

**EFFECTS OF MONETARY POLICY ON THE
FINANCIAL PERFORMACNE OF NIGERIAN
DEPOSIT MONEY BANKS**

(A CASE STUDY OF UNION BANK PLC, ILORIN)

By

NURAIN SHAFIHI

HND/23/BFN/FT/0580

**BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF
BANKING AND FINANCE,
INSTITUTE OF FINANCE AND MANAGEMENT STUDIES,
KWARA STATE POLYTECHNIC, ILORIN**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
HIGHER NATIONAL DIPLOMA (HND) IN BANKING AND FINANCE**

JUNE, 2025

CHAPTER ONE

1.1 Introduction

The financial sector is mainly significant to formal activities that are relevant to the economic activities in Nigeria. This has made it mandatory for monetary policy instruments to become crucial in driving the activities of the Nigeria economy. It has therefore been well observed in Nigeria as well as all other developing countries that prudent monetary policies are the key stone to effective regulations as well as supervision for the growth of any country's banking Industry. By effective manipulation of monetary instruments, the growth rate in the supply of money can be influenced by the Central bank in many ways, namely, availability of credit interest rate level and availability of liquidity from the banking sector. All these can affect the investment, production, consumption of individual as well as government spending. Omankhanlen (2014).

Business cycle evenness, financial crisis prevention, rate of interest stabilization in the long run, the rate of exchange in real terms has recently been identified as objectives supplementary to monetary policies due to global financial crisis weaving which overwhelmed both emerging and developed economies of the world (Mishra and Pradhan, 2013). Nigerian banks generally believe that there is great risk in lending to the manufacturing and agricultural sectors of the economy, hence, their apathy in giving credit to these sectors of the economy, though these sectors hold the key to the development of the economy especially in employment and foreign exchange generation.

The Central Bank of Nigeria (CBN) over the years, have instituted various monetary policies to regulate and develop the financial system in order to achieve major macroeconomic objectives which often conflict and result to distortion in the economy. Although, some monetary policy tools like cash reserve and capital requirements have been used to buffer the liquidity creation process of deposit money banks through deposit base and credit facilities to the public.

Monetary policy remains a critical tool in stimulating the growth and stability of financial institution in most developing economics. In Nigeria, the objectives usually include promoting monetary stability. Strengthening the external sector performance and generating

a sound financial system that will support increased output and employment. Monetary policy is a 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 (Ndugbu and Okere, 2015).

Monetary policy according to Anyanwu (2019) involves a deliberate effort by the monetary authorities (the Central Bank of Nigeria) to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives. Central bank also determines certain targets on monetary variables. Although, some objectives are consistent with each other's, others are not, for example, the objectives of price stability often conflicts with the objectives of interest rate stability and high short run employment. The role of the banking industry in development process cannot be over-emphasized as they play so many functions. (Solomon, 2012).

Prior to 1986 direct monetary instruments such as selective credit controls administered interest and exchange rates, credit ceilings, cash reserve requirements and special deposits to regulate the banking system were employed. The fixing of interest rates at relatively low levels was done mainly to promote investment and growth. Occasionally, special deposits were imposed to reduce the amount of excess reserves and credit creating capacity of the banks.

.Similarly put, the banking institution occupies a vital position in the stability of the nation's economy, it plays essential roles on fund mobilization, credit allocation, payment and settlement system as well as monetary policy implementation (Mohammed 2017). In performing these functions, it must be emphasized that banks in turn promote their own performance. In other words, deposit money banks usually mobilize savings and extend loans and advances to their numerous customers bearing in mind, the three principles guiding their operations, which are profitability, liquidity and safety (Okoye and Eze, 2013).

In Nigeria, Imala (2010) stated that the main objective of the banking system are to ensure price stability and facilitate rapid economic development through their intermediation role of mobilization savings and inculcating banking habit at the household and micro enterprise levels.

As a monetary device, the Central Bank of Nigeria conducts periodic and special examinations of the books of specified licensed financial institutions which is also required to submit regular returns on their operations to the Central Bank of Nigeria. In the Nigeria socio economic setting, several monetary policy measures have emerged for arresting the dynamic economic system of the country.

Oloyede (2013), the monetary authorities usually rely on the manipulation of monetary policy for the purpose of credit control budgeting discipline, price stability, economic growth, full employment and balance of payment equilibrium. The techniques by which the monetary authority tries to achieve then aims through the implementation of monetary policy measures must have certainly impacted positively or otherwise on the performance of commercial banks in Nigeria, amongst other financial institutions.

Generally, the primary objectives of monetary policy are concerned with the application of expansionary monetary policy measures during economic recession and contractionary. Monetary policy controls money supply because it is believed that its rate of growth has an effect of inflation. The basic aim of monetary policies is not to aggregate them but to aggregate the real sectors of the economy such as level of capital price stabilization and economic development. Policies are designed in order to change the trend of some monetary variable in particular direction so as to include the desired behavioral change in the monetary policy. The Central Bank's role is to conduct appropriate monetary policy that is consistent with the main economic objective that will help the growth of gross domestic product (GDP) sustainable inflation and stable balance of payment position. This is done by putting in place the direct or indirect monetary approach so as to control monetary trends.

1.2 Statement of the Problem

Monetary policy is one of the principal economic management tools that governments use to shape economic performance. Measured against fiscal policy, monetary policy is said to be quicker at resolving economic shocks. Monetary policy objectives are concerned with the management of multiple monetary targets among them price stability, promotion of growth, achieving full employment, smoothing the business cycle, preventing financial crises, stabilizing long-term interest rates and the real exchange rate. Experience shows that emphasis

is usually placed on maintaining price stability or ensuring low inflation rates. The Central Bank of Nigeria is responsible for the recommendation and implementation of monetary policy tools in Nigeria. The CBN recommends the CRR, CBR and Treasury bill rates. Those tools are implemented through deposit money banks and they are aimed at stabilizing the price levels in the economy. The use of cash reserve ratio affects the level of liquidity in the deposit money banks. When commercial banks are faced with limited liquidity, they turn to other deposit money banks for inter-bank borrowing. Those funds are borrowed at the CBR and it is usually very high, which affects the interest expense for the borrowing bank and the interest income for the lending bank. The other way to increase liquidity in the bank will be to borrow by floating a debt instrument. The rate offered for the debt instrument is also tied to the treasury bills or treasury bonds issued by the government through the Central Bank. These effects of the monetary tools are expected to have an effect on the financial performance of deposit money banks.

Several research studies have been done in relation to Deposit Money Banks in Nigeria: Gitonga (2015) studied the relationship between interest rate risk management and profitability of deposit money banks in Nigeria; Kimoro (2015) did a survey of the foreign exchange reserves risk management strategies adopted by the Central Bank of Nigeria and Mbotu (2015) did a study on the impact of the Central Bank of Nigeria rate (CBR) on deposit money banks' benchmark lending interest rates. Ongore and Kusa (2013) study examined the effects of bank specific factors and macroeconomic factors on the performance of deposit money banks in Nigeria during the period from 2001 to 2010.

1.3 Objectives of the study

The general objective of the study is to determine the effect of monetary policy on the financial performance of Deposit Money Banks in Nigeria. The specific objectives are as follows:

- i. To establish the effect of Central Bank Rate (CBR) on the financial performance of Deposit Money Banks.
- ii. To establish the effect of Reserve Ratio Requirement on the financial performance of Deposit Money Banks.

1.4 Research Question

- i. Does Central Bank Rate (CBR) has effect on the financial performance of Deposit Money Banks?
- ii. Does Reserve Ratio Requirement has effect on the financial performance of Deposit Money Banks?

1.5 Statement of Hypothesis

H0: There is no significant relationship between monetary policy and financial performance of Deposit Money Banks in Nigeria.

H1: There is significant relationship between monetary policy and financial performance of Deposit Money Banks in Nigeria.

1.6 Significance of the Study

The study helps us understand the impact of an effective monetary policy regime on the performance of the Deposit Money Banks. It would aid the regulators to carefully plan and forecast the effects of its policies to meet its objectives of economic growth and full employment. To bankers, it would expose the relationship existing between our relevant variables, which will be of interest to them in their respective banks. This would also benefit the academic community which would avail them the opportunity of conducting further research in the topic of similar areas.

The study is expected to contribute to the existing literature in the field of monetary policies. Future scholars can use this research as a basis for further research in the area of monetary policy theories. The study will also enlighten management teams of commercial bank on the short-term and long-term effects of the monetary policy implementations by the Central Bank. This will greatly help them in designing the risk management measures to employ given anticipated changes in monetary policies.

1.7 Scope of the Study

The scope of this research work is to examine the effects of monetary policy on the financial performance of deposit money bank in Nigeria. In which Union Bank Plc. was use as a case study. However, the research was limited to Union Bank Plc in Ibadan metropolis due to the schedule of researcher

1.8 Definition of Terms

Monetary Policy Rate (MPR): Minimum Rediscount Rate (MRR) now known as Monetary Policy Rate (MPR) was used to signal the desired direction of interest rate movement (Nwude, 2013).

Deposit Mobilization: Deposit Mobilization measures the aggregate mobilization of deposits in the economy. Deposits are bank accounts that allow the owner of the account (creditor) to make demand on banks. They include demand, time and savings and money market deposit account.

Credit to the Private Sector: Domestic credit to private sector by banks refers to financial resources provided to the private sector by other depository corporations (deposit taking corporations except central banks), such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises (IMF, 2016).

Loans and Advances: **Loans** refers to a debt provided by a financial institution for a certain period while **Advances** are the funds provided by the banks, which needs to be payable within one year

Liquidity: The ability of a bank to meet its current obligations when they are due, and is normally a short term debt measures.

Reserve Requirement: This refers to the proportion of total deposit liabilities which the commercial and merchant banks are expected to keep as cash in vaults and deposits with the Central Bank of Nigeria.

Quantitative Directives: These are directives from the Central Bank of Nigeria to the banks and other financial institutions under its control as to the total amount of money which they may lend.

Financial System: The channel or conduct through which the sayings of surplus sectors (the household) flow to the deficit sectors (business organizations).

Monetary System: A system whose main function is the provision of adequate stock of money or currencies i.e.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews various theories that inform economic development and their macroeconomic effects, seeks to locate the place of our focus subject and its relevance to the finance discipline. A critical review of empirical studies is undertaken and an effort to evaluate contributions is made and pertinent knowledge gaps identified.

2.1 Conceptual Framework

2.1.1 Concept of Monetary Policy

Ezenduyi (2004) defines monetary policy as the policy which involve the adjustment of money stock (through different means) interest rate exchange rate as well as expectation to influence the level of economic activities and inflation in desired direction, targeting as the mapping up of excess liquidity armed at ensuring a non-inflationary macro-economic environment. Monetary policy can be defined as the instruments at the disposal of the monetary authorities to influence the availability and cost of credit/money with the ultimate objective of achieving price stability as demonstrated by Ibeabuchi, (2012). Onouorah, et al (2016) defined monetary policy as a rule and regulation imposed by the monetary authority into controlling the money supply inflation and achieves economic growth.

Onyeiwu (2012) defines monetary policy as a technique of economic management to bring about sustainable economic growth and development has been the pursuit of nations and formal articulation of how money affects economic aggregate. Chigbu Okonkwo (2014) held that monetary policy generally refers to the deliberate efforts of the government to use changes in money supply, cost of credit, size of credit and direction of credit to influence the level of economic activities to achieve desired macroeconomic stability in an economy.

Richard (1999) stated that the instrument tools of monetary policy have been classified broadly in two categories traditional and non-traditional quantitative instrument. Monetary policies, as adopted in Nigeria, have four broad objectives.

- i. **To maintain a high level of employment (full employment):** Full employment means employment of labour, plant and capital at a tolerable capacity to achieve the set goals of national economic policy aimed at combating recession and economic depression.
- ii. **To maintain stable price level:** Price level stability goal is related in an important sense to the control of inflation refers to a situation of sustained and rapid increase in the general level of prices, however, generated (Nnanna, 2006). According to Ibeabuchi (2012), inflation reduces real disposable income and consequently the purchasing power of money.
- iii. **To maintain the highest sustainable rate of economic growth:** This means both quantitative and qualitative increase in the total quantity of goods and services produced in the economy annually. Nnanna (2006) opined that economic growth is said to be achieved in a country in a situation where there is an increase in the income position of the citizens of the country and also a corresponding increase in the amount of goods and services which a given quantity of money can buy.
- iv. **To maintain the highest equilibrium in the balance of payments:** A country's **balance of payment** may be in total equilibrium if there exists between total payments and total receipts, that is, the avoidance of larger or chronic deficit or surplus in the balance of payments

2.1.2 Concept of Bank Profitability and Financial Performance

The profitability of a bank is determined by interior and exterior determinants (Sattar, 2014) which agrees with (Ongore, 2013; Al-Tamini et al., 2015). The interior determinants are called micro or bank specific determinants of profitability because they are initiated from bank accounts like balance sheet or profit and loss account. While on the other hand, the exterior determinants are the variables which are not in the control of banks' management such as monetary policy interest rates. Chen et al. (1996) explained that these macroeconomic factors are significant in explaining firm performance (profitability) and subsequent returns to investment. Gilchris, (2013) agrees that the financial performance is commonly measured by ratios such as Return on Equity, Return on Assets. There are many different mathematical measures to evaluate how well a company is using its resources to make profit (Irungu, 2013).

Financial performance can be measured using the following techniques; operating income, earnings before interest and taxes, net asset value (Gilchris, 2013).

Irungu (2013) described financial performance analysis as the process of identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account. It's the process of identifying the relationship between the component parts of financial statements to ascertain an organization position, performance and prospects. Financial performance analysis can be undertaken by management, owners, creditors, investors (Chenn, 2011. Quarden (2009) argued that financial performance analysis helps in short term and long term forecasting and growth and can be identified with the help of financial ratios such as asset Utilization/efficiency ratios, deposit mobilization, loan performance, liquidity ratio, leverage/financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios can be used to evaluate bank performance (Bekant, 2016). The performance of banks gives direction to shareholders in their decision making (Panayiotis et al., 2011). Wainaina, (2013) says the effect of macroeconomic factors in other sectors of the economy will always affect the banking sector and what goes on in the banking sector will affect the other sectors of the economy. Chen et al., (1996) maintains that these macro-economic factors are significant in explaining firm performance (profitability) and subsequent returns to investors. Gilchris (2013) agrees that financial performance is commonly measured by ratios such as return on equity, return on assets, return on capital, return on sales and operating margin. A firm has several objectives but profit maximization is said to be paramount among these (Damilola, 2012; KPMG, 2010; Raheman and Nasr, 2012).

Profit is a tool for efficient resources allocation because it is the most appropriate measure of corporate performance under competitive market conditions (Pandey, 2010). Conceptually profit connotes the excess of revenue generated by a firm over its associated costs for an accounting period. Operationally the term profit is imprecise, as many variants exist. The term profit could refer to profit before tax, profit after tax, gross profit, net profit, profit per share, return on assets, among other variants (Damilola, 2012; Pandey, 2010). This imprecision has often posed decisional challenges to researchers who must select an

appropriate variant to proxy profitability. However, the most commonly used variants as appropriate measure of profitability include Gross operating profit, Net operating profit, Return on Assets (Deloof, 2008; Teruel and Solano, 2011; Lazaridis and Tryfonidis, 2010; Raheman and Nasr, 2012). According to Okafor (2016) the profitability performance also can be accessed from both book value and market value perspectives.

2.1.3 Concept of Interest Rates

According to Keynes, interest rate is the reward for not hoarding but for parting with liquidity for a specific period of time. Keynes' definition of interest rate focuses more on the lending rate. Adebisi (2009) defines interest rate as the return or yield on equity or opportunity cost of deferring current consumption into the future. Some examples of interest rate include the saving rate, lending rate, and the discount rate. Professor Lerner, in Jhingan (2008), defines interest as the price which equates the supply of 'Credit' or savings plus the net increase in the amount of money in the period, to the demand for credit or investment plus net 'hoarding' in the period.

This definition implies that an interest rate is the price of credit which like other price is determined by the forces of demand and supply; in this case, the demand and supply of loanable funds. Ibimodo (2010) defined interest rates, as the rental payment for the use of credit by borrowers and return for parting with liquidity by lenders. Like other prices interest rates perform a rationing function by allocating limited supply of credit among the many competing demands. Bernhardsen (2013) defined the interest rate as the real interest rate, at which inflation is stable and the production gap equals zero. That interest rate very often appears in monetary policy deliberations.

The real interest rate represents a fundamental valuation of temporary provision of capital (money) corresponding to a price level constant in time. It is also obvious from the above relation that if inflationary expectations change, nominal interest rates have to change aliquot at a constant real interest rate (Cottrell; 2010). The real interest rate concept is irreplaceable in the research into the mutual relations of inflation, because assuming that the creditors are rational, inflation and nominal interest rates influence each other. For similar reasons, the real interest rate is used in broader economic analyses. Expected inflation is an

unobservable quantity. In an expose analysis, it can be replaced by the actual rate of inflation in the following period, which is equivalent to assuming rational expectations (Bencik; 2014).

Theoretically less satisfactory, but easier to apply, is the assumption of adaptive expectations; this replaces expected inflation in the future by actual inflation in the present. Inflation is very important, because when there is increased inflation over a long period of time, economic agents recognize the actual value of money, stop suffering from money illusion and accept increased nominal rates. Therefore, investment as the main link between the interest rates and the real economy is considered a function of the real interest rates, as standard (Bencik; 2014).

2.1.4 Monetary Policy in Nigeria

CBN act 1959 clearly states that the objectives to be achieved by the CBN act to include the following: (1) Full employment attainment, (2) Long term interest rate stability 3) Optimal exchange rate target pursuance. According to Onyeiwu (2012) the CBN monetary policy in use has been charged with authority of devising and enforcing monetary policy of the CBN act (1958). The development of monetary policy is categorized in two stages: (1) direct control era (1959-1986) and (2) market-based controls era (1986-date). Direct control phase was an exceptional time in Nigeria's monetary management period. This is because it aligned with different changes in the structure of the economy. This includes economic base shift from agriculture to petroleum, civil war enforcement, the boom and crash in oil prices in both 1970s and 1980s, with the establishment of the structural adjustment programme. In this era, the monetary policies of the central bank was concentrated on putting in place and managing the rate of interest and exchange, discerning allocation to certain sectors, discount rate manipulations, finally moral suasion.

SAP commenced in 1986 and adjustments made to the CBN act in 1991 brought in a new era of implementation of monetary policy in Nigeria. This precisely guaranteed CBN goal autonomy and full instrument. Employing this method, CBN influences parameters in the economy indirectly via its OMO. The activities conducted are mainly on TB and REPOs serving a complimentary role with reserve requirements usage, Liquidity ratio and Cash

Reserve Ratio. The above instruments set is employed to cause changes in the quantity base nominal anchor (monetary aggregates) employed in monetary programming.

In other way, the cash reserve ratio (CRR) is used as the price based nominal anchor in swaying the direction in the economy cost of fund. Movements in this rate is a signal to the banks' monetary disposition, either it is pursuing a tightening or an expansionary monetary policy. They are generally placed within 26% and 8% range from 1986. The CBN latter established in 2006 the monetary policy rate (MPR) to replace CRR which states the rate of interest corridor added and subtract 2% point of existing MPR.

2.1.5 Monetary Policy Instruments

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

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

2.1.5.1 Direct Instruments or Qualitative Instruments of Monetary Policy Tools

Though there is an avalanche of instruments available for money and credit control, the instrument mix to be employed at any time depends on the goals to be achieved and the effectiveness of such instrument to a large extent hinges on the economic fortunes of the country.

- i. **Reserve Requirement:** 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. Fractional reserve limits the amount of loans banks can make to the domestic economy and thus limit the supply of money. The assumption is that Deposit Money Banks generally maintain a stable relationship between their reserve holdings and the amount of credit they extend to the public.
- ii. **Special Deposits:** The central bank has the power to issue directories 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.

- iii. **Moral Suasion:** Moral suasion simply means the employment by the monetary authority of friendly persuasive statement, public pronouncement outright appeal the monetary authority sometimes uses the less tangible technique to influence the lending policies of commercial banks. Consequences to the banking system and the economy as a whole, the Central Bank of Nigeria holds periodic meetings with the bankers committees and on other occasion meets formally or informally with the leaders in the banking community (CBN, 2013). With the leaders in the banking community – such contracts are geared towards the development of confidence between the central bank and other banks. It affords the central bank opportunity to discuss the improvement in standards and conducts in the banking industry.
- iv. **Selective Credit Control:** According to Nnanna (2006), this instrument is used to distinguish among the sectors of the economy into preferred and less preferred sectors. This is usually designed to influence the direction of credits in the economy so as to ensure that credits go to those sectors designed “preferred”. It is very useful where a country operates development plans like Nigeria. When plans are drawn up these credit controls will be integrated in the budget. In course of the government’s programme to revitalize agricultural production which is the most favored sector, credits to the favored sector is at lower interest rate while the least favored sectors pay the highest rate of interest.
- v. **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 asset ratio and issue credit guarantee to preferred loans. In this way the available savings is allocated and investment directed in particular directions.
- vi. **Prudential Guidelines:** The Central Bank may in writing require the Deposit Money Banks to exercise particular care in their operations in order that specified outcomes are realized (CBN, 2013). Key elements of prudential guidelines remove some discretion from bank management and replace it with rules in decision making.

2.1.5.2 Indirect Instruments or Quantitative Instruments of Monetary Policy

Fiduciary or paper money is issued by the Central Bank on the basis of computation of estimated demand for cash. To conduct monetary policy, some monetary variables which the Central Bank controls are adjusted-a monetary aggregate, an interest rate or the exchange rate-in order to affect the goals which it does not control. The instruments of monetary policy used by the Central Bank depend on the level of development of the economy, especially its banking sector. The commonly used instruments are discussed below (CBN, 2016):

- i. **Open Market Operations:** The Central Bank buys or sells (on behalf of the Fiscal Authorities (the Treasury) securities to the banking and non-banking public (that is in the open market). One such security is Treasury Bills. When the Central Bank sells securities, it reduces the supply of reserves and when it buys (back) securities-by redeeming them-it increases the supply of reserves to the Deposit Money Banks, thus affecting the supply of money (CBN, 2013; Ibeabuchi, 2012; Ojo, 2013; & Solomon, 2013).
- ii. **Lending by the Central Bank:** The Central Bank sometimes provide credit to Deposit Money Banks, thus affecting the level of reserves and hence the monetary base (CBN, 2013).
- iii. **Interest Rate:** The Central Bank lends to financially sound Deposit Money Banks at a most favourable rate of interest, 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) according to Obidike, Ejeh, &Ugwuegbe (2015)
- iv. **Exchange Rate:** The balance of payments can be in deficit or in surplus and each of these affect the monetary base, and hence the money supply in 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 the real exchange rate. The real exchange rate when misaligned affects the current account balance because of its

impact on external competitiveness (Akpan, 2013; Imoisi, Olatunji&Ekpenyong, 2013; Ibeabuchi, 2012; & Sanusi, 2009).

- v. **Rediscount Rate:** The rediscount rate is the rate at which the central bank stands ready to provide loan accommodation to commercial banks (CBN, 2013). As a lender of last resort, such lending by the in the rate, the central bank controls the volume of total credits indirectly. This has the purpose of influencing the lending capacity of the commercial banks. During the periods of inflation, the central bank may raise the rediscount rate making obtaining of funds from the central bank more expensive. In this way, credit is made tighter. Similarly, in depression, when it is necessary to encourage commercial banks to create more credits, the central bank will lower the rediscount rate.
- vi. **Cash Reserve Requirements:** Ojo (2013) posit that the reserve requirement can be manipulated by the central bank to reduce the ability of commercial banks to make loans to the public by simply increasing the ratio or enhancing their lending position by decrease in the ratio. Reserve requirement is loan of the most powerful instruments of monetary control (CBN, 2013). A change in the required reserve ratio changes the ratio by which the banking system can expand deposit through the multiplier effect. If the required reserve ratio increases, the multiplier decreases and thereby reduces the liquidity position of the banking system.

2.1.6 Monetary Policy and Economic Growth

Taylor (2009) mentions that monetary Policy is a key component of any pro-growth economic system and much so in developing economies such as the Nigerian Economy. In general terms, monetary policy refers to a combination of measures designed to regulate the value, supply and cost of money in an economy in consonance with the expected level of economic activity. For most economies, Nigerian economy inclusive, the objectives of monetary policy includes price stability, maintenance of Balance of Payments equilibrium, promotion of employment and output growth. Gbosi (2007), posits that monetary policy aims at controlling money supply so as to counteract all undesirable trends in the economy, these undesirable trends may include; unemployment, inflation, sluggish economic growth or disequilibrium in the Balance of Payments. Monetary policy may either be expansionary or

restrictive. An expansionary monetary policy is designed to stimulate the growth of aggregate demand through increase in the rate of money supply thereby making credit more available and interest rates lower. An expansionary monetary policy is more appropriate when aggregate demand is low in relation to the capacity of the economy to produce goods and services. On the contrary, if the quantity of money is reduced or restricted, money income will rise slowly so that consumers spend less and funds for investment are difficult to acquire thereby decreasing aggregate investment (restrictive monetary policy) (Imoisi, Olatunji, & Ekpenyong, 2013).

The condition in the financial markets and institutions would create a high degree of confidence, such that the financial infrastructure of the economy is able to meet the requirements of market participants (Nkoro, 2008). In other words, an unstable and crisis ridden financial system will render the transmission mechanism of monetary policy less effective, making the achievement and maintenance of strong macroeconomic fundamentals difficulty.

Akomolafe, Danladi, Babalola & Abah (2015) noted that as a stabilization policy, monetary policy involves the use of monetary instruments to regulate or control the volume, cost, availability and the direction of money and credit in an economy to achieve some specific macroeconomic policy objective. According to Onouorah, Shaib, Oyathelemi, & Friday (2016), it is a deliberate attempt by the monetary authority (Central Bank) to control the money supply and credit condition in the economy so as to achieve certain economic objective. Some of the macroeconomic objectives include price stability, full employment, sustainable economic growth, balance of payment equilibrium.

2.1.7 The Role of Deposit Money Banks in the Nigeria Economy

The traditional role of banks is to accept deposits and make loans and derive a profit from the difference in the interest rates paid and charged to depositors and borrowers respectively. The process performed by banks of taking in funds from a depositor and then lending them out to a borrower is known as financial intermediation (Sanderson, 2013). Through the process of financial intermediation, certain assets are transformed into different assets or liabilities. As such, financial intermediaries channel funds from people who have

extra money or surplus savings (savers) to those who do not have enough money to carry out a desired activity (borrowers). Banking thrives on the financial intermediation abilities of financial institutions that allow them to lend out money and receiving money on deposit. The bank is the most important financial intermediary in the economy as it connects surplus and deficit economic agents. Sanderson (2013) summarized roles of deposit money banks to include:

- i. **Credit Provision:** Credit fuels economic activity by allowing businesses to invest beyond their cash on hand, households to purchase homes without saving the entire cost in advance, and governments to smooth out their spending by mitigating the cyclical pattern of tax revenues and to invest in infrastructure projects.
- ii. **Liquidity Provision:** Businesses and households need to have protection against unexpected needs for cash. Banks are the main direct providers of liquidity, both through offering demand deposits that can be withdrawn any time and by offering lines of credit. Further, banks and their affiliates are at the core of the financial markets, offering to buy and sell securities and related products at need, in large volumes, with relatively modest transaction costs.
- iii. **Risk Management Services:** Banks allow businesses and households to pool their risks from exposures to financial and commodity markets. Much of this is provided by banks through derivatives instruments transactions. Banks also enable individuals and businesses to take part in the global foreign exchange and commodity markets indirectly. It would be very difficult for example for a small company needing only a few million Japanese yen to import a vehicle from Japan to get onto the global currency markets without the aid of a bank.
- iv. **Remittance of Money:** Cash can be transferred easily from one place to another and from one country to another by the help of a bank. It has facilitated transactions in distant places. This, in turn, has expanded the internal and external trade and market. The men have become free of the risks of carrying cash, gold, silver etc. The credit instruments issued by banks such as cheque, draft, Real time gross settlement, credit cards have facilitated the transfer of money.

- v. **Rapid Economic Development:** the banks make available loans of different periods to agriculture, industry and trade. They make direct investments in industrial sectors. They provide industrial, agricultural and commercial consultancy hence facilitating the process of economic development.

2.1.8 Determinants of Financial Performance

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors. Internal factors are individual bank characteristics which affect the bank's financial performance. These factors are basically influenced by internal decisions of the management and the board. The CAMEL framework is often used to proxy the bank specific factors. CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity Management. External determinants of bank profitability are factors that are beyond the control of a bank's management. They represent events outside the influence of the bank. However, the management can anticipate changes in the external environment and try to position the institution to take advantage of anticipated developments.

2.1.8.1 Capital Adequacy

Capital is the amount of owner funds available to support a bank's business and act as a buffer in case of adverse situation (Athanasoglou, Brissimis and Delis, 2010). Bank's capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress. Capital adequacy is the level of capital required by the banks to enable them withstand risks such as credit, market and operational risks they are exposed to in order to absorb the potential losses and protect the bank's debtors. The adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly related to the resilience of the bank to crisis situations. It has also a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi and Nazir, 2015).

2.1.8.2 Asset Quality

The bank's asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, loan portfolio, fixed asset, and other investments. More often than not the loan book of a bank is the major asset that generates the major share of the banks income. The loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the losses that arise from non-performing loans. Thus, nonperforming loan ratios are the best proxies for asset quality. It is the major concern of all commercial banks to keep the amount of nonperforming loans at a low level. Thus, low nonperforming loans to total loans ratio shows good health of the portfolio a bank. The lower the ratio the better the deposit money banks financial performance (Sangmi and Nazir, 2015).

2.1.8.3 Management Efficiency

Management Efficiency is one of the key internal factors that determine the bank profitability. It is represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Yet, it is one of the complex subject to capture with financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for evaluating management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others parameters.

The capability of the management to deploy resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of the ratios used to measure management quality is operating profit to income ratio (Sangmi and Nazir, 2015). The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important ratio that proxy management quality is expenses to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al. 2010).

2.1.8.4 Earnings Ability

Financial institutions in the recent years have increasingly been generating income from off-balance sheet business and fee income. Albertazzi and Gambacorta (2011) noted that the decline in interest margins forced banks to explore alternative sources of revenues leading to diversification into trading activities, other services and non-traditional financial operations. The concept of revenue diversification follows the concept of portfolio theory which states that individuals can reduce firm specific risk by diversifying their portfolios. Sufian and Chong (2014) found a positive relationship between total non-interest income divided by total assets, a proxy for income diversification, and a bank profitability using data from all commercial banks in Philippines.

2.1.8.5 Liquidity Management

Liquidity is another factor that determines the level of bank performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. Adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank are customer deposit to total asset and total loan to customer deposits. Other financial ratios can be used to measure liquidity. Ilhomovich (2014) used cash to deposit ratio to measure the liquidity level of banks in Malaysia.

2.1.8.6 Macroeconomic variables

Macroeconomic conditions may affect banking performance in a number of ways. Firstly, there will be a higher demand for bank credit in times of economic boom than in times of recession. A high aggregate growth rate may strengthen the debt servicing capacity of domestic borrowers, and therefore, contribute to less credit risk. Alternatively, adverse macroeconomic conditions hurt banks by increasing the amount of non-performing loans. Thus, it is expected that an improvement in economic growth helps bank performance.

Secondly, it is generally believed that a rising interest rate should lead to higher banking sector profitability by increasing the spread between the saving and the borrowing rates. Hanweck and Kilcollin (2004) found that this relationship is particularly apparent for smaller banks in the USA during the 1976-1984 period. They noticed that falling interest rates during recession lead to slower growth in loans and increase in loan loss. Consequently, banks,

particularly the small ones, may have difficulty in maintaining profit as market rate drops. Further studies by Demirguc-Kunt and Huizinga (2009), Staikouras and Wood (2008) and Cheang (2010) all notice a positive relationship between interest rates and bank profitability.

Finally, the effect of inflation is also another important determinant of banking performance. In general, high inflation rates are associated with high loan interest rates and thus high income. Perry (2002), however, asserts that the effect of inflation on banking performance depends on whether inflation is anticipated or unanticipated. If inflation is fully anticipated and interest rates are adjusted accordingly, a positive impact on profitability will result. Alternatively, unexpected rises in inflation cause cash flow difficulties for borrowers, which can lead to premature termination of loan arrangements and precipitate loan losses. Indeed, if the banks are sluggish in adjusting their interest rates, there is a possibility that bank costs may increase faster than bank revenues. Hoggarth et al., (2008) even conclude that high and variable inflation may cause difficulties in planning and in negotiation of loans.

The findings of the relationship between inflation and profitability are mixed. Although the studies of Guru et al., (2007) in Malaysia and Jiang et al., (2008) in Hong Kong show that higher inflation rate leads to higher bank profitability, the study of Abreu and Mendes (2005), nevertheless, reports a negative coefficient for the inflation variable in European countries. In addition, Demirguc-Kunt and Huizinga (2009) notice that banks in developing countries tend to be less profitable in inflationary environments, particularly when they have a high capital ratio. In these countries, bank costs actually increase faster than bank revenues.

2.1.8.7 Financial structure variables

Many studies in the banking literature investigate whether financial structure, which is defined as the relative importance of banks, plays a role in determining banking performance. In general, a high bank asset-to-GDP ratio implies that financial development plays an important role in the economy. This relative importance may reflect a higher demand for banking services, which in turn, attracts more potential competitors to enter the market. When the market becomes more competitive, banks need to adopt different strategic moves in order to sustain their profitability.

Demirguc-Kunt and Huizinga (2009) present evidences that financial development and structure variables are very important. Their results show that banks in countries with more competitive banking sectors, where bank assets constitute a large portion of GDP, generally have smaller margins and are less profitable. Also, they notice that countries with underdeveloped financial systems tend to be less efficient and adopt less-than-competitive pricing behaviours. In fact, for these countries, greater financial development can help to improve the efficiency of the banking sector. Consequently, the market structure of the banking industry shows important implications for profitability.

Furthermore, studies by Smirlock (2005), Bourke (2009) and Staikouras and Wood (2008) suggest that industry concentration has a positive impact on banking performance. The more concentrated the industry is, the greater the monopolistic power of the firms will be. This, in turn, improves profit margins of banks. However, there are also some studies that report conflicting results. For example, Naceur (2008) reports a negative coefficient between concentration and bank profitability in Tunisia. Also, Karasulu (2006) finds that the increasing concentration does not necessarily contribute to profitability of the banking sector in Korea.

2.2 Theoretical Framework

The performance of deposit money banks is influenced by a host of many factors some of which are macro-economic, institutional, regulatory and legal. The common features of the theories discussed in Uchendu (2010) indicated that in attempting to maximize profits, banks must comply with capital adequacy and liquidity considerations. Uchendu (2010) rightly stated that regulatory influences of monetary authorities include those on interest and exchange rates, bank reserves (indicating credit availability), labour cost or productivity

2.2.1 Classical Theory

The widely accepted approach to monetary economics was known as the quantity theory of money, used as part of a broader approach to micro and macro issues referred to as classical economics from the works of Irving Fisher who lay the foundation of the quantity theory of money through his equation of exchange. Diamond (2008) states in his proposition that money has no effect on economic aggregates but price. The classical school evolved through concerted efforts and contribution of economists like Jean Baptist Say, Adam Smith,

David Richardo, Pigu and others who shared the same beliefs. The classical economists decided upon the quantity theory of money as the determinant of the general price level. Most were of the opinion that the quantity of money determines the aggregate demand which in turn determine the price level as posited by Amacher & Uibrich (2006).

Onouorah, Shaib, Oyathelemi, & Friday (2016) mentions that the quantity theory of money was not only a theory about the influence of money on the economy and how a Central Bank should manage the economy's money supply, but it represented a specific view of the private market economy and the role of government. The private market such as banks provided the best framework for achieving socially and economically desired outcomes. According to the theory, the role of government was providing a system of laws and security to protect private property, as well as providing a stable financial and monetary framework.

The economic depression of the 1930s, according to Onyemaechi (2010) drastically changed attitudes about the role of money and monetary policy as a tool of economic stabilization. Monetary policy was then viewed as an ineffective method of fighting depressions, and the belief in a self-regulating market that reached socially desirable results was destroyed.

2.2.2 The Keynesian Theory

The Keynesian Economists think of monetary policy as working primarily through interest rate. In Keynesian transmission mechanism, an increase in the money supply leads to a fall in interest rate to induce the public to hold additional money balances.

Consequently, a fall in interest rate may stimulate investment. The increased investments also increase the level of income or output through the multiplier, which may stimulate economic activities. Thus, monetary policy affects economic activity indirectly through their impact on interest rates and investment. Therefore, the Keynesian transmission mechanism is characterized by a highly detailed sector building up of aggregate demand and a detailed specification of portfolio adjustment process that attaches central role to interest as an indirect link between monetary policy and fiscal demand. In simple terms, the monetary mechanism of Keynesians emphasizes the role of money, but involves an indirect linkage of money with aggregate demand via the interest rate as symbolically shown below:

-OMO- R-MS-r- I=GNP

Where, OMO = Open Market Operation

R = Commercial Bank Reserve

MS = Stock of Money

r = Interest Rate

I = Investment

GNP = Gross National Product

On a more analytical note, if the economy is initially at equilibrium and there is open market purchase of government securities by the Central Bank of Nigeria (CBN), this open Market Operation (OMO) will increase the commercial banks reserve (R) and raise the bank reserves. The bank then operates to restore their desired ratio by extending new loans or by expanding bank credit in other ways. Such new loans create new demand deposits, thus increasing the money supply (MS).

2.2.3 The Monetarist Theory

The Monetarist Economist recognize that money is not just a close substitute for a small class of financial assets but rather a substitute for large spectrum of financial and real asset. Given an equilibrium position, an increase in money supply raises the actual proportion of money relative to the desired proportion. Symbolically, the monetarist conception of money transmission mechanism can be summarized below:

OMO-MS- Spending= GNP

2.2.4 Liability Management Theory

The theory holds that banks could satisfy any liquidity need and short-run profit opportunity by issuing money market liabilities such as certificate of deposit (CD). Another version of the theory states that money market bank liabilities should be used along with bank assets to meet liquidity needs, which will lead to deposit money banks profitability.

2.3 Empirical Review

There are several documented studies on the determinants of financial performance of commercial banks globally. Some of the studies incorporated various monetary tools in analyzing the effect of macroeconomic stability on commercial banks' financial performance.

Kocha (2023) assessed the extent to which monetary policy shocks affect the financial performance of listed deposit money banks in Nigeria. The study sampled 12 listed deposit money banks and covered the period from 2010 to 2021. Specifically, the empirical analysis was based on pooled regression, fixed effects and random effects methods. The analysis showed that market value per share is persistent and can be predicted on the basis of its own immediate history, and that while monetary policy rate has a positive and significant impact on bank financial performance, interbank call rate has a positive but weak significant impact on bank financial performance. The estimated DGMM model for the relationship between monetary policy shocks and bank performance has no specification problem; hence, the results are empirically valid. The theoretical and practical implications of these findings are discussed.

Uruakpa (2023) examined the impact of monetary policy on deposit money banks' profitability in Nigeria. Data were collected through the Central Bank of Nigeria Statistical Bulletin from 1985 to 2021. Analysis were carried out using OLS; Co-integration and Error correction model (ECM) were adopted for further analysis. Findings revealed that there is a positive but insignificant relationship between Cash Reserve ratio (CRR) and return on assets of deposit money banks in Nigeria; liquidity ratio (LQR) has a positive but insignificant impact on return on assets of deposit money banks in Nigeria; there is positive but insignificant relationship between Monetary Policy Rate (MPR) and return on assets of deposit money banks in Nigeria; and there is a negative but insignificant relationship between money supply (MSP) and return on asset of deposit money banks in Nigeria. Based on these findings, the study recommended that the CBN should continuously adopt all instruments investigated in this study to regulate banking activities.

Nwachukwu and Umebali (2023) examined how Nigerian deposit money banks behave in relation to monetary policy. Evidence from the study showed that the central bank has successfully used monetary policy instruments to increase the lending portfolio of DMBs to the private sector. In particular, the cash reserve ratio has been carefully adhered to by banks in Nigeria because it improved banks' performance over the long term. Another element of monetary policy that has assisted banks in maintaining their profitability is the loan-to-deposit

ratio, which guarantees the private sector's unrestricted access to bank credits. However, the monetary policy rate had not positively impacted bank lending to the private sector. This also holds true for the liquidity ratio and the exchange rate. The study concluded that there was substantial evidence that monetary policy had positively, but unsatisfactorily, impacted DMB's performance. In order to speed up bank credits, some rates must still be checked.

Owoeye et al. (2023) examined the effect of monetary policy on the financial performance of deposit money banks in Nigeria over a period of 19 years between 2000 and 2018. Specifically, the study established the effect of interest rate (INT) and cash reserve ratio (CRR) on the financial performance of deposit money banks. The findings of the study indicated that interest rate and cash reserve ratio influenced the performance of banks in terms of their deposit liabilities. The study recommended that governments should ensure good and stable monetary policy in Nigeria such that deposit money banks' performance can be enhanced in Nigeria.

Olaoye and Olaniyan (2022) researched the impact of monetary policy on firm performance of listed deposit money banks in Nigeria. The study was predicated on the Keynesian theory of monetary policy and the monetarist theory. The population of the study consisted on thirtythree (33) DMBs listed on the NSE; however, only five (5) samples were selected from the population which covered 10 years (2010-2020) period. The collected data were analyzed using Descriptive, Granger Causality and Ordinary Least Square (OLS) regression analysis. The study concluded that there exists a strong positive relationship between exchange rate, cash reserved and actual lending rate which is significant.

Gimba et al. (2020) examined the effect of monetary policy on the performance of listed deposit money banks in Nigeria from 2006-2018 and adopted the ex post-facto research design. Panel time series data were extracted based on the variables used in the study. The findings showed that monetary policy had a significant effect on the performance of listed deposit money banks in Nigeria. Based on the result, it was concluded that liquidity ratio and loan to deposit are significant on net profit margin; likewise, interest rate and cash reserve ratio were insignificant on net profit margin.

Alalade et al. (2020) studied monetary policy and financial performance of deposit money banks in Nigeria. When financial performance is measured as total credits, the liquidity ratio and loans to deposit ratio had a positive significant effect in the long run. The cash reserve ratio had a negative significant effect in the long run. The log of lending rate was insignificant in both the long and short run. The study concluded that monetary policy significantly explains the financial performance of deposit money banks both in the short and long run. Adesina et al. (2018) ascertained the monetary policy instruments of the Central Bank of Nigeria (CBN) during and after the bank consolidation exercise (2000-2016) and determined the effects of these policies on the financial performance of deposit money banks (DMBs) in Nigeria.

2.4 Gaps in Literature

Several researchers have studied the relationship between monetary policy and banks' performance (Kocha, 2023; Uruakpa, 2023; Afolabi & Akinde, 2023; Nwachukwu & Umehali, 2023; Asobari & Christian, 2023; Jeff-Anyeneh et al., 2023; Owoeye et al., 2023; Hassan & Oyedele, 2022; Olaoye & Olaniyan, 2022; Lawal et al., 2022; Osakwe et al., 2021; Gimba et al., 2020; Alalade et al., 2020; Adesina et al., 2018). However, none of these researchers considered two models or two proxies for financial performance of deposit money banks in Nigeria or the effect of monetary policy on the financial performance of deposit money banks using top 5 DMBs (Access Bank, First Bank, Guaranty Trust Bank, UBA and Zenith Bank). The objective of this study was to examine the nature, trend and pattern of selected monetary policy instruments; the trend and pattern of the financial performance of money deposit banks (MDBs); and the effect of monetary policy on the financial performance of deposit money banks in Nigeria between 2013 and 2022.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Area of Study

The area of study is Union Bank of Nigeria Plc. which was established in 1917 as a bank of the colonial bank. The bank was opened in February that year principally to service international trade of the companies and assists the colonial government

3.1 Research Design

The section that could have referred to as either research design or research method is very critical to the entire research process. It is in this section that the research stamps his scientific status on the process. A research design therefore is a blue print or scheme that is used by the research for specific structure and strategy in investigating the relationship that exist among variables of the study as to enable time or her collect the data which will be used for the study.

Research designs are basically of four types, which are “experimental, historical, survey and case study research design”. For the purpose of this study, the researcher adopted the case study approach in evaluating the effect of monetary policy on the performance of deposit money bank in Nigeria. Both primary and secondary sources of data were adhered to on the course of this study and the attitude and responses of those interviewed were noted.

3.2 Sources of Data

3.1.1 Primary Sources of Data

The primary sources of data are the sampling or study unit from which information is obtained on a first-hand basis. It is very important to note here that the researcher did not adopt any rigid method in the collection of data; rather the data for the research were collected in response to the requirements of the research problem. Creativity and judgment also played a vital role at this stage of the project, bearing in mind the final judgment will be partly constrained be the type and values of information collected. The primary data were gathered from the following sources:

- a. **Oral interview:** Personal interviews were conducted in addition to the questionnaires that were duly administered. The information obtained through the oral interview was use in

cross checking the responses to the questionnaire. It either affirmed or disproved the data collected.

b. **Unstructured interviews:** Unstructured interviews were also collected out through informal discussions with various staff members at different levels of operations.

c. **Actual field investigation:** The researcher was privileged to see the annual reports in order to fully comprehend their performance as well as its reporting style.

3.1.2 Secondary Sources of Data

Library and internet materials provided the bulk of the secondary research data collected by the researcher. These resource materials were used to review extensively the facts and the reporting components of Union Bank Plc. For the purpose of obtaining these secondary data the following academic libraries and website were used:

1. Wikipedia.com
2. Google.com
3. The Library

In summary, these sets of data gathered which includes:

- Data from and interview, internet and library materials
- Data from the compilation of other related research work previously conducted

The data gathered was used at three different stages as follows:

- i. In anticipation of these data, the question on the questionnaires were design in order to ensure that the respondents will confirm these data
- ii. The data also formed the basis upon which the review of related literature was carried out
- iii. They also formed part of the analysis that will be carried out in chapter four which led to conclusion which was later arrived at in chapter five.

3.3 Population of the Study Determination of Sample Size

Population is described as the entire member of object that needs to be studied. The population in this research work was the deposit money bank in Nigeria in which Union Bank of Nigeria was used as a case study. A sample is a portion of the population selected for study. It is very important to select sample size that will give sufficient fair representation of the

population. There are two basic way of making the sample size decision, one is by rule of thumb and the other one is by calculated method. In this research work, the rule of the thumb was used for this research where 50 workers of total population were selected as the sample size. The sample is also made up of senior and junior staff of the Union Bank Plc.

3.3 Instrumentation

A questionnaire is a composition of carefully selected and ordered questions, statements presented to the respondents in order to obtain information or data. Data required testing the hypothesis. This test will provide answers to the questions raised in the research problem. The questionnaires were administered based on the non-random selection of the persons as contained in the sample. This was done in such a way as to get the desired result. The questionnaire contains fifty (50) questions. The questions are from of close-ended where respondents are expected to give their opinion freely without having to choose from any alternative.

Methods for instrument for data collection also include personal observation. Personal observation is the process of data collection, personal tour to the internal accounting department, where the case study was made. The researcher conducted random checking is into various departments for any easy observation and keeping custody of receipts and other relevant documents/information.

3.4 Procedure for Data Collection and Data Analysis

Collection of data refers to the research instruments used by the researcher to collect whatever data needed. The research instruments used in this research include: questionnaires, internet, interviews and library research. Questionnaires were employed by the researcher because it is most practical, economical and easiest way of obtaining information about events. They also helped in collecting information that are valid interview schedule was made use of by the researcher because of its usefulness in following up on unexpected result in order to validate other method or problem motivation of respondents and their reasons for responding the way they did. The primary data gathered were effectively and extensively employed in the next chapter to test the formulated hypothesis.

The researcher translated the data into simple percentages. This was to enable an inferential statement to be made about any relationship. The formulated hypotheses were tested using chi-square (X^2) test statistics which measures the significance of the difference between the observed set of frequencies. The computations were done using the chi-square formula which is:

$$X^2 = \sum \frac{(o_i - e_i)^2}{e_i}$$

Where, o_i = observed frequency

e_i = expected frequency

The research hypotheses earlier formulated in the chapter one were tested in chapter four for acceptance or rejection using the Chi-square statistical techniques.

3.5 Limitations of the Study

Limitations envisage in this research work are:

- i. Restriction on data generation: the data obtained was restricted to the case study
- ii. Time frame of this research work is another limitation as more time may be required to get up to date information from bank and clients
- iii. Also there might be financial and transportation congestion constraints to this study.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, the data collected from questionnaire are presented, analysed and tabulated. Fifty questionnaires were prepared and distributed to the respondent drawn from lower and senior staff of Union Bank Plc. The analysis were carried out using simple percentage method, the hypothesis will be analyse using the chi-square based on the analysis of the relevant questions.

4.2 Data Analysis and Findings

Table 4.1.1 Sex distribution of the respondent

	Frequency	Percent	Valid percent	Cumulative percent
Male	32	64	64	64
Female	18	36	36	100.0
Total	50	100.0	100.0	

Source: Field Survey, 2024

As shown in the table above, it was revealed that 32 (64%) of the respondents are male while 18 (36%) are female.

Table 4.1.2 Age distribution of the respondents

		Frequency	Percent	Valid percent	Cumulative percent
	20-30years	6	12	12	12
	31-40years	24	48	48	60
Valid	41- above	20	40	40	100
	Total	50	100.0	100.0	

Source: Field Survey, 2024

As shown in the table above, it was revealed that 6 (12%) of the respondents fall under the age range of 20 to 31years, 24 (48%) of the respondents fall in 31 to 40 years, while 20 (40%) of the respondents falls to 41 years and above.

Table 4.1.3 Marital Status of the respondents

		Frequency	Percent	Valid percent	Cumulative percent
	Single	10	20	20	20
Valid	Married	40	80	80	100

	Total	50	100.0	100.0	
--	-------	----	-------	-------	--

Source: Field Survey, 2024

As shown in the table above, it was revealed that 10 (20%) of the respondents are single while 40 (80%) are married

Table 4.1.4 Academic qualification of the respondents

		Frequency	Percent	Valid percent	Cumulative percent
	OND/NCE	16	32	32	32
	HND/BSC	22	44	44	76
Valid	MBA/MSC	8	16	16	92
	OTHERS	4	8	8	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

According to academic qualification of respondent of respondents, the responses in the questionnaires shows that respondents 16 (32%) are Diploma/NCE holders, 22 (44%) respondents are BSC/HND certificate holders while 8 (16%) respondents are MBA/MSC holders.

Table 4.1.5 Year of Experience of the respondents

		Frequency	Percent	Valid percent	Cumulative percent
	0-5YEARS	12	24	24	24
	6 – 10 YEARS	20	40	40	64
Valid	11–15	10	20	20	84
	16 and above	8	16	16	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

Form the table above it shows that the 12 respondents representing 24% has a working experience for period of 0 – 5years, 20 respondents representing 40% has been working for the period of 6 – 10years, 10 respondents representing 20% has been working for 11 – 15 years while 8 respondents representing 16% has been working for 16 years and above.

Section B:

Table 4.1.6: is there any effect of monetary policy on the financial performance of deposit money banks in Nigeria?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	25	50	50	50

	Agree	10	20	20	70
Valid	Strongly Disagree	9	18	18	88
	Disagree	6	12	12	100
	Total	50	100.0	100.0	

Source: Field Survey, 2024

It could be inferred that majority of the respondent strongly agree that there are effect of monetary policy on the financial performance of deposit money banks in Nigeria while minority disagreed.

Table 4.1.7 Does your deposit money bank protect the helpless depositors?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	34	68	68	68
	Agree	8	16	16	84
Valid	Strongly Disagree	4	8	8	92
	Disagree	4	8	8	100
	Total	50	100.0	100.0	

Source: Field Survey, 2024

It could be inferred that majority of the respondent strongly agree that there deposit money bank protect the helpless depositors while minority strongly disagree and disagree.

Table 4.1.8 Does deposit money bank put inflation into check?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	23	46	46	46
	Agree	12	24	24	70
Valid	Strongly Disagree	10	20	20	90
	Disagree	5	10	10	100
	Total	50	100.0	100.0	

Source: Field Survey, 2024

It could be seen from the table that the majority representing 70% strongly agreed and agreed that deposit money bank put inflation into check.

Table 4.1.9 Does Central Bank Rate has effect on the financial performance of deposit money banks in Nigeria?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	12	44	44	44
	Agree	15	30	30	74
Valid	Strongly Disagree	10	20	20	94

	Disagree	3	06	06	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

From the above table majority agreed that Central Bank Rate has effect on the financial performance of deposit money banks in Nigeria whereas minority thought otherwise.

Table 4.1.10 Does Deposit Money Banks create sustainable friendly banking environment in Nigeria?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	30	60	60	60
	Agree	13	26	26	86
Valid	Strongly Disagree	3	6	6	92
	Disagree	4	8	8	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

It could be deduced that the majority representing 86% strongly agreed and agreed that Deposit

Money Banks create sustainable friendly banking environment in Nigeria.

Table 4.1.11 Does Deposit money bank imposes or prescribe penalty on any defaulting financial institution?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	15	30	30	30
	Agree	22	44	44	74
Valid	Strongly Disagree	10	20	20	94
	Disagree	3	6	6	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

It could be deduced that the majority representing 74% strongly agreed and agreed that deposit money bank imposes or prescribe penalty on any defaulting financial institution.

Table 4.1.12 Does deposit money bank policy affect banking operations in its bid to regulate money supply in the economy with particular reference to deposit and credit creation?

		Frequency	Percent	Valid percent	Cumulative
	Strongly Agree	28	56	56	56

	Agree	13	26	26	82
Valid	Strongly Disagree	4	8	8	90
	Disagree	5	10	10	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

The table above shows that almost all the respondents strongly agreed and agreed that deposit money bank policy affect banking operations in its bid to regulate money supply in the economy with particular reference to deposit and credit creation.

Table 4.1.13 Does Reserve Ratio Requirement have effect on the financial performance of Deposit Money Banks in Nigeria?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	30	60	60	60
	Agree	10	20	20	80
Valid	Strongly Disagree	6	12	12	92
	Disagree	4	8	8	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

This table shows that most of the respondent strongly agreed and agreed that the Reserve Ratio Requirement have effect on the financial performance of Deposit Money Banks in Nigeria, while few respondents strongly disagreed and disagreed that the Reserve Ratio Requirement have effect on the financial performance of Deposit Money Banks in Nigeria.

Table 4.1.14 Has Central Bank of Nigeria gone far in its achievement of regulating money supply?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	30	60	60	60
	Agree	10	20	20	80
Valid	Strongly Disagree	7	14	14	94
	Disagree	3	6	6	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

From the table above majority of respondents strongly agreed and agreed that the Central Bank of Nigeria has gone far in its achievement of regulating money supply. While only few respondents disagreed.

Table 4.1.15 Do you think monetary policy has improve the industries in Nigeria as a whole?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	4	8	8	8
	Agree	2	12	12	20
Valid	Strongly Disagree	30	60	60	80
	Disagree	10	20	20	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

The table above shows that majority of respondent strongly disagreed and disagreed that monetary policy has improve the industries in Nigeria as a whole. While minority agreed.

Table 4.1.16 Is there any impact of exchange rate on the performance of deposit money bank in Nigeria?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	32	64	64	64
	Agree	12	24	24	88
Valid	Strongly Disagree	4	8	8	96
	Disagree	2	4	4	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

It could be seen from the table that the majority representing 88% strongly agreed and agreed that there are impact of exchange rate on the performance of deposit money bank in Nigeria.

Table 4.1.17 Are there importance of monetary tools in achieving the desired control through bank operations?

		Frequency	Percent	Valid percent	Cumulative percent
	Strongly Agree	25	50	50	50
	Agree	22	44	44	74
Valid	Strongly Disagree	10	20	20	94
	Disagree	3	6	6	100.0
	Total	50	100.0	100.0	

Source: Field Survey, 2024

From the above table majority strongly agreed that there are importance of monetary tools in achieving the desired control through bank operations whereas minority thought otherwise.

4.2 Data Interpretation

Hypothesis One

H0: There is no significant relationship between monetary policy and financial performance of Deposit Money bank in Nigeria.

Table 4.2.1: Testing of the 1st Hypothesis

Respondent's view	Oi	Ei	Oi-Ei	(Oi-Ei) ²	$\sum (O_i - E_i)^2$
Strongly Agreed (SA)	25	12.5	12.5	156.25	12.5
Agree (A)	10	12.5	-2.5	6.25	0.5
Strongly Disagreed (SD)	9	12.5	-3.5	12.25	0.98
Disagreed (D)	6	12.5	-6.5	42.25	3.38
	50	50	0	217	17.36

Therefore X^2 calculated = 17.36

X^2 tabulated = 9.488

Decision Rule = Since X^2 (calculated) is greater than 5% confident level, the null hypothesis is rejected and the alternative hypothesis which states that there is significant relationship between monetary policy and financial performance of Deposit Money Bank in Nigeria is accepted.

4.3 Discussion of Findings

From the above analysis, it is seen that in the Hypothesis tested, respondents agreed that there is a significant relationship between monetary policy and financial performance of Deposit Money bank in selected Union Banks in Ibadan metropolis.

Also in table 4.1.6, shows that 50% respondents strongly agreed that there is advantage to be derived from the implementation of monetary policy in financial institutions in Nigeria. 20% of the respondents agree while 18 of the respondents disagree.

In the first model, financial performance was measured by profit after tax also known as net income and it was reported in the result that interest rate, inflation rate, exchange rate and liquidity ratio all exhibit insignificant effect on banking performance despite being positively signed. This indicates that any movement in these variables, either an increase or

decrease, will not substantially affect the profit after tax of banking firms. However, cash reserve ratio was found to exert a positive and significant effect on net income of banks. This implies that an increase in cash reserve ratio will increase profit after tax. This is plausible as an increase in the cash reserve ratio is a step towards a sound and formidable banking system where banks are mandated to increase their reserves with the central banks relative to the customer deposits with them. This therefore implies that banks have scarce resources to engage in lending activities. As a result, this improves performance as measured by income in two ways. First, due to such scarce lending resources available, the rate of lending may increase and thereby increase the profit generated by banks on the activity of lending. Also, due to such scarce lending resources, banks tend to give loans to highly performing customers who have the requisite capability of paying back, thereby boosting the rate of performing loans within the system. This finding agrees with the discovery of MacCarthy (2016) and is in incongruity with the findings of Faykuzzaman et al. (2023).

In the second model, financial performance was measured by the loan to deposit ratio and it was reported that cash reserve ratio, inflation rate and exchange rate have no effect on loan to deposit ratio. However, interest rate has a positive effect while liquidity ratio has negative effect on loan to deposit ratio. This implies that an increase in interest rate will increase loan to deposit ratio while an increase in liquidity ratio will reduce loan to deposit ratio. Ordinarily, loan to deposit ratio measures the proportion of loans by a bank as funded by its deposits from customers. Therefore, this result is plausible as an increase in interest rate will encourage savings deposits; as a result, the bank can generate a large base of deposit which will be repackaged as loans. Fortunately, because of the increase in interest rate, customers may tend to leave their deposits in their account for a long period to accumulate interests and therefore increase the loan to deposit ratio as banks then have more deposits to repackage as loans. On the other hand, liquidity tends to discourage loan to deposit ratio because when there is an increase in liquidity, either by borrowing from the money market or other sectors, they tend to make quick returns on such borrowed funds and will rely less on customer deposits to fund loans.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The general objective of this study was to determine the effect of monetary policy on the financial performance of Deposit Money Banks in Nigeria. Other specific objectives were to; establish the effect of Central Bank Rate (CBR) on the financial performance of Deposit Money Banks and establish the effect of Reserve Ratio Requirement on the financial performance of Deposit Money Banks.

A sample is a portion of the population selected for study. It is very important to select sample size that will give sufficient fair representation of the population. There are two basic way of making the sample size decision, one is by rule of thumb and the other one is by calculated method. In this research work, the rule of the thumb was used for this research where 50 workers of total population were selected as the sample size. The sample is also made up of senior and junior staff of the Union Bank Plc. This test will provide answers to the questions raised in the research problem. The questionnaires were administered based on the non-random selection of the persons as contained in the sample. This was done in such a way as to get the desired result. The questionnaire contains nineteen fifty (50) questions. The formulated hypotheses were tested using chi-square (X^2) test statistics which measures the significance of the difference between the observed set of frequencies.

5.2 Conclusion

The study examined the effect of monetary policy tools on the financial performance of Deposit Money Banks in Nigeria. The study found that monetary policy tools have no significant effect on the financial performance of Deposit Money Banks in Nigeria. Thus, the study concludes that monetary policy tools do not influence the financial performance of Deposit Money Banks in Nigeria. The study assessed the effect of Treasury Bill Rate (T-Bill Rate) on the financial performance of Deposit Money Banks in Nigeria. The results showed that T-Bill Rate had a positive effect on the financial performance of Deposit Money Banks. Thus, the study concluded that T-Bill rates have a positive but insignificant affect the financial performance of deposit money banks in Nigeria. The study examined the effect of Central

Bank Rate on the financial performance of Deposit Money Banks in Nigeria. The results showed that Central Bank Rate had a negative effect on the financial performance of Deposit Money Banks. The study therefore concluded that Central Bank Rate has no significant affect the financial performance of Deposit Money Banks in Nigeria.

The study also assessed the effect of Cash Reserve Ratio on the financial performance of Deposit Money Banks in Nigeria. The results showed that Cash Reserve Ratio had a negative effect on the financial performance of Union Bank. Thus, the study concluded that Cash Reserve Ratio does not affect the financial performance of Deposit Money Banks in Nigeria.

The study examined the effect of bank size on the financial performance of Union Bank of Nigeria. The results showed that bank size had a weak positive effect on the financial performance of Deposit Money Banks. Thus, the study concluded that bank size affects the financial performance of firms in Nigeria.

5.3 Recommendations

Based on the findings made in this study, the following recommendations have been made to address some of the problems discovered:

- i. The study recommends that Deposit Money Banks should put more emphasis on the internal factors to financial performance.
- ii. These internal factors include capital adequacy, asset quality, management efficiency, earnings ability and liquidity management.
- iii. Monetary policy tools effect will be handled by the management through risk management policies for the bank.
- iv. The study further recommends that while bank size was found to lead to better financial performance, it is important that banks understand the source of its funds and the costs associated with the funds.
- v. Findings emanating from the empirical analysis of this study proffered that monetary authority; the Central Bank of Nigeria (CBN) should adjust the monetary policy rate by reducing the cash reserve ratio which will increase liquidity to enable the Deposit Money Banks to discharge their lending and investment duties effectively to the public.

vi. It is important that monetary and fiscal policies be complimentary and not working at variance. The co-intergration tests which show a disequilibrium by 41% which suggest that the level of cohesion in harmonizing policies are not adequate. The CBN and the Ministry of finance should work more closely to objectively articulate policies in the same economic direction.

vii. The CRR should be complementing the Open Market Operations (OMO) in ensuring that excess liquidity or lack of it in the banking system is minimized, that way Money Supply (M2) will be more effective as a tool on measuring other performance indicators.

viii. From the findings, the Liquidity Reserve Ratio (LRR) tends to impact more on bank turnover ratio. Because monetary effects of CRR changes are hard to be isolated from those of other policy measures. It means that the constraint of higher reserve requirements on bank lending seems more binding when initial excess reserves shrink below some threshold, restraining the subsequent loan expansion while leading to higher, more volatile market interest rates. The CBN should carefully and thoroughly consider the turnover effect in deciding the LRR.

5.4 Suggestions for Further Research

The study suggests that more studies be done in this area focusing on all banks in Nigeria as well as other financial institutions such as microfinance that also give loans. This can be done by focusing on all Deposit Money Banks in Nigeria and microfinance institutions. Studies should also be conducted on the topic using fairly longer time periods (more than 5 years) and smaller time intervals (say quarterly) of data collection as such studies may be useful in showing the trends as well as the long terms relationship between monetary policy and financial performance of Deposit Money Banks in Nigeria.

The study also recommends that further studies explore the relationship between monetary policy and financial performance of Deposit Money Banks with categories of small, medium and big banks. As has been noticed from the research data, bigger banks exhibited larger Net Interest Margins as compared to smaller banks.

REFERENCES

- Adebiyi M.A. and Babatope O.B. (2009) *International Framework, Interest Rate Policy and the financing of the Nigerian Manufacturing Subsector*. A paper presented at the African Development and Poverty Reduction (the Macro Linkage) Conference at Lord Charles Hotel Somerset West, S.A. Oct 13-15.
- Akomolafe, K. J., Danladi, J.D., Babalola, O. & Abah, A.G. (2015) Monetary policy and Deposit Money Banks' performance in Nigeria. *Public Policy and Administration Research*, 5 (8), 158-166.
- Albertazzi U. & L. Gambacorta (20) *Bank profitability and the business cycle*. Working paper 601, Bank of Greece.
- Al-Tamini, H. and Hassan, A. (2015) *Factors Influencing Performance of the UAE Islamic and Conventional National Banks*. Department of Accounting and Finance and Economics, College of Business Administration, University of Sharjah.
- Amacher, R. C. & Ulbrich, H.H. (2006). *Principles of macroeconomics*. South Western: Publishing Co. Cincinnati.
- Anyanwu, J. C. (2009). *Monetary economics: Theory, policy and institutions*. Onitsha: Hybrid Publishers Ltd.
- Athanasoglou P.P, Brissimis S.N. & Delis M.D. (2010). *Bank specific, Industry specific and macroeconomic determinants of Bank profitability* . Working Paper 25, Bank of Greece.
- Central Bank of Nigeria (2013). Monetary policy. CBN Publication
- Central Bank of Nigeria (2016). Instruments of monetary policy. CBN Educational Series
- Gimba, J. T., Vincent, H. S., & Oyedokun, G, E. (2020). Effect of monetary policy on the performance of listed deposit money banks in Nigeria. *The Annals of the University of Oradea. Economic Sciences* Tom, 29(1), 1582-5450.
- Hassan, J. S., & Oyedele, O. (2022). Monetary policy and the financial performance of quoted deposit money banks in Nigeria. *KIU Interdisciplinary Journal of Humanities and Social Sciences*, 3(2), 195-222

- Ibeabuchi, S. N. (2007). Overview of monetary policy in Nigeria. Central Bank of Nigeria Economic and Financial Review, 45(44), 15-37.
- Ifurueze, P. C. (2022). Monetary policy instruments and performance of financial sector in Nigeria. International Journal of Business & Law Research, 10 (3), 61-76.
- Jahan, S., & Papageorgiou, C. (2014). What is monetarism? Its emphasis on money's importance gained sway in the 1970s. Finance and Development, 51(1), 38-39.
- Jeff-Anyeneh, S. E., Anachedo, C. K., Okonkwo, J. J., & Udoeye, O. N. (2023). Effects of monetary policy on the financial performance of deposit money banks in Nigeria. African Banking and Finance Review Journal (ABFRJ), 1(1), 54-67.