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MONETARY POLICY AND DEPOSIT MONEY BANKS' PROFITABILITY: EVIDENCE FROM NIGERIA

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Abstract: *This study sets out to investigate the impact of monetary policy on deposit money banks' profitability in Nigeria. The objectives are to examine the relationship between Cash Reserve ratio (CRR), liquidity ratio (LQR), Monetary Policy Rate (MPR) and money supply (MSP) and return on assets of deposit money banks in Nigeria. Data were collected through Central bank of Nigeria Statistical Bulletin from 1985 to 2021. Analysis were carried out using OLS, Cointegration and Error correction model (ECM) were adopted for further analysis. Findings revealed that: there is positive but no significant relationship between Cash Reserve ratio (CRR) and return on assets of deposit money banks in Nigeria; liquidity ratio (LQR) has positive but no significant impact on return on assets of deposit money banks in Nigeria; there is positive but no significant relationship between Monetary Policy Rate (MPR) and return on assets of deposit money banks in Nigeria; and there is negative and no significant relationship between money supply (MSP) and return on asset of deposit money banks in Nigeria. Based on the findings, the study recommends that the CBN should continuously adopt all instruments investigated in this study to regulate banking activities.*

Keywords: Monetary policy, Deposit Money Banks', Profitability,

1.0 Introduction

Monetary policy refers to any conscious action undertaken by the monetary authorities to change or regulate the availability, quantity, cost or direction of credit in any economy, in order to achieve the macro-economic goals of the government (Nzotta, 2014). It is a policy used to pursue policies of higher economic growth or controlling inflation. It is usually carried out by the CBN/monetary authorities who are charged with the following monetary policy role of maintaining price stability, exchange rate stability, balance of payment equilibrium, maintaining full employment and growth in the economy (Ifurueze, 2022). Monetary policy instruments include interest rates and Cash Reserve Requirements (CRR), currency peg, discount window, quantitative easing, Open Market Operations; and signaling. The Central Bank is responsible for the conduct of monetary policy to pursue those objectives (Bala, Godiya, Hadith & Maijama'a, 2022; Olaoye & Oladipo, 2022). The banking industry in any economy in the world is the most important sector because of its ability to mobilize funds from the savings to the deficit sector of the economy. The industry mobilizes the largest amount of fund because of their ability to accept deposits of any kind from the public, government and its agencies as well as create credit through granting of loans, overdraft and project financing which are all element needs for economic performance to enhance economic growth and development (Onoh, 2002). In order to make profit, Deposit Money Banks invest customer deposits in various short term and long term investment outlets, however core of such deposits are used for loans. Hence, the more loans and advances they extend to borrowers, the more the profit they make (Solomon, 2021). Okpara (2009) noted that banks in most economies are the principal depositories of the public's financial savings, the nerve centre of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduit through which monetary and credit policies are implemented. According to Okpara, the success of

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monetary policy, to a large extent, depends on the health of the banking institutions through which the policies are implemented.

Using the direct monetary policy measures, the monetary authorities directly influence items of the balance sheet of commercial banks. In such a system, interest rates are set and credits are allocated by monetary authorities in accordance with the government's economic plan. Under this system, the financial system, and especially financial market conditions, plays no role in the determination of financial prices or returns and allocation of credits (Ajayi & Atanda, 2012). On the other hand, there is a causal nexus between indirect monetary policy and financial (banking performance) as both of them influence each other. The decontrol of interest rates and the use of indirect monetary policy are crucial steps towards the development of financial markets. Studies have shown that monetary policy instruments influences banks' profitability in different ways depending on what type of instruments and state of the banks' financial balance sheet (Mbabazize, Turyareeba, Ainomugisha & Rumanzi, 2020). For instance, Mbabazize et al., (2020) studied Uganda and found that changes in the interest rate affect bank' earnings. Borio, Gambacorta and Hofmann (2015) found a significant and positive relationship between the level of short term market rates and ROA for banks in the European Union. In Nigeria, Udeh (2015) and Akeem, Taiwo, Augustine, Edinaeval, and Olawumi (2022) found a significant and positive relationship between monetary policies and banks' profits as proxied by money supply and the interest rate. The link between monetary policy and banks' profitability continues to receive attention and this forms the basis for this study. The major objective of this study is to evaluate the impact of monetary policy on profitability of deposit money banks in Nigeria. Other objectives are:

i. To examine the relationship between Cash Reserve ratio (CRR) and return on assets of deposit money banks in Nigeria.
ii. To determine if liquidity ratio (LQR) has impact on return on assets of deposit money banks in Nigeria.
iii. To identify relationship between Monetary Policy Rate (MPR) and return on assets of deposit money banks in Nigeria.
iv. To examine the relationship between money supply (MSP) and return on assets of deposit money banks in Nigeria.

Research hypotheses

The following hypotheses were tested in this study:

1. H_0: There is no significant relationship between Cash Reserve ratio (CRR) and return on assets of deposit money banks in Nigeria.
2. H_0: Liquidity ratio (LQR) has no significant impact on return on assets of deposit money banks in Nigeria
3. H_0: There is no significant relationship between Monetary Policy Rate (MPR) and return on assets of deposit money banks in Nigeria.
4. H_0: There is no significant relationship between money supply (MSP) and return on assets of deposit money banks in Nigeria.

2. Review of Related Literature

Monetary policy

Monetary policy is one of the major economic stabilization weapons which involve measures designed to regulate or control the volume, cost, availability and direction of money and credit in an economy to achieve some specific macro-economic policy objectives. It is a deliberate attempt by the monetary authority (Central Bank) to control the money supply and credit condition for the purpose of achieving certain broad economic objective (Onouorah, Shaib, Oyathelemi, & Friday, 2011). Okpara (2010) defines monetary policy as a measure designed to influence the availability, volume and direction of money and credits to achieve the desired economic objectives. The instruments of monetary policy can be categorized into two namely: (Ibeabuchi, 2007)

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1. Direct or quantitative instruments: Reserve requirement, Special deposits, Moral suasion, Selective credit control, Direct credit control and Prudential guidelines.

2. Indirect of qualitative instruments: Open market operations, Lending by the Central Bank, Interest rate, Exchange rate, Cash reserve requirements

Concept of profitability

Profitability is the ability of a business to earn profit. Profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business' activities (Grimsley, 2015). Profit is the driving force of every firm and the main indicator of a firm's performance and in addition, banks are special types of firms, engaged in mobilizing deposits and lending (Mbabazize, Turyareeba, Ainomugisha and Rumanzi, 2020). There are three ratios that are typically used to measure the profitability of banks in empirical studies; return on assets (ROA), return on equity (ROE) and net interest margin (NIM) (Tan, 2018). Return on assets (ROA) is the simplest measure of bank profitability and it reflects the ability of a bank to generate profit from its asset management functions and minimizes differences resulting from differences in the capital structure. It is the most frequently used ratio for evaluation of bank profitability in the literature (Abel, Hlalefang, Roux & Mutandwa, 2018).

Monetary Policy and Bank Profitability

Banks are like other private sectors business or enterprises. Banks have private goals (other than the necessity to effectively perfect the intermediation role) of profitability, liquidity and solvency (Bala, Godiya, Hadith & Maijama'a, 2022). However, these banks do operate within the framework of the monetary and banking policies provided by the economy that could serve to hinder or enable them to achieve their profitability goal (Ekpung, Udude, & Uwalaka, 2015). The Apex bank has gone a long way at ensuring monetary stability by using policies like cash reserve requirements and capital requirements. These are continually used to cushion the effect of liquidity transmission, through deposit base and credit facilities by Deposit money banks; they have been unable to achieve maximum efficiency in this respect (Omankhanlen, 2014). Indirect instruments of monetary policy are constantly mobilized to control liquidity demand pressures while lending commitments by banks continue to pose a challenge to economic development. The non-cooperation of some banks to adhere to stipulated requirements for issuing loans and advances has caused the many set-backs in the achievement of macroeconomic objectives. Some have attributed reasons of their non-compliance to the progressive increase of the Monetary Policy Rate (MPR) in recent times. . However, others have taken to a contrary stance, laying claim to monetary policy requirements on bank's Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) (Muftau, Yusuf, Abdullahi & Musa, 2022).

Theoretical framework

There are different transmission channels through which monetary policy affects banking profitability and these channels of transmissions have been broadly examined under the monetarist and Keynesian schools of thought.

Keynesian theory: The Keynesian Revolution began in 1936, when John Maynard Keynes published his "General Theory of Employment, Interest, and Money." A decrease in interest rates may encourage investment. Increased investments raise the level of income or output via the multiplier, potentially stimulating economic activity. Thus, monetary policy affects economic activity indirectly through their impact on interest rates and investment.

In simple terms, Keynesians' monetary mechanism emphasizes the role of money, but it involves an indirect linkage of money with aggregate demand via the interest rate, as shown symbolically below:

↓OMO→↓ R→↑MS→↓r→ I→↑GNP

Where, OMO = Open Market Operation

R = Commercial Bank Reserve

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MS = Stock of Money
r = Interest Rate
I = Investment
GNP = Gross National Product

Conversely, the Keynesians posit that change in money stock facilitates activities in the financial market affecting interest rate, investment, output and employment (Keynes, 1930). Modigliani (1963) supports this view but introduced the concept of capital rationing and said willingness of banks to lend affects monetary policy transmission. Researchers found varying results on the effect of monetary policy on banks performance using banks assets portfolio and credit creation (Okpara, 2010, Ogbulu and Torbira, 2012 & Solomon, 2016). Thus adopting the monetarist theory on the use of monetary policy in influencing the performance of banks, this study takes further steps to support or reject the assertions of this theory.

Monetarist theory: Milton Friedman proposed the monetarist theory in 1956 in response to criticism of the Keynesian theory. Friedman effectively conversed the role of monetary policy, which of course, influences the volume, cost, and direction of money supply. Friedman's position is that inflation is always a monetary phenomenon. He recognizes that increasing the money supply can reduce unemployment in the short run but can also cause inflation, so monetary authorities should increase the money supply with caution (Onyemaechi, 2005).

The monetarist introduces a new factor into the determination of interest rates: price expectation; an increase in money supply has a liquidity effect on income and price effect.

Symbolically, the monetarist conception of money transmission mechanism can be summarized below:

↑OMO →↑MS→ Spending→↑GNP

The monetarist case is based on the old quantity theory of money. If the velocity of money in circulation remains constant, changes in the money supply will have a direct impact on prices and output or income (GNP).

This view is supported by Tobin (1978) who examines transmission effect in terms of assets portfolio choice in that monetary policy triggers asset switching between equity, bonds, commercial paper and bank deposits. He says that tight monetary policy affects liquidity and banks' ability to lend which therefore restricts loan to prime borrowers and business firms to the exclusion of mortgages and consumption spending thereby contracting effective demand and investment.

Empirical review

Mbabazize, Turyareeba, Ainomugisha and Rumanzi, (2020) examined the effect of monetary policy on the profitability of commercial banks in Uganda. The study adopted a causal relationship research design. Data, covering 9 years from 2010-2018, was collected. Return on Assets is used as a measure of bank profitability. A dynamic two-step System Generalized Method of Moments panel estimator was applied. Estimates showed that monetary policy in terms of its link to the lending rate has a significant causal effect on Return on Assets, suggesting that interest rate changes predict bank profitability. The 91-day treasury bill rate and money supply were insignificant in predicting bank profitability.

Akeem et al., (2022) focused on monetary policy instruments such as open market operations, cash reserve requirements, liquidity ratios, and interest rates and their impact on banks, whether significant or not, using return on assets as a performance metric. The purposive sampling technique was used to select five quoted deposit money banks in the financial services industry. The study's data came from CBN statistical bulletins and the annual reports of the companies studied, which ranged from 2012 to 2021. Using multiple linear regression and Pearson product correlation analysis were used to test the stated hypotheses. According to the study's findings, open market operations have no significant positive effect on the profitability of Nigeria's listed deposit money banks. Further research revealed that cash reserve ratios

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have a significant positive effect on the profitability of Nigeria's listed deposit money banks.

Bala, Godiya, Hadith and Maijama'a (2022) analyzed the effect of monetary policy on the performance of deposit money banks in Nigeria. This research was based on secondary source of data extracted out from Central Bank of Nigeria (CBN) statistical bulletin and Index mundi. The Autoregressive Distributed Lag (ARDL) approach to cointegration was applied to achieve the objective. The empirical results revealed that both in the long run and short run, bank lending rate has been found to have a significant positive impact on banks' loans and advances, while liquidity rate has significant impact in the long run but has no significant impact in the short run likewise interest rate has no significant impact in the long run but in the short run has significant and positive impact on the performance of deposit money banks.

Hassan and Ahmad (2022) examined the reaction of banking sector health to the shocks of monetary policy in Nigeria using a monthly time series dataset from January 2010 to December 2021. The impulse response function was used as the technique of analysis. The results of this study revealed that monetary policy rate and cash reserve ratio impulse adverse shocks to banking sector health measured as a loan-to-asset ratio, while open buyback, treasury bills, and liquidity ratios have caused a positive shock to banking sector health. Differently, from the loan-to-deposit ratio, this study shows that shocks to the monetary policy rate, open buyback, and cash reserve ratio have transmitted negative shocks to the health of the banking sector. In addition, shocks from treasury bills and liquidity ratios have led to a positive reaction from the side of banking sector health.

Muftau, Yusuf Isah Usman, Abdullahi Buba and Musa Abdu (2022) examined the impact of monetary policy on Banks' lending in Nigeria. The study adopted bound test approach for co-integration, error correction model developed within an Autoregressive Distributive Lag (ARDL) Model and granger causality test. The study established the existence of unidirectional causality runs from loan and advances to real exchange rate without feedback. The result further revealed that, cash reserve requirement and money supply are significant and positive, while monetary policy rate and real exchange rate negatively impacted on loan and advances in the long run.

Olaoye and Oladipo (2022) examined the impact of monetary policy on firm performance of listed deposit money bank in Nigeria covering a period of ten (10) years (2010-2020). The collected data were analyzed using Descriptive, Granger Causality and Ordinary Least Square (OLS) regression analysis. It revealed that cash reserved (CRR) has a significant effect on return on asset; actual lending rate has a significant effect on return on asset, however, exchange rate has significant effect on return on asset of listed deposit money bank. The study concluded that there exists strong positive relationship between exchange rate, cash reserve and actual lending rate which is significant.

3.0 Methodology

The research design used in this study is the quasi-survey also known as expost facto. Data were sourced from CBN Statistical Bulletin from 1986-2021.

Model

The model specifications identified are:

DMBs Return on Assets =F (CRR, LQR, MPR, MSP, μ) …… ii

Where; Y= DMBs Return on Assets (ROA)

X_1= Cash reserve ratio (LQR)

X_2= Liquidity Ratio (LQR)

X_3= Monetary Policy Rate (MPR)

X_4= Broad Money Supply (MSP)

μ =unexplained variable

$ROA=b_0 +b_1CRR+b_2LQR+b_3MPR+b_4MSP+ \mu$

The effect of monetary policy tools such as cash reserve ratio, monetary policy rate (MPR), broad money supply (MSP) and liquidity ratio (LQR) on DMBs profitability (ROA) will be examined in the model.

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Method of data analysis

This study employed secondary data obtainable from the Central Bank of Nigeria (CBN) statistical bulletin. Furthermore, this research work employs multiple regression method/model as econometric technique in estimating the relationship between monetary policy proxy by CRR, MSP, MPR and LQR while Deposit money banks profitability was proxied by ROA. The study is to be estimated using the ordinary least square (OLS) since it will be able to capture the essence of the work effectively in addition to its high level of simplicity and global acceptability. Moreover, a 5% confidence level is adopted for the study.

OLS becomes imperative for use in this work using e-views 20.0 software as the theoretical foundation for this procedure. Furthermore Cointegration and Error correction model (ECM) were adopted for further analysis.

4.0 Results

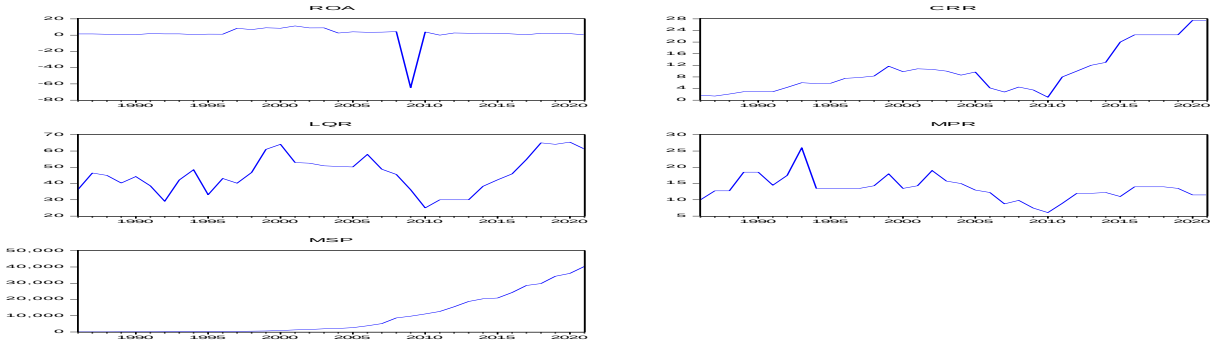

Figure 1: ***Graphical representation of the variables***

The graphs show a depicted picture of the variables and their trend over the course of investigation. It shows that CRR and MPS had an upward trend. However, LQR an MPR showed volatility trend while ROA showed a stable form.

Table 1: Descriptive statistics

Date: 06/14/23
Time: 10:27
Sample: 1986 2021

	ROA	CRR	LQR	MPR	MSP
Mean	1.408458	9.850000	46.02347	13.51000	9252.574
Median	2.250000	8.150000	45.77500	13.50000	2042.370
Maximum	11.31000	27.50000	65.45000	26.00000	40318.29
Minimum	-64.72000	1.000000	25.00000	6.080000	23.80640
Std. Dev.	11.72554	7.658068	11.09471	3.655391	12267.15
Skewness	-5.140690	1.003121	0.090848	0.923276	1.177458
Kurtosis	29.76867	2.915313	2.234187	5.427248	3.067866
Jarque-Bera	1233.403	6.048264	0.929225	13.95193	8.325352
Probability	0.000000	0.048600	0.628379	0.000934	0.015566
Sum	50.70449	354.6000	1656.845	486.3600	333092.7
Sum Sq. Dev.	4812.088	2052.610	4308.243	467.6660	5.27E+09
Observations	36	36	36	36	36

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Source: Computation from Eviews

The descriptive analysis shows that ROA averaged 1.4% for the period under review with a maximum of 11.31%, CRR averaged 9.85% with a maximum of 27.5%, LQR averaged 46.02% with a maximum of 65.45%, MPR averaged 13.51% with a maximum of 26% while MSP averaged ₦9252.57b with a maximum of ₦ 40318.29b. The Jarque-Bera shows a prob value of 0.0000, 0.0486, 0.0000 and 0.0155 for ROA, CRR, MPR and MSP respectively indicating that they are significant but not normally distributed while LQR shows a prob value of 0.628279 which is insignificant but indicating that the variable is normally distributed.

Table 2: Summary of Phillips-Perron Unit Root Test

Variables	Unit Root Statistics at 1st difference	Order of integration
ROA	-31.43617	1 (1)
MPR	-6.883611	1 (1)
MSP	-7.490569	1 (1)
CRR	-4.718876	1 (1)
LQR	-7.527433	1 (1)
Critical values: 1%=-3.679322, 5%=-2.967767, 10%=-2.622989		

Source: Computation from Eviews

Table **2** above presents the summary results of the Phillips-Perron Unit root tests carried out on the variables from our model. From the table, it is evident that MSP, CRR, LQR MPR, and ROA are integrated of order 1 meaning that they become stationary after the first difference.

It is very appealing to investigate if the individual variables of interest can actually converge in the long run. To investigate this, the study employed Johansen Multivariate Cointegration technique. The results of the cointegration test are presented in table 4.3 for the Trace criterion and the Maximum Eigenvalue criterion, respectively.

Table 3: Summary of Johansen Co-integration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.719900	97.50849	69.81889	0.0001
At most 1 *	0.589927	61.87540	47.85613	0.0014
At most 2 *	0.558453	36.91566	29.79707	0.0064
At most 3	0.375783	14.02645	15.49471	0.0822
At most 4	0.029251	0.831242	3.841466	0.3619

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.719900	35.63308	33.87687	0.0306
At most 1	0.589927	24.95974	27.58434	0.1045
At most 2 *	0.558453	22.88921	21.13162	0.0280
At most 3	0.375783	13.19521	14.26460	0.0732
At most 4	0.029251	0.831242	3.841466	0.3619

Source: Computation from Eviews

The result of the trace co-integration shows there is 3 co-integrating equation among all the variables, that is, ROA and two other independent variables at 5% level of significance which indicates that there is long-run relationship among the variables. Likewise the maximum Eigenvalue statistics reveals 1 co-integrating variable at 5% level of significance. Therefore, we can conclude that there is long run relationship among the variables.

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Table 4: Autoregressive Distribution Lag
Dependent Variable: ROA
Method: ARDL
Dynamic regressors (2 lags, automatic): CRR LQR MPR MSP

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
ROA(-1)	-0.477454	0.265328	-1.799484	0.0878
ROA(-2)	-0.389167	0.205197	-1.896555	0.0732
CRR	0.340471	0.214754	1.585404	0.1294
LQR	0.026764	0.069430	0.385479	0.7042
LQR(-1)	0.098847	0.072357	1.366092	0.1879
MPR	0.051901	0.163637	0.317173	0.7546
MSP	0.002562	0.001055	2.428906	0.0252
MSP(-1)	-0.005338	0.001410	-3.787317	0.0012
MSP(-2)	0.002724	0.001432	1.902949	0.0723
C	-4.673733	4.567038	-1.023362	0.3190

R-squared	0.603257	Mean dependent var	2.018319
Adjusted R-squared	0.415326	S.D. dependent var	2.632816
S.E. of regression	2.013156	Akaike info criterion	4.504082
Sum squared resid	77.00313	Schwarz criterion	4.975564
Log likelihood	-55.30920	Hannan-Quinn criter.	4.651745
F-statistic	3.209992	Durbin-Watson stat	1.980388
Prob(F-statistic)	0.015484		

The R^{-2} value of 41.53% implies that about 41.53 percent of variation in the dependent variable is accounted for by variations in the independent variables which is relatively poor. This means that the speed of adjustment is very weak for long run equilibrium to be fully restored after some major shocks in the monetary policy. From the F-Statistics found to be 3.20992 with a Prob. value of 0.015484 implying that there is single long run relationship amongst the independent variables which is money supply and return on asset. However, the result suggests that CRR has insignificant impact (Prob=0.1294) on ROA which implies that that is no long run relationship exists between the two variables.

The result shows that LQR has insignificant relationship (Prob=0.7042) with ROA which thus indicates that there is no significant long run relationship between liquidity ratio and deposit money banks' return on assets. The model further suggests that MPR has no long run significant relationship (Prob=0.7546) with ROA which also suggests that there is no significant long run relationship between monetary policy ratio and deposit money banks' return on assets.

The result was also found to indicate that MSP has long run significant relationship (Prob=0.0252) with ROA hence agreeing that there is significant long run

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relationship between money supply and deposit money banks' return on assets.

Discussion of findings

The result tends to show that CRR, MPR and LQR have positive relationship with return on assets while MSP have negative relationship with ROA. The negative relationship implies increase in money supply raises money in the hand of the banks while higher MPR, CRR and LQR implies that banks have to charge more which reduces demand and returns. This scenario not only affects the banks. It reduces that profitability. To this end, a higher liquidity ratio and cash reserve ratio may have no effect on the volume on bank liquidity. However, the significant long run relationship between the variables as found in the ARDL is an indication that banks' return on assets are not affected by CBN's monetary policies. This findings is in line with the work of Ajayi & Atanda (2012); Akomolafe et al.,(2015); Gimba, Vincent & Oyedokun, 2020; Bala et al., (2022). It however contradicts the work of Solomon (2021) who argued that monetary policy affects bank lending through two channels which is by lowering bank reserves and contractionary monetary policy which reduces the extent to which banks can accept receivable deposits and that of Okoye & Udeh (2009) which indicated that monetary policy has constrained corporate profitability of banks in Nigeria. The implication of these findings is that it negates the monetarist theory view on the impact of monetary policy on bank asset portfolio and serve as eye opener for the CBN to review its monetary policy framework. The findings in the study supports earlier work of Solomon (2021) who have argued that monetary policy affects bank performance especially their bank lending functions. This assertion was also supported by other related studies such as Ibeabuchi (2007), Ogbulu and Torbira (2012), Ekpung, Udude and Uwalaka (2015), Balami, Ahmed and Yusuf (2016) and Solomon (2016), & Akeem et al., (2022).

5.0 Conclusion

The essence of this study is to investigate the impact of monetary policy on deposit money banks' profitability in Nigeria. Banking sector is becoming competitive and market forces are creating an atmosphere where many banks simply cannot afford to have weak balance sheet and inadequate corporate governance. With the recent introduction of the Monetary Policy Rate (MPR) by the CBN as the major tool for signaling its monetary stance, the need for a monetary policy is aimed at stabilizing the banking sector. The findings in this study has shown that while monetary policy seeks the stability of the banking sector, the instruments have no impact on the profitability of deposit money banks in Nigeria.

6. Recommendations:

The following recommendations have been made to address some of the observed problems:

1. Evidence suggest that the monetary policy instruments have varying effect on bank performance but more effective when combined, as such, the CBN should continuously adopt all instruments investigated in this study to regulate banking activities.
2. Monetary policy rate seems less effective tool; therefore it should be reviewed to conform to the expectation as an instrument can be used for regulating the banking sector.
3. Money supply seems one of the most effective tool, therefore money supply should be moderated to ensure it doesn't lead to excess inflation and not too tight to constraint money flow in the economy
4. The cash reserve ratio should also be reviewed to ensure it meets its objectives of regulating banking activities.
5. The liquidity ratio is the less effective of the instruments; therefore, CBN should review its use for more effectiveness.

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