics, Faculty of Arts and Social Sciences, Nigerian Defence Academy Kaduna, Kaduna State, Nigeria.

Abstract

Keywords	This paper examines the impact of impact of monetary policy instruments on commercial banks performance in Nigeria from 1992 to 2023, using annual time series data drawn from publication of World Bank annual data on money supply, interest rate, minimum rediscount rate, liquidity ratio, cash reserve
Monetary policy	ratio and bank performance. The data were estimated using Johansen cointergration test. The result of estimated showed that money supply has
Money supply Monetary policy rate	positive insignificant impact on banks performance. Minimum rediscount rate and Interest rate also has positive and significant impact on banks
Cash reserve ratio Liquidity ratio	performance. That is, interest rate plays significant role over the years on
JEL Classification: E41, E51 E52	negative and insignificant impact on banks performance in Nigeria. By implication, money supply, interest rate, minimum discount rate, cash reserve ratio and liquidity ratio have meaningful role on credit ability to commercial
Corresponding author Ayodeji Salihu	banks in Nigeria. It is therefore, recommended that monetary authorities through the CBN should administer with caution monetary variables that
<u>fsayodeji@gmail.com</u> Tel:	would significantly influence commercial banks loans and advances. This would force down interest rate.

1. Introduction

The existence of an effective banking sector is necessary for every economy because it creates the necessary environment of economic growth and development through its role in intermediating funds from surplus sector to deficit sector of the economic units (Ojong, Ekpuk, Ogar & Emori, 2014). Banking sectors are financial intermediaries whose activities are for collection of savings and lending, thus standing in between the ultimate lender and the borrower and matching the investment requirement of the lender. This stimulates investment as well as international trade and balance of payments (CBN, 2013).

The extent to which monetary policy influences financial and economic activities has been widely argued over the years, it is equally accepted that monetary policy affects economic and financial performance of any economy. There are divergence views on the extent of the effects and the channels through which these effects are achieved (Alfa, Sa'ad & Abdulrasheed, 2021). This is particularly relevant in the Nigeria setting where the money and capital market are under-developed and Nigerian government has over the years adopted various instruments of monetary policy to regulate and control the cost, volume, availability and direction of money credit and also the performance of commercial banks (Ndugu & Okere, 2015).

The Central Bank of Nigeria (CBN) is mandated as stated in CBN act of 1958 to promote and maintain monetary stability and a sound financial system in Nigeria. The apex bank has the aim of achieving price stability and sustainable economic growth through the means of monetary policy, as it is the major economic stabilization weapon which involves measures designed to regulate and control the volume, cost, availability and direction of money and credit in an economy to achieve some specific macro-economic policy objectives.

Monetary authority usually formulate guidelines on yearly basis geared towards the enhancement and development of policy variable designed to ensure optimal performance of the banking industry and ultimately to advise the macroeconomic objectives. But in the cost of implementation of such policy variable certain conflicting issues are to be addressed ranging from the ability to comply with various monetary policy guidelines as well as satisfying depositors and shareholders. Commercial banks are reluctant in their responsibility to comply with the rules and regulations set by the central bank such as the required reserve ratio, interest rate, liquidity ratio, selective credit control, minimum rediscount rate and moral suasion. These are the instruments used by Central Bank in controlling the activities and operations of commercial banks in order to achieve the macroeconomic objectives such as growth, price stability, balance of payment equilibrium and full employment (CBN, 2013). The Central Bank of Nigeria (CBN) guidelines helped in setting of the interest rates charged by the commercial banks, sales or purchases of securities to control the money supply, and changes in the required reserve ratios of banks and other financial institutions.

Banks do not operate in a vacuum; they operate within the framework of the monetary and banking policies provided by the economy. Nigeria has over the years employed these policies at one time or the other to regulate and control the cost, volume, availability and direction of money credit in order to influence the broader objectives of the policy which include price stability, high level of employment, sustainable economic growth development and balance of payments. This raises a number of fundamental questions -What are the precise channels through which monetary policy affects the performance of commercial banks in Nigeria? To what extent has the application of monetary policy in Nigeria brought about sanity in the operation of commercial banks? (Ekpung, Udude, & Uwalaka, 2015). Therefore, this paper look into the impact of monetary policy instruments on commercial banks performance in Nigeria from 1992 to 2023.

2. Literature Review

Monetary Policy

Monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in an economy in consonance with the level of economic activities. It can be described as the art of controlling the direction and movement of monetary and credit facilities in pursuance of stable price and economic growth in the economy (Nwoko, Ihemeje & Anumadu, 2016). Monetary policy wields a variety of tools that central banks use to regulate economic growth, control inflation and stabilize the financial These system. instruments are levers that central banks can pull to impact the cost and availability of money in an economy.

Money Supply

Money supply is the total amount of all forms of money in circulation in a given country at a given period of time (Jhingan, 2005). Total money supply can be grouped into three broad categories as defined by the Central Bank of Nigeria: These money (M1) and broad money (M2). M1 Indicates currency in circulation plus current account deposits with commercial banks while M2 is M1 plus savings and time deposits.

Monetary policy rate

Monetary policy rate is the baseline interest rate that every other interest rate adds on to. The rate controls the amount of money in circulation at any given time. Monetary policy rate is set by the Apex bank of a country. Situating it in the Nigeria context, it refers to the Central Bank of Nigeria benchmark for interest rate in the Nigerian economy. It is a short-term interest rate at which banks can borrow from the apex bank (CBN, 2018).

Treasury bill rate

Treasury bill rate is used as a proxy for the return on the governments' debt instruments. It is expected that high Treasury bill rates can have a positive impact on commercial banks' investment in Government's instrument. Further, it is anticipated that the high Treasury bill rates could engineer upward pressure on commercial rates in the economy thereby leading to higher interest rates on loans and advances (CBN, 2013).

Cash reserve ratio

Cash Reserve Ratio refers to a certain percentage of total deposits the deposit money banks are required to maintain in the form of cash reserve with the central bank. The objective of maintaining the cash reserve is to prevent the shortage of funds in meeting the demand by the depositor. The amount of reserve to be maintained depends on the bank's experience regarding the cash demand by the depositors (CBN, 2013).

Open market operation

The most important and flexible tool of monetary policy is open market operations. It is the buying and selling of government securities in the open market (primary or secondary) in order to control the amount of money in the banking system. The CBN by purchasing securities, the central bank injects money into the banking system and stimulates growth whereas by selling securities it absorbs excess money. Thus, in the event of excess liquidity in the system, the CBN will sell government securities in a bid to reduce the money supply (CBN, 2018).

2.1 Theoretical Review

The Monetarist view of Monetary Policy

Monetarist is a school of thought led by Milton Friedman. This school of thought is a modern variant of classical macroeconomics. They developed a subtler and relevant version of the quantity theory of money. Like any school of thought, Friedman (1963) emphasized on the supply of money as the key factor affecting the well-being of the economy and as well, accepted the need for an effective monetary policy to stabilize an economy. He also has the notion that, in order to promote steady growth rate, money supply should grow at a fixed rate, instead of being regulated and altered by the monetary authority(ies). Friedman equally argued that since money supply might be demanded for reasons other than anticipated transaction, it can be held in different forms such as money, bonds, equities, physical goods and human capital. Each form of this wealth has a unique characteristic of its own and a different yield. These effects will ultimately increase aggregate money demand and expand output (Anyanwu, 1995).

The Keynesian theory view of Monetary Policy According to Keynesians view of monetary policy, monetary policy change real economic variables such as investment or employment. Keynesians do not believe in the direct link between supply of money and price level that emerge from the classical quantity theory of money. They reject the notion that the economy is always at or near the natural level of GDP so that (Y) in the equation (MV=PY) of exchange is regarded as fixed (Anyanwu, 1995).

Keynesians, however, remain skeptical about the effectiveness of monetary policy.

They point out that expansionary monetary policy that increase the reserves of the banking system need not lead to a multiple expansion of the money supply because bank can simply refuse to lend out their excess reserves. Furthermore, the lower interest rate that result from an expansionary monetary policy need not induce an increase in aggregate investment and consumption expenditure because firms' and household' demands for investment and consumption goods may not be sensitive to the lower interest rate. For this reason Keynesians tend to place less emphasis on the effectiveness of monetary policy and more emphasis on the effectiveness of fiscal policy, which they regard as having a more direct effect on real why Keynes GDP. That is favoured investments on public project during depression.

In Keynesian framework, an open economy is given by

$$Y = C + I + G + Xn$$

Where; Y = Aggregate demand, C = Consumption expenditure, I = Investment expenditure, G = Government expenditure, Xn = Net export (X-M) and X = Export.

In this framework of Keynesian in an open economy leads to an open market purchase of securities, for instance, the CBN which is an expansionary monetary policy will increase banking sector liquidity and attempt to dispense with it, and reduce interest rate downward and this in turn will encourage investment and aggregate demand will increase, then gross national product (GNP) will increase which leads to economic growth (Anyanwu, 1995). The applicable theory to this paper is Keynesian theory view of monetary policy, as it shows how the monetary authority can regulate money supply to bring stability in an economy.

2.2 Empirical literature

Afolabi, Adeyemi, Salawuddeen and Fagbemi (2018) examine the importance Monetary Policy and Bank Credit in Nigeria from 1981-2016. The study employed Toda and Yamamoto granger non-causality model. The findings revealed that structural changes in monetary policy system exerted positive significant impact on loan and advances of Deposit Money Banks in Nigeria.

Thanh and Hathu (2017) examined the impact of monetary policy on commercial banks' profit from 2007 to 2014, using panel data regression. The results showed that there is a positive relationship between banks' profits and monetary policies.

Dare and Okeya (2017) assess empirically the impact of monetary policy on the performance of commercial banks in Nigeria from 2009 to 2014. The study made used a panel cross sectional. Multiple linear regression technique was also employed to test the relationship. The study found out that there is a positive but statistically insignificant relationship between monetary policy rate and Return on assets in the chosen bank.

Adesina, Nwidobie and Amadi (2016) examined the relationship between monetary policy and financial performance of Nigerian deposit money banks from 2000 to 2016, using Auto regressive lag model analysis of secondary data. The result revealed that monetary of the CBN had significant effect on the performance of deposit money banks in short run but it has an insignificant effect in the long run.

Ndugbu and Okere (2015) examined the impact of monetary policy on the performance of deposit money banks during the period 1993 to 2013, using ordinary least square regression and co integration. The result showed that there is a long-run relationship exist among the variables The OLS result revealed that amongst all the monetary policy variables (bank deposit rate, bank lending rate, cash reserve ratio and liquidity ration) considered in the model, only bank deposit rate has significant relationship though inverse relationship.

Greg, Udude and Hope (2015) examined the effect of monetary policy on Banking sector performance in Nigeria from 1970 to 2006, using selected indicator and employing the OLS regression technique. The Results showed that overall; monetary policy has a significant effect on the banks deposit liabilities. Main while, on individual basis, we discovered that Deposit Rate (DR) and Minimum Discount Rate (MDR) had a negative influence on the banks deposit liabilities in Nigeria, whereas Exchange Rate (EXR) had a positive and significant influence on the banks deposit liabilities in Nigeria.

3. Methodology

Type and source of Data

Time series data is used ranging from 1992 to 2023 to examine the effect of each of the instruments of monetary policy on commercial banks performance over the period. Secondary data was used in carrying out this study, obtained from the world bank development indicators.

Vector autoregressive model

The vector auto regression (VAR) is an econometric model used to capture the linear interdependencies among multiple time series. VAR models generalize the univariate autoregressive model (AR model) by allowing for more than one evolving variable. All variables in a VAR are treated symmetrically in a structural sense (although the estimated quantitative response coefficients will not in general be the same); each variable has an equation explaining its evolution based on its own lags and the lags of the other model variables. VAR modelling does not require as much knowledge about the forces influencing a variable as do structural model with simultaneous equations: The only prior knowledge required is a list of variables which can be hypothesized to affect each other intertemporally.

The relationship between banks performance (PRO) and monetary policy for this research work is mathematically expressed as follows

$$PRO_{it} = f(MS, INT, MRR, CRR, LQR)$$
 2

The equation 2 showed that banking profitability index as function of money supply, minimum rediscount rate, interest rate, liquidity ratio and cash reserve requirement. The econometric model specification is specified in equation (3) below:

$$PRO_{it} = \alpha_0 + \beta_1 MS_t + \beta_2 INT_t + \beta_3 CRR_t + \beta_4 MRR_t + \beta_5 LQR_t + \mu_t \qquad 3$$

However, the equation is explicitly transformed into a logarithm equation will result as below:

$$LPRO_{it} = \alpha_0 + \beta_1 LMS_t + \beta_2 LINT_t + \beta_3 LCRR_t + \beta_4 LMRR_t + \beta_5 LLQR_t + \mu_t \quad 4$$

where: LPRO_{it}= Banks performance proxy for banking profitability index, M2 = money supply, INT = interest rate, CRR = cash reserve requirement, MRR = minimum rediscount rate, LR = liquidity ratio and μ = error term.

The technique of VAR analysis does not impose a priori restrictions as in multiequation models. Rather, it allows the data to specify the dynamic structure. Sims (1992) considered it suitable to estimate large scale macro-models treating all variables as endogenous and taking care of the feedback effects.

Techniques of data Analysis

This study adopted Vector Autoregressive (VAR) model developed by Sims (1980, 1992) to analyse the dynamic interaction between monetary policy and commercial bank performance in Nigeria. Like Granger causality and Johansen co-integration test was carried out to determine the long-run relationship between the variables.

4. Results

4.1. Unit Root test

To avoid estimation of spurious regression and ensures efficacy of the results, time series properties of data was be investigated. Although there are number of methods used to test for stationarity and the presence of unit roots, the methods that will be used in this study are the Augumented Dickey Fuller (ADF) and Phillips Perron tests.

4.2 Vector autoregressive model

This study employed VAR-based cointegration test using the methodology developed in Johansen (1997). The Johansen multivariate co-integration test was used to examine the impact and long-run relationship between nominal effective exchange rate and trade liberalization, terms of trade and inflation rate. The relationships among the variables were based on VAR model of order p expressed as:

$$Y_t = A_t Y_{t-1} + \dots + A_p Y_{t-1} + B_y + \mu_t \qquad 5$$

where Y_t = dimensional vector of nonstationary I(1) variable, y = y - dimensional vector of deterministic variable, μ_t = stochastic error residual. Johansen developed two likelihood ratio tests for testing the number of co-integration vectors (r): the trace and the maximum Eigenvalue test. The trace statistic tests the null hypothesis of r = 0 (i.e. no cointegration) against the alternative that r > 0(i.e. there is one or more co-integration vector). The maximum Eigenvalue statistic tests the null hypothesis that the number of cointegrating vectors is r against the alternative of r + 1 co-integrating vectors.

4.3 Vector error correction model (VECM)

To achieve the third objective of long run relationship among the variables of the study, the vector error correction model (VECM) was employed. The cointegration term is known as error correction term since the deviation from the longrun equilibrium is corrected gradually through a series of partial short run adjustment. Generally, the "Unrestricted" Error correction model of Pesaran and Shin of equation is given as shown in the equation below:

$$\Delta LnY_t = \alpha_{0y} + \sum_{i=0}^n \alpha_{yi} \Delta LnY_{t-i} + \sum_{i=0}^n \alpha_{yi} \Delta LnY_{it-i} + \beta_1 Ln X_{it-1} + \beta_2 LnX_{it-1} + \mu_i \qquad 6$$

where; Δ = First difference operator, α = The short term dynamic coefficients of the model, β = The longrun effects and μ_i = error term of the model.

The Table 1 above presents the Unit root test Statistics Using Augmented Dickey-Fuller Test (ADF) and Phillips-Perron Test (PP). The decision rule for stationarity at a particular point (level or differences) is that ADF statistic and Phillips -perron Statistic must be greater than critical value at standard 5% level of Significance. Therefore, in view of the decision rule all the series are non stationary at levels but became stationary at first difference. It can be seen that ADF Statistic and PP statistic are greater than critical Values at 5% level of Significance for all the variables. Hence, it is concluded from the above table that all the time series Variables are integrated of the same order I(1). This made VAR model the most preferred model for this study.

Variables	ADF level	ADF 1 st Diff.	PP level	PP 1 st Diff	Order of integration
PRO	-1.884476	-5.751797	-1.952700	-5.800538	I(1)
MS	-2.198671	-5.069640	-2.257892	-5.237172	I(1)
INT	-3.121188	-5.751797	-3.336413	-5.205975	I(1)
CRR	-2.426508	-5.920935	-2.205021	-12.05121	I(1)
MRR	-3.187537	-6.933952	-3.224737	-6.933952	I(1)
LQR	-3.412156	-6.968005	-3.224797	-10.86949	I(1)

Table 1: ADF and PP Unit root Test Result.

Critical value at 5% = -3.557759

Source: Researcher computation from Eviews Output

4.4 Pre Estimation Tests Results

Lag length selection

Before testing for cointegration, it is very important to choose the lag length to be used

when performing the tests. The lag length used in VECM can have an impact on the Johansen test and as a result it is necessary to try to select the lag length optimally.

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-108.3229	NA	5.11e-05	7.145181	7.420006	7.236277
1	16.69674	195.3432*	2.05e-07*	1.581454*	3.505232*	2.219132*
2	45.12837	33.76256	4.24e-07	2.054477	5.627208	3.238736

Table 2. Lag length selection

Table 3. Cointegration test results

Source: Researcher computation from Eviews Output

Table 2 above shows that one lag can be used as selected by Schwarz Information Criterion, Final Prediction Error, Akaike Information Criterion, Schwarz information criterion and Human-Quinn Information. Thus, one lag was chosen.

4.5 Cointegration Test Results

After the unit root test for stationarity, all the variables are stationary at first difference as showed in Table 3, this makes Johansen cointegration test the preferred approach to be used to investigate whether there is existence of co-integrating relationship or association

Unrestricted Cointegration Rank Test (Trace)					
Hypothesized			0.05		
No. of CE(s)	Eigenvalue	Trace Statistic	Critical Value	Prob.**	
None *	0.800314	133.9534	95.75366	0.0000	
At most 1*	0.627678	82.40109	69.81889	0.0036	
At most 2*	0.569095	50.78522	47.85613	0.0259	
At most 3	0.387485	23.84546	29.79707	0.2071	
At most 4	0.195547	8.159632	15.49471	0.4485	
At most 5	0.036705	1.196655	3.841466	0.2740	
Unrestricted Co	integration Ran	k Test (Maximum E	Eigenvalue)		
Hypothesized	-	Max-Eigen	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**	
None *	0.800314	51.55229	40.07757	0.0017	
At most 1	0.627678	31.61587	33.87687	0.0909	
At most 2	0.569095	26.93976	27.58434	0.0603	
At most 3	0.387485	15.68583	21.13162	0.2437	
At most 4	0.195547	6.962977	14.26460	0.4935	
At most 5	0.036705	1.196655	3.841466	0.2740	

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: Researcher computation from Eviews Output

Table 3 shows the results for both the Trace and Maximum Eigenvalue tests. Cointegration is determined by comparing trace test with critical value at 0.05 level of Significance and Maximum Eigen values Statistics with critical value at 0.05 level of significance. Cointegration exists if trace test /maximum eigenvalues is greater than the critical value in at least one rank, if opposite is the case we do not reject the null hypothesis of no Cointegration. Therefore, in this case we reject the null hypothesis of no Cointegration and accept the alternative hypothesis that there exist cointegration equation. However, this test shows that there exists a long-run relationship between banks performance and monetary policy instruments.

Table 4 presents the results of long run cointegration vectors. From the table above, it is clear that money supply has positive insignificant impact on banks performance (PRO), which implied that 1% increase in money supply decrease banks performance by about 33%. Interest rate also has positive and significant impact on banks performance, which implied that 1% increase in interest rate decrease banks performance by about 10%. By implication, interest rate plays significant role over the years on banks performance in Nigeria. Also, cash reserve ratio has negative insignificant and impact on banks performance, which implied that 1% increase

in cash reserve requirement decrease banks performance by about 19%. But minimum rediscount rate (MRR) has positive and insignificant impact on banks performance (PRO), which implied that 1% increase in MRR increase banks performance by about 27%. Liquidity ratio (LQR) has negative and significant impact on banks performance (PRO) in Nigeria in the long run, which implied that 1% increase in cash reserve ratio decrease banks performance by about 19%. This means that liquidity ratio of commercial banks in Nigeria has negative effort on bank performance.

Table 4. Estimated Long-run Cointegration Vectors

able 4. Estimated Long run Connegration vectors				
Variables	Coefficients	t-values	Standard Errors	
LPRO	1.000000			
LMS	3.322290	6.25228	0.53137	
LINT	0.101708	2.88044	0.03539	
LCRR	-1.937876	-6.89639	0.28100	
LMRR	2.719049	4.90861	0.55393	
LLQR	-1.952981	-0.03007	0.01540	

Source: Researcher computation from Eviews Output

4.6 Short run Dynamic Vector Error Correction Mechanism Result

From table 5, the estimated error correction term is consistent with the expected sign and significant at 5% level. This suggests that there is feedback adjustment mechanism from short run to long run equilibrium between money supply (MS), interest rate (INTR), cash reserve requirement (CRR), minimum rediscount rate (MRR), liquidity ratio (LQR) and banks performance (PRO). The coefficient of ECM suggests that about 42% of the disequilibrium errors, which occurred in the previous year, are corrected in the current year.

Furthermore, coefficient of banks performance (PRO) has positive and insignificant influenced the behavior of the current banks performance (PRO), which revealed that a unit increase in banks performance (PRO) during the previous one year increases the current banks performance (PRO) by about 54 percent. In addition, money supply (MS) has positive but insignificant impact on banks performance (PRO). This implied that a unit increase in money supply (MS) increase banks performance (PRO) by about 58 percent. Interest rate (INTR) has a negative and insignificant impact on banks performance (PRO). This implied that a unit increase in interest rate (INTR) decrease banks performance (PRO) by about 26 percent. Also cash reserve requirement (CRR) has negative and insignificant impact on banks performance (PRO). This implied that a unit increase in cash reserve requirement (CRR) decrease banks performance (PRO) by about 76 percent. Furthermore, minimum rediscount rate (MRR) has positive and insignificant impact on banks performance (PRO). This implied that a unit increase in minimum rediscount rate (MRR)

increase banks performance (PRO) by about 78 percent. While, liquidity ratio (LQR) has negative and insignificant impact on banks performance (PRO). This implied that a unit increase in liquidity ratio (LQR) decrease banks performance (PRO) by about 19 percent. The diagnostic statistics suggest that the data fit the model fairly well. The R-square of the model show that about 99 percent of the variation in banks performance (PRO) is explained by the combined effects of all the determinants of banks performance (PRO) used in the study, suggesting that about 1 percent variation in banks performance (PRO) is accounted for by other factors not included in the model. The Fstatistic is very high, suggesting that the parameters are significant. The probability value of LM statistic is greater than 0.05, implying that no autocorrelation, as such the model is good. The probability value of J-B is greater than 0.05, implying that the residual is normally probability distributed. The value of heteroskedasticity test is greater than 0.05, implying that the series data are homoscesdastic rather than heteroskesdastic.

Table 5: Estimated Short Run Dynamic Equation.

Variables	Coefficients	t-values	P-values
$\Delta lpro$	0.054164	0.18950	0.28582
$\Delta lms(-1)$	0.058610	0.22965	0.25522
$\Delta lint(-1)$	-0.002656	-0.02010	0.13215
$\Delta lCrr(-1)$	-0.076913	-0.66827	0.11509
$\Delta lmrr(-1)$	0.078729	0.23365	0.33695
$\Delta llqr(-1)$	-0.019191	-0.12458	0.15404
ECM_t	-0.042946	-0.94554	0.04542
Diagnostic test	Statistics		p-values
R-squared	0.990527		
F-statistic	165.5591		
LM-Stat	41.87162		0.2311
Jarque-Bera	1.273997		0.5288
Heteroskedasticity	516.4199		0.3413

Source: computation from Eviews Output Researcher

5. Conclusion

Findings from the study showed that money supply has positive insignificant impact on banks performance. Minimum rediscount rate and Interest rate also has positive and significant impact on banks performance. That is, interest rate plays significant role over the years on banks performance in Nigeria. But cash reserve ratio and Liquidity ratio has negative and insignificant impact on banks performance in Nigeria. This entails that money supply, interest rate, minimum discount rate, cash reserve ratio and liquidity ratio have meaningful role on credit ability to commercial banks in Nigeria.

Therefore, monetary authorities through the central bank of Nigeria should administer with caution monetary variables that would significantly influence commercial banks loans and advances. This would force down interest rate. Fall in the bank rate will reduce interest on loans by commercial banks and this would eventually encourage more customers to secure loans, thereby increasing investment opportunities in the country.

References

Afolabi, M., Adeyemi, K., Salawuddeen, O. & Fagbemi, T. (2018). Monetary policy Bank Credit in Nigeria. Department of Banking and Finance Federal University Polytechnic Offa Kwara State. International Journal. Vol. 14, no. 5.

- Adesina, J.M. Nwidobie, M.B & Amadi, A.N. (2016) "Monetary policy and financial performance of Nigerian Deposit Money Banks" Department of Accounting and Finance Caleb University Lagos. Vol. No, 7,653-2147. ISSN 2222-6737
- Alfa, Y., Sa'ad, S. & Abdulrasheed, Z. (2021). Length of transmission lag from monetary policy rate (MPR) and broad money supply to inflation in Nigeria. *West African journal of monetary and Economic integration*, 21(1), 85-113.
- Anyanwu, J.C. (1995). Modern Macroeconomics Theory and Application in Nigeria. Onitsha: Hybrid Publishers Limited.
- Central Bank of Nigeria (2013) Bank intermediation in Nigeria: Growth, Competition and Performance of the Banking Industry, 1900-2010. Abuja, Nigeria.
- CBN (2018). CBN statistical Bulletin for financial sector. Central Bank of Nigeria. Retrieved from: https://www.cbn.gov.ng.
- Claudio, B. Leonardo, G. & Boris, H. (2015). The Influence of Monetary Policy on Bank Profitability. *Journal for International Settlements*. ISSN 1020-0959(Print); ISSN 1682-7678 (online).
- Dare, F.D. & Okeya, I. O. (2017). Monetary policy and Commercial Banks Credit Performance in Nigeria. Department of Banking and Finance Adekunle University Ondo State. Vol. 8.

- Ekpung, G.E., Udude, C.C., & Uwalaka, H.I. (2015). The impact of Monetary Policy on banking sector in Nigeria. *International Journal of Economics, commerce and Management, 3*,1015-1031.
- Greg, E.E., Udude, C.C. & Hope, I.U. (2015). The Impact of Monetary Policy on Banking Sector in Nigeria. International Journal of Economics, Commerce and Management. Vol. 111 ISSN 2348-0386.
- Jhingan, M.L. (2005). *Monetary Economics*. Delhi: Vrinda Publication (P) LTD India.
- Kolapo, T. Ayeni, R. & M. Okey. (2012) "Credit risk and commercial banks performance in Nigeria" Australian Journal of Business and Management Research. Vol. 2, No. 02: 31-38.
- Ndugu, M.O. & Okere, P.A. (2015). Monetary Policy and the Performance of Deposit Money Banks Nigerian Experience. Department of Banking and Finance Imo State. *European Journal of Business and Management. Vol.* 7. No. 17
- Nwoko, N.M., Ihemeje, J.C. & Anumadu, E. (2016). Impact of monetary policy on economic growth of Nigeria. *An international multi-disciplinary journal*, *Ethopia*, 10(3), 192-206
- Ojong, C.M., A. Ekpuk, A. Ogar & E.G. Emori (2014). Banking Sector reform in Nigeria: A regulatory imperative for a sustainable banking industry. *Research journal of finance and accounting*, *5(13)*, 166-189
- Thanh, N.N. & Huthu, L. (2017). Impact of Monetary Policy on Commercial Banks Profits. *International journal of economics. Vol. 13.* No. 8.