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IMPACT OF QUALITATIVE MONETARY POLICY ON PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

This study examined the impact of monetary policy tools on the performance of deposit money banks in Nigeria. The study sought to evaluate the effect of money supply on the performance of Deposit Money Banks in Nigeria; the significant impact of monetary policy rate on Deposit Money Banks' Performance; to investigate the influence of Cash reserve ratio on Deposit Money Banks' Performance. The study is predicated on the Classical theory, Keynesian theory and Neo-Classical theory. The secondary data were obtained from the Central Bank of Nigeria Statistical Bulletin. The multiple regression analysis i.e. Ordinary least square(OLS) was used to test the impact of monetary policy tools on the performance of deposit money banks in Nigeria. The result shows that the monetary policy variables have positive relationship on performance of Nigerian Deposit Money Banks except Money Supply and Liquidity Ratio. The study concluded that monetary policy tools have no significant effect on the financial performance of commercial banks in Nigeria. The study then recommends that commercial banks should put more emphasis on the internal factors to financial performance. These internal factors include capital adequacy, asset quality, management efficiency, earnings ability and liquidity management.

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INTRODUCTION

Monetary policy according to Anyanwu (1993) involves a careful effort by the monetaryauthorities i.e. the Central Bank of Nigeria (CBN) to regulate the money supply and credit conditions for the purpose ofachieving certain economic goals.The role of the banking industry indevelopment process cannot be over-emphasized as they play so many functions.
Classical and monetarist theories have argued on monetary policy as an instrument of regulation tending to impact on banks return. It is the view of the CBN to ensure safely and returns of commercial banks using monetary policy but in what way do these instruments affect banks returns and what relationship do some of these instruments have on banks turnover ratio? The essence of monetary policy rate, reserve ratio and money supply control is to influence banks credit creation which in all ramifications has shown insignificant impactas noted by past studies (Mishra &Pradhan, 2008). The problem of ineffective credit deliveryto the productive sectors remains an issue and thus raises doubt on the potency of monetarypolicy instruments in influencing the direction of bank credit to the Nigeria economy.The impact of monetary policy on banking performancein Nigeria has received divergent results. The use of monetary policy instruments such ascash reserve ratio, monetary policy rate, money supply, etc, by the Central Bank of Nigeria isto ensure stability in the banking sector and influence the soundness of their assets (Ogbulu & Torbira, 2012, & Solomon, 2013). The research work is primarily aimed to examine the impact ofquantitativemonetary policy instruments on Performance of Deposit Money Banks in Nigeria for the period 1998-2017 (20years)

Conceptual Clarifications: Monetary policy involves the measures through which the central bank manages the supply of money so as to stabilize prices (CBN, 2011). Though the primary objective of monetary policy is the attainment of low and stable inflation, the central bank also has the added mandate to promote economic growth and employment. In practice, monetary policy plays a counterbalancing role to address price stability concerns and stabilize the economy.

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During a period of high inflation, contractionary monetary policy is used to reduce the amount of money in circulation while expansionary monetary policy is used when economic conditions are weak. Depending on the level of financial development of a country, monetary policy is usually implemented through the banking system and financial markets. Implementing monetary policy involves interactions between the monetary authorities and financial intermediaries, using tools of monetary policy including reserve requirements, open market operations, and the policy rate, amongst others. Various frameworks of monetary policy have been used including monetary targeting, exchange rate targeting and inflation targeting, etc.

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

- Direct or qualitative instruments
- Indirect of quantitative instruments

Direct Instruments or Qualitative Instruments of Monetary Policy Tools: Direct Monetary Policy involves the use of quantitative monetary controlssuch as credit ceilings, credit rationing and statutory liquidity ratios, to controlthe amount of money in circulation. It also refers to the direct relationshipbetween the monetary policy instrument and the policy objective. The directmonetary policy instruments are used to set or limit prices and/or quantityvariables such as interest rates and the sectoral allocation of credit. The use ofdirect methods has appealed to policy makers for reasons that include;

- The perception that they can be relied upon to control both the cost anddistribution of credit.
- Second, they may provide relatively easy means of implementingmonetary policy. Importantly, such direct monetary controls are quiteattractive to governments that seek to channel credit into sectors to fulfilstated economic objectives.This mode of monetary policy implementation is usually applied in aneconomy where the financial system is still rudimentary and the transmissionmechanism weak, predominantly in developing economies. Indeed, directmonetary controls provide a temporary but only option for such economiesuntil appropriate institutions for use of indirect instruments are established. Themajor challenge to implementation of direct monetary policy, however, is therisk of inefficiency in resource allocation, with attendant huge costs. Also, ithas been posited that direct instruments may lose the capacity to producesignificant impact because economic agents usually devise ways tocircumvent such instrument. The CBN adopted and implemented directmonetary policy from inception until 1992.

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

Special Deposits: The central bank has the power to issue directories from time to timerequiring all banks to maintain with it as special deposit an amount equal to the percentages of the institution's deposits liabilities or the absolute increase in its deposit liabilities over an amount outstanding at a certain date.

Moral Suasion: This simply means the employment by the monetary authorityof friendly persuasive statement, public pronouncement outright appeal the monetary authority sometimes uses the less tangible technique to influence the lending policies ofcommercial banks. Consequences to the banking system and the economy as a whole, theCentral 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 lower interest rate while the least favoured sectors pay 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 ratio 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.

Indirect Instruments or Quantitative Instruments of Monetary Policy: Indirect monetary policy involves the use of market based instruments such as open market operations for the implementation of monetary policy. In other words, it involves influencing the money market conditions by the central bank. The adoption of indirect instruments of monetary control became more wide spread in the late 1970s, when industrialized countries began to migrate towards the introduction of market mechanism for monetary policy implementation. Indeed, the adoption of indirect monetary policy instruments indicates the transition towards an enhanced role for price signals as a major indicator in the economy. In addition, the increasing adoption of indirect instruments in most economies serves to complement the growing wave of current account convertibility amongst countries. Increasing openness and subscription to market principles has made direct instruments increasingly ineffective. Fiduciary or paper money is issued by the Central Bank on the basis of computation of estimated demand for cash. To conduct monetary policy, some monetary variables which the

Central Bank controls are adjusted-a monetary aggregate, an interest rate or the exchange rate-in order to affect the goals which it does not control. The instruments of monetary policy used by the Central Bank depend on the level of development of the economy, especially its banking sector. The commonly used instruments are discussed below:

Open Market Operations: Open market operations (OMO) refer to the central bank's buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Securities' purchases inject money into the banking system and stimulate growth, while sales of securities do the opposite and contract the economy (Solomon, 2013).

Lending by the Central Bank: The Central Bank sometimes provide credit to Deposit Money Banks, thus affecting the level of reserves and hence the monetary base (CBN, 2013).

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

Rediscount Rate: The rediscount rate is the rate at which the central bank stands really to provide loan accommodation to commercial banks (CBN, 2013). 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 commercial banks to create more credits, the central bank will lower the rediscount rate.

Theoretical Framework: This Study is based on three theoretical foundations. These are;

Classical Theory: The widely accepted approach to monetary economics was known as the *quantity theory ofmoney,*used as part of a broader approach to micro and macro issues referred to as *classicaleconomics* from the works of Irving fisher who lay the foundation of the quantity theory ofmoney through his equation of exchange. The classical economists decidedupon the quantity theory of money as the determinant of the general price level. Most were ofthe opinion that the quantity of money determines the aggregate demand which in termdetermine the price level as posited by (Amacher & UIbrich, 1986).

Keynesian Theory: Keynes posits that government had the responsibility to undertake actions to stabilize the economy and maintain full employmentand economic growth, using fiscal policies. He therefore recommends a proper blend of monetary and fiscal policies as at some occasions, monetary policy could fail to achieve itsobjective (Onyemaechi, 2005).The original Keynesian view that emerged from the Great Depression was challenged on twofronts. First, the early view that money and monetary policy were relatively unimportant was judged incorrect. Second, the basic premise of the Keynesian model was the inherent instability of the market system and the right and responsibility of the government to conduct an active stabilization policy. On a more analytical note, if the economy is initially at equilibrium and there is open marketpurchase of government securities by the Central Bank of Nigeria (CBN), this open MarketOperation (OMO) will increase the commercial banks reserve (R) and raise the bank reserves.The bank then operates to restore their desired ratio by extending new loans or by expandingbank credit in other ways. Such new loans create new demand deposits, thus increasing themoney supply (MS).

Monetarism/Neo-Classical Theory: Owing to the criticism that bedevilled the Keynesian theory, the monetarist theory was propounded by Milton Friedman in 1956. The role of monetary policy which is of course influencing the volume, cost and direction of money supply was effectively conversed byFriedman & Schwartz, (1968) whose position is that inflation is always and everywhere a monetary phenomenon. He recognises that in the short run increase in money supply can reduce unemployment but can also create inflation and so the monetary authorities should increase money supply with caution (Onyemaechi, 2005). The monetarist essentially the quantity theorist adopted Fisher's equation of exchange to illustrate their theory, as a theory of demand for money and not a theory of output, price and money income, by making a functional relationship between the quantities of real balances demanded a limited number of variables.

Empirical Analysis: Okoye&Udeh (2009) examine the effect of monetary policy on corporate profitability in thebanking sector with a reflection on the Nigerian economy. The study employed regression analysis to carry out the investigations. The data for the study were secondary data. The studydeveloped four models which are expected to serve the purpose of forecasting the future profit of the banks examined. The result of the findings indicated that monetary policy has constrained corporate profitability of banks in Nigeria. Owing to this, it recommended, among others, that the monetary authorities should adopt strict adherence to deregulation. Younus and Akhta (2009) examine 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.Abdurrahman (2010) empirically examines the role of monetary policy on economic activity in Sudan for the period which spanned between 1990 and 2004 found that monetary policy had little impact on economic activity during the period under consideration. The study of Chimobi&Uche (2010) focuses on the relationship between Money, Inflation and Output in Nigeria. The study adopted co-integration and granger-causality test analysis.The co-integrating result of the study showed that the variables used in the model exhibitedno

long run relationship among each other. Nevertheless money supply was seen to grangercause both output and inflation. The result of the study suggested that monetary stability cancontribute towards price stability in the Nigerian economy since the variation in price level ismainly caused by money supply and concluded that inflation in Nigeria is to an extent amonetary phenomenon.The Error Correction Mechanism and Co-integration technique was employed by Adefeso&Mobolaji (2010) estimate the relative effectiveness of fiscal and monetary policy on economic growth in Nigeria using annual data from 1970-2007. The empirical result showed that the effect of monetary policy is stronger than fiscal policy and the exclusion of the degree of openness did not weak this conclusion.

Ibeabuchi, (2007) assesses the effects of these reforms on the effectiveness and efficiency of the Nigerian financial institutions with emphasis on the banking sub-sector. The results show that the performance of the financial sector has been greatly influenced over time by these reforms that began in 1986. The adoption of market determined cash reserve requirement caused cash intensity and domestic savings to increase by 5.54 and 5.00 percent respectively. The gradual increase in the capital base of these firms has rekindled the public confidence inthe sector by increasing savings by 3.6, percent. Also, as government reduce her ownership offinancial institutions, most financial development indicators perform better including; financial deepening. However, interest rate deregulation in Nigeria has been accompanied with decline banks credits due to negative (or very high) lending rate with its attendant crowding out effect. The policy implication therefore, is that, monetary authority should direct their efforts towards achieving a positive interest rate regime, increase the scope of financial reforms and these reforms should be seen as a process rather than event to consolidate the emerging confidence in these institutions.

RESEARCH METHODOLOGY

Sources of Data: The data for this study will be obtained mainly from secondary sources. In order to investigate the impact of quantitative monetary policy instruments on Performance of Deposit Money Banks In Nigeria, information from the annual financial statement concerning Banks' Turnover Ratio(TR), Money supply (Ms), Liquidity Ratio (LR), Monetary Policy Rate(MPR),Cash Reserve Ratio(CRR) between the period of years 1997-2016 will be used. Other Secondary Sources of data are Central Bank Nigeria (CBN) statistical bulletin, relevant journals and newspapers.

Method of Data Analysis: Ordinary Least Square technique i.e. Regression analysis was adopted to obtain interpretable findings. The relationship between quantitative monetary policy indicators; Money supply (Ms), Liquidity Ratio (LR), Monetary Policy Rate(MPR),Cash Reserve Ratio(CRR) and Banks' Performance indicator; Turnover Ratio will be examined using the Multiple Regression analysis. The regression outputs will be obtained using Statistical Package for Social Sciences (SPSS) package.

Model Specification: In this study, the model shall contain two equations. Whilst the first is on determinant of Quantitative Monetary Policy (QMP) indicators in Nigeria, the second is on Impact of quantitative monetary policy indicators on Performance of Deposit Money Banksin Nigeria using Turnover Ratio as the dependent variable; the explanatory variables include Money supply (Ms), Liquidity Ratio (LR), Monetary Policy Rate(MPR),Cash ReserveRatio(CRR)which represent indicators of quantitative monetary policy.

The model to be used will be expressed mathematically as thus:

Equation one and two can written as

QMP= (Ms, LR, MPR,CRR) ..... (1)

TR= *f*(Ms, LR, MPR, CRR) ..... (2)

Where:

QMP= Quantitative Monetary Policy, TR= Turnover Ratio, LR= Liquidity Ratio, MPR= Monetary Policy Rate, CRR= Cash Reserve Ratio.

Multivariate Regression model would be; $Y=\alpha + \beta_1X_{1lt}+ \beta_2X_{2lt}+ \beta_3X_{3lt} + \beta_4X_{4lt}.....+\beta nXn+\varepsilon_{it}$

$QMP= \alpha+\beta_1X_1+ \beta_2X_2+ \beta_3X_3 + \beta_4X_4 + \varepsilon$

Where; X_1 = Ms, X_2 = LR, X_3= MPR, X_4 =CRR

Y= the value of dependent variables;
α= the constant term;
β= the coefficient of the function;
X= the value of independent variables;
e = error term.
Thus, Regression equation becomes;

$$\mathbf{QMP= \alpha+ \beta_1Ms_{lt} + \beta_2LR_{lt}+ \beta_3MPR_{lt} + \beta_4CRR_{lt}+ \varepsilon_{it}}$$

RESULTS AND DISCUSSION OF FINDINGS

Data was utilized from the Central Bank of Nigeria Statistical Bulletin for Turnover Ratio, Money Supply, Monetary Policy Rate, Liquidity Ratio and Cash Reserve Ratio values for the period 1998-2017 (20years). The data generated was analyzed using linearregression.Excel software helped us to convert the variables into a suitable format for analysis, after which the Statistical Packages for Social Sciences(SPSS) was utilized for data analysis.

The Table 4.2 reports the descriptive statistics for the explained and explanatory variables respectively (Turnover Ratio, Money Supply, Monetary Policy Rate, Liquidity Ratio and Cash Reserve Ratio). Most prominent result is the high standard deviation of Money Supply (7198.51627) relative to the standard deviation of other independent variables included in the model of the study which ranges from 0.1889 to 11.23. The high standard deviation of the Money Supplyindicates its lowest contribution to the performance of DMBs in Nigeria. Finally, the kurtosis reveals that data obtained for all the variables including dependent and independent variables are not abnormal. This signifies the normality of the data and substantiates the validity of the regression results. Looking at the pattern of association between the explained and explanatory variables, it shows that the variables correlateperfectly (between 0.342 to 0.699) and all were significant between 34% to 70%.

Descriptive Statistics

		Turnover ratio	Money Supply(Ms)	Monetary Policy Rate	Liquidity ratio	Cash reserve ratio	Valid N (listwise)
N	Statistic	20	20	20	20	20	20
Minimum	Statistic	-.0784	413.28	6.13	25.50	1.10	
Maximum	Statistic	.8630	22834.20	19.00	64.10	22.80	
Mean	Statistic	.084890	7510.2160	12.5235	44.7200	9.8250	
Std. Deviation	Statistic	.1886315	7198.51627	3.24091	11.23466	5.86424	
Skewness	Statistic	4.044	.774	-.016	-.247	.699	
	Std. Error	.512	.512	.512	.512	.512	
Kurtosis	Statistic	17.427	-.648	.096	-.957	.392	
	Std. Error	.992	.992	.992	.992	.992	

Source: Researcher's SPSS Output, 2018.

Table 2. Correlation Matrix

Coefficient Correlations[a]						
Model			Money Supply	Monetary Policy Rate	Liquidity Ratio	Cash Reserve Ratio
1	Correlations	Money Supply	1.000			
		Monetary Policy Rate	-.469	1.000		
		Liquidity Ratio	-.699	.625	1.000	
		Cash Reserve Ratio	.572	-.342	.367	1.000

Dependent Variable: Turnover Ratio

Table 3. Regression Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.468[a]	.219	.011	.1876256	2.387

a. Predictors: (Constant), Cash reserve ratio , Liquidity ratio, Monetary Policy Rate, Money Supply(Ms)
b. Dependent Variable: Turnover ratio
Source: Researcher's SPSS Output, 2018

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.148	4	.037	1.051	.414[b]
	Residual	.528	15	.035		
	Total	.676	19			
a. Dependent Variable: Turnover ratio						
b. Predictors: (Constant), Cash reserve ratio , Liquidity ratio, Monetary Policy Rate, Money Supply(Ms)						

Source: Researcher's SPSS Output, 2018.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.287	.361		.793	.440
	Money Supply(Ms)	-1.718E-005	.000	-.656	-1.168	.261
	Monetary Policy Rate	.008	.030	.136	.259	.799
	Liquidity ratio	-.005	.006	-.323	-.880	.393
	Cash reserve ratio	.007	.017	.224	.427	.676
a. Dependent Variable: Turnover ratio						

Source: Researcher's SPSS Output, 2018.

Thus there is no correlation coefficient that is particularly lower than 30%. The table also shows that, in general, correlations between independent variables are low and high correlation with the dependent variable; an indication of a reduced multi-colinearityproblem usually associated with time series data. However, according to Gujarati(2004), multi-co linearity is a problem , if any correlation exceeds 0.8. From the correlation matrix table above, the pair-wise variables are all less than 0.8. Thus, we conclude that multi-collinearity exist between them.

Analysis of Regression Results: This section presents the regression result of the dependent variable (Turnover Ratio) and the independent variables of the study (Money Supply, Monetary Policy Rate, Liquidity Ratio, Cash Reserve Ratio). It follows with analysis of the association between dependent variable and each independent variable individually and cumulatively.

The R^2 (Coefficient of Determination): From the model summary, the R-squared (0.219) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable explained by the explanatory variables jointly. Hence, it signifies 21.9% of the total variation in performance of DMBs in Nigeria is caused by Money Supply, Monetary Policy Rate, Liquidity Ratio and Cash Reserve Ratio. This indicates that the Model is fit and the explanatory variable are properly selected and used.This also indicates that he R^2value of 0.219 indicates that only 21.9% of the variations in financial performance of Deposit Money Banks in Nigeria can be explained by variations in the monetary policy tools. 88.1% of the variations is explained by other factors.

Regression Coefficients

- The coefficient of Money Supply (Ms) shows a negative value of -0.656 meaning that one percent

increase in will bring about a decrease in the Turnover Ratio of Banks by 65.6%.

- The coefficient of Monetary Policy Rate(MPR) shows a positive value of 0.136 meaning that one percent increase in Monetary Policy Rate will bring about an increase in the Turnover Ratio by 13.6%.
- The coefficient of Liquidity Ratio shows a positive value of -0.323 meaning that one percent increase in Liquidity Ratio will bring about a decrease in the Turnover Ratio by 32.3%.
- The coefficient of Cash Reserve Ratio shows a positive value of 0.224 meaning that one percent increase in Cash Reserve Ratio will bring about an increase in the Turnover Ratio by 22.4%.

Test of Hypotheses: In this section, the researcher decided to test for the hypotheses stated in Chapter one in order to accept or reject the statements. This was done using the F-Statistics (ANOVA).

Decision Rule: Reject H_0 if f-cal>f-tab and accept H_0 if f-cal<f-tab.

Hypothesis One

H_0: Monetary policy rate has nosignificant impact on performance of deposit money banks.

Hypothesis Two

H_0: Money supply has no significant effect on performance of deposit money banks.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.068	1	.068	2.026	.172[b]
	Residual	.608	18	.034		
	Total	.676	19			
a. Dependent Variable: Turnover ratio						
b. Predictors: (Constant), Monetary Policy Rate						

Source: Researcher's SPSS Output, 2018.

Table 4.7. Model 1 F-Test Summary

F_{cal}	F_{tab}at 0.05 Significant level	Decision
2.026	4.41	Accept H_0 and Reject H_1, we conclude that Monetary policy rate has no significant impact on turnover ratio of deposit money banks.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.090	1	.090	2.780	.113[b]
	Residual	.586	18	.033		
	Total	.676	19			
a. Dependent Variable: Turnover ratio						
b. Predictors: (Constant), Money Supply(Ms)						

Source: Researcher's SPSS Output, 2018.

Table 4.8. Model 2 F-Test Summary

F_{cal}	F_{tab}at 0.05 Significant level	Decision
2.780	4.41	Accept H_0 and Reject H_1, we conclude that Money supply has no significant effect on deposit money banks turnover ratio.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.020	1	.020	.556	.465[b]
	Residual	.656	18	.036		
	Total	.676	19			
a. Dependent Variable: Turnover ratio						
b. Predictors: (Constant), Liquidity ratio						

Source: Researcher's SPSS Output, 2018.

Table 4.9. Model 3 F-Test Summary

F_{cal}	F_{tab}at 0.05 Significant level	Decision
0.556	4.41	Accept H_0 and Reject H_1, we conclude that Liquidity ratio has no significant impact on turnover ratio of deposit money banks.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.024	.878[b]
	Residual	.675	18	.038		
	Total	.676	19			
a. Dependent Variable: Turnover ratio						
b. Predictors: (Constant), Cash reserve ratio						

Source: Researcher's SPSS Output, 2018.

Table 4.9. Model 4 F-Test Summary

F_{cal}	F_{tab}at 0.05 Significant level	Decision
0.024	4.41	Reject H_0 and Accept H_1, we conclude that Cash reserve ratio has no significant impact on turnover ratio of deposit money banks.

Hypothesis three: H_0: Liquidity ratio has no significant impact on performance of deposit money banks.

Hypothesis Four: H_0: Cash reserve ratio has nosignificant impact on performance of deposit money banks.

DISCUSSION OF FINDINGS

The empirical results emanating from the analysis indicates that monetary policy had some level of effect on bank performance proxied by Turnover rate (TR). It is equally indicative of the fact that the relationship is instrument sensitive, i.e, some monetary policy tools work better on some bank performance indexes while such may not work on some other ones. To buttress our point, monetary policy variables have positive relationship on performance of Nigerian Deposit Money Banks except Money Supply and Liquidity Ratio.The apriori expectation between the afore mentioned variables in relation to the dependent variables were met. The negative relationship between liquidity ratio and money supply also indicates that when CBN increases the ratio and reduce money supply, banks liquid assets reduces which hampers their ability to create more loans and engage in more investment thus reducing their turnover hence conforms to expectation.

Summary, Conclusion and Recommendation

Summary of Findings: The study sought to examine the impact of monetary policy on performance of Deposit Money Banks. The study focused on 18 Quoted Deposit Money Banks covering the period of 1997-2016. Statistical Package for Social Science(SPSS) was then used to analyse the data using regression analysis, correlation analysis and descriptive analysis. The results showed that the model explained 21.9% of the variance in financial performance as given by R^2. The model was also fit to explain the relationship as the F-statistic of 1.051 was significant at 5% level. This model was therefore good enough to explain how monetary policy tools influence the financial performance of commercial banks in Nigeria. The F-statistic(ANOVA) at5%significance level reveals that the explanatory variables (Money Supply, Monetary Policy Rate, Cash Reserve Ratio, and Liquidity Ratio) are jointly insignificant in explaining the variations in bank performance in Nigeria.The study found that Money Supply had a negative effect on the financial performance of commercial banks in Nigeria. This effect was insignificant at 5% level, β= -0.656. The results also show that the Monetary Policy Rate had positive effect on the financial performance of commercial banks. This effect was insignificant at 5% level, β= 0.136. The Regression analysis table further shows that Liquidity Ratio had a negative and insignificant effect on the financial performance of commercial banks, β=0.323. Finally, the study revealed that Cash Reserve Ratio had a positive and insignificant effect on the financial performance of commercial banks at β= 0.224.

Conclusion

The study examined the effect of monetary policy tools on the financial performance of commercial banks in Nigeria. The study found that monetary policy tools have no significant effect on the financial performance of commercial banks in Nigeria. Thus, the study concludes that monetary policy tools do not influence the financial performance of commercial banks in Nigeria. The high level of forged and decorated balance sheet in the past could have made the monetary policy tools less effective and results unreliable. However, with the various reforms after the financial crises, the prudential guidelines and implementation of a uniform financial statement reporting, the monetary policies of the CBN have tend to yield better results. Banking sector is becoming competitive and market forces are creating an atmosphere where many banks simply cannot afford to have weak balance sheets and inadequate corporate governance. The Central Bank of Nigeria is currently transiting to inflation targeting framework for conduct of monetary policy and market based instruments in the implementation of monetary policy. With the recent introduction of the Monetary Policy Rate (MPR) by the CBN as the major tool for signaling its monetary stance, the need for a monetary policy reaction function which clearly depicts the decision making intention of the Bank would assist economist and financial markets in predicting the future path of monetary policy.

Recommendations: Findings emanating from the empirical analysis of this study proffered that monetary authority; the Central Bank of Nigeria (CBN) should adjust the monetary policy rate by reducing the cash reserve ratio which will increase liquidity to enable the commercial banks to discharge their lending and investment duties effectively to the public.
The study also recommends that commercial banks should put more emphasis on the internal factors to financial performance. These internal factors include capital adequacy, asset quality, management efficiency, earnings ability and liquidity management. Monetary policy tools effect will be handled by the management through risk management policies for the bank. The study further recommends that while bank size was found to lead to better financial performance, it is important that banks understand the source of its funds and the costs The Cash Reserve Ratio(CRR) should be complementing the Open Market Operations (OMO) in ensuring that excess liquidity or lack of it in the banking system is minimized, that way Money Supply (M2) will be more effective as a tool on measuring other performance indicators associated with the funds.

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