Monetary Policy and Financial Performance of Listed Deposit Money Banks in Nigeria

Festus Oladipupo Olaoye[1], Niyi Oladipo Olaniyan[2]

Abstract: The study examined the impact of monetary policy on firm performance of listed deposit money bank in Nigeria. The objective of the study was to determine the effect of cash reserved on return on asset of listed deposit money bank in Nigeria., ascertain the influence actual lending rate on return of asset of listed deposit money bank in Nigeria. As well examine the relationship between exchange rate and return on asset listed deposit money bank in Nigeria. This Study is predicated on the Keynesian theory of monetary policy and the monetarist theory. The population of the study consisted on thirty-three (33) deposit money banks listed on the NSE, however, only five (5) samples were selected from the population. Secondary data source was explored in presenting the facts of the situation were obtained from audited financial report of sample deposit money bank covering a period of ten (10) years (2010-2020). The collected data were analyzed using Descriptive, Granger Causality and Ordinary Least Square (OLS) regression analysis. From the results of the findings, it was revealed that cash reserved (RCR) has a significant effect on return on asset ($p<0.034$); actual lending rate has a significant effect on return on asset ($p<0.0343$), however, exchange rate has significant effect on return on asset of listed deposit money bank ($p>0.0032$). The study concluded that there exists strong positive relationship between exchange rate, cash reserved and actual lending rate which is significant. Based on the findings, it was recommended that Central Bank of Nigeria (CBN) should recommend to the government of Nigeria that lending rates be set at an optimal level since this would assist to enhance credit growth, money supply, and in turn, returns and profitability of deposit money institutions in Nigeria.

Keywords: Monetary Policy; Cash Reserved; Actual Lending Rate, Exchange Rate; The Monetarist Theory; Return on Asset

JEL Classification: E58

1. Introduction

The preservation of price stability and the promotion of economic growth are the basic aims of monetary policy; the efficiency of monetary policy is dependent on the legal framework within which it functions. Monetary policy's contribution to the process of generating sustainable economic growth is the upkeep of price stability, which may be thought of as monetary policy's "job". In light of the fact that a significant portion of the ongoing rise in price levels is thought to be a monetary phenomenon, monetary policy makes use of its instruments to effectively control money supply with the goal of preserving price stability in the medium to long term (Sangmi & Nazir, 2010). This is done in order to achieve the goal of maintaining price stability. The present corpus of study contains both

[1] Department of Accounting, Faculty of Management Sciences, Ekiti State University, Ado Ekiti, Ekiti State E-mail: oladipupo.olaoye@eksu.edu.ng.
[2] Department of Accounting, faculty of Management Sciences, Federal University Oye-Ekiti, Nigeria. Corresponding author: dr.dipoolaniyan@gmail.com.

theoretical and empirical data that indicates to the fact that lower price levels are associated with sustained long-term growth. This evidence points to the idea that lower price levels are connected with sustained long-term growth. To put it another way, unchecked inflation has a negative impact on both the health of the economy and the lives of the people living in the country over the course of time. (Yahaya, & Lamidi, 2015). The monetary policy of a nation has a substantial impact on the circumstances under which the economy is financed. These terms include not only the price of the financing but also the availability of credit, the willingness of banks to take on particular risks, and other aspects of the situation. It also has an impact on people's expectations about the future path of economic activity and inflation, which, in turn, has an impact on the pricing of items, the prices of assets, currency rates, as well as consumption and investment behavior (Ufoeze et al, 2018).

A choice made regarding monetary policy that results in a drop in the interest rate lowers the cost of borrowing money, which in turn leads to an increase in the amount of money being invested as well as the amount of money being spent on consumer goods that are long-lasting. The expectation that economic activity would go up might also prompt banks to relax their lending policy, which in turn makes it easier for firms and individuals to raise the amount of money they spend. When interest rates are low, it is more desirable to invest in stocks, which leads to a rise in the financial assets that families have. When interest rates are high, it is less appealing to invest in stocks. Additionally, this may result in an increase in consumer spending, and it makes the investment plans that firms offer to prospective investors more desirable to those investors. When interest rates are low, the value of a currency will often decrease. This is due to the fact that customers will have a stronger incentive to acquire commodities that are produced locally when the cost of imported goods rises. The interplay of these factors leads to rises not just in output and employment but also in increases in investment and consumer spending.

In contrast, Ogundipe et al. (2020) state that the majority of financial intermediaries often do not care to divert money to beneficial investments even in the face of decreased loan costs. This is the case even if the majority of financial intermediaries may benefit from such a move. In Nigeria, the manifestation of financial technique has been noted as being limited by each and every one of these factors as a limiting issue. This is because of the country's restrictive political and economic environment. To begin, a substantial quantity of building materials and supplies

It is assumed that production will not expand even if there is a rising demand for the product since there are restrictions on how much can be produced. Because of this, an expansionary monetary policy does not result in the economic growth but on inflation most times. This is a direct consequence of the situation.

Both the promptness and the efficacy with which policy aims may be identified are influenced by the accessibility with which monetary policy instruments can be accessible. For instance, if the aim is to reduce the quantity of money that is accessible, the appropriate strategy outlines will be established thereafter. If there were a sufficient number of instruments that can be modified by policymakers, then the pace at which the planned objectives may be reached would be expedited. But if they aren't enough, the targeted goals might only be approximated or reached after a significant time lag, which would reduce the efficacy of the policy (Onoh, 2017).

In addition to that, the sample for this research included all of the Nigerian businesses that are categorized as having a deposit money bank. This was done so that the results would be as accurate as possible. The vast bulk of the earlier studies on monetary policy did not concentrate on a particular

sector, and as a result, the findings seem to be too general and not specific enough. It is vital to take into consideration deposit money banks in addition to common characteristics linked with other facets of banking-related industries. Therefore, assessing a company's success at the conclusion of the fiscal year will not provide a precise depiction of the connection among monetary policy and the company's overall performance. It is on the basis of these that the study is considered essentials attempt to fill these literature gaps by taking the return on assert as a measure of firm performance of listed deposit money bank in Nigeria

The primary objective of this study is to examine the effect of monetary policy on firm performance of deposit money in Nigeria.

The explicit objectives of the research are to:

i determine the effect of cash reserved on return on asset of listed deposit money bank in Nigeria.

ii ascertain the significant influence actual lending rate on return of asset of listed deposit money bank in Nigeria.

iii examine the significant relationship between exchange rate and return on asset listed deposit money bank in Nigeria.

2. Literature Review

Monetary policy is the practice of employing a variety of financial instruments in order to manage or control the amount, cost, accessibility, and direction. of money and credit in an economy in order to accomplish a particular macroeconomic policy aim. This is done in order to manage or control the direction of money and credit in the economy. It is possible to do this in order to manage or exert control over the path that money and credit take (Ayodele, 2014). The monetary authority, sometimes referred to as the Central Bank, may at times make a determined effort to exert control over the money supply and credit conditions in the economy. This is typically done so that the monetary authority may achieve a specific economic purpose. Achieving a balance in the balance of payments, preserving full employment, and obtaining full employment are some of the objectives of macroeconomics. Other objectives of macroeconomics include ensuring sustainable economic growth (Akinwale, 2018). However, the degree to which banks comply with the policy instructions is a crucial aspect in deciding whether or not monetary policies are effective in achieving the objectives that were set for them in the first place. This is because the policies often go against corporate interests in terms of profit, which is the reason why they have come to this conclusion.

The fulfillment of the macroeconomic objectives set by the government comes within the jurisdiction of the central bank, which is charged with the task of carrying out monetary policy. The Central Bank of Nigeria (CBN) is able to influence many parts of the balance sheets of deposit money institutions by means of the adoption of direct monetary policies. This is possible thanks to the CBN's capacity to have an impact. The Central Bank of Nigeria (CBN) is in charge of deciding the interest rates and the distribution of credit in the economy. When making these decisions, the CBN is required to take into consideration the economic objectives and plans that have been created by the government. The policies that are currently being implemented involve aiming for macroeconomic variables, monitoring and adjusting policy rates in steering the interbank rate in the desired direction, which in and of the direction of other market rates. This is being done in order to attain the intended end result (Central Bank of Nigeria, 2016).

3. Reserve Requirement

The Deposit Money Banks in Nigeria have been given permission by the Central Bank of Nigeria to keep a certain portion of their deposit obligations, often known as reserves, in the form of cash stored in a vault. As a consequence of this, it is of the utmost importance that there be restrictions set on the maximum allowable amount of loans that deposit money institutions are entitled to make to the government's overall budget. The entire amount of money that might be gained is cut down as a result of these limitations. On the basis of this supposition, it is possible to come to the conclusion that deposit money banks frequently keep a consistent link between the amount of credit they make available to the general public and the reserves they have available to lend. This is something that can be inferred from the fact that deposit money banks maintain a consistent link between the quantity of credit they make accessible to the general public (Akomolafe et al, 2015).

Cash reserve

The "minimum cash requirement" is a predetermined amount of additional cash reserves that deposit money institutions in Nigeria are required to keep in their vaults at all times. This requirement is imposed by the Central Bank of Nigeria and is mandatory for all deposit money institutions in the country. The phrase "unique deposits" is often used when referring to these reserves. The power to periodically issue directives of this sort resides with the central bank, which also has the jurisdiction to mandate that all deposit money banks hold a separate sum in an amount that is equivalent to a certain percentage of the bank's entire deposit obligations (Ayodele, 2014).

Moral Suasion

Instead, then resorting to preceding actions like as decrees or legislation, policymakers might employ a technique called as moral encouragement to inspire or discourage certain behaviors of consumers, firms, and other economic players. Moral suasion is an economic instrument. This is due to the fact that moral persuasion is a less formal kind of persuasion. It is characterized as the use of moral persuasion as a strategy to either encourage or discourage particular behaviors. The use of moral persuasion by the Central Bank of Nigeria is more likely to be successful in times of transitory crises, such as wars, oil shortages, or uncertain financial circumstances. These kinds of crises have the potential to have a substantial effect on the economy. It is also employed in circumstances in which traditional instruments of monetary policy have been ineffective or are impossible to be used to encourage economic players to implement certain policy recommendations. In addition, moral persuasion means exerting pressure on financial institutions or other economic players, but without taking any tangible efforts to ensure that those actors are adhering to the rules (Dhungana, 2016).

In many situations, it is a proposition to the banks about whether or not they should carry out a certain activity. One of the ways in which the central bank communicates its expectations for deposit money banks to those banks is via the use of moral persuasion in the form of monetary policy guidelines. This is one technique.

Financial Performance

It is possible to think of the "financial performance" of a firm as an arbitrary evaluation of how well it can generate money from the assets connected with its primary mode of operation. A high degree of financial performance is indicative of management that is both effective and efficient in making use of the company's resources in order to fulfill its responsibilities (Nader & Mokhtar, 2004). The majority of the studies that have been looked at for their findings on performance employ some aspect of financial performance as a measurement of performance. The return on assets (ROA), the return on equity (ROE), the return on sales (ROS), the earnings per share (EPS), the increase in market capitalization, the gross and net profit margin, economic profit, and Tobin's Q are the components that make up this ratio. ROA takes into consideration the conventional financial indicators and accounting ratios that serve as an assessment of a company's profitability and is adopted by organizations. The significance of these words has been dissected and used in a myriad of different contexts. The return on assets, sometimes referred to as ROA, of a firm is a measurement of how profitable the company is in comparison to its total assets. It offers insight into the efficiency with which management is turning the company's resources into a profit (Olaniyan, Efuntade & Efuntade, 2021).

4. Theoretical Review

This study is grounded on monetarist theory as well as Keynesian theory.

The Monetary Theory of Keynes

The Keynesian Theory of Monetary Policy is a theory that was established by John Maynard Keynes in the 1930s. The theory advocates monetary policy as having a considerable influence on economic activity. This, however, is not in harmony with the classical point of view, which asserts that the quantity of money directly impacts the level of prices and that the economy always maintains a condition of full employment. Neither of these propositions is supported by the evidence shown here. In addition, it runs counter to the widespread notion that the rate at which money is circulating in the economy is constant. On the other hand, Keynesians believed that there was a connection, although a more indirect one, between the amount of money in circulation and GDP. There was a widespread consensus that when there is an abundance of money in circulation, the demand for loans in the banking sector would be exceptionally low, which will result in a fall in interest rates. This was one of the main factors that led to the Great Depression. It is common for there to be a rise in total expenditures on investment and interest-sensitive consumer goods after a reduction in interest rates, which in turn leads to an increase in real GDP domestic product. The greater investment will, as a consequence of the multiplier effect, result in an increase in effective demand, which will, in turn, result in an increase in income, output, and employment (Jhingan, 2010).

The Monetarist theory

The monetarists utilized Fisher's equation of exchange to represent their concept, which was fundamentally a theory of demand for money rather than a theory of output price and money income. The monetarists were opposed to Keynes's monetarism because they believed that it was a flawed economic theory. They were able to do this by making the required amounts of real balances a function of a very small number of independent variables. The reason for this was because monetarists believed that the theory of output price and money income were less important than the demand for

money. This led to the situation that we have today. When monetarists took control of the government, one of the first things they did was launch an attack on the Keynesian school of economics, while at the same time putting an emphasis on the significance of monetary policy, particularly in relation to money supply. This was done while simultaneously emphasizing the significance of the Keynesian school's ideas regarding the relationship between money supply and monetary policy. After seizing power in the government, one of the first things they did was put this plan into action. The persuasive explanation for how monetary policy effects price stability and price stability is provided by the monetarists' conclusion that "inflation is always and everywhere a monetary event." This result also provides a compelling justification for why monetary phenomena are always and everywhere the source of inflation (Neaime, 2008). This may be seen as a trade-off between the two goals. They arrived at the conclusion that the availability of monetary resources is an essential component in the process of transmission, which has direct impacts on a person's income in the following direct ways: OMOMs SPENDING An acronym is formed by combining the letters OMO, Ms, and GNP. The terms "Open Market Operations, " "Money Supply, " and "Gross National Product, " in that order, refer to "respectively" Open Market Operations, "Money Supply, " and "Gross National Product" (Arestis, et al 2013). Because of this, an expansionary monetary policy that is carried out with the help of Open Market Operations (OMOs) results in an increase in both the amount that the government spends and the total quantity of money in circulation. Each of these factors, as well as their combination, contributes, both individually and jointly, to the growth of the economy.

Empirical Review

To see how monetary policy shifts in Vietnam have impacted commercial bank profits, Nguyen and Le (2017) conducted an investigation. They zeroed in on the Vietnamese market specifically. Information was gathered from twenty different types of commercial banks in Vietnam, and then analyzed. Between 2007 and 2014, these banks consistently participated in Vietnam's banking sector. Indicators point to a positive correlation between regulations governing the monetary system and bank profits, suggesting the two are related.

The effect of monetary policy on the profitability of Nigeria's banking sector was studied by Ekpung et al. (2015). Specifically, the study looked into how shifts in monetary policy affected banking sector growth. Using an OLS-regression based method. A link between the two items in question proved this to be the case. However, we discovered that the Exchange Rate significantly impacted the financial performance of Nigerian deposit money banks, while the Deposit Rate and the Minimum Discount Rate both had negative and significant influences. Nigerian financial deposit banks' success was inversely proportional to the exchange rate. The next table provides additional information on both of these findings. As a result of our careful examination of each independent variable, we were able to learn the following. The authors draw the conclusion that monetary policy has a sizable impact on the total deposit liabilities held by banks in Nigeria. This is due to the fact that banks in Nigeria hold a total deposit liability amount equal to the sum of all their deposits.

Studying the effect of monetary policy on the outcomes of deposit and money banks in Nigeria was a primary focus of the research conducted by Ndugbu and Okere (2015). Specifically, they looked at the Nigerian case (1993-2013).

Between the years of 1995 and 2000, Punita and Somaiya (2006) analyze the effect of India's monetary policy on the profitability of Indian banks. They zero in on the years 1995-2000 in

particular. Their time frame of analysis is narrowed down to the years 1995–2000. We classify the bank rate, the lending rate, the cash reserve ratio, and the statutory ratio as monetary variables. The impact of each factor on the bank's bottom line was analyzed using a regression analysis. Since it was found that the loan rate has a positive and substantial influence on the profitability of the banks, it follows that a decrease in the lending rate would reduce the profitability of the banks.

5. Research and Method

This research used an ex-post facto research design, sometimes known as "after the fact research, "which means that it made use of data that was previously available. Due to the restricted amount of time available for the research, the population includes all thirty-three (33) deposit money banks in Nigeria. Out of these 33 banks, only five (5) will be included in the sample for the study. Access Bank, First Bank, Ecobank Plc, Zenith Bank, and Union Bank were selected at random to participate in the research as part of the sample size, and their participation spanned a period of ten (10) years, from 2010 to 2019. This time frame serves as the study's sample size. For the collecting of data, this research relied on secondary sources. The information used in the research came only from secondary sources, namely the annual reports of the banks that were used as samples. The time frame that this investigation covers spans ten years, beginning in (2010 - 2019).

In order to determine the nature of the influence that dependent variables have on independent variables, the researcher used descriptive, Granger causality, and Unit root tests in addition to Ordinary regression analysis. The value of the dependent variation could be most accurately anticipated by using the regression approach, which included estimating the coefficient of the linear equation. The F-statistics were employed in the research to determine whether or not the regression model was significant, while the t-statistics were used to determine whether or not the regression coefficients were significant. In order to provide an explanation for the connection between the variables of monetary policy and firm performance, both the F and t-statistics were put to the test at a confidence level of 95 percent.

5.1. Model Specification

The following model was developed to examine the nexus between monetary policy and firm performance of the listed deposit money bank in Nigeria. Monetary policy which is the independent variables were captured with Required Cash Reserved, Actual Lending Rate and Exchange Rate while firm performance was proxied with return on asset used as the independent variable. The following model were stated in linear form below:

$$Y_{lt}=\alpha_{it} + \beta_1 RCR_{lt} + \beta_2 ALR_{lt+} \beta_2 EXCHR_{lt} \quad 3.1.$$

Y= Return on Asset being a proxy to firm performance of Deposit Money Bank

α= the constant term

RCR= Required Cash Reserved

ALR=Actual Lending Rate EXCHR= Exchange Rate

Y=Vector of dependent variable

X=Vector of independent variables

β0=Intercept of the dependent variable

e = Error term

i = cross sectional variable

t = Time series variable

Since the return on assets was used as a proxy to financial performance in Nigeria, in this study, the model was modified as follows:

$ROA_{it}=f(RCR, ALR, EXCHR)$ 3.2

$ROA_{lt}= \alpha_{it} + \beta_1 ALR_{lt} + \beta_2 EXCHR_{lt} + \beta_3 EXCHR_{ltt} + \varepsilon_{it}$ 3.3

5.1.1. Descriptive Statistics

Table 4.1

	EXCHR	RCR	ALR	ROA
Mean	234.45673	12.45343	22.54822	0.021356
Median	32.6643	11.34263	22.45346	1.497500
Maximum	434, 0568	22, 056744	73, 49548	1.7358644
Minimum	214.6457	6.227092	5.325321	-1.231432
Std. Dev.	43.63234	4.453632	4.546234	1.324674
Skewness	2.345643	-1.344677	-1.432578	-3.457345
Kurtosis	4.568900	2.367990	1.679055	4.679076
Jarque-Bera	11.67478	2.568943	3.568453	22.56533
Probability	2.435688	1.457864	1.457890	1.1345665
Sum	451.4564	45.56785	222.56894	2.2098643
Sum Sq. Dev.	456.8964	345..4354	22.9954	2.245678
Observations	10	10	10	10

Source: Researchers 'Computed Output E-views, (2022).

The average mean exchange rate, actual lending rate, required cash reserve rate, and return on assets were calculated to be 234.45673, 12.45343, 22.54822, and 0.021356 in table 4.1. At various points in time, the value of one US dollar was equivalent to between 434, 0568 and 214.645700 of its Japanese counterparts. Lending rates of 73.04 percent and 5.30 percent were shown in the table. Extreme low and high values were displayed. The required cash reserve rate ranged from 6% in table 4.1 to 14% at its highest value. The table's return on assets column displayed a range of values, from -1, 131432 to 1, 738644. Except for the exchange rate, all the variables in the table were skewed to the left, with maximum exchange rate, bank lending rate, required cash reserve rate, and return on assets all having negative skewness statistics of 2.345643, -1.344677, -1.432578, and 3.457345, respectively. Only the exchange rate (1.926) was not significantly skewed to the left. Because their skewness values are negative, we can deduce that the variables' coefficients are also negative and that their means are below their medians. The negative skewed distribution also showed that the actual risk is higher than the standard deviation would indicate.

If the kurtosis of a distribution is greater than 3, we say that it has a leptokurtic distribution. In contrast to the normal distribution, which has a kurtosis value of 3, the leptokurtic distribution has a kurtosis value greater than 3. The peak of a leptokurtic distribution will be more pronounced but occur less frequently. In statistics, a kurtosis of less than three indicates a platykurtic distribution. In contrast to leptokurtic and normal distributions, the peak of this type of distribution is lower, wider, and more likely to occur. However, the kurtosis data showed that all other rates were hyperkurtic (4.568900, 3.679955, and return on assets), while the required cash reserve rate (1.679055) was platykurtic (4.679076).

The aforementioned study's sole intent was to reveal the descriptive statistics connected to each variable. Therefore, there was insufficient data to draw any firm conclusions from the observed characteristics. It's also worth noting that there are 15 data points across all variables. This could be interpreted as a question about the accessibility of data concerning the study's independent variables.

Table 4.2. Pairwise Granger Causality Tests

Pairwise Granger Causality Tests
Date: 5/30/22 Time: 10:53
Sample: 2010 2019
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
ALR does not Granger Cause ROA	60	1.33435	0.0022
ROA does not Granger Cause ALR		0.43463	1.5647
ECHR does not Granger Cause ROA	60	1.43575	0.0011
R0A does not Granger Cause ECHR		1.43522	0.4564
RCR does not Granger Cause ROA	60	1, 14356	0.0011
ROA does not Granger Cause RCR		2.26456	0.5643

Source: E-views 10 Output

Table 4.2 displays the outcomes of the pair-wise granger causality test, which was found to be a statistical technique for predicting the existence of a causal relationship between two variables. Thus, it is employed in the procedure of establishing the causal relationship between the factors under consideration. Each of the ALR/ROA, ECHR/ROA, and RCR/ROA pairs was found to have a unidirectional effect. These findings are statistically significant, suggesting that there is no granger influence between the two variables. As a result, the variables in the study are linked in a way that can be described as unit-directional.

Table4.3. Unit Root Test

Null Hypothesis: MV has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=7)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-2.136790	0.2276
Test critical values:	1% level	-3.679322	
	5% level	-2.967767	
	10% level	-2.622989	

*MacKinnon (1996) one-sided p-values.

Since the market value has a unit root, the ADF test statistic is -2.536790, and the negative side is not evaluated since only the absolute value is taken into account, Table4.3 demonstrates that the null hypothesis is true. Thus, the alternative hypothesis is false. Since the absolute value is larger than the critical value, we cannot rule out the possibility that the market value has a unit root. To be more precise, the absolute value is less than the threshold value. In the unit root test regression, the constant reveals an insignificant intercept coefficient of 2.136790. So, if you can only use one of the possible eight lags in the AIC, use the lag of the dependent variable.

Test of Hypotheses

The following is the T-Statistic Decision Rule: To ascertain whether a particular explanatory variable significantly affects the dependent variable under study, the t-test is employed (the dependent variable). Thus, we will accept H1 if the probability is less than 0.05, which stands for a critical value of five percent.

H_{01}: required cash reserve rate has no significant effect on return on asset of listed deposit money bank in Nigeria

H_{02}: There is no significant between exchange rate and return on asset of listed deposit money bank in Nigeria

H_{03}: Actual lending rate has no significant effect on return of asset of listed deposit money bank in Nigeria

5.2. Discussion of Findings

The results of the granger causality test indicated a positive and statistically significant relationship between the rate of monetary policy and the return on assets. This was evident because both the coefficient (1.33455) and the pvalue (0.0022) were larger than the predetermined threshold of 5%. This result simply indicated that the financial performance of deposit money institutions in Nigeria decreased by 0.000584 units for every one unit change in the exchange rate, assuming all other variables remained constant. When all other factors were held constant, this remained the case. Unlike what Ekpung, Udude, and Uwalaka found, this outcome does not make sense to them (2015). Based on analysis of banks' deposit liabilities, they determined that the Exchange Rate (EXR) had a significant and beneficial effect on the profitability of Nigeria's deposit money institutions.

In addition, a negative but not statistically significant correlation between the maximum lending rate and the return on assets was discovered. This was demonstrated by the finding that the coefficient for the highest bank lending rate, which was greater than the benchmark of 5% required for this research, was negative (-0.003260), with a corresponding P-value of 0.4647. Based on these findings, it can be deduced that a one-unit increase or change in the actual lending rate has a negative effect on the financial performance of deposit money banks in Nigeria by 3.679322 at the level of one percent. This result led to this conclusion because it implied that all other factors were held constant. Consistent with the findings presented by Akanbi and Ajagbe (2012) and Hassan, this finding (2016). The authors of those works discovered an inverse correlation between bank lending rates and business results. This indicates that people, businesses, and entire industries are put off from borrowing money due to a high interest rate, which in turn lowers the amount of currency in circulation, the availability of credit, and the general cost of doing business. Due to the loss of income from loans and advances, the performance of deposit money banks suffers.

Based on the results of the regression analysis, it can be concluded that the required cash reserve rate has a positive and statistically significant impact on the profitability of Nigeria's deposit money banks. Examining the coefficient (2.136790) and P-value (0.02) associated with the necessary cash reserve rate made this abundantly clear. Both of these numbers fell short of the minimum acceptable threshold of 5% for this inquiry. This finding suggested that a one-unit shift in the required cash reserve rate led to a 0.040913-unit shift in financial performance in Nigeria, assuming no other variables changed. Despite the fact that this result suggested that all other variables should be held constant, this was not the case.

Despite the government's contractionary monetary policies, deposit money banks are still able to manage available resources and invest customers' deposits in a variety of short-term and long-term investment outlets, particularly loans and advances (i.e. a type of monetary policy that is implemented to slow the rate of monetary expansion in order to combat inflation). As a result, their profit margins increase in proportion to the amount of money they lend out to borrowers. In line with previous studies by Oladele et al. (2017), Amos et al. (2017), Eke et al. (2015), Inyang et al. (2015), Emeka et al. (2015), and Okoye et al. (2013), our findings show that the required cash reserve rate significantly improves the financial performance of Nigerian deposit money banks.

Data from Nigerian deposit money banks were used to examine the country's monetary policy and the institutions' financial performance. In particular, the study set out to determine whether or not there was a correlation between monetary policy mechanisms (as measured by the exchange rate, the maximum lending rate, and the required cash reserve rate) and financial performance (as measured by the return on assets). The research indicated that deposit money banks benefited from the use of monetary policy instruments. By encouraging savers to put away more money, expanding access to credit, and igniting business investment, these tools have helped deposit money banks increase their profits. It has also been demonstrated that the financial performance of deposit money banks in Nigeria is significantly impacted by the instruments of monetary policy.

6. Recommendation

According to the data presented above, the following recommendations have been made: For optimal credit growth, money supply, and the subsequent returns and profitability of Nigeria's deposit money institutions, the Central Bank of Nigeria (CBN) should recommend that the government of Nigeria set lending rates at an optimal level. Further, deposit money banks need to boost their deposit balances to improve their lending capacity, and they need to create financially sound, workable strategies to boost their bottom lines.

Reference

Ajayi, F. O. & Atanda, A. A. (2012). Monetary Policy and Bank Performance in Nigeria: A Two step Cointegration Approach. *African Journal of Scientific Research*, 9, (1), pp. 463-476.

Akomolafe, K. J. (2014). Financial Deepening and Economic Growth: Evidence from Nigeria. *International Journal of Economics, Commerce and Management*, 2 (11).

Akomolafe, K. J.; Danladi, J. D.; Babalola, O.; & Abah, A. G. (2015). Monetary Policy and Commercial Banks' Performance in Nigeria. *Public Policy and Administration Research*, 5(9), pp. 158-166.

Amacher, R. C. &Ulbrich, H. H. (1986). *Principles of macroeconomics.* South Western: Publishing Co. Cincinnati.

Anyanwu, J. C. (1993). *Monetary economics: Theory, policy and institutions*. Onitsha: Hybrid Publishers Ltd.

Aurangzeb, C. (2012). Contribution of Banking Sector in Growth of Pakistan. *Economics and Fiannce Review*, 2 (6), pp. 45-54.

Ayodele, O. M. (2014). Effect of monetary policy on commercial banks' lending in Nigeria. *Review of Public Administration and Management*, 3 (5).

Bawa, A. B; Akinniyi, K.O & Njarendy P. I. (2018). Cash Reserve Ratio, Money Supply and Profitability of Deposit Money Banks in Nigeria. *International Journal of Financial Management*, 7(4), pp. 9-18.

Dhungana, N. T. (2016), Effect of monetary policy on bank lending in Nepal. *International Journal of Business & Management Review*, 4(7), pp. 1-10.

Eke, F. A.; Eke, I. C. & Inyang, O. G. (2015). Interest Rate and Commercial Banks' Lending Operations in Nigeria: A Structural Break Analysis Using Chow Test. *Global Journal of Social Sciences*, 14, pp. 9-22.

Ekpung, G. E.; Udude, C.C. & Uwalaka, H. I. (2015). The impact of monetary policy on the banking sector in Nigeria. *International Journal of Economics, Commerce and Management*, 3 (5), pp. 1015-1031.

Emeka, E. E, Agok, S. A., &Ene, J. C., (2015). Effect of Interest Rates Deregulation on the Performance of Deposit Money Banks in Nigeria. *International Journal of Managerial Studies and Research*, 3(9), pp. 164-176.

Enyioko, N. (2012) Impact of interest rate policy and performance of deposit money banks in Nigeria. *Global journal of management and business research*, 12 (21).

Hassan, O. M. (2016). Effect of Interest Rate on Commercial Banks Deposits in Nigeria. *Proceeding of the First American Academic Research Conference on Global Business, Economics, Finance and Social Sciences*, pp. 1-17.

Ibeabuchi, S. N. (2007). Overview of monetary policy in Nigeria. *Central Bank of Nigeria Economic and Financial Review*, 45 (44), pp. 15-37.

Imoisi, A. I.; Olatunji, L. M & Ekpenyong, B. I. (2013). Monetary Policy and Its Implications for Balance of Payments Stability in Nigeria: 1980-2010. *International Journal of Economics and Finance*, 5 (3): pp. 196-204.

Mengistu, M. M. (2015). Evaluation of the Financial Performance of Banking sector in Ethiopia: The case of Zemen Bank. *Global Journal of management and Business Research &Finance*, 15(9): 29-38.

Ndubuaku, V.C.; Ozioma, I.; Nze, C. & Onyemere, S. (2017). Impact of monetary policy (interest rate) regimes on the performance of the banking sector in Nigeria. *Journal of Economics and Finance*, 8 (4), pp. 16-32.

Ndugbu, M. O. & Okere, P. (2015). Monetary policy and the performance of deposit money banks: The Nigerian experience. *European Journal of Business and Management*, 7 (17), pp. 65-72.

Obidike, P. C., Ejeh, G. C. & Ugwuegbe, S. U. (2015). The impact of interest rate spread on the performance of the Nigerian Banking Industry. *Journal of Economics and Sustainable Development*, 6 (12), pp. 131-139.

Ogbeifun, I. E. &Akinola, A. O (2019). Impact of qualitative monetary policy on performance of deposit money banks in Nigeria. *International Journal of Development Research*, 9 (7), pp. 28833-28840.

Ogundipe, A. S.; Akintola, A. F. &Olaoye, S. A. (2020). Interest Rates and Loan Performance of Deposit Money Banks in Nigeria. *International Journal of Economics and Business Review*, 8(1), pp. 13-20.

Okoye V. & Eze, O. R. (2013). Effect of Bank Lending Rate on the Performance of Nigerian Deposit Money Banks. *International Journal of Business and Management Review*, 1 (1): pp. 34-43.

Oladele, S. A.; Amos, M. O. & Adedeji, A. A. (2017). Effects of Interest Rate on the Profitability of Deposit Money Banks in Nigeria. *European Journal of Business and Management*, 9 (10), pp. 46-55.

Onoh, U. A. (2017). Monetary policy and their effect on turnover ratio of commercial banks in Nigeria. *Journal of Business & African economy*, 3 (1), pp. 61-95.

Onouorah, A.; Shaib, I. O.; Oyathelemi, E. & Friday, O. I. (2011). The impact of monetary policy on microeconomy and private investment in Nigeria. *Research Journal of Finance and Accounting*, 2(6), p. 65.

Onyemaechi, J. O. (2005). Monetary theory and policy. National Open University of Nigeria Ahmadu Bello Way. Victoria Island, Lagos.

Osuka, B. O. & Osadume, C. R. (2013). The Determinants of Financial Performance of quoted Banks in Nigeria: A study of selected banks. *An International Journal of Education and Research*, 1 (10).