EFFECT OF MONETARY POLICY ON THE PERFORMACE OF NIGERIA DEPOSIT MONEY BANK
(A CASE STUDY OF ZENITH BANK PLC, ILORIN)

BY

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

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CERTIFICATION

This is to certify that this research project has been read and approved by Abdullahi Abdullateef Ishola with Matric No HND/23/ACC/FT/0280 as meeting part of the requirement for the Award of Higher National Diploma in Accountancy, in the Department of Accountancy, Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin.

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DEDICATION

I dedicate this project work to Almighty God the most gracious, the most beneficent, the most merciful and the irresistible and my caring and lovely parent.

ABSTRACT

The paper examined the implication of value added tax on the administrative and economic structure of Nigeria. the secondary source of data was sought from central bank of Nigeria statistic bulleting (2002), federal inland revenue service annual report and chartered institute of taxation on Nigeria journal. Data analysis was performed with the use of stepwise reaction analysis findings show that value added types of statistic significant effects on revenue generation in Nigeria. The study recommends that there should be dedication and apparent honest on the parts of all agents of VAT with respect to the collection and payment and that government should try and as much as possible to improve on the way of collecting value added tax.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Monetary policy refers to combination of measures designed to regulate the cost, value and supply of money in consonance with the level of economic activities in a country (Okaro, 2014). Its broad objective in Nigeria is to „ensure monetary and price stability‟ (CBN ACT, 2007). Chang and Grabel (2004) defined monetary policy as government actions that influence the money supply and market Interest Rate s. Governments control money supply and market Interest Rate s through a number of instruments such as open market operations, discount rates and reserve requirements. Money supply is basically made up domestic credit and net foreign assets and domestic credit is composed of central bank credit to government and commercial bank credit to the public (Hossain and Chowdhury, 1998). Monetary policy is an instrument given to the Central Bank of Nigeria (CBN) by Federal Government, that is, it is a function which is a documentary policy to control the aggregate demanded in the circulation. The policy is to see to the stability in wages and prices of goods and services. It is also necessary to control volume of money in circulation and to give the domestic money a value via other controls (Akanbi & Ajagbe, 2012). Kyari, 2015, Okonkwo, Godslove and Mmaduabuchi (2015) posits that in supervising the conduct of monetary policy to pursue certain objectives, Central Banks in the world such as the Central Bank of Nigeria (CBN) often employ certain monetary policy instruments like bank rate, open market operations, changing reserve requirements and other selective credit control instruments to influence money in circulation.

Monetary policy is also one of the major economic stabilization weapons which involve measures designed to regulate or control the volume, cost, availability and direction of money and credit in an economy to achieve some specific macro-economic policy objectives. It is a deliberate attempt by the monetary authority (Central Bank) to control the money supply and credit condition for the purpose of achieving certain broad economic objective. Afolabi,(2018) defined monetary

policy as a measure designed to influence the availability, volume and direction of

money and credits to achieve the desired economic objectives. Globally, the role of the banking industry in development process cannot be overemphasized as they play so many functions. The most important banking industry inNigeria is the commercial banks. In order to make profit, commercial banks invest customer deposits in various short term and long term investment outlet, however core of such deposits are used for loans. Hence, the more loans and advances they extend to borrowers, the more the profit they make (Agu, B.O, 2018). 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.

According to Ezefiele, G. (2020). interest rate along with monetary aggregates formed targets of monetary policy in Nigeria. Using the direct monetary policy measures, the monetary authorities directly influence items of the balance sheet of commercial banks. In such a system, interest rates are set and credits are allocated by monetary authorities in accordance with the government"s economic plan. In Nigeria monetary policy has been based on a medium-term perspective framework. The shift was to free monetary policy implementation from the problem of time inconsistency and minimize over-reaction due to temporary shocks. Policies have ranged from targeting monetary aggregates to monitoring and manipulating policy rates to steer the interbank rates and by extension other market rates in the desired direction. By manipulating monetary policy instruments central banks affect the rate of growth of the money supply, the level of interest rate, security prices, credit availability and liquidity creation from the hand of commercial bank. These

factors, in turn can exert monetary imbalances or shocks on the economy by influencing the level of investment, consumption, imports, exports, government spending, total output, income and price level in the economy (Mishra & Pradhan, 2008). The Nigeria economy has continued to witness slow growth when compared to its international counterparts such as Brazil and South Africa who are all considered as the same level some years back. Akujuobi, A.B., &Nwezeaku, N.C. (2015).

The problem of ineffective credit delivery to the productive sectors remains an issue and thus raises doubt on the potency of monetary policy instruments in Nigeria. Evidence also showed that monetary policy changes on loan supply of less liquid banks, deposit base and induce bank‟s ability to perform their expected roles within the financial system. The Nigerian DMBs have witnessed several form of banking distress in the last 30 years despite the consistent use of monetary policy and guidelines which thus raise the question of how effective monetary policy has been in regulating the banking industry. In this regard, an appropriate analysis of monetary shock transmission mechanisms is of crucial importance for central banks. This is to determine the process through which monetary policy influence the entire economy within the financial system framework.

1.2 Statement of the Problem

Commercial banks are profit oriented organization that are expected to make profit in order to maximize the wealth of the owners that is, shareholders . Dare, F. D. &Okeya, I. O. (2017). Therefore, it becomes imperative for them to perform financially. The performance of these banks can be measured or assessed through various parameters such as loans and advances, interest income, return on assets to mention a few(Ongore and Kusa, 2013; Uchendu, 2010: Uwazie and Aina, 2015).

There is no doubt that the performance of the banks depend to a large extent on the various monetary policies issued out by the monetary authorities (Enyioko, 2012). Hence, the monetary authority regulates the economy through the adoption of various monetary instruments as the situation demands. The extent of the effect of these policies on the performance of commercial banks in Nigeria is the crux of this study.

1.3 Objectives of the study

1. To ascertain the effect of Monetary Policy Rate (MPR) on the total private sector credit of deposit Money Banks

2. To determine the effect of the Liquidity ratio (LQR) on the total private sector credit of deposit Money Banks

3. To assess the effect of the Cash Reserve ratio (CRR) on the total private sector credit of deposit Money Banks

1.4 Research Hypotheses

The research hypotheses below were all stated in the null:

1. H0: There is no significant relationship between monetary policy rate and total private sector credit of deposit Money Banks

2. H0: There is no significant relationship between liquidity ratio and total private sector credit of deposit Money Banks

3. H0: Cash reserve ratio has no significant effect on total private sector credit of deposit Money Banks

1.5 The Scope and Limitations of the Study

The study may not be able to cover all aspects of monetary policy in Nigerian banks; however, the study will focus on strategic for dealing with monetary policy in Nigeria banking sector. Also due to time factor and cost of administration of the research instrument, the researcher will not be able to cover all the banks in Nigeria; however the study will be limited to a Zenith bank at Kwara State, Nigeria. The problems that may be encountered in carrying out this research is the time within which the work is expected to be completed, coupled with the fact that research will be done alongside normal academic work.

Another major problem will be the finance due to the cost of typesetting and printing. Etc.

In spite of the above setbacks, the researcher will be able to generate meaningful materials which seem relevant to the topic.

1.6 SignificanceOf The Study And Justification for the Investigation

The study is significant because it will serve as an eye opener to investor and shareholders, by exposing the various type of fraud practiced in the banking environment. It will also help investors and shareholders to be careful when deciding on investing in commercial banks. This research work will also provide Empirical information that will serve as safeguard from fraud for foreign and local investors.

1.7 Definition of Terms

Monetary policy: Policy relating to money or to the mechanisms by which it is supplied to and circulates in the economy.

Performance: an act of presenting a play, concert, or other form of entertainment.

Deposit money bank: a deposit is money held in a bank account or with another financial institution that requires a transfer from one party to another

Monetary Policy Rate (MPR): This is also known as discount rate. It is the rate at which Central Bank offer financial assistance to financial institutions through loans or discounting bills.

Liquidity Ratio (LR): This are a class of financial metrics used to determine a debtor"s ability to pay off current debt obligations without raising external capital.

Cash Reserve Ratio (CRR): Is the percentage of total deposits that DBMs are required to keep with central bank.

CHAPTER TWO

2.1   Literature Review

There are some research within the Nigerian content Okoye & Eze (2013) examined the impact of bank lending rate on the 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 parameter of measuring bank performance. Akomolafe et al. (2015) found that there is a positive relationship between banks" profits and monetary policies in Nigeria. The study covers a period from 2003 to 2013. Another study by (Ekpung et al. (2015) also examined the effect of monetary policy on banking sector performance from 1970 to 2006. However, the study uses banks" deposit liabilities to represent banks" performance and indicates that monetary policy has a significant effect on banks" deposit liabilities. In particular, deposit rate and minimum discount rate have a negative influence on banks" deposit liabilities, whereas exchange rate has a positive and significant impact on this variable. More particularly Udeh (2015) investigated the impact of monetary policy instruments on profitability of commercial banks in Nigeria using the Zenith Bank Plc. experience from 2005 to 2012. The study discovered that cash reserve ratio, liquidity ratio and interest rate have an insignificant impact on the profit before tax of Zenith Bank Plc. However, minimum rediscount rate is found to have significant effect on this variable. The author then concluded that a number of monetary policy instruments have an insignificantly impact on profitability of commercial banks in Nigeria, and thus management of commercial banks should look beyond monetary policy instruments to enhance their profits.

The research examines the effect of monetary policy on commercial banks performance used one bank. The results show that an increase in interest rate will leads to a decrease in the lending rate while liquidity ratio and cash ratio were statistically significant to the profit of commercial

banks (Akanbi & Ajagbe, 2012). The research discovered that their bi-directional causality between monetary policy rate and bank savings rate also unidirectional causality from bank lending rate to bank savings rate and from monetary policy rate to bank lending rate (Joseph & Thaddeaus, 2013). Another results discovered that exchange rate and interest positively influence commercial banks lending, though money supply and liquidity ratio negatively influence the commercial banks in Nigeria (Charles, 2014). Similar results show that there is a positive relationship between banks" profits and monetary policies (Akomolafe, Danladi, Babalola, & Abah, 2015) while another research reveals that monetary policy rate, interbank rate and savings deposit were all negatively and significantly affecting inflation rate (Maji, Waziri, Sulaiman, Tijani, & Bala, 2015). While AlAli (2019) studies Kuwait banks financial performance found that National bank of Kuwait and Ahli United bank of Kuwait are the base performing banks in Kuwait within the period of study.

Other research Amidu & Wolfe (2008) examined the constrained implication of monetary policy on bank lending in Ghana between 1998 and 2004. Their study revealed that Ghanaian banks" lending behavior is affected significantly by the country"s economic support and change in money supply. Their findings also support the finding of previous studies that the Central Bank prime rate and inflation rate negatively affect bank lending. Prime rate was found statistically significant while inflation was insignificant. Based on the firm level characteristics, the study reveals that bank size and liquidity significantly influence bank"s ability to extend credit when demanded. Younus & Akhtar (2009) examined the

significance of Statutory Liquidity Requirement (SLR) as a monetary policy instrument in Bangladesh. Using descriptive analysis techniques, they found that statutory liquidity requirement has experienced infrequent changes and past evidence showed that reduction in SLR produced positive impact on bank credit and investment especially prior to the 1990s.SLR and Cash Reserve Requirement (CRR) were found to be significant tools of reducing inflation and both are used only in situation of Drastic imbalance resulting from major shocks. They posited that Bangladesh Bank has used open market operations (OMO) more frequently rather than changes in the Bank Rate and SLR as instruments of monetary policy in line with its market oriented approach. Ajayi & Atanda (2012) investigated the effect of monetary policy instruments on banks" performance with a

view to determining the existence of long-run relation for the period 1980-2008. The empirical estimates indicated that bank rate, inflation rate and interest rate are credit enhancing, while liquidity ratio and cash reserves ratio exerted negative effect on banks total credit. Although, it was only cash reserve system and interest rate that were found to be significant at 5% critical value, main conclusion drawn was that monetary policy

instruments are not effective to stimulate credit in the long-run, while banks total credit is more responsive to cash reserve system.

2.2   Conceptual Framework

2.2.1 Concept of Monetary Policy

Monetary policy is a macroeconomic tool used by central banks to influence the money supply and credit conditions in an economy, ultimately aiming to achieve price stability, economic growth, and other macroeconomic

goals. Central banks can adjust the money supply and interest rates through various instruments, such as open market operations, adjusting the Monetary Policy Rate (MPR), and changing reserve requirements for commercial banks. (Kyari, 2015).

According to Lindsey, D.E., (2018) Monetary policy is the policy adopted by the monetary authority of a nation to affect monetary and other financial conditions to accomplish broader objectives like high employment and price stability (normally interpreted as a low and stable rate of inflation). Further purposes of a monetary policy may be to contribute to economic stability or to maintain predictable exchange rates with other currencies. Today most central banks in developed countries conduct their monetary policy within an inflation targeting framework, whereas the monetary policies of most developing countries' central banks target some kind of a fixed exchange rate system.

A third monetary policy strategy, targeting the money supply, was widely followed during the 1980s, but has diminished in popularity since then, though it is still the official strategy in a number of emerging economies. (Jahan, 2014)

Key Aspects of Monetary Policy:

- **Influence on Money Supply and Credit:**

  Monetary policy directly affects the amount of money in circulation and the cost of borrowing, which in turn influences investment, spending, and overall economic activity.

- **Achieving Macroeconomic Goals:**

  The primary objectives of monetary policy are to maintain price stability (usually by controlling inflation), support economic growth, and foster financial stability.

- **Tools of Monetary Policy:**

Central banks utilize various tools to implement monetary policy, including:

- **Open Market Operations:** Buying or selling government securities to influence the money supply.

- **Adjusting Interest Rates:** The MPR (Monetary Policy Rate) is a key interest rate that central banks use to influence borrowing costs for commercial banks.

- **Reserve Requirements:** Setting the percentage of deposits that commercial banks must hold in reserve, which impacts the amount of money they can lend. (Kyari, 2023).

2.2.2 Monetary Policy in Nigeria

The primary goal of monetary policy in Nigeria has been the maintenance of domestic price and exchange rate stability since it is critical for the attainment of sustainable economic growth and external sector viability, Sanusi, (2012) The ability of the CBN to pursue an effective monetary policy in a globalized and rapidly integrated financial market environment depends on several factors which include, instituting appropriate legal framework, institutional structure and conducive political environment which allows the Bank to operate with reference to exercising its instrument and operational autonomy in decision-making, the degree of coordination between monetary and fiscal policies to ensure consistency and complementarily, the overall macroeconomic environment, including the stage of development, depth and stability of the financial markets as well as the efficiency of the payments and settlement systems, the level and adequacy of information and communication facilities and the availability of consistent,adequate, reliable, high quality and timely information to Central Bank of Nigeria Sanusi, (2012). The central bank tries to maintain price stability through controlling the level of money supply.

Examining the evolution of monetary policy in Nigeria in the past four decades, Nnanna, (2010) observes that though, the monetary management in Nigeria has been relatively more successful during the period of financial sector reform which is characterized by the use of indirect rather than direct monetary policy tools yet, the effectiveness of monetary policy has been undermined by the effects of fiscal dominance, political interference and the legal environment in which the Central Bank operates. Busari, (2002) states that monetary policy stabilizes the economy better under a flexible exchange rate system than a fixed exchange rate system and it stimulates growth better under a flexible rate regime but is accompanied by severe depreciation, which could destabilize the economy meaning that monetary policy would better stabilize the economy if it is used to target inflation directly than be used to directly stimulate growth. They advised that other policy measures and instruments are needed to complement monetary policy in macroeconomic stabilization. In the same stride, Batini, (2004) stresses that in the 1980s and 1990s monetary policy was often constrained by fiscal indiscipline.

Monetary policies financed large fiscal deficit, which averaged 5.6 percent of annual GDP and though the situation moderated in the later part of the 1990s it was short lived as Batini described the monetary policy subsequently as too loose which resulted to poor inflation and exchange rates record. Folawewo and Osinubi, (2006) investigates how monetary policy objective of controlling inflation rate and intervention in the financing of fiscal deficits affect the variability of inflation and real exchange rate. The analysis is done using a rational expectation framework that incorporates the fiscal role of exchange rate. The paper reflects that the effort of themonetary authority to influence the finance of government fiscal

deficit through the determination of the inflation-tax rate affects both the rate of inflation and the real exchange rate, thereby causing volatility in their rates. The paper reveals that inflation affects volatility of its own rate as well as the rate of real exchange. The policy implication of the paper is that monetary policy should be set in such a way that the objective it is to achieve is well defined Jelilov, Gylych; Kachallah Ibrahim, Fatima; Onder, Evren, (2016).

2.2.3 Objectives of Monetary Policy in Nigeria

Monetary policies, as adopted in Nigeria, have four broad objectives.

- **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.

- **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, 2001). According to Ibeabuchi (2007), inflation reduces real disposable income and consequently the purchasing power of money.

- **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 (2001) 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.

■**To maintain the highest equilibrium in the balance of payments:** A country's balance of payment may be in total equilibrium of there exists between total payments and total receipts, that is. The avoidance of larger or chronic deficit or surplus in the balance of payments. Kahn, (2010) observes that 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 Rate s and the real exchange rate. Through the control of monetary policy targets such as the price of money (Interest Rate - both short term and long term), the quantity of money and reserve money amongst others; monetary authorities directly and indirectly control the demand for money, money supply, or the availability of money (overall liquidity), and hence affect output and private sector investment.

2.2.4 Monetary Policy and Deposit Money Banks

Monetary policy and Deposit Money Banks are intricately linked together. In fact, the assessment of the Banking System (particularly in the area of profitability) can be evaluated through the performance of monetary policy tools, which can be broadly classified into two categories – the portfolio control approach and market intervention. Olokoyo (2011) expressed that Deposit Money Banks" decisions to lend out loans are influenced by a lot of factors such as the prevailing Interest Rate , the volume of deposits, the level of their domestic and foreign investment, banks Liquidity Ratio, prestige and public recognition to mention a few. Many developing countries, including Nigeria have adopted various policy measures to achieve targeted objectives. Banks are influenced by the Central Bank through its various instruments of monetary policy. These

instruments include the cash reserve requirement, Liquidity Ratio, open market operations and primary operations to influence the movement of reserves. All these activities affect the banks in their operations and thus influence the cost and availability of loan able funds. Thus, monetary policy instruments are critical in the demand for and supply of reserves held by depository institutions and consequently on availability of credit. Ajie & Nenbee (2010).

Despite several empirical evidences that found the efficacy of monetary policy lies on the effectiveness of the real sector; how those monetary policies had influenced the volume Deposit Money Banks profitability in Nigeria remains unresolved and demands investigation. This study, therefore empirically evaluate and investigates whether monetary policy influences Deposit Money Banks profitability in Nigeria. This study employs the use econometric techniques to determine the relationship and linkage between the monetary policy and Deposit money Banks performance in Nigeria, which is poised to establish the effects of monetary policy on Deposit Money Banks in Nigeria. For the purpose of this study, the monetary policy instruments to be examined are; the Cash Reserve Ratio (CCR), Liquidity Ratio (LR), Maximum Lending Rate (MLR), and Monetary Policy Rate (MPR). Central Bank of Nigeria CBN, (2006).

2.2.5 Profitability

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 expense is 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.
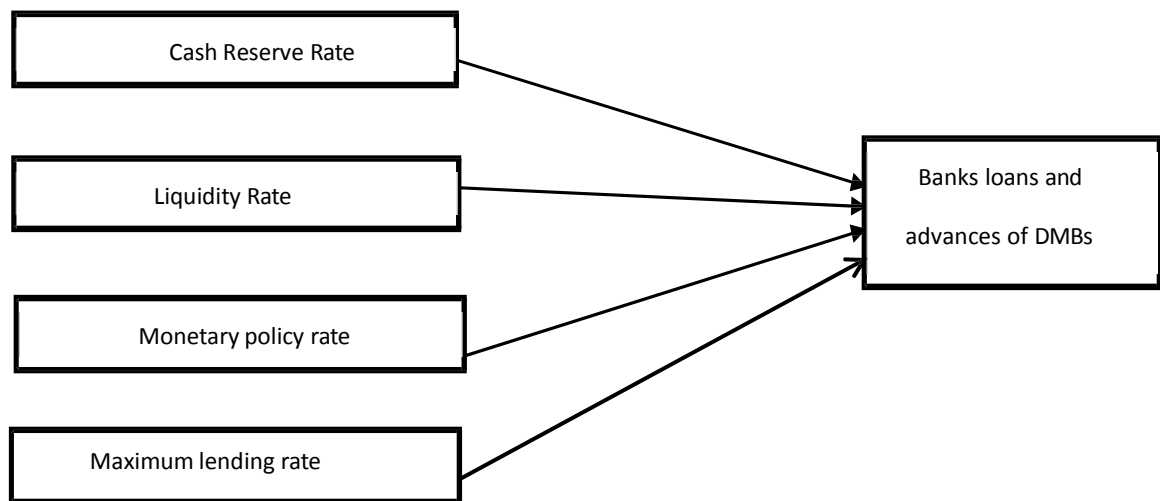
Figure 1. Conceptual framework, Source: Udeh (2015)

2.2.6 Cash Reserve Ratio (CRR)

Cash Reserve Ratio is the percentage of total deposits that DBMs are required to keep with central bank. Fama (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. Cash Reserve Ratio is a central bank regulation employed by most, but not all, of the world's central banks, to set the required reserve percentage on specific customer deposits and each bank must keep money in vault cash with CBN. In Nigerian context, Cash Reserve Requirement

(CRR) are set at different percentage between the private and public sector fund from 2013-2014 and was harmonized in 2015 (Central Bank of Nigeria press release through Communique No. 98 & 101).

This is so in order to stimulate banks to be more proactive in performing their role of financial intermediation rather than depending much on government fund as their main source of deposit. In most countries (as in Nigeria), the central bank is responsible for watching over the Cash Reserve Ratio

2.2.7 Liquidity Ratio (LR)

Liquidity Ratios are a class of financial metrics used to determine a debtor"s ability to pay off current debt obligations without raising external capital. Liquidity ratios measure a company"s ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio and operating cash flow ratio.

2.2.8 Monetary Policy Rate (MPR)

This is also known as discount rate. It is the rate at which Central Bank offer financial assistance to financial institutions through loans or discounting bills. The rediscount rate is the rate at which the central bank stands ready to provide loan accommodation to commercial banks (CBN, 2013).

The Central Bank lends to financially sound Deposit Money Banks at a most favourable rate of interest, called the Monetary Policy 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).

As a lender of last resort, such lending by the central bank is usually at panel rates. By making appropriate changes 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 banks to create ore credits, the central bank will lower the rediscount rate.

2.2.9 Maximum Lending Rate (MLR)

Maximum Lending Rate is the amount of interest due per period, as a proportion of the amount lent or borrowed (called the principal sum). The total interest on an amount lent or borrowed depends on the principal sum, the Interest Rate, the compounding frequency and the length of time over which it is lent or borrowed.

It is defined as the proportion of an amount loaned which a lender charges as interest to the borrower, normally expressed as an annual percentage. It is the rate a bank or other lender charges to borrow its money, or the rate a bank pays its savers for keeping money in an account. This is the cost of, or price charged for using someone‟s money which is normally expressed as a percentage of the amount borrowed.

2.2.10 Other Monetary Policy Instruments:

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

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

2.2.10.1 Direct Instruments or Quantitative 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.

- **Special Deposits:** The central bank has the power to issue directories from time to time requiring all banks to maintain with it as special deposits 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.

- **Moral Suasion:** Moral suasion simply means the employment by the monetary authority of friendly persuasive statement, public pronouncement, and 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.

- **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. 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 favoured sector, credits to the favoured sector is at a lower Interest Rate while least favoured sector pays the highest rate of interest.

- **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 rate and issue credit guarantee to preferred loans. In this way the available savings is allocated and investment directed in particular directions.

- **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.

2.2.10.2 direct Instruments or Qualitative 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 depends on the level of development of the economy, especially its banking sector. The commonly used instruments are discussed below (CBN, 2011):

- **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 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, 2007; Ojo, 1993; & Solomon, 2013).

- **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, 2008: Imoisi, Olatunji&Ekpenyong, 2013; Ibeabuchi, 2007; &Sanusi, 2004).

2.3   Theoretical Framework

2.3.1 Stakeholder's Theory

According to Fredman (2014) stakeholder theory emphasizes that some individual or group are very important for the survival of the organization. This explanation is seen as organization oriented explanation, but in an earlier research freeman reported that stakeholder theory refers to any group or individual who can affect or who are likely to be affected by the achievement of the organization objective. Friedman (2019) supported these explanation of Freeman (2014) because according to him, his definition of the stakeholders theory was more balance and covers a wider area than those of Stanford Research Institute (SRI)

(2019) who defined the theory as simply as those people who, without their support and ideas the organization would not exist. He further stated that freeman definition was wider because it included individuals outside the firm and other groups that may consider themselves to be stakeholders of the organization without the firm acknowledging them to be so. The stakeholder in most organizations usually includes shareholders, employees, customers, lenders, suppliers, local charities, various interest group and government.

2.3.2 Stewardship Theory

According to many scholars the popular agency theory is known to have evolved from Economics while the Stewardship theory can also be said to have developed from psychology and sociology. The Stewardship theory can also be said to be a product of the seminar work done by Donaldson and Davis (2019), this seminar work emphasized that the senior executive should act as steward of the organization and that everything is done in the best interest of the principal. This explanation of stewardship theory put forward by Donaldson and Davis (2019) established that most managers have the tendency to act in the best interest of their firm, by emphasizing the collective goal of the organization instead of their self serving option. Their finding further suggests that most stewards are motivated only by making the right decision which are usually in the best interest of the organization, because of the strong assumption that stewards will also benefit from the right decision taken in the long run.

2.3.3 The Fraud Triangle Theory

Originally developed by in 1973 by Donald Cressey, a criminologist, he established that for fraud to occur there must be a reason. He related to three

factors (pressure, opportunity, and rationalization) that must be present for an offense to take place. He ascertained that the perpetrator must formulate some morally acceptable idea to them before engaging in unethical behavior and if fraud perpetrators are given the opportunity they are most likely to commit fraud.

Lister (2017) in furtherance of this study stated that pressure is a significant factor to commit fraud. He determined three types of pressure which are personal, employment stress, and external pressure. He defined the pressure to commit fraud as "the source of heat for the fire." But having this pressure does not become a reason for someone to commit fraud.

2.4   Empirical Study

Obidike, EjehandUgwuegbe (2015) examine the impact of Interest Rate spread on the performance of Nigerian banking industry for the period of 1986-2012. The study used OLS method of estimation to analyze the data generated from CBN statistical Bulletin and World Bank online data base. Testing for the properties of time-series, ADF test indicates that all the variables are integrated of same order I (1). The Co-integration test reveals that there exists a long-run relationship among the variables under consideration. The result shows that Interest Rate spread, negatively and significantly impact on bank performance in the long-run. Exchange rate and GDP was found to be positively and significantly affecting bank performance in Nigeria at the long- run. The result of the ECM indicates that 23.37 percent of the disequilibrium in the model will be corrected annually. Moreover at the short-run Interest Rate spread also negatively but insignificantly affect bank performance in Nigeria.

Ndugbuand Okere (2015) investigate the impact of monetary policy on the performance of deposit money banks - the Nigerian Experience(1993-2013).Data for this study were 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 the performance of deposit money banks. The Augmented Dicker Fuller (ADF) unit root test and co integration proved that the variables are stationary and a long-run relationship exist among the 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 significant relationship though inverse relationship. On this premise, the study recommends among others, that the Central Bank of Nigeria (CBN) should moderate the deposit rate as a tool for regulating deposit money banks operating. Again there is need to modify themonetary policy instruments to reflect and respond more rapidly and easily to local economic conditions.

Okonkwo, Godsloveand Mmaduabuchi (2015) examine the impact of monetary policy variables on manufacturing in Nigeria from 1981 - 2012. The theoretical relationship between monetary policy variables and manufacturing sector (that is, the real sector) was critically examined and established in this study. Hence, the researcher specified four explanatory variables for this study based on theoretical underpinnings. The Johansen co integration test was employed in order to establish long run equilibrium relationship between the explained and the explanatory variables. The error correction model (ECM) was employed to estimate the model. The study revealed that money supply and credit to private sector exert tremendous influence on manufacturing in Nigeria. Udeh (2015) examines the impact of monetary policy instruments on profitability of commercial banks in Nigeria using the Zenith Bank Plc experience.

CHAPTER THREE
METHODOLOGY

3.1   Introduction

This part discusses the methodology the researcher employed in investigating the effect of monetary policy on the performance of deposit money banks in Nigeria. These are theoretical framework, research design and population of the study, source of data, tools as well as the techniques that will used to analyze the data collected. Monetary policy affects almost every facets of the economy like inflation, interest rate and employment etc. Monetary economics also studies the behavior of financial institutions such as deposit money banks which are significant in determining the pace of growth and development in the economy

3.2   Research Design

Research design refers to the overall strategy chosen by a researcher to integrate the different components of the study in a coherent and logical way, thereby, ensuring it effectively addresses the research problem (De Vaus, 2001).

The ex post facto research design was used in the carrying out the study because it is the best method that can be used to explain the effect of the given independent variables on the dependent variable. Ex post facto design is a quasi-experimental study examining how an independent variable, present prior to the study in the participants, affect a dependent variable. Ex post facto study or after-the-fact research is a category of research design in which the investigation starts after the

fact has occurred without interference from the researcher.

3.3 Population size

The target population for this study consists of Zenith Bank Plc, Ilorin.

3.4 Specification of Variables

The study adopted four major monetary policy and macro-economic variables. These variables Include Cash Reserve Ratio (CRR), Liquidity Ratio (LR), Maximum Lending Rate (MLR), and Monetary Policy Rate (MPR).

Dependent variable:

Performance of Banks (proxy: Aggregate Assets)

Independent variables:

Cash Reserve Ratio (CRR)

Liquidity Ratio (LR)

Maximum Lending Rate (MLR)

Monetary Policy Rate (MRR)

3.5 Methods of Data Collection

According to Burns & Grove (2005), data can be collected in several ways depending on the study and can include a variety of methods in as much as the research objectives are met.

The secondary source was mainly used in this study. The data for the study was extracted from the period 2006 to 2018 on monthly basis from Central Bank of Nigeria (CBN) statistical Bulletin and Central Bank of Nigeria (CBN) Annual Report and Statement of Accounts (2006) and (various editions). This was done in

order to capture an ample size of our variables in order to obtain a non-biased result of the study.

3.6   Methods of Data Analysis.

Having collected the relevant data, analysis for the data were carried out to enable the researcher make findings. , the major technique of data analysis for the study was multiple regression. Data regarding the dependent and independent variables were extracted from the CBN statistical bulletin. Data collected where cleaned, sorted and coded using SSPS and MS Excel. Research findings were presented in tables, tabulations, mean, and standard deviation and coefficient of variation was used to present the Data. Regression analysis was applied in establishing the relationship between variables under investigation.

This regression technique of data analysis enabled the researcher obtain optimal results that were unbiased for sound recommendations, about the findings.

3.7   Model specification

The study adapted the multiple regression model used by Punita and Somaiya (2006) and it is specified as:

P= f (CRR, LR, IR, MPR)

To transform the above model to a multiple regression form can be written like this:

$$P = \beta_0 + \beta_1\,CRR + \beta_2 LR + \beta_3 MLR + \beta_4 MPR + \mu\ldots\ldots\ldots\ldots\ldots \textit{(a)}$$

Where:

P =Aggregate of bank Asset;

CRR = Cash Reserve Ratio;

LR = Liquidity Ratio;

MLR =Maximum Lending Rate;

MPR =Monetary Policy Rate;

μ = error term or control variable

CHAPTER FOUR

4.0   DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This section of the research is concerned with the presentation, analysis of data and testing of hypotheses that were earlier developed in chapter one of this stud. Research findings were presented in tables, tabulations, mean, and standard deviation and coefficient of variation was used to present the Data. Regression analysis was applied in establishing the relationship between variables under investigation.

4.2   Presentation of Results

Table 4.2.1:   **Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
ASSETS	156	28.71	31.29	30.5879	.52736
CRR	156	.69	3.43	2.0152	.98801
LR	156	3.40	3.69	3.4602	.11654
MLR	156	2.84	3.45	3.1663	.17262
MPR	156	1.79	2.64	2.3737	.27190
Valid N (listwise)	156				

Source: SPSS Statistic version 25

Table 4.1 above presents the descriptive statistics for the minimum, maximum, mean and standard deviation of the variables. The result showed that the maximum and minimum value of CRR are 0.69 and 3.43 respectively with an average of 2.0152 and a spread out data value (std. deviation) of 0.98801. LR and MLR vary from a minimum and maximum value of 3.40, 2.84 and 3.69 and 3.45 respectively,

with averages of 3.4602 & 3.1663 respectively, and spread out data values of 0.11654 and 0.17262 respectively. Also MPR showed a minimum value of 1.79, maximum of 2.64 and average of 2.3737 with a spread out data value of 0.27190. This range implies that the variables exhibit variability given the variance in the specified basic descriptive statistics. This implies that they can be amenable to further statistical analysis upon addressing these outliers among the panels.

Table 4.2.2   **Correlations**

		ASSETS	CRR	LR	MLR	MPR
Pearson Correlation	ASSETS	1.000				
	CRR	.661	1.000			
	LR	-.813	-.352	1.000		
	MLR	.908	.773	-.766	1.000	
	MPR	.300	.830	-.010	.453	1.000
Sig. (1-tailed)	ASSETS	.				
	CRR	.000	.			
	LR	.000	.000	.		
	MLR	.000	.000	.000	.	
	MPR	.000	.000	.449	.000	.

Source: SPSS Statistic version 25

The Correlations statistics is used to predict the presence/absence of multicollinearity which is considered to exist when there is perfect linear relationship between the variables under the study. Tabachnick and Fidell (2001)

suggest that you Check that your independent variables show at least some relationship with your dependent variable (above .3 preferably).

In this case, all the predictor variables (CRR, LR, MLR, MPR) correlates substantially with (ASSETS) at 0.661, -0.813, 0.908 and 0.300 respectively this implies that 1% increase in CRR, LR, MLR and MPR will lead to a 66%, 81% 91% and 30% percent increase in the ASSET base of Deposit Money Banks at a sig. (1-tailed) level of 0.00 which is < 0.005. This also implies that there is no case of multicollinearity between the variables therefore all variables are retained.

Table 4.2.3

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.933[a]	.870	.867	.19267	.870	252.546	4	151	.000

a. Predictors: (Constant), MPR, LR, MLR, CRR

Source: SPSS Statistic version 25

Table 4.3 presents the result for the model summary R^2 value of 0.870 which indicates that 87% of the variation in the dependent variable (ASSETS) is jointly explained by the changes in the independent variables (CRR, LR, MLR and MPR). This position is confirmed by Adjusted R2 of 0.867, which signifies that, after adjusting for error term, 87% of the changes in ASSETS of banksare jointly explained by the changes in CRR, LR, MLR and MPR while the remaining by other factors not captured in the model.

Table 4.2.4ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37.501	4	9.375	252.546	.000[b]
	Residual	5.606	151	.037		
	Total	43.106	155			

Source: SPSS Statistic version 25

a. Dependent Variable: ASSETS

b. Predictors: (Constant), MPR, LR, MLR, CRR

Table 4.4 above presents the ANOVA which indicates that the regression model predicts the dependent variable significantly well. The model here reaches statistical significance (Sig = .000, this really means $p<.0005$). Which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

Table 4.2.5   Coefficients[a]

Model	Unstandardize Coefficients	Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	Collinearity Statistics

	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Tolerance	VIF
(Constant)	30.938	1.589		19.466	.000	27.798	34.078			
CRR	.1768	.048	.3315	3.695	.000	.082	.271	.661	.108	9.299
LR	-1.3677	.262	-.302	5.220	.000	-1.885	-.850	-.813	.257	3.890
MLR	1.580	.260	.517	6.081	.000	1.066	2.093	.908	.119	8.395
MPR	-.411	.123	-.212	3.339	.001	-.655	-.168	.300	.214	4.683

Source: SPSS Statistic version 25

a. Dependent Variable: ASSETS

Table 4.5 show results for the Tolerance and Variance inflation factor. The VIF is used for „collinearity diagnostics" to check for multicollinearity problems in this study. Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model. According to Tabachnick and Fidell (2001) If this value is very small (less than .10), it indicates that the multiple correlation with other variables is high,

suggesting the possibility of multicollinearity. Also VIF values above 10 would be a concern here, indicating multicollinearity.

Here the tolerance values for our predictor variables are 0.108, 0.257, 0.119 and 0.214 respectively which is not less than .10; therefore, we have not violated themulticollinearity assumption. This is also supported by the VIF values of 9.299, 3.890, 8.385 and 4.683 respectively which is well below the cut-off of 10.

4.6   Test of Hypotheses

Decision Rule:

The decision rule is to reject null hypothesis if the calculated sig. value is (less/equal to) ≤ 0.05. If the **Sig**. value is less than .05 (.000, .01, .0001, etc.), then the variable is making a significant unique contribution to the prediction of the dependent variable. If greater than .05, then you can conclude that that variable is not making a significant unique contribution to the prediction of the dependent variable. This may be due to overlap with other independent variables in the model.

Hypothesis one:

Ho1: The Cash Reserve Ratio (CRR) does not have significant effect on the performance of Deposit Money Banks in Nigeria

From table 4.5 there exist a significant relationship between CRR and ASSETS of Deposit Money Banks. The table revealed that Cash Reserve Ratio has a significant value of 0.000 which is less than the value of decision rule. This implies

that the Cash Reserve Ratio is making a Significant and unique contribution to the performance of Deposit Money Banks in Nigeria.

Based on this output, the null hypothesis that the Cash Reserve Ratio does not have significant effect on the performance of Deposit Money Banks in Nigeria is therefore rejected. This result is in line with the studies of Punita and Somaiya (2006); Ajayi and Ajagbe (2012); Ogbulu and Torbira (2012). And also disagree with the works of Ndugbu and Okere (2015) and Udeh (2015).

Hypothesis Two:

Ho2: The Liquidity Ratio (LR) does not have significant effect on the performance of Deposit Money Banks in Nigeria

From the result of the analysis shown in table 4.5 there exist a significant relationship between Liquidity Ratio and ASSETS Base of Deposit Money Banks, the table revealed that Liquidity Ratio has a sig. Value of 0.000 which is less than 0.05. This implies that the Liquidity Ratio is making a significant and unique contribution to the performance of Deposit Money Banks in Nigeria.

Based on the output of the analysis in table 4.5 above the null hypothesis that the Liquidity Ratio does not have significant effect onthe performance of Deposit Money Banks in Nigeria is therefore rejected. This result agrees with the works of Akanbi&Ajagbe (2012) and also disagree with the works of Ajayi&Atanda (2012), Ndugbu&Okere (2015), and Udeh (2015).

Hypothesis Three:

Ho3: The Maximum Lending Rate (MLR) does not have significant effect onthe performance of Deposit Money Banks in Nigeria

The output of the analysis in table 4.5 above shows that Maximum Lending Rate has a sig. value calculated at 0.000 sig. value, this implies that the MLR is making a significant and unique contribution to the performance of Deposit Money Banks in Nigeria.

Since the sig. value calculated 0.000 is less than our decision value of 0.05, the researcher therefore rejects the null hypothesis that the Maximum Lending Rate does not have significant effect onthe performance of Deposit Money Banks in Nigeria. This agrees with the works of Punita&Somaiya (2006), Amidu& Wolfe (2008), Imoisi, Olatunji&Ekpenyong (2013), and Okoye&Eze (2013). And also not in line with the works of Akanbi&Ajagbe (2012), Akomolafe, Danladi, Babalola&Abah (2015).

Hypothesis Four:

Ho4: The Monetary Policy Rate (MPR) does not have significant effect on the performance of Deposit Money Banks in Nigeria.

From the result of the analysis in table 4.5 above, it could be seen that MPR is making a significant and unique contribution to the performance of Deposit Money Banks at a calculated sig. Value of 0.001. Based on this output, the researcher therefore rejects the null hypothesis that the Monetary Policy Rate does not have significant effect on the performance of Deposit Money Banks in Nigeria. This is in line with the works of Ogbulu&Torbira (2012), Okoye&Eze (2013), Ekpung, Udude&Uwalaka (2015) and Udeh (2015). Also disagrees with the works of APere&Karimo (2015).

4.7   Discussion of Findings

To compare the different variables it is important that we look at the *standardized* coefficients, not the *unstandardized* ones (table 4.5). „Standardized‟ means that these values for each of the different variables have been converted to the same scale so that you can compare them. In this case we are interested in *comparing* the contribution of each independent variable; therefore we will use the beta values.

From the analysis above, it was discovered that the MLR has the largest coefficient beta value of 0.517 this means that this variable makes the strongest unique contribution in explaining the dependent variable, when the variance explained by all other variables in the model is controlled for. While The Beta value for MPR was slightly lower at -0.211), indicating that it made less of a contribution. From the researcher‟s findings, it was discovered that there exist a positive and relatively significant relationship between Cash Reserve Ratio and Banks ASSETS with a coefficient level of 0.331, which implies that 1% increase in the Cash Reserve Ratio will lead to a 33% increase in the performance of Deposit Money Banks in Nigeria.

Also it was discovered that there exist a negative and unique significant relationship between Liquidity Ratio and ASSETS Base of deposit money banks. The result showed a standardized coefficient beta value of -0.302 which implies that a 1% increase in liquidity ratio will lead to a reduce in the performance of deposit money banks by 30%

The Maximum Lending Rate also showed a positive and relatively significant relationship with the ASSETS of Deposit Money Banks in Nigeria. The result showed a coefficient beta value of 0.517 which means a 1% increase in MLR will lead to a 52% increase in the performance of Deposit Money Banks in Nigeria.

Finally, the result for the Monetary Policy Rate also showed that there exist a negative but significant relationship between MPR and ASSETS of deposit Money Banks. The result showed a coefficient value at -0.212 which implies that 1% increase in MPR will bring about 21% reduce in the performance of Deposit Money Banks in Nigeria.

CHAPTER FIVE

5.1 SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.2 Summary

The research work investigated the effect of monetary policy on theperformance of Deposit Money Bank in Nigeria: 2006-2018. A monthly time series data were employed with variables such as: Cash Reserve Ratio, Liquidity Ratio, Maximum Lending Rate, Monetary Policy Rate and Aggregate Assets of Banks in Nigeria. The study found that monetary policy application in Nigeria within the period in review marginally impacted on performance of Deposit Money Banks. However, with an exception of Liquidity Ratio and Monetary Policy Ratio which showed a negative correlation each, other variables used in the analysis showed that there exist a positive relationship between monetary policies and performance of Deposit Money Banks in Nigeria.

5.3 Conclusion

The conduct of monetary policy is the statutory responsibility of the Central Bank of Nigeria (CBN) The primary objective of monetary management by the CBN is to ensure a stable macroeconomic environment, which is the basis for promoting sustainable economic growth and development.

Sound monetary and fiscal policy has become very crucial during the recent global financial crisis, when the Central Bank of Nigeria in collaboration with the fiscal authorities adopted measures to avert a collapse of the banking system and to stimulate aggregate demand and strengthen output growth.

Given the result of the estimated model, it shows that various monetary policies administered through those variables have not probably been adequately applied to

help propel performance of Banks. However, below are the conclusions drawn from the study:

That there exist an obvious negative and positive correlation between monetary policy and Banks performances in Nigeria; that the various monetary policies of the government are sustainable if properly managed.

5.4   Recommendations

The study recommends that the CBN should redefine monetary policy instruments by setting CRR at an equilibrium level in order to make more funds available to DMBs for advancing loan and investing in the economy for growth and development. In addition, the Nigerian government through the CBN should set lending rate an optimum level as these would help to boost credit expansion, money supply and invariably returns and profitability of deposit money banks in Nigeria. Further recommendations made in this study include the following:

i.   For effective operation of the monetary policy measures in the Nigerian economy, the Central Bank of Nigeria should be granted full autonomy on its monetary policy functions. Partial autonomy should be replaced with full autonomy for the central banks devoid of government interference.

ii. The central bank of Nigeria and other financial authorities should persuade Deposit Money Banks to abide by the regulations governing the issuance of credit to the public. Any deviation from the set regulations should be punished to serve as a deterrent to others.

iii. Monetary policy must work in random to create the right macroeconomic framework in other word such monetary policy applied by the central bank is to great extent depends on coordination with fiscal policy. Therefore, these two should be well articulated in order to bring out effective results.

iv. The government should also endeavour to make the financial sector less volatile and more viable as it is in developed countries. This will allow for smooth execution of the Central Bank monetary policies. Law relating to the operation of the financial institutions could be made a bit less stringent and more favourable for the operators to have room to operate more freely.

v. The Central Bank should support SMEs and promote their integration into the formal sector while at the same time working with government to improve the tax regime to make the tax capacity to approach the tax potential so as to reduce tax evasion to barest minimum and ensure that there is proper balancing between capital and recurrent expenditures of government.

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