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EFFECT OF MONETARY POLICY ON THE PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT: This study examined the effect of monetary policy on the performance of deposit money banks in Nigeria from 1992 to 2023. The main objective of this study was to examine the effect of policy instruments on the performance of the deposit money banks. Banks' performance was proxy by gross total assets, while the policy variables are cash reserve ratio, liquidity ratio and maximum lending rate. Data was sourced from Central Bank of Nigeria Statistical Bulletin. The ordinary least square (OLS) was used for the analysis where results revealed that CRR with the coefficient -0.230962 and probability value of 0.3418 and LQR with coefficient -0.237453 and probability value of 0.7977 indicate that both had inverse relationship with bank performance since the probability values are greater than the five percent level of significance at 0.050 while MLR with the coefficient 0.109496 and probability value of 0.050 indicate a positive relationship with bank performance since the probability value 0.050 is within the five percent level of significance. The findings show that higher CRR reduces funds available for lending, excess liquidity reduces banks' income generating capacity and higher lending rates increases banks' interest income. The study recommends among others that the monetary authorities should keep the cash reserve ratio stable over a period of time and bank should efficiently manage liquidity.

Keywords: Monetary Policy, Deposit Money Banks, Bank Performance, Cash Reserve Ratio, Lending Rate

INTRODUCTION

The financial sector occupies a central position in the economic growth and development of any nation, a fact that cannot be overstated. The contribution of the financial system to economic performance largely depends on the quantity and quality of financial services provided, as well as the efficiency with which these services are delivered. A well-functioning financial sector reduces transaction costs and risks associated with trading goods and services, borrowing, and lending. In the absence of an organized financial system, an economy would be constrained to self-sufficiency or barter, thereby limiting specialization in production, which is fundamental to the functioning of a modern economy (Akwam, & Yua, 2021; Anuya, 2005).

Onoh (2002) emphasized that the banking industry constitutes the most critical segment of the financial sector due to its capacity to mobilize funds from surplus units to deficit units of the economy. Banks mobilize substantial volumes of funds through their ability to accept deposits from individuals, governments, and corporate entities, while also creating credit through loans, overdrafts, and project financing. These activities are essential for enhancing economic performance and promoting sustainable growth and development. According to Chirwa and Mlachila (2014), as cited in Soyemi et al. (2013), banks function as financial intermediaries that transform deposits into financial assets by channeling funds from surplus liquidity holders to deficit units, thereby facilitating capital formation and trade. However, the banking sector has also been associated with challenges such as non-performing loans and creative accounting practices, which represent serious managerial and regulatory infractions in some banks. Ekpung, Udude, and Hope (2015) further opined that the existence of an

efficient and effective banking sector is indispensable to any economy, as it fosters an enabling environment for economic growth and development through effective financial intermediation, Mkuma, Henry, & Oje, (2025).

In Nigeria, banks are licensed, supervised, and regulated by the Central Bank of Nigeria (CBN) on behalf of the Federal Government in accordance with the CBN Decree No. 21 of 1991 and the Banks and Other Financial Institutions Act (BOFIA) of 1991, as amended. Commercial banks, as key components of the financial system, play a vital role in the economy through activities such as mobilizing deposits and extending credit to individuals and organizations. These functions contribute significantly to economic growth and overall national development. Soyemi, Akinpelu, and Ogunleye (2013) noted that the role of deposit money banks (DMBs), otherwise known as commercial banks, is fundamental to financial and economic activities, particularly in developing economies such as Nigeria. Given the critical functions performed by commercial banks, there is a strong need for sound and effective monetary policy frameworks that address issues such as bank liquidity, borrower–lender relationships, deposit insurance, and the taxation of financial intermediation, with the objective of enhancing the performance and stability of the financial sector (Ibrahim & Muritala, 2015).

Monetary policy constitutes a core component of the macroeconomic environment and plays a critical role in enhancing the financial performance of organizations. The level of financial development in any economy is largely influenced by the effectiveness of short-term monetary policy stabilization measures. Consequently, financial performance occupies a pivotal position in the transmission and implementation of monetary policy (Amassoma, Nwosa, & Olaiya, 2011). A strong interdependence therefore exists between monetary policy implementation and the financial performance of deposit money banks within an economy (Amassoma, Nwosa, & Olaiya, 2011). In this regard, the formulation and effective implementation of appropriate monetary policy remain among the primary statutory responsibilities of central banks across the world (Ajayi, 2007).

Monetary policy refers to the actions undertaken by a central bank to influence the availability and cost of money and credit with the aim of achieving national economic objectives (Patrick & Xavier, 2000). More specifically, it encompasses a set of measures designed to regulate the value, supply, and cost of credit in an economy in line with the prevailing and expected levels of economic activity (Olekah, 2006). Uchendu (2009) conceptualizes monetary policy as the strategic deployment of instruments available to monetary authorities to influence the availability and cost of money and credit, with the overarching goal of attaining price stability. Similarly, Okafor (2009) describes monetary policy as a coordinated set of tools employed by the central bank to regulate the value, supply, and cost of money in a manner consistent with the economy's absorptive capacity, without exerting excessive pressure on domestic prices or the exchange rate. Collectively, these perspectives underscore monetary policy as a deliberate mechanism for influencing the volume, direction, and allocation of money and credit in pursuit of specified macroeconomic objectives, which are realized through the application of appropriate monetary policy instruments (Yua, & Temitope, 2024; Ajayi, 2007).

In Nigeria, the formulation of monetary policy is the exclusive responsibility of the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN). The MPC, which was formally institutionalized in 1999, is composed of the Governor of the CBN as Chairman, the four Deputy Governors, two members of the CBN Board of Directors, three members appointed by the President, and two members appointed by the Governor. The Committee is statutorily charged with the formulation of monetary and credit policies aimed at achieving macroeconomic stability. In line with its traditional mandate, the Central Bank of Nigeria seeks to promote financial system stability, foster a conducive macroeconomic environment, and safeguard the external value of the Naira.

The Central Bank of Nigeria employs various monetary policy instruments—such as the monetary policy rate, cash reserve ratio, liquidity requirements, and money supply controls—to ensure stability in the operations of deposit money banks and to enhance the safety and soundness of their asset portfolios. These instruments are intended to

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influence banks' lending behavior, risk exposure, and overall performance. However, empirical evidence suggests that the impact of these monetary policy tools on banking sector performance in Nigeria has been mixed, yielding divergent outcomes across different periods and institutional settings (Ajekwe, Yua, Epor, & Victor, 2024; Bawa, Akinniyi, & Njarendy, 2018).

Furthermore, the Nigerian banking sector operates within a highly volatile macroeconomic environment characterized by frequent changes in key policy variables such as interest rates, cash reserve requirements, and liquidity ratios. These fluctuations pose significant challenges to banks' operational efficiency and financial performance. Against this backdrop, it becomes imperative to empirically examine the influence of monetary policy on the financial performance of commercial banks in Nigeria. Such analysis is crucial for policymakers and regulators in designing an effective and responsive monetary policy framework capable of supporting banking sector stability while achieving broader macroeconomic objectives in the Nigerian economy.

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 The Keynesian theory of demand for money

John Mynard Keynes was the one that propounded this theory. According to the theory; quantity of money demanded can be grouped into two components; The component that is 'held to satisfy the transactions and precautionary motive' and The other component that is 'held to satisfy the speculative motive' Keynes labeled the first component as M^1 (which is regarded as a constant function of income (g), in other words, it is come elastic). The second component he labeled as M^2 (that is, the speculative balances; it is the function of the rate of income (r). This arises out of the uncertainty as to the future course of the rate of interest and it regarded as a function of the current rate of interest, the higher the rate of interest the lower the demand for money, and vice versa. Kenynes argues that the higher the rate of interest the lower will be the amount people would hold for speculative purpose. This is because the opportunity cost of money has risen (in terms of interest rate foregone) so since, it is more likely that the rate of interest would fail. The two

2.1.2 Liquidity preference theory

Hicks developed this theory. It predicts that a term premium may be obtained by capital invested in long-term bonds because bondholders will require compensation for exposure to capital fluctuations (Challier and Oguie, 2002). According to the liquidity preference theory, investors are risk averse, prefer short-term maturities and will require a premium in order to commit in long-term securities. Liquidity Preference Theory admits the importance of expected future spot rates but gives more importance to the effects of the risk preference of markets participants. This hypothesis states that risk aversion will cause forward rates to be greater than expected spot rate by an amount, which increases with maturity. The term premium is the increment given to investors in order to hold longer-term securities since those imply higher risk (Rabaud, 2008). Risk adverse lenders are the most concerned towards the stability of principal rather than the stability of income. In addition, it is stated that universal risk aversion of borrowers and lenders, does not constrain the term structure in the way described by the liquidity preference theory.

2.1.3 The commercial loan

The commercial loan theory was the outgrowth of English banking practice during the 18th century. The proponents of this theory contended that commercial bank liquidity would he assured as long as the assets were held in short term that would be liquidated in the normal course of business. This is predominant banking theory in Nigeria since 1892 when we had or first commercial bank, the Africa Banking Corporation (ABC) and its philosophy is embodied in our banking legislature (Banking Act 1991 as amended). Its problem is that it failed to take into account the credit need of the expending economy, relative stability of bank deposit and assures that all loan will be liquidated in the normal course of business.

2.2 Conceptual Framework

2.2.1 Profitability

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Profitability as defined by Rose (1999) refers to the net income of the commercial bank where company's income exceeds its expenses. Income is earned from the activities of the commercial banks and expenses are the cost of resources which are used to earn profit. Profitability is the main objective of the commercial banks. Deposit Money Banks cannot survive in the market for the long run without adequate profitability. Therefore, evaluating past and current profitability and the factors affecting it is paramount.

2.2.2 Monetary policy tools

The tools of monetary policy can be categorized into two namely:

1. Direct or quantitative instruments
2. Indirect or qualitative instruments

Direct Instruments or Qualitative Instruments of Monetary Policy

The commonly used instruments are discussed below (CBN 2011):

Reserve Requirement Ratio: The Central Bank may require Deposit Money Banks to hold a fraction (or a combination) of their deposit liabilities (reserves) as vault cash and or deposits with it.

Special Deposits: The central bank issues directives from time to time requiring all banks to maintain with it as 'special deposit an amount equal to the percentages of the institution's deposits liabilities or the absolute increase in its deposit liabilities over an amount outstanding at a certain date (Ojo, 1993; Ibeabuchi, 2007).

Moral Suasion: Moral suasion simply means the employment by the monetary authority of friendly persuasive statement, public pronouncement or outright appeal.

Selective Credit Control: According to Nnanna (2001), this Instrument is used to distinguish among the sectors of the economy into preferred and less preferred sectors.

Direct Credit Control: According to CBN (2013), the Central Bank can direct Deposit Money Banks on the maximum percentage or amount of loans (credit ceilings) to different economic sectors or activities, interest rate caps, liquid assets ratio and issue credit guarantee to preferred loans.

Prudential Guidelines: The Central Bank may in writing require Deposit Money Banks to exercise particular care in their operations in order that specified outcomes are realized (CBN 2013).

Indirect Instruments or Qualitative Instruments of Monetary Policy

The commonly used instruments are discussed below (CBN 2011):

Open Market Operations: The Central Bank buys and sells (on behalf of the Fiscal Authorities (the Treasury) securities of the banking and non- banking public (that is in the open market). One such security is Treasury Bills.

Interest Rate: The Central Bank lends to financially sound Deposit Money Banks at a most favourable interest rate, called the minimum rediscount rate (MRR). The MRR sets the floor for the interest rate regime in the money market (the nominal anchor rate) and thereby affects the supply of credit, the supply of savings (which affects the supply of reserves and monetary aggregate) and the supply of investment (which affects full employment and GDP) (Obidike, Ejeh and Ugwuegbe, 2015; Solomon, 2016; Victor and Eze, 2013).

Exchange Rate: The balance of payment can be in deficit or in surplus and each of these affect the monetary base, hence the money supply, one direction or the other. By selling or buying foreign exchange, the Central Bank ensures that the exchange rate is at levels that do not affect domestic money supply in undesired direction, through the balance of payments and real exchange rate.

Rediscount Rate: The rediscount rate is the rate at which the central bank stands really to provide loan accommodation to commercial banks (CBN, 2013). This is also known as the Monetary Policy Rate (MPR).

Cash Reserve Requirement: Cash Reserve Ratio is the percentage of total deposits that DBMs are required to keep with central bank. Dana (1980) defined CRRs as taxes on the return on deposits both foreign and domestic on a bank balance sheet since other resources that have similar risks and returns do not have cash required reserves.

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2.2.4 Monetary policy in Nigeria

In Nigeria, the Central Bank of Nigeria (CBN) is the sole monetary authority. Its core mandate it to promote monetary and price stability and evolve an efficient and reliable financial system through the application of appropriate monetary policy instruments and systematic surveillance (Ibeabuchi, 2007). The 1958 Act establishing the Central Bank of Nigeria gave it specific functions which are; issuance of legal tender currency notes and coins in Nigeria; maintenance of Nigeria's external reserves; safeguarding the international value of the currency; promoting and maintenance of monetary stability and a sound and effective financial system in the country and acting as banker and financial adviser to the Federal Government. .

2.2.5 CBN policy measure of bank liquidity

The liquid Assets: according to O John Oriji (2006), the bank liquid assets include vault, cash balance with CBN, balance with other banks, money at call, bill discounted, marketable securities of treasury bills, treasury certificate, bankers unit fund, commercial papers, Banker acceptance e.t.c on the other hand, the total deposit liability are made up of demand, savings and time deposits.Also Nwankwo (1991) asserted that the central bank issue in that management of bank assets is the liquidity-profitability dilemma which banks struggle to resolve.

The liquidity ratio: according to John Orjih (2006), they measure the ability of the firm to meet its obligation as they become due.

The loan to- deposit ratio: John Orji (2006) stated that the ratio of loan to deposit is based on the premise that loans are the most illiquid bank assets. This higher ratio can be of large bank to solve the liquidity problem by liability management or borrowing in the market rather than relying solely on the asset adjustment. The ratio is computed as:

$$\text{Loan to deposit ratio} = \frac{\text{Total loan \& Advances}}{\text{Total deposit}}$$

This ratio is the limitation of not saying anything about either the quality of the loan and advances nor their maturity. The ratio regarded prudent for this Nigeria is 70 percent

Loan to Liability Ratio: this recognizes that liability apart from deposits, can also represent a potential drain on bank funds. It also has the defects like loans to deposit ratio. The ratio is computed as:

$$\text{Loan to liability ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Liability}}$$

Liquid Assets to Total Deposit Ratio: this ration allows the assets to be selected based on their liquidity irrespective of whether they are loans or investment. Its problem is that it measures only assets liquidity without regards to liquidity which can be generated through borrowing in the market.

2.2.8 Financial performance

Financial performance measurement generally looks at firms' financial ratios (derived from their financial statements) such as liquidity ratios, activity ratios, profitability ratios, and debt ratios. The financial performance of commercial banks is measured through its profitability. There are various profitability measures that are used to measure performance of commercial banks such as the Net Interest Margin (NIM), the Return on Assets (ROA) and the Return on Equity (ROE). Financial Performance simply means the act of carrying on financial functions in a firm by manager. In broader sense, financial performance reflects the degree at which financial objectives being or has been achieved during a particular period of time.

2.2.9 Determinant of bank performance in Nigerian economy

Lending rate: This is the rate which bank lends to its customers. In Nigeria, banks major roles are financial intermediation and promoting the payment system to ensure efficient and effective allocation of depository money

Depositor's rate: It is the interest paid on cash deposited by customers. According to Ogunleye (2002) bank deposit depends on a number of factors namely; public perception of the sound of the bank, the prevailing rate of inflation

Ownership and control: Ownership, direct intervention and control in the internal management of banks are a major determinant in banking performance in any economy. Before recapitalization exercise, ownership

contributed to the financial distress in some of the Nigerian banks (Idehai, 2014). Ownership and control of banks is determined by the shareholders of banks.

Market Structure: banks market structure refers to the numbers and characteristics of the seller and buyers of products. The banks market structure reveals a relationship between the level of development of the banking sector of the economy and its long-term output growth

Bank Liquidity, Source and Management: Liquidity management therefore refers to the planning and control of liquid assets either as an obligation to the customers financial needs or as a measure to adhere to the monetary policies of the Central Bank. For a commercial bank to plan or manage its liquidity position, it must comply firstly with the legal requirement concerning its cash position. However, it is very essential for banks to manage and maintain adequate funds for operations in order to avoid excesses or deficiencies of the required primary reserves.

2.2.11 Relationship Between the Central Bank and Deposit Money Banks

According to Emeka (2003), the following relationship exists between the CBN and the Commercial banks: The Central Bank is the head of the financial system. All financial institutions including deposit money banks are licensed, regulated and monitored by the Central Bank, all deposit money banks must keep an account with the Central Bank. These balances are used for cheque clearing purposes between banks. Payment for cheques between banks are set off at the Central Banks' clearing house, Central Bank also demand deposit money banks to deposit a certain percentage of their total deposit with the central bank in order to control the money supply, the central bank is a lender of last resort and will aid commercial banks when needed. The Central Bank dictates the interest rate that Commercial banks can offer by setting the bank rate.

2.3 Empirical Review

Soomiyol, Bwuese, & Yua, (2023). This study examined the effect of prudential guidelines on the financial performance of deposit money banks in Nigeria. The specific objective of the study were to: examine the impact of capital adequacy regulation on the financial performance of DMBs in Nigeria; ascertain the impact of liquidity regulation on the financial performance of DMBs in Nigeria and assess the impact of credit risk regulation on the financial performance of DMBs in Nigeria. The study was anchored on agency and liquidity preference theories. The study adopt multivariate regression estimation analysis, correlation analysis and descriptive statistics. The study used Capital Adequacy Regulation (CAR), Liquidity Regulation (LR) and Credit Risk Regulation (CRR) as a proxy for Prudential Guideline and Return on Asset (ROA) and Return on Equity (ROE) as a measure for Financial Performance. The result show that CAR has a negative but insignificant effect on ROA, but has a positive and significant effect on DMBs' ROE in Nigeria. LR is negatively correlated with DMBs financial performance in Nigeria. CRR has a detrimental negative effect on DMBs' financial performance in Nigeria. The study recommended among other things that the minimum capital requirement of DMBs in Nigeria should be reviewed on a regular basis to ensure that it remains at an optimal level, and Nigerian banks should be capitalized to enable them to access cheaper sources of funds, resulting in increased profit margins. This would go a great way toward restoring public trust in banks, as the latter would be better equipped to provide consumers' credit demands while also safeguarding depositors' funds.

Wuave, Yua and Yua (2020). This study examines the effect of liquidity management on financial performance of banks in Nigeria for the period 2010 to 2018. The study uses secondary data from five banks listed bank on the stock exchange in Nigeria. The proxies employ for liquidity management are; Liquidity ratio (LQR), Loan to deposit ratio (LDR), Cash reserve ratio (CRR) and deposit ratio (DR), while return on assets (ROA), return on equity (ROE) and return on net interest margin (NIM) are proxies for financial performance (Profitability). The study uses panel regression analysis in estimating the model and Hausman test while making a choice between fixed effect and random effect model. The study finds that liquidity ratio (LQR) have positive and significant effect on financial performance of DMB as measured by return on assets (ROA), return on equity (ROE) and net interest margin (NIM). It therefore recommends that banks in

Nigeria should establish sound governance and risk management systems by developing strategies, policies for liquidity management that is well integrated into its risk management practices as well as establish a contingency funding plan to address any liquidity shortfall during periods of stress or emergency while ensuring that active monitoring liquidity funding needs to avert any liquidity challenge that could trigger crisis in the banks is promptly addressed

Alalade et al. (2020) examined the impact of monetary policy on the financial performance of deposit money banks in Nigeria using 35 years of time-series data covering 1984–2018. The study considered all deposit money banks reported in the Central Bank of Nigeria Statistical Bulletin and focused on liquidity ratio, lending rate, loan-to-deposit ratio, and cash reserve ratio as key monetary policy indicators. Financial performance was measured using net worth and total credits. Data were analyzed using descriptive statistics, unit root tests, Ordinary Least Squares, and the Autoregressive Distributed Lag (ARDL) technique. Short-run and long-run models were estimated. The findings revealed that liquidity ratio and loan-to-deposit ratio exerted positive and significant long-run effects on total credits, while the cash reserve ratio had a significant negative long-run effect. Lending rate was insignificant in both the short and long run. The study concluded that monetary policy significantly influences bank performance and recommended an upward review of the loan-to-deposit ratio and a reduction in the cash reserve ratio to enhance bank performance.

Ajayi and Atanda (2012) observed the influence of monetary policy Instruments on bank performance in Nigeria with the view to determine the presence of long-run relation between 1970 and 2008. The Engle-granger two step co-integration approach was adopted based on the regression model that regress banks total loan and advances on minimum policy rate, cash reserves ratio, liquidity ratio, inflation and exchange rate. The empirical estimates indicated that bank rate, inflation rate and exchange rate are total credit enhancing, while liquidity ratio and cash reserves ratio exert negative effect on bank total credit. Although, it is only cash reserve ratio and exchange rate found to be significant at 5% critical value. However the co-integration test indicated that the bulk hypothesis of no co-integration was accepted. The main conclusion drawn is monetary policy Instruments are not effective to stimulate credit in the long-run, while banks total credit is more responsive to cash reserve ratio.

Fasanya, Onakoya and Agboluaje (2013) examine the impact of monetary policy on economic growth in Nigeria. The study uses time series data covering the range of 1975 to 2010. The effects of stochastic shocks of each of the endogenous variables are explored using Error Correction Model (ECM). The study shows that long run relationship exists among the variables. Also, the core finding of this study shows that inflation rate, exchange rate and external reserve are significant monetary policy Instruments that drive growth in Nigeria. It is therefore recommended that the establishment of primary and secondary government bond markets that can also increase the efficiency of monetary policy and reduce the government's need to rely on the central bank for direct financing.

Akomolafe, Danladi, Babalola and Abah (2015), carried out examination on the impact of monetary policy on deposit e banks' performance in Nigeria in a micro-panel analysis. Interest rate and money supply were used as proxies for monetary policy, while profit before tax (PBT) was used to represent commercial banks' performance. Pooled regression, fixed effect regression, and random effect regression were LL carried out in the analysis. However, Hausman test revealed that fixed effect regression is the most appropriate. The results show that there is a positive relationship between banks' profit and monetary policies as proxy by money supply and interest rate. However, interest rate was not statically significant at 1% and 5% levels. This study therefore recommends that interest rate policy should be looked into by the monetary authority in a way that is friendly to loan advancement in the country.

Apere and Karimo (2015), examined the impact of monetary policy on bank credit to the Nigerian economy from 1981-2013. Data was obtained from the Central Bank of Nigeria records. A three variable unrestricted VAR (1) Model involving banks' total credit to the economy, money supply and monetary policy rate was estimated. Pre-

estimated results show all the variables to be integrated at first difference, but we're not co-integrated. Further results show that money supply has an instantaneous influence on both monetary policy rate and banks' credit to the economy. Other results show that the direction of the reaction of money supply to a standard deviation structural monetary policy shock is not certain; money supply and bank credit to the economy responded negatively to structural shocks in monetary policy rate: bank credit to the economy responded positively to nominal structural shocks and; whereas money supply and banks credit to the economy respond positively to banking sector's reforms monetary policy rates response is negative. The study concluded that short run monetary policy in Nigeria is important in controlling interest rate and credit to the economy. It recommended that efforts should be geared towards strong banking sector reforms.

Okoye and Eze (2013) examine the impact of bank lending rate on performance of Nigerian Deposit Money Banks, between 2000 and 2010. It specifically determined the effects of lending rate and monetary policy rate on the performance of Nigerian Deposit Money Banks and analyzed how bank lending rate policy affects the performance of Nigerian Deposit Money Banks. The result confirmed that the lending rate and monetary policy rate have significant and positive effects on the performance of Nigerian Deposit Money Banks. The implication of this is that lending rate and monetary policy rate are true parameters of measuring bank performance.

Ekpung, Udude and Uwalaka (2015) investigated the effects of monetary policy on banking sector performance in Nigeria. The study period covers 36 years from 1970 to 2006, using selected indicator and employing the OTS regression technique. Results showed that overall; monetary policy has a significant effect on the banks deposit liabilities. Meanwhile, on individual basis, we discovered that Deposit Rate(DR) and Minimum Discount Rate (MDR) had a negative influence on the bank deposit liabilities in Nigeria, whereas, Exchange Rate(EXR) had positive and significant influence on the bank deposit liabilities in Nigeria. They concluded therefore that monetary policy plays a vital role in determining the volume of banks' deposit liabilities in Nigeria. The study recommends that government and its monetary authorities should strive to create a conducive environment for banking sector to grow in the country by packaging appropriate monetary policies that would guarantee and enhance growth and development of banking sector in Nigeria.

Okaro and Nwakoby (2016) examined the trade-off between liquidity and profitability within the Nigerian banking system, with specific focus on deposit money banks. The study investigated the effect of liquidity management on banks' profitability using secondary data obtained from the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) over a 16-year period (2000–2015). Employing multiple regression analysis based on the Ordinary Least Squares (OLS) technique with E-Views 8.0, the findings revealed a negative and statistically significant relationship between liquidity ratio and bank profitability, indicating that excessive liquidity holding constrains earnings performance. Conversely, a positive and significant relationship was found between the cash-to-deposit ratio and profitability, suggesting efficient cash management enhances financial performance. Based on these results, the study recommended that banks should avoid excessive liquidity buffers and instead adopt alternative short-term funding mechanisms, such as overnight borrowing. Additionally, banks were advised to channel excess liquidity into profitable investments to enhance overall profitability and operational efficiency.

Ndugbu and Okere (2015) investigated the impact of monetary policy on the performance of deposit money banks- the Nigerian Experience (1993-2013). Data for this study was collected from the Central Bank of Nigeria (CBN) statistical bulletin, annual reports and statement of accounts. Ordinary Least Square and Co integration was used to evaluate the impact of monetary policy on performance of deposit banks. The Augmented Dicker Fuller (ADF) unit root test and Co integration proved that the variables are stationary and a long run relationship exists among variables. The OLS revealed that amongst all the monetary policy variables (bank deposit rate, bank lending rate, Cash Reserve Ratio and Liquidity Ratio) considered in the model, only bank deposit rate has

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significant relationship though inverse relationship. On this premise, the study recommends among others, that the CBN should moderate the deposit rate as a tool for regulating deposit money banks operating. Again there is need to modify the monetary policy Instruments to reflect and respond more rapidly and easily to local economic conditions.

Nguyen, Vu and Le (2017) investigated the impact of monetary policy on deposit money bank profit in Vietnam. Data collected from 20 commercial banks doing business in Vietnam's banking market for the period 2007 to 2014, panel data was used for the regression. Monetary base (MB), discount rate (DIS) and required reserve ratio (RRR) were used as proxies for the monetary policy. Profit before tax was used to represent commercial banks' performance. The results showed that there is a positive relationship between banks' profits and monetary policies.

Amadi (2018) conducted the study monetary policy and baking sector performance. The study revealed that in the short run, monetary policy has a significant positive effect on banking sector performance while in the long run, monetary policy has no significant influence on performance of the banking sector.

Additionally, Gimba, Vincent and Oyedokun (2020) analyzed the effect of monetary policy on the financial performance of listed deposit money banks in Nigeria from 2006 to 2018. They revealed that monetary policy has a significant positive effect on the performance of listed deposit money banks.

Kimani (2018), in her study on the impact of monetary policy on financial performance of deposit money banks in Kenya from 2012 to 2016, used panel regression model. The findings of the study show that Central Bank Base Rate has a negative and insignificant effect; money supply has a significant positive effect; CRR has a significant negative effect while inflation has an insignificant negative effect on the financial performance commercial banks in Kenya. Also, bank size has a significant moderating effect on commercial banks in Kenya.

More also, Okwudili (2012) examined the effects of monetary policy on the financial performance of twelve listed deposit money banks in Nigeria from 2010 to 2019. They revealed that the loan deposit ratio has a significant positive effect on financial performance while the loan to asset ratio has a significant negative effect on banking sector performance. The study further revealed that the CBN lending rate has no significant effect on banking sector performance.

Mbabazize, Turyareeba, Ainomugisha and Rumanzi (2020) analyzed the influence of monetary policy on the profitability of deposit money banks in Uganda using an annual data set from 2010 to 2018. By employing the System Generalized Method of Moments (GMM) model, the study revealed that the lending rate has a significant positive effect on the profitability of the banking sector while inflation has a significant negative effect on banks' performance.

Igharo, Osabohien, Onyemariechi, and Ibidapo (2020) estimated the effect of monetary policy transmission mechanism and innovation in the banking system on economic growth in Nigeria from 1981 to 2015. They applied the ARDL model and found that monetary policy has not been effective and also supervisory and intermediary financial institutions lack dependence due to frequent government interventions.

3. RESEARCH METHODOLOGY

3.5 Model Specification

The study adopted the multiple regression model used in Punita and Soyama (2006) as follows:

$GTA = \beta_0 + \beta_1 CRR + \beta_2 LQR + \beta_3 MLR + u.$

Where;

GTA = Gross total assets (proxy for bank Performance)
CRR = Cash Reserve Ration
LQR = Liquidity Ratio
MLR = Maximum Lending Rate
u = Error term
$\beta_0 \ldots\ldots \beta_3$ = parameters of model.

3.6 Method of Data Analysis

The major technique for data analysis is the multiple regression analysis. Regression analysis is applied in establishing the relationship between the variables under consideration.

However, before this is done, summary/descriptive statistics was conducted to uncover historical properties of

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the series. Additionally, unit root test was carried out to check for stationarity or otherwise of the variables for the study.

Decision Rule

For the coefficient of determination (R^2), the higher the better the "goodness of fit" of the regression equation; while the closer the R^2 to zero, the "worst the fit".

For the F* statistics test, if the prob. value of F* < 0.05, we accept that the regression equation is statistically significant; and

For the test the hypothesis, is prob. (sig) < 0.05 accept the alternate hypothesis then reject the null hypothesis.

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Summary statistics

The study first of all, subjected the variables, GTA, CRR, LQR and MLR to descriptive statistics analysis to uncover the time series properties of the series. The result is as follows:

Table 4.1: Summary statistics

Statistic	CRR	GTA	LQR	MLR
Mean	13.41250	17.29375	18.8281	18.46563
Median	11.15000	14.10000	18.25000	18.0000
Maximum	28.50000	-0258818	57.10000	29.8000
Minimum	4.400000	-1.000000	13.50000	1350000
Std. Dev.	6.763696	11.88868	3.034557	2.928880
Skewness	0.719109	1.639351	1.582138	1.850725
Kurtosis	2.279164	6.127041	6.767372	8.407641
Jarque-Bera	3.450731	27.37100	32.27430	57.25732
Prob.	0.178108	0.00001	0.0000	0.0000

The summary statistics is reported in table 4.1 as we can see, from the table, maximum value of CRR for the period is 28.5 while for LQR and MLR, it is both 29.8. The minimum value of the liquidity ratio and lending rate are both 13.5 respectively. The standard deviation of the series, which indicate the level of spread show relatively low levels, meaning that the series are not volatile as it were. All the variables as seen from the table are positively skewed to the right. Apart from CRR, all other variables exhibit high kurtosis above the threshold of three. Apart from CRR, the other remaining variables exhibit non-normality going by their Jarque-Bera P. values.

4.2.2 Stationarity tests

This study used the Augmented Dickey Fuller Test (ADF) to check for unit root in the series under consideration. Unit root tests are considered a necessary pre-condition before estimation in order to avoid the issue of spurious regression results. The result of the test is shown below:

Table 4.2: Unit root tests

Variable	Coefficient	Prob.	Remarks
GTA	-2.770891	0.0501	1(0)
CRR	-6.529289	0.0058	1(0)
LQR	-6.562384	0.0001	1(0)
MLR	-6.388319	0.0000	1(0)

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Above is the result of the unit root test (ADF). As we can see from the results, all the variables exhibit stationarity. In other words, the variables are of them integrated of other o. They are all stationary at levels. Theoretically, since this is so, there is no need for the testing of the long run relationship among the variables.

4.2.3 Model Results

Since the variables are all integrated of order zero i.e. stationary at levels, no cointegration test was conducted. The model was carried out (estimated) with the use of ordinary least squares (OLS) estimators. The result of which is presented below for analysis.

Table 4.3: Model Results: Dependent Variable; LGTA

Variable	Coefficient	t-stat	Prob.
C	6.132198	2.281211	0.0306
LCRR	-0.230962	0.987591	0.3418
LLQR	-0.287453	-0258818	0.7977
LMLR	0.109496	-1961422	0.05036

The result is as presented above. From the results above, the coefficient of cash research ratio (CRR) is -0.230962 which indicates a negative relationship between cash reserve ratio and gross total assets of the banks with probability value of 0.3418.

Also, we can infer from the results in table 4.3 that the coefficient of liquidity ratio (LQR) is -0.287453 which indicates a negative relationship between liquidity ratio and gross total assets of the banking systems with a probability value of 0.7977.

From the results on table 4.3, we can also see that the coefficient of maximum lending rate is 0.109496 which reveals a positive relationship between maximum lending rate (MLR) and banks gross total assets during the period review.

4.3 Discussion of Results

The result Ordinary Least Square (OLS) is as presented on table 4.3. As we can see and observe from the results, the coefficient of Cash Reserve Ratio (CRR) is -0.230962. This indicates theoretically, that a one unit change in cash reserve ratio (CRR) reduces, or lowers banks gross total assets by about twenty three percent (23%) during the study period. Traditionally, banks embark on profitable business based on the level of savings accumulated over time, which may be used to advance loans. A hike in cash reserve ratio may constrain banks' ability to advance fresh loans, which may affect profitability over time. This result and findings agree with Kimani (2018) whose work also found a negative relationship between cash resource ratio and bank performance, and contrasts the study of Alade (2020), whose result indicates otherwise.

From the results on table 4.3, we can see it is revealed that the coefficient of liquidity ratio (LQR) is negative at -0.287453. This indicates that a unit change in liquidity ratio tend to lower banks' total assets by about approximately twenty nine percent (29%) during the study period.

Liquidity is the ability and speed at which banks can convert certain assets to cash. It is bank's ability to meet

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cash obligation to its customers and other stakeholders. A raise in liquidity ratio by the monetary authorities imply that bank has more cash to carry out its obligations requiring cash outlays. From the results, it appears as though, banks are not utilizing their liquidity positions to acquire additional assets as it were.

This result is in line with Ndugbo and Okeke (2015). Ajayi and Atanda (2012) who obtained similar results and contrast the works of Akomolafe et al (2015), the result on table 4.3 also reveals that the coefficient of maximum lending rate (MLR) is 0.109496. This therefore means that a unit change in maximum lending rate (MLR) raises bank's total assets by approximately ten percent (10%). This result is therefore not surprising. The primary duty of the deposit money banks is financial intermediation. Banks rely heavily on savings mobilized from the banking public. This savings are thereafter loaned out to individuals, and businesses by changing some rate of interest above the monetary policy rate. A rise in lending rates will go a long way in raising the total earnings of the banks, and their corresponding profitability levels. An increase in banks profit will lead to acquisition and accumulation of more assets.

This result conforms to those of Okoye and Eze (2013), Okaro and Nwakobi (2016) and Alade et al (2020) whose works revealed similar results.

4.4 Tests of Hypotheses

The main objective of this study is to examine the effect of monetary policy instruments on the financial performance of deposit money banks in Nigeria, during the study period. The study formulated three Hypothesis based on the objective of the study. The hypotheses are tested below:

4.4.1 Hypothesis One

Ho_i Cash Research Ratio does not have significant effect on performance of deposit money banks in Nigeria.

From the results, we observe that the coefficient of cash reserve ratio (CRR) is -0.230962, which indicates an inverse relationship between it and the gross total assets. The probability value is 0.3418. Based on the five percent level of significance, the value 0.3418 is greater than 0.05, therefore we accept the null hypothesis and conclude that based on the results obtained, and for the period of the study, cash reserve ratio does not significantly affect banks' performance in Nigeria.

4.4.2 Hypothesis Two

Ho_{ii}: Liquidity ratio does not have significant effect on bank's profitability.

From the results obtained, we see that the coefficient of liquidity ratio (Lqr) is -0.287453, which reveal an inverse relationship between it and the banks total gross assets which is used as a proxy for bank performance. The probability value of about 0.7977 is higher or greater than the five percent level of significance at 0.05 or below. Consequently, we therefore accept the null hypothesis and conclude that for the period of the study, and based on the result, liquidity ratio does not have significant effect on bank's financial performance in Nigeria.

4.4.3 Hypothesis Three

Ho_{iii}: Maximum lending rate does not have significant effect on Deposit Money Banks in Nigeria.

From the results on table 4.3, we can see that the coefficient of maximum lending rate is 0.109496, which indicates a positive relationship between (MLR) and bank's performance in Nigeria. The probability value of MLR is 0.050 which is within the five percent level of significance. Based on this result, and for the period of study, we reject the null hypothesis and conclude that the maximum lending does have a significant effect on performance of deposit money banks in Nigeria.

4.5 Diagnostic Tests

Diagnostic tests for the model were carried out to check the adequacy of the model. These tests are presented below:

Table 4.4: Diagnostics

R2	=	0.23
DIN	=	2.08
Fstat	=	2.84024 (0.05)
BG. SC	=	2.7515 (0.08)
ARCH/LM	=	0.19488 (0.66)
Ramsy RESET	=	1.5867 (0.12)

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The diagnostic on table 4.5 indicates that the coefficient of determination (R^2) is about twenty three percent (23%). This indicates that 23 percent of variations in bank's performance is explained by monetary policy variation like cash reserve ratio, maximum lending rate and liquidity ratio, while other factors account for 73 percent. The Durbin Watson value indicates absence of autocorrelation. From the result, we see that the Ramsey Reset best indicates that the functional form of the model is correct. The BG test indicates based on the P.V that there is the absence of serial correlation while the ARCH/LM test value shows that no effects of heteroscedasticity.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study examined the effect of monetary policy on the performance of deposit money banks in Nigeria from 1992 to 2023. The main objective of the study is to uncover the effects of monetary policy instruments on the performance of deposit money banks in Nigeria. Specifically, the study examined the effect of liquidity ratio, cash reserve ratio and maximum lending rates (policy instruments) on the performance of deposit money banks in Nigeria, proxied by banks gross total assets.

Research questions and hypotheses were formulated in line with the objectives of the study while relevant concepts were also explained, as used in the study. Additionally, the study reviewed extant literature on the subject matter including conceptual review, theoretical review and empirical review of literature.

The objective was subjected to statistical and econometric analysis. Descriptive statistics was conducted in order to discover the time series proportion of the variables. Thereafter, the unit root tests were conducted to reveal the stationarity properties of the variable, where it is revealed that all the variables are integrated of order zero, i.e. stationary at levels.

Based on this, the ordinary least squares (OLS) estimator was used to estimate the parameters of the model where results reveal that cash reserve ratio (CRR), liquidity ratio (LQR) had inverse relationship with banks performance in Nigeria while maximum lending rate (MLR) has a positive effect on banks' performance in Nigeria during the period of the study.

Also, hypotheses were tested based on the five percent level of significance where it was discovered that cash research ratio and liquidity ratio has no significant effect on banks' performance in Nigeria, while maximum lending rate has a significant positive effect on banks' performance in Nigeria.

5.2 Conclusion

This study examined the effect of monetary policy instruments on the financial performance of deposit money banks in Nigeria from 1992 to 2023. The monetary policy instruments used are maximum lending rate, liquidity ratio and cash reserve ratio while the deposit money bank performance was proxied by their total gross assets.

Based on the results obtained and the various analysis carried out, the study concludes thus: -

i. An increase in cash reserve ratio (CRR) lowers banks' performance in Nigeria for the period of study, which is statistically insignificant.

ii. Liquidity ratio has a negative and insignificant effect on deposit banks' performance in Nigeria during the study period.

iii. Maximum lending rate has a positive and significant effect on banks' performance in Nigeria.

5.3 Recommendations

This study examined the effect of monetary policy instruments on the performance of deposit money banks in Nigeria. Based on the results and the analysis thereof, the study recommends as follows:

i. The monetary authorities should formulate policies to keep the cash reserve ratio relatively stable and lower over time. In a bid to stem inflation, care should be taken so as not to negatively affect the performance of deposit money banks.

ii. Liquidity ratio should be enhanced as more liquidity leads to increased performance of banks. Also, Deposit Money BANK (DMBs) should accumulate more liquid assets over time.

iii. As the primary mandate of the Deposit Money Banks (DMBs) is financial intermediation, Deposit Money

Banks (DMBs) should raise lending rates moderately to enhance their profitability levels. This should however be done in such a way as not to discourage investment activities.

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