

# The impact of monetary policies on commercial banks

[Finance](#), [Banks](#)



CHAPTER ONE 1. 0 INTRODUCTION The desire to develop a viable monetary policy has reached its unprecedented limit in the economy, money as a medium of exchange emerged with the waves to organize a political and economical institution which will enforce a unique legal tender. Nowadays, money has played an indispensable role in propelling the activities of the economy. Monetary policy is the major pre-occupation of the Central Bank of Nigeria (CBN), the extent to which they enforce their role successfully would depend on the statutory power conferred on them by the establishing law. It involves the management of the expansion and contraction of the money in circulation. Monetary policy may yield better results during periods of expansion, prosperity (Boom) and recession. These policies are more adequate for solving today's complex economic problems and have blended very well in tackling contemporary domestic and global economic phenomena. Generally, for a sound and prudent enhancement of activities in commercial banks, coordination of monetary policies can create an integral path for a vibrant economy. . 1 STATEMENT OF THE PROBLEM Distress in commercial banks in Nigeria has called for a serious controversial debate, as to what should be the cause of this distress. A pilot study about this business phenomenon's reveals that most of these failures are associated with the monetary policies implemented. Why then do these policies fail to enhance the corporate culture of banks' activities and other related problems will constitute the statement of this research. a) The inconsistencies of these monetary policies by the authority: consequence on activities of commercial banks. b) The negligence exhibited by some of commercial banks in implementing some of these policies established by the authority and its

adverse effect on the entire system of the economy. c) The problem of irregular assimilation of information to depositors/borrowers who operate various accounts with the bank on the authorities directives.

## 1. 2 OBJECTIVES OF THE STUDY

Monetary policies impacts differently on the activities of bank because of their functions in the money market where majority of Nigerians operates, either as a saver or loan receiver or oth. Besides that, the country's banking system and overall economy has been affected by endemic corruption, inadequate infrastructures, political instability and poor macroeconomic management. It is against this that the purpose of the study is to find out the following:

1. To evaluate the instrumental efficiency of monetary policies on the activities of commercial banks.
2. To investigate the effect of monetary policies on the economy development through the commercial bank.
3. To investigate the role of monetary policies on commercial banks activities.

## 1. RESEARCH QUESTIONS

1. To what extent has the instruments of monetary policies contributed to the activities of commercial banks?
2. Do the monetary policies have effect on economic development?
3. Is there any relationship existing between monetary policies and commercial banks performance?

## 1. 4 RESEARCH HYPOTHESIS

The hypotheses are based on the stated questions;

- 1) H0: The monetary policy instruments do not have significant impact on the activities of commercial banks. H1: The monetary policy instruments have significant impact on the activities of commercial banks.
- 2) H0: The monetary policies do not facilitate economic development. H1: The monetary policies facilitate economic development.
- 3) H0: The performances of commercial banks are not related to monetary policies. H1: The performances of commercial banks

are related to monetary policies. 1. 4 SCOPE OF THE STUDY The scope of this study is limited to monetary policies and its impact on the activities of commercial banks in Nigeria. The empirical investigation shall be restricted to the period between 1990 to 2010. From the reviewed policy environment, the problems existing in the economy that the current onetary policies should address are identified. 1. 6 SIGNIFICANCE OF THE STUDY Radical reforms to the system of prudential regulation and supervision have been implemented in Nigeria since the late 1980's. The reform(s) had proved ineffective in ensuring sound bank management, as the scale of financial distress among various banks indicates. Nevertheless, the political and economic environment is very difficult in Nigeria for banks and regulators because of persuasiveness of corruption in both public and private sector. The recent socio-economic development in the banking industry is of paramount interest o the general public moreover, the effect of monetary policies effect on the activities of commercial banks is initiated to offer a conceptual framework to policies development and implementation by the government. It will also embark on an empirical analysis and design, not only to gain understanding or to design, not only to meet the programmed requirement of the polytechnic but to give a useful and interesting cause of study to the following people. i. Government Parastatals: They will find it useful in coordinating monetary policies for a better economy. ii.

Banking Sector: Commercial Banks and other financial institutions will be motivated in keeping to the laws, regulations and guidelines governing bank(s) as a measure of efficiency. iii. The Public: Banks debtors and depositors will see the need of adhering to the information directive provided

by the authority (ies) as a means of maximizing their investment. iv. Research Scholars: It will provide the basis for further research work on this area for students who may deem it suitable and appropriate.

### 1. 6 DEFINITION OF TERMS

1. Monetary Policy: According to Wright, "monetary policy is a deliberate effort by the monetary authority (CBN) to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives". The primary tool of monetary policy is always a short term interest rate.
2. Monetary instruments: "Monetary instrument" means coin or currency of any country, travelers checks, personal checks, bank checks, money orders, negotiable investment securities or negotiable instruments in bearer form or otherwise in such form that the title thereto passes upon delivery.
3. Commercial Bank: Those are financial institutions (individual, firms, organization and government) which accept deposits and give out advances as well as performing other services to their customers. They are also known as 'Joint Stock company'. Their loan constitutes various assets or bank deposit creation. Their activities follow an implemented monetary policy which is partly dependent of the fiscal policy.
4. Financial Institutions: These are institutions which serve the purpose of channeling funds from lenders to borrowers. They hold money balance of or borrow from individuals and other institutions, in order to make loans or other investment.

Nigerian financial system apart from the CBN comprises:

- Banking institution
- Non-banking or thrifts financial institutions
- Financial markets

### 1. 7 ORGANIZATION OF THE STUDY

The study is organized into five chapters. The next chapter is used to review the literature and also examine the theoretical background for the study. Chapter three explains the

methodology of the research, while the analysis and interpretation of results are contained in chapter four. Chapter five concludes the research report by examining the implications of findings and also making recommendations where necessary.