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Monetary Policy and Commercial Banks Performance in Nigeria: An Assessment of Credit Creation Role

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Abstract:

The study examined the impact of monetary policy on the commercial banks performance in Nigeria in terms of credit creation. Monetary policy instruments such as interest rate and money supply were used as proxy for monetary policy; other variables such as liquidity ratio and cash reserve ratio were also used. The estimating technique adopted was regression analysis. The results showed that credit creation powers of commercial banks are mostly affected by these four variables. Notwithstanding, money supply and cash reserve ratio appeared to have the most pronounced effect on credit creation power of the commercial banks. It is recommended that a vibrant monetary policy that will be effective in controlling the credit creation power of the commercial banks in Nigeria requires the inclusion of these identified variables.

Keywords: Commercial banks, monetary policy, credit creation

1. Background to the Study

The Central Bank of Nigeria was at its inception charged with the responsibility of creating appropriate monetary and financial environment for economic growth and development, Exeuduji F.U (1994). Consequently, the basic objectives of Central Bank of Nigeria are the issuance of legal tender currency, maintenance of external reserves, promotion of monetary stability and sound financial structure, provision of banking services to the banks and bankers and financial adviser to the government, chendu O.A (1995).

The existence of an effective banking industry is necessary for every economy because it created the necessary environment for economic growth and development through its role in intermediating funds from surplus to deficit economic units. This stimulated investment and economic growth. In addition the Central Bank of Nigeria intervened directly in the development process by promoting the establishment of money and capital market development banks and other related institution.

However, with the adoption of a comprehensive macro economic package under the structural reform, the strategy of the Central Bank of Nigeria started to rely increasingly on market forces in the formulation and implementation of its monetary and banking policies.

Over the years, the objectives of monetary policy focused on the moderation of inflation, increased domestic output (Economic growth), reduced unemployment, enhanced external reserves position and stable Naira exchange rate. Monetary policy has become a very important policy instrument of modern welfare State to achieve the desired changes in the size and composition of national income and employment in the economy, Bagliano F.C.A Dalmazo, and G. Marini (2000), Garcia Herrero A, (1997).

In promoting rapid economic growth and stability the monetary policy pursued by the Central Bank should be elastic such that the flow of aggregate monetary policy supply in the economy should keep on changing in appropriate volume and direction to suit the exigencies of particular situation expanding during recession and contracting during inflation.

Different monetary policy instrument have been employment by the Central Bank in various countries simultaneously or at different in times to regulate the Volume Bank Credit and to direct it in the desired productive channels, Swank J. (1994) August. These credit controls have been classified as the General or Quantitative credit control instrument and Quantitative credit or selective control instruments.

The purpose of this study, we will be concerned with the "Effectiveness of monetary Policy instrument on commercial Banking Activities, before, during and after deregulation in Nigeria". The implication of this is to throw more light on the appropriate money policy instrument to be used under different economic situation in order to achieve the desired objective.

The extent to which money and monetary policy influence financial and economic activities has been widely discussed over the years, Nyong M.O (1996), Uchendu O.A (1995), Ezeuduji F.U, (1994).

While it is generally agreed that monetary policy developments affect economic and financial performance, there are differing views on the extent of effect and channels through which this effect is achieved. In order to appreciate the effects of money and monetary policy on the banking industry, it will be important to review the varied and changing view on monetary influence. The effect is achieved directly as well as indirectly through its feedback effects from the economy.

Furthermore, this Study seeks to address the problem associated with relative effectiveness of monetary policy instrument and how it affects the performance of commercial banking activities.

The problem can be stated in form of research question as follows:

2. Some Literature

Like all other Central Banks in the world, the CBN possesses an armory of tools or techniques to control or regulate money and credit in the economy. It is conventional to classify tools of monetary control into 2 main categories: Direct or portfolio instruments and the Market based or indirect tools of control.

The direct tools place restriction on financial institutions, (especially deposit banks) by limiting their freedom to acquire assets and liabilities, under this approach, the monetary authority uses some criteria to determine monetary, credit and interest rate targets that would achieve the ultimate objectives of monetary policy and then go ahead to wield direct influence on the financial institutions.

Examples of instruments of direct monetary control are quantitative ceilings or bank credit. Controls and administered interest and exchange rates.

In regime of indirect monetary control, only the operating variables (which are related to the path of the intermediate variables in a predictable way) are controlled. The operating variables particularly the monetary base or its components are managed while the market is left to determine credit allocation.

The market-based method of control relies on the power of the monetary authority as a dealer of the financial market to influence the availability and the rate of return on financial assets, this affecting both the desire of the public and to hold money balances and the willingness of financial agents to accept deposits and lend to uses. Examples of such tools include reserve requirement, discount rate and open market operations. From the exposition, it is clear that the basic difference between direct and indirect approaches to monetary control is the extent to which market forces are involved. Although, this classification tends to be the most widely adopted by write, for the purpose of this study and since monetary policy is concerned with the availability, cost and direction of credit, it is more appropriate to classify and discuss tools under three main headings, here according to their primary operation or concentration. For instance, there are those tools which operate primarily on quantity or availability of credit. Hence, these can be called Quantitative cost or Directional tools. The quantitative tools are Open Market Operation (OMO), special deposits, stabilization securities; cash reserve requirement variable cash ratio and liquidity ratio. The cost tools are discount rate and other interest-rate changes. The directional tools include the guide line, moral suasion and other directives.

- **The Quantitative Tools**

The Quantitative instruments work primarily on the volume and the availability of credit. These tools are employed as deliberate policy and at the initiative of the CBN with the aim of influencing the cash base or reserves and thus the lending power of commercial banks of these are:

- **Open Market Operation**

Open market operation involves the Central Bank discretionary power to purchase or sell security in the financial market in order to influence the rate of interest and volume of banks credit. The use of Open Operations took off effectively in June 1993. The Operating target of the CBN is the level of bank reserve since it is fairly more accessible through its policy instruments. It has been argued that for the effective use of these tools, there must be a well developed financial market such that the movement of government securities will be interest rate responsive. It has also been argued that the Nigerian Financial market is under developed. However OMO remains the live wire of indirect monetary control in Nigeria. OMO also appears to be the simplest and the most flexible of the quantitative tools. In time of tight monetary policy, the CBN sells bills to the public, purchaser of the bills will issue cheques on themselves (i.e. their accounts in commercial banks) which are then deposited with the CBN. Also, for OMO to succeed, commercial banks must not keep excess reserve on which they can draw in the event of a restrictive monetary policy and also, they must not be able to borrow or rediscount bills on a continuous basis to prevent the nullification of the effects of an Open Market Operation in which securities are sold to deplete bank reserves. On the whole, the performance of Open Market Operation since its inception has been remarkable.

- **Special Deposit**

The CBN was granted power to use this weapon in 1968 but the Apex bank has rarely exercised these powers, the first time being in June 1971. This tool of monetary policy is designed to regulate the quantity of available credit in the economy by putting pressure on commercial banks reserves.

When it is deemed necessary, the central authority may require that special deposit balances (sometimes non-interest bearing) be held by the commercial banks with Central Bank in addition to those which they normally hold as part of their cash reserves. Unlike OMO, special deposits do not operate initially through the market and can be affected by a stroke of the pen. They can therefore be usefully employed either jointly with Open Market Operations or as alternative to it to achieve the same result.

- **Stabilization Securities**

Another quantitative technique used by the CBN is stabilization securities. Stabilization securities are short term non-marketable securities issued by the CBN to mop up excess liquidity in the economy. The CBN Amendment Decree of 1968 gave the Central Bank the power to issue, place sell, purchase, amortize or redeem stabilization securities and the securities shall be issued at such a rate interest and under such conditions maturity, amortization, negotiability and redemption as the bank may deem appropriate. In essence, the Central Bank may issue securities, place them or sell them by allocation to any financial institution by law and non-institution can refuse to buy the securities.

Unlike OMOs stabilization securities are uniquely and excellently suited for situations where financial markets are not present. They were designed mainly to help reduce bank's liquidity and it has been succeeded in achieving this since its first use in March, 1976.

- **Reserve Requirements**

Reserve requirement set a minimum balance on the liquidity of commercial bank vis-à-vis their deposit liabilities. They are usually expressed as a percentage or ratio above which each bank may not raise its advances or loans relative to its liquid assets. Reserve requirements were originally designed to protect customers' deposits but are now actively used in control of credit expansion as an objective of monetary policy. Usually, the reserve requirements are fixed by law or by custom. The liquid assets which reserve requirement target are usually held in the form of vault cash and non-interest bearing balances with the Central Bank.

The commercial banks acquire their liquidity by purchasing the appropriate assets from the Central bank which has the power to determine the quantity of these assets which it release to the commercial banks and under what condition. The working of reserve requirement as policy instrument is straight forward. When reserve requirement are raised, pressure is put on the reserves of commercial banks they then have to liquidize some of their loans and investment in order to acquire is lowered. There is therefore an inverse relationship between changes in the reserve ratio and the ability of commercial banks to effect multiple credit creation.

- **Variable Cash Ratio**

This is the statutory variation of the cash reserves that commercial banks must maintain with the CBN a cash ratio expressed as a ratio of its total deposits. The variable cash ratio was designed to help rescue the liquidity of the banks and hence control the volume of banks credit that can be extended by the commercial banks. The technique of monetary policy was introduced in Nigeria in 1976 in addition to the stabilization securities. The working of the variable cash ratio is also direct, a higher cash ratio puts more pressure on the cash reserves of commercial banks and hence, their capacity in granting loans. The reserve is true when the variable cash ratio is reduced by the CBN; banks are left with more cash balances with which they can presumably extend credit creation. Hence, the working of this technique rests on the assumption of a direct link between commercial banks loans, advances and cash. Herein lies the weakness of the availability of credit. Short term assets exist in the portfolio of banks which can easily be liquidated to make for a short fall in cash balances and therefore render the cash ratio policy ineffective. Cash reserve ratio can be fixed by law or tradition.

- **Variable Liquidity Ratio**

This specifies the required ratio of certain selection assets and securities to the deposit liabilities of commercial banks. The central Bank prescribes, whenever it so desire, the percentage of specified liquid assets that commercial banks can hold against their deposits. The liquid assets which are used include cash and short term government securities e.g. treasury bills and treasury certificates. The general ideal behind the use of a variable liquidity ratio, the credit expansion capacity of banks can also be controlled. While it is generally accepted that this technique of monetary policy is useful in influencing the liquidity position of commercial banks, it has also been argued that the major use of the liquidity reserve ratio is in helping to float government securities by providing a ready market. Since government securities do not exist normally, it therefore serves to direct commercial bank credit towards the public sector. The use of this tool in Nigeria can be traced to 1950s. The 1952 Banking ordinance required commercial banks to maintain an undefined 'adequate degree of liquidity' satisfactory to the financial secretary. The power to prescribe this liquidity requirement was conferred on the Central Bank of Nigeria by section 40 of the CBN ordinance 1958.

- **Discount Rate Policy**

Bank or discount rate is the rate at which the Central Bank rediscounts the eligible bills presented by the commercial banks. The Central Bank of Nigeria is also ready to grant short term direct advances to commercial banks when they are liquid, similarly, the Central Bank of Nigeria rediscount eligible bills presented by commercial banks. The interest rates at which banks do lend to their customers take a cue for the Central Bank's Rate. The rate at which the Central Bank lends for rediscounts money supply when there is too much money in circulation, the Central Bank will increase Bank Rate with the aim of increasing the rate at which commercial banks lends to the public. Hence, people will be discouraged to borrow and this will reduce the credit creation ability of the commercial banks. Conversely, when the money supply is low, there is need to inject more money into circulation. To this, the Central Bank will reduce the Bank Rate. Thus the bank lending rate will be equally reduced and people will be encouraged to borrow. Consequently, the commercial bank will be able to create more money.

- **Direct Regulation of Interest Rates**

In develop market-economics, interest rates are fixed by market forces and are only indirectly influenced by official policy action. In Nigeria however, interest rate policy is an integral part of monetary policy adopted by the CBN to

influence the cost of controlled and managed by the Central Bank's Minimum Rediscount Rate (MRR). Under section 14 of the Banking Decree, 1967, the interest rate structure of each bank was made subject to the approval by the CBN.

As with the discount rate mechanism, interest rates affect primarily, the cost of credit and then its availability. Higher rates of interest translate to higher cost of borrowing which should all things be equal lower demand for loans and hence curb the growth in bank credit to the economy. Interest rates have been subject to 'caps' from time to time. However, in pursuance of CBN's shift from the use of direct to market-based instruments of monetary management, and the need to realign interest rate determinant with the policy of financial market deregulation, the caps on interest rates have been removed with effect from October 11, 1996.

- **The Directional Tools**

The tools of monetary policy which fall under this category are called the Directional Tools because they are used primarily to direct the allocation of credit. In the Nigeria context, these tools are basically the guidelines which include the selective credit control techniques or credit guideline and moral suasion.

- **Selective Credit Controls**

This is otherwise known as sectional allocation of commercial and merchant's credit. This measure is aimed at ensuring the priority is accorded to the growth sector of agriculture and the manufacturing industry in their allocation of credit with a view to stimulate growth in the non- oil sector. They are particularly used in less Developed countries (LDC), where the money and capital market are poorly developed. Sectoral allocation of commercial and merchant banks loans advances with the overall credit limit is the commonest form of the practice of selective credit controls in Nigeria.

2.1. Review of Empirical Literature

Onyido (1999), carried out a sectorial appraisal of monetary policy where he focused on Agricultural sector. The GDP of Agricultural sector was the dependent variable while he made use of similar explanatory variables to that of Ajayi with the exclusion of liquidity ratio but replaced it with Bank rate which was not involved in Ajayi's work, thus making seven explanatory variables. The conclusion from his empirical findings was similar to that of Ajayi as he concluded that implementation and administration of monetary policy in Nigeria have not had any significant impact on the Agricultural sector.

From his findings, Onyido attributed this to lack of enough loanable funds to the sector, high interest rate, diversion of funds made available for the sector to other sectors etc. However, Onyido didn't spare the oil-boom period too as a major setback to the growth of the Agricultural sector in Nigeria.

However, Alade and Ajayi (2003), embarked on a pure desk research work and concentrated on the role of monetary policy in making credit available for development process in an economy. Nigerian economy was used as a case study and they assessed critically the supply of and demand for loanable funds and made use of the loanable funds model which represents or postulates that the demand for and supply of credit determines the interest rate in the financial markets.

They concluded that there exists an inverse relationship between the rate of interest and demand for loanable funds while a direct relationship is expected between the rate of interest and supply of loanable funds. They went further to suggest that empirical evidence has highlighted various factors affecting the demand for and supply of credit. These factors include public sector deficit, private/corporate savings, regulatory and monetary policy.

Balji (2000), undertook a more elaborate view of monetary policy by focusing on the developing economy as a whole, He made use of a very broad explanatory variables which include all the ones in Friedman's Theory of Money Demand i.e special deposit, return on bonds, returns on equity and inflationary rate after applying ordinary least square. He found out that the R^2 was very encouraging and many of the parameters in the estimated model fulfilled the Apriori Expectations. Finally, he concluded that monetary policy has significant impact on the growth of Nigerian Economy.

He further emphasized that monetary policy is an important means through which government authorities in a market economy regularly influence the pace and direction of overall economic activity, not only the level of aggregate output and employment but also the general rate at which prices rise or fall.

However, Ojo (1974) was concerned mainly with establishing that in a developing economy like Nigeria characterized by under developed money market and lack of financial assets, the choice facing on individual is more between money and physical asset rather than between money and financial assets. Consequently, he specified and estimated (using the OLS technique) two kinds of relationship (in linear form) between money and its determinants. He first specified real money balance as a function of current nominal income and interest rate. Following the significance of interest rate money balance as a function of nominal income and expected rate of inflation. In this framework he adopted the adaptive expectation hypothesis of derive expected rate of inflation that eventually enter the equation for money demand.

His estimated of this equation suggestion that the demand for money is inelastic with respect to income and price change expectation. The coefficient of inflation rate appears with the right (negative) sign and was statistically significant, thus confirming Ojo belief that physical goods are close substitute for money in our type of economy. He however, cautioned that this finding should not stretched too far since with development of the money market financial instrument and financial intermediation, the role of interest rate may become a significant variable in money demand function in Nigeria and hence in the adjustment process.

Adejugbe (1988) and Audu (1988) in their studies of money demand function in Nigeria similarly adopted the partial adjustment mechanism in obtaining a specification for demand for both narrow and broad real money balances. Both studies specified the equation in long liner form, but the latter study placed more emphasis on the temporal stability question. Current income rate of interest and inflation rate were the argument in their equations.

While Adejugbe carried out his estimation using the Alknes generalized least square procedure, the OLS technique was adopted by Adu covering the period of 1960 to 1987. In testing for stability, the former utilized the Chow test while the latter employed the Gujarati (1970) test. The conclusions reached by Adejugbe were that measured income, rate of investment and logged variables constituted effective determinants of the demand for money.

Ajewole (1989) was mainly concerned with testing the relevance or otherwise of the Mckinnon model of demand for money to Nigeria, from his empirical findings, he concluded inter-alia that real demand for money in Nigeria is considerably influenced by real income and average return on physical assets broad definition of money is more relevant in modeling real money demand when expected or current (actual) income is used a stable demand for money function exist in Nigeria, interest rate does not significantly influenced money demand in Nigeria, even though it is currently signed; and finally, the maximum model of money demand is relevant and applicable to Nigeria.

3. Methodology

This section focuses on the model specification, the estimating technique as well as the sources of data. The model is basically derived from the financial acceleration principle by Kiyotaki and Moore 1995.

3.1. Model Specification

The summary of Financial acceleration principle is that credit can be allocated based on some monetary variables. Our model is therefore tailored towards this where we express the total credit created by commercial banks as a function of some monetary variable.

$$Tcr = f(Crr, Lr, Intr, Ms) \dots\dots\dots(1)$$

This can be expressed in regression equation thus:

$$Tcr = \beta_0 + \beta_1Crr + \beta_2Lr + \beta_3Intr + \beta_4Ms + \mu_i \dots\dots\dots(2)$$

Where: Tcr is the total credit created by the commercial bank

Crr is cash reserve ratio

Lr is the liquidity ratio

Intr is the interest rate

Ms is the broad money supply.

3.2. Estimating Technique

The basic technique employed in the analysis is the ordinary least square estimating technique. It shall be used to determine the effect of monetary policy instrument on commercial banking activities in Nigeria over the period of study. Descriptive analysis is also used to depict the relationship between the variables as well as to show the patterns and trends.

All the parameter estimates in equation 2 will be estimated with the use of software Eviews 7. Each parameter estimates will be subjected to hypotheses testing. The R square will be estimated while the F statistics will be estimated to know the significance of the model.

3.3. Sources of Data

The source of data used in this study is basically secondary data generated form the following sources namely: The Central Bank of Nigeria publication. Precisely, the CBN statistical bulletin.

4. Result And Discussion

This section of the study presents that empirical result and interpretation of the results are also made. However, basic inferences are also drawn from the findings. The analysis begins with the assessment of the pattern of distribution of the variables of interest. This will enable us to explore their trend over the period under consideration.

4.1. Descriptive Statistics

The descriptive analysis employed in this study ranges from summary of statistics table. This includes the mean and the standard deviation of the distribution.

Variables	Obs	Mean	Std. Dev.
Tcr	37	694068.5	989616.3
Crr	37	7.113514	5.651704
Lr	37	49.31081	9.310233
Intr	37	-.7358274	12.87564
Ms	37	1.70e+12	2.90e+12

*Table 1: Summary of Statistics of the variables
Std. Dev. Standard deviation, Source: Authors Computation*

Table 1 shows the descriptive analysis in terms of the summary of the statistics for all the variables. The means of total credit appears driven towards the upper end of the distribution this is an indication that total credit in the commercial banks over the year

have been on the rise. Again, Money supply is another variable that shows a very high mean driven towards the upper end of the distribution also. But the rest of the variable show mean that are at the middle level of the distribution.

The value of the standard deviation indicates that interest rate value tends toward the maximum. This shows that the variance is high. The implication of this is that interest rate demonstrate high level of variability during the period. That is it is likely to be very unstable during the periods under consideration. Other variables have moderate variance values.

4.2. The Regression Analysis

Before the estimation of the model the variables are first linearised. This is because of the varying unit of measurement of the variables. Consequently, the log of the variables is taken.

4.3. The Regression Results

Variables	Coefficient	Standard Error	T value	P value
ICrr(log of cash reserve ratio)	-0.2165502**	0.104547	2.07	0.048
ILr(log of liquidity ratio)	-0.1439061	0.5598841	-0.26	0.803
ILnr(log of interest rate)	-0.0090238	0.1560584	-0.06	0.955
IMs(log of money supply)	0.9157115***	0.0418001	21.91	0.000
Constant	-12.0264	1.868785	-6.44	0.000

Table 2 Regression equation for log of Total bank credit (lcr)/(a proxy for commercial bank performance)

$$R^2 = 0.98, F(4, 9) = 220.46^{***}, \text{ Prob} > F = 0.0000$$

*** Statistical significance at 1%, ** Statistical significance at 5%,

Source: Authors Computation

Table 3 shows the result of the regression model for commercial bank performance. It explains the empirical relationship between commercial bank performance and monetary policy variables. The monetary policy variables used are divided into two namely, financial ratios of commercial banks and general macroeconomic variables. The two financial ratios used in the model are cash reserve ratio and liquidity ratios while the monetary macroeconomic variables used are interest rate and money supply.

The result indicates that there exist a negative relationship between cash reserve ratio and total commercial bank credit. The same relationship is found with liquidity ratio and interest rate. However, the result shows that money supply is the only variable that shows a positive relationship with the bank credit.

In terms of statistical significance of the parameter estimates of the variables, only the parameter estimates of cash reserve ratio and money supply are significant at 5% and 1% levels respectively. The implication of this result is that cash reserve ratio is a strong determinant of commercial bank performance among the financial ratios used. Precisely, the coefficient of cash reserve ratio is -0.2165502. This shows that a unit fall in the cash reserve ratio of the commercial banks will lead to about 21% rise in the total commercial bank credit.

Another variable that is statistically significant is the money supply. The result shows that the parameter estimate of money supply passed the significant test at 1% level. This simply shows that money supply as a monetary variable and a macroeconomic variable has a very significant impact on the commercial bank credit in Nigeria. The coefficient from the result is 0.9157115 showing that a unit rise in money supply will lead to about 90% rise in the total commercial bank credit supply.

The regression result indicates R square value of 0.98. This shows that 98% systemic variation in the commercial bank credit is explained by all the monetary policy variables. This is an implication that the selected monetary policy variables appear to have strong joint effect on commercial bank credit. The result of the F test in the regression result corroborates the earlier position as it shows that the F value is also statistically significant. This means that the model used for the regression passed the test of statistical significance.

4.4. Basic Inferences

The result from the study have shown that cash reserve ratio, liquidity ratio, interest rate and money supply are core monetary policy variables that can significantly affect commercial bank performance. This is similar to the findings of Baljit (2000), Omolade, Ashamu and Akinola (2013).

The result has also shown that cash reserve ratio as financial ratio of the commercial banks is a very effective tool of monetary policy that can be used to control the performance of the commercial banks see Somoye (2009)

Money supply has also been shown to be a very strong monetary policy variable that can be used to control the performance of the commercial banks. CBN (2000) hinges the supply of commercial bank credit to fluctuations in the total money supply. The result from our findings has not deviated from this position of the CBN.

Finally, our result has shown that interest rate might not be a good weapon that can be used by monetary policy to control the performance of the commercial banks. Many studies in the past have also play down the importance of interest rate in determination of the volume of financial activities in the financial sector especially in the developing countries.

5. Conclusion

The study has shown that the pattern of distribution of bank credit over the years by the commercial banks in Nigeria has followed an upward trend. Again, money supply as a monetary policy instrument has also been on the increase, this might be a reason for the upward trend noticed in the pattern of distribution of bank credit. Interest rate has been shown to have high variance during the

period under review. This might enable us to conclude that the interest rate of the commercial bank over the period under study has been mostly unstable.

Both money supply and cash reserve ratio appeared to be the only monetary variables that have significant impact on the performance of the commercial banks. Hence we can conclude that availability of credit from the commercial bank is mostly affected by money supply and cash reserve ratio. The study has also shown that liquidity ration and interest rate might not be all that significant in controlling the performance of the commercial bank in Nigeria. For interest rate the reason might not be unconnected with the unstable nature it shown during our analysis. The more unstable a variable is the less its impact on organization performance.

Finally, it can be concluded that the four variables used to capture monetary policy instrument jointly have significant impact on performance of the commercial banks. Therefore, the study supported the view that monetary policy is effective in controlling the performance of the commercial bank.

6. Recommendations

Considering the findings from the research work the following recommendations are made:

- **Reducing the instability of interest rate:** The study have shown that the incessant changes in the interest rate has contributed to limitation in its effectiveness as a tool of monetary policy. Consequently, effort should be made by the monetary authorities to always maintain a relative stability in the level of interest rate. This will improve the grip of monetary policy on the performance of the commercial banks.
- **Monitoring of cash reserve ratio:** Cash reserve ratio has been shown to have a very significant impact on the performance of the commercial banks. Consequently, the CBN should make it part of the major fulcrum on which monetary policy will be based in order to improve the effectiveness of the monetary policy on the commercial banks.
- **Fractioning out appropriate level of money supply:** Money supply has been shown to be a very useful monetary policy variable especially in controlling the performance of the commercial banks. Therefore, monetary authorities to be painstaking in determining an appropriate level of money supply that will enable them to achieve their desired aim regarding the control of commercial banks in Nigeria.
- **Careful manipulation of the identified monetary policy variables:** The study have shown that all the identified monetary policy variables namely, cash reserve ratio, liquidity ratio, interest rate, and money supply will jointly influence significantly the performance of the commercial banks. On this note a careful manipulation of these variables when planning monetary policy will influence significantly the performance of the commercial banks in Nigeria.

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