Czech University of Life Sciences Prague

Faculty of Economics and Management

Economics and Management

Bachelor Thesis

The Impact of Monetary Policy in Nigeria

Lawal Gbenga Samuel

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Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Gbenga Samuel Lawal

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Thesis title

The Impact of Monetary Policy in Nigeria

Objectives of thesis

The purpose of the research study is as follows: To determine the impact of government monetary policies on banks performance in Nigeria and to evaluate the performances of government monetary policies on banks performance. Lastly to determine the problems and factors affecting government monetary policies on banks performance.

Methodology

The thesis consists of two parts, theoretical part and practical part. Comparative and descriptive methods will be used in the system.

In the practical part, this work will use the OLS method employing the data obtained from the Central Bank of Nigeria bulletin from years 1997 to 2016.

In order to examine the GDP growth rate, the study uses Intra-year GDPGR as a dependent variable. Furthermore, it will use the interest rate, exchange rate, inflation rate and money supply as independent explanatory variables.

The study is structured in two parts – theoretical part comprising an introduction, formulation of research statement and hypothesis and literature review and the practical part containing the empirical examination, analysis of results, discussion, conclusion and recommendation.

The proposed extent of the thesis

35 – 40 pages

Keywords

banking, policies, money, exchange rate, interest rate, economic growth.

Recommended information sources

Ahumada L. A. and Fuentes J R. (2004) "Banking industry and monetary policy". Central Banking, Analysis, and Economic Policies Book Series Vol 7 (1) pp 001-026

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Frank, R. H., Bernanke, B. S. (2007) Principles of Macro-economics. 3rd Edition. NY: McGraw-Hill/Irwin, 561 p. ISBN 978-0-07-325594-1

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The Bachelor Thesis Supervisor

doc. Ing. Irena Jindřichovská, CSc.

Supervising department

Department of Trade and Finance

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prof. Ing. Luboš Smutka, Ph.D.

Head of department

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Ing. Martin Pelikán, Ph.D.

Dean

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Declaration

I declare that I have worked on my bachelor thesis titled "The Impact of Monetary policy in Nigeria” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on March 19, 2020 ______________________________

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I would like to thank doc. Ing. Irena Jindrichovska, Csc and prof. Ing. Mansoor Maitah, Ph.D. et Ph.D for their support, advise and supervision. Also to my amiable wife and all glory to God Almighty for making this a reality.

THE IMPACT OF MONETARY POLICY IN NIGERIA

Abstract

This study assessed the effect of monetary policy instruments on economic growth in Nigeria using the data obtained from the Central Bank of Nigeria bulletin (1997 to 2016).
GDP growth rate was used as the dependent variable while Interest rate, exchange rate, inflation rate and ratio of broad money supply to gross domestic product were employed as the independent variables. The Ordinary Least Square (OLS) regression results revealed that IFR has a significant positive effect on economic growth represented by GDPGR, while INR, EXR and BMS/GDP have a negative but not significant effect on economic growth.
Based on the findings, the study concluded that inflation is a significant and feasible monetary policy instrument that affects the growth of Nigeria economy and could be used by monetary authority and Banks to achieve a higher economic growth. However, attention should not be on very low inflation, as this could lead to a negative growth. A moderate and balance level in inflation should be encouraged, other variables should also be low to enhance economic growth. Therefore, this study recommended that monetary authority in Nigeria should pay more attention to inflation rate in the economy as it has a significant effect on economic growth in Nigeria.

Keywords: Banking, Policies, Money, Exchange rate, Interest rate and Economic growth.

DOPAD MĚNOVÉ POLITIKY V NIGÉRII

Abstrakt

Cílem této studie je posouzení vlivu nástrojů měnové politiky na hospodářský růst v Nigérii. Práce využívá údaje z bulletinu Central Bank of Nigeria za období 1997 až 2016. Jako závislá proměnná byla použita míra růstu GDP a nezávislé proměnné jsou úroková míra, směnný kurz, míra inflace a poměr široké peněžní zásoby k hrubému domácímu produktu. Výsledky regresní analýzy s pomocí metody OLS odhalily, že na ekonomický růst představovaný GDPGR, má významný a pozitivní vliv IFR. Proměnné INR, EXR a BMS / GDP mají na ekonomický růst negativní, ale nikoli statisticky významný vliv. Na základě zjištěných výsledků studie dospěla k závěru, že inflace je významným a praktickým nástrojem měnové politiky, který ovlivňuje růst ekonomiky Nigérie, kterou by mohly měnové autority a banky mohou použít k dosažení vyššího hospodářského růstu. Pozornost by však neměla být kladena na velmi nízkou inflaci, protože to by mohlo vést k negativnímu růstu. K podpoře hospodářského růstu by měla být podporována mírná a vyrovnaná úroveň inflace. Další proměnné by měly být také na nízké úrovni. Tato studie proto doporučuje, aby měnová autorita v Nigérii věnovala více pozornosti míře inflace v ekonomice, protože její úroveň má významný vliv na hospodářský růst.

Klíčová slova: Klíčová slova: bankovnictví, politika, peníze, směnný kurz, úroková míra a ekonomický růst.

Table of Contents

1. Introduction

Monetary policy as define by many authors is concerned with discretionary control of money supply by monetary authorities (Central Bank) this is done through the country of Central Government with a view of achieving stated or desired economic objectives and growth. This Policy consists of some actions or tools used in achieving monetary and price stability. In most countries, especially in developing countries this includes maintenance of payments equilibrium, promotions of employment, growth and sustainable development.

Monetary policy in wider view is a combination of measures consonance with the expected level of economic activity and can either be expansionary policy, or a contractionary policy, where an expansionary policy increases the total supply of money in the economy, and a contractionary policy decreases the total money supply. Expansionary policy is traditionally used to combat unemployment in a recession by lowering interest rates, while contractionary policy involves raising interest rates in order to combat inflation. Monetary policy is contrasted with fiscal policy, which refers to government borrowing, spending and taxation. Monetary policy rests on the relationship between the rates of interest in an economy, that is the price at which money can be borrowed, and the total supply of money. Government through various monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the central Bank in any nation have the authority and ability to alter the money supply through the directives of the government and thus influence the interest rate (in order to achieve policy goals).

The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard. A policy is referred to as contractionary if it reduces the size of the money supply or raises the interest rate. An expansionary policy increases the size of the money supply, or decreases the interest rate. Furthermore, monetary policies are described as follows: accommodative, if the interest rate set by the central monetary authority is intended to create economic growth; neutral, if it is intended neither to create growth nor combat inflation; or tight if intended to reduce inflation.

Significance of the study

The significance of this research study might be of benefit to the govermenrment, stakeholders, bankers, management, and investors. These will highlights and show the impact of government monetary policies on banks performance in Nigeria, especially within the Lagos metropolis. The outcome of this research may likely increase the commitment of the management of commercial banks in Nigeria to embrace sound interest rate management policies and minimize their exposure to interest rate risks. Also, the result would enable banking industry to assess its contribution to the growth of Nigerian economy.

Ultimately, this research is also expected to encourage Nigerian policy makers and bank regulators to implement fiscal and monetary policy regimes that will ensure interest rate stability.

Statement of the problem

The statement of problem is on the impact of government monetary policies on Banks performance in Nigeria.

The major problems of study lies in the levels of political instability which has a lot of adverse effects on the micro and macro-economics in a developing economy like Nigeria. Debates over targets and structure of monetary policies are as old as the economic systems that engender them. However, questions about stability of money demand, multiplier and velocity have made some countries to restructure monetary policy frameworks.

Also, excess of importation of goods and services (both finished goods and production inputs) cost more in naira currencies. Specifically, the accelerated rise in the cost of imported raw materials and spare parts was partly responsible for the depreciation of national currency. Other factors that are responsible for unstable government policies in the Nigerian economy are the factor that causes changes in the economic growth and development in Nigeria.

2. Objectives and Hypothesis

2.1 Objectives

The purpose of this research study is as follows:

- To determine the impact of government monetary policies on banks performance in Nigeria.
- To determine the problems and factors affecting government monetary policies on banks performance in Nigeria.
- To evaluate the performances of government monetary policies on banks performance.
- To determine the implications of fluctuations in government monetary policies on the performance of commercial banks.

2.2 Hypothesis

For the purpose of this research study, the following hypotheses derived from the statement of the problems are rested:

(1) H_0: Effective and efficient government monetary policies does not contribute to the growth of Nigerian economy.

H_1: Effective and efficient government monetary policies contribute to the growth of Nigerian economy.

(2) H_0: There is no relationship between government monetary policies and Bank Performance

H_1: There is relationship between government monetary policies and Bank Performance.

3. Literature Review

3.1 Monetary Policy in developing countries

The study and review in most developing economies shows that monetary policy have little or no effects on economic parameters. Studying the effects of monetary policies in Central Europe countries and also West Africa countries which include Nigeria shows that no concrete evidence that changes in exchange rates and not interest rate affect output. The study from Vein, Starr using a structural VAR model with orthogonalized identifications found minimal evidences of real effects of monetary policy in five commonwealth states. However, there were no consistent result with empirical expectations from different research and data in different countries which the economist now refer to as “puzzles”. The puzzles are identified as: The liquidity puzzle, Price puzzles and exchange rate puzzle.

In liquidity puzzle, an increase in monetary policy usually enhances increase in interest rates rather than a decrease. The price puzzle is somewhat complicated as the data shows a contractionary monetary policy complemented with a positive innovation in the interest rate and gearing up price rather than a decrease. On the part of exchange rate puzzles, the findings show an increase in interest rate is associated with depreciation rather than appreciating the local currency. However, a recent research work by Lucas built a frame work and devised a convenient way of eradicating these puzzles through the introduction of assumptions of rational expectations in their studies.

In Nigeria, the previous research and data on the effect of monetary policy on economic growth shows that there is a weak relationship between monetary policy and economic growth through hypothesis testing, it follows that, rather than promoting growth, the past monetary policies has not be worthwhile, but have introduce stagnation and persistent inflation in the country. The impact of monetary policy on economic growth in Nigeria as generated large volumes of empirical studies with mixed findings.

Monetary policy in Nigeria has relied more on indirect approach mechanisms and the practice is to target the monetary base. However, the practice of targeting base money is based on the assumption that there is a stable money demand function in the economy. This reliance on indirect transmission processes anchored on instruments which the exact impact are not known makes monetary policymaking in Nigeria a very challenging responsibility. Moreover, historical evidence indicates a strong positive correlation between inflation and the amount of money. While the financial markets react quickly to changes in monetary policy, it generally takes months or even years for such policy to affect employment and growth, and also sustainable development government long-term goals. Therefore, the government needs to always think ahead to make timely policy adjustments based on forecasted as well as actual data on such variables as wages and prices, inflation, unemployment, output growth, foreign trade, interest rates, exchange rates, money and credit, conditions in the markets for bonds and stocks, and so on.

3.2 Over view of monetary policies

There are several monetary policy tools available to achieve these ends: increasing interest rates by fiat; reducing the monetary base; and increasing reserve requirements. All have the effect of contracting the money supply; and, if reversed, expand the money supply. Since the 1970s, monetary policy has generally been formed separately from fiscal policy. Even prior to the 1970s, the Bretton Woods system still ensured that most nations would form the two policies separately. Usually, the short term goal of open market operations is to achieve a specific short term interest rate target. Also, monetary policy might instead entail the targeting of a specific exchange rate relative to some foreign currency or else relative to gold. For example, in the case of the USA the Federal Reserve targets the federal funds rate, the rate at which member banks lend to one another overnight.

The other primary means of conducting monetary policy include: (i) Discount window lending (lender of last resort); (ii) Fractional deposit lending (changes in the reserve requirement); (iii) Moral suasion (cajoling certain market players to achieve specified outcomes); (iv) "Open mouth operations" (talking monetary policy with the market).

Monetary policy is primarily associated with interest rate and credit. For many centuries there were only two forms of monetary policy: (i) Decisions about coinage; (ii) Decisions to print paper money to create credit. Interest rates, while now thought of as part of monetary authority, were not generally coordinated with the other forms of monetary policy during this time. Monetary policy was seen as an executive decision, and was generally in the hands of the authority.

With the advent of larger trading networks came the ability to set the price between gold and silver, and the price of the local currency to foreign currencies. This official price could be enforced by law, even if it varied from the market price. With the creation of the Bank of England in 1694, which acquired the responsibility to print notes and back them with gold, the idea of monetary policy as independent of executive action began to be established.

The goal of monetary policy was to maintain the value of the coinage, print notes which would trade at par to specie, and prevent coins from leaving circulation. The establishment of central banks by developing and industrializing nations was associated then with the desire to maintain and regulate the gold standard, and to trade in a narrow band with other gold-backed currencies. To accomplish this end, central banks as part of the gold standard began setting the interest rates that they charged, both their own borrowers, and other banks who required liquidity. The maintenance of a gold standard required almost monthly adjustments of interest rates.

In the 1870-1920, the industrialized nations set up central banking systems, with one of the last being the Federal Reserve in 1913 in England. By this point the role of the central bank as the "lender of last resort" was understood. It was also increasingly understood that interest rates had an effect on the entire economy, in no small part because of the marginal revolution in economics, which focused on how many more, or how many fewer, people would make a decision based on a change in the economic trade-offs. It also became clear that there was a business cycle, and economic theory began understanding the relationship of interest rates to that cycle. Research by Cass Business School has also suggested that perhaps it is the central bank policies of expansionary and contractionary policies that are causing the economic cycle; evidence can be found by looking at the lack of cycles in economies before central banking policies existed. Batini, Nicoletta, 2003. Monetarist macroeconomists have sometimes advocated simply increasing the monetary supply at a low, constant rate, as the best way of maintaining low inflation and stable output growth.
However, when U.S. Federal Reserve Chairman Paul Volcker tried this policy, starting in October 1979, it was found to be impractical, because of the highly unstable relationship between monetary aggregates and other macroeconomic variables.

Monetary policy decision should be practical to create a balance relationship between monetary aggregates and other macroeconomic variables. Therefore, monetary decisions today take into account a wider range of factors, such as:

- Interest rate(Long term and short term)
- Exchange rates
- Credit quality
- Velocity of money through the economy
- International capital flows of money
- Bonds and equities (corporate ownership and debt)
- Government versus private sector spending/savings
- Financial derivatives such as options, swaps, futures contracts, etc.

The aim of this study is to examine the impact of government monetary policies on bank performance in Nigeria Economy. The reform of financial system has enhanced the banking sector to improve on their potential roles and service delivery within and outside the Nigeria Economy. Monetary policy refers to any of a number of government measures undertaken to affect financial markets and credit conditions. In Nigeria, monetary policy is the sole responsibility of the Central Bank of Nigeria. The objectives are to determine the impact and evaluate the performance of government monetary policies on banks performance in Nigeria, the problems and factors affecting government monetary policies on banks performance in Nigeria, the implications of fluctuations in government monetary policies on the performance of commercial banks in Nigeria and to proffer solutions to the problems and factors affecting government monetary policies on banks performance in Nigeria.

The banking sector is largely dominated by commercial banks and also important in any developing countries like Nigeria. Banks are important catalyst and play unique role in any economy and have been widely acknowledge. They mobilize funds from the surplus units in the economy and made available to the deficit units. In doing this, banks provide array of financial services to their customers. The effective and efficient performance of banking industry is an important foundation for the financial stability of any nation. The commercial bank plays vital roles is sustaining the economy, essentially for fund mobilization, credit allocation, payments, and settlement system as well as monetary policy implementation. In performing these functions, the banks in turn promote their own performance. They mobilize savings, extend loans, advances and Bank guarantee. However, doing this the three principles guiding their operations are profitability, liquidity and safety.(Okoye and Eze 2013). Uche,C.U (2000). Banking regulations in the era of structural adjustment: The case of Nigeria. Journal of financial regulation and compliance. Soyibo, A.& Adekanye, F. (1992. Nigeria Banking sytem in the context of polices of Financial regulation and deregulation. AERC, NAIROBI, KE.

3.3 Empirical reviews

Ayodeji Oluwole (2018) in his research conducted in 2018 on the impact of monetary policy on economic growth in Nigeria by considering a model that is able to investigate how the government monetary policy has affected economic growth through the use of multi-variable regression analysis. Error correction model was introduced in order to have a parsimonious model. The result shows two variables (money supply and exchange rate) had a positive but fairly insignificant impact on economic growth. On the other hand, the measures of interest rate and liquidity ratio had a negative but highly significant impact on economic growth. The monetary policy rate, exchange rate, money supply, lending rate and investment for the market controlled period covering 1986 to 2016 using the Ordinary least method and also conducted the unit root and co-integration tests. However, the result shows insignificant positive effect on monetary policy rate, interest rate and investment on economic growth in Nigeria. Money supply has significant positive effect on growth in Nigeria while exchange rate has significant negative effect on GDP (Gross Domestic Product) in Nigeria. The influence of monetary supply, average price, interest rate and labour force were tested on Gross Domestic product in Nigeria using the multiple regression models as the main statistical tool of analysis. The study work show that CBN monetary policy measures in regulating both the monetary and real and real sector aggregates such as employments, prices, output level and rate of economic growth are effective. The empirical findings from the study indicate that average price and labour force is significantly influential on Gross Domestic while supply for money was not significant, the interest rate was negative and statistically significant.

Nasko (2016) examined the impact of monetary policy on economic growth in Nigeria for the period covering 1990 to 2010 using multiple regressions and time-series data to analyse data on variables such as money supply, interest rate, financial deepening and gross domestic product. The findings show that, all the variables have marginal impact on the economic growth of Nigeria.

The study shows further, the aims and objectives of monetary policy, which includes price stability, maintenance of balance of payment equilibrium, full employment, economic growth and also found marginal impact on growth due to change in monetary policy application. Ahmad, Afzal and Ghani(2016) examined the impact of monetary policy on economic growth in Pakistan using Autoregressive Distribution Lag (ARDL) integration approach and an annual time-series data covering the range of 1973 to 2014 were applied to distinguish the robust among the variables with specification of short-run and long-run. Empirical findings mentioned long-run association occurs among variables, money supply and exchange rate, which positively influence economic growth. Inflation positively while insignificance and interest rate negatively affect economic growth.

In 2014,Usman and Adejare examine the impact of monetary policy on industrial growth in Nigerian economy using multiple regressions to analyze data on variables which include manufacturing output, Treasury Bills,Deposit & leading and Rediscount Rate Nigeria over the period 1970 to 2010. In this study, all the variables are found to have significant effects and are statistically significant on the industrial Growth with the Adjusted R2 of 0.8156 (81.56%) and concluded that Rediscount Rate and Deposit have significant positive effect on industrial output while Treasury Bills has the negative impact on industrial output. Mbutor and Uba (2013) examined the impact of financial inclusion on monetary policy in Nigeria between 1980 and 2012. The result of the study shows that growing financial inclusion would improve the effectiveness of monetary policy. However, the coefficient of the number of bank branches has negative effect due to focus and on profits and not financial inclusion when opening branches. The cluster branches opened which are under-utilized and numerous locations are not favourable for increasing balance sheets are under-branched. Fasanya, Onakoya and Agboluaje (2013) examined the impact of monetary policy on economic growth in Nigeria using time-series data covering the period of 1975 to 2010. The effects of stochastic shocks of each of the endogenous variables are price stability, equilibrium in balance of payments and other objectives. Monetary authorities are burdened with the responsibility of using monetary policy to grow their economies. In Nigeria, monetary policy is the responsibility of Central bank of Nigeria, saddled with the authority and control of formulating and implementing monetary policy by Central bank Act of 1958. This has facilitated the emergence of active money market where treasury bills, a financial instrument used for open market operations and raising debt for government has grown in volume and value becoming a prominent earning asset for investors and source of balancing liquidity in the market. From the literature reviewed, linkage between monetary policy and economic growth has been a subject of intense scrutiny, but despite the various monetary regimes that have been adopted by the Central Bank of Nigeria over the years, adverse exchange rate volatility and inflation still remain a major threat to Nigeria's economic growth and stability. Nigeria has experienced high volatility in inflation and exchange rates. The main thrust of this study is to evaluate the effectiveness of the CBN's monetary policy over the years by examining the effect of monetary policy on economic growth in Nigeria. The specific objectives of the study are to determine the effect of money supply, inflationary rate and credit to the private sector, interest rate on credit, infrastructural development, external debts and rice index on economic growth in Nigeria. This would go a long way in assessing the extent to which the monetary policies have impacted on the growth process of Nigeria using the major objectives of monetary policy as yardstick.

3.4 Review of monetary policies in Nigeria

Monetary Policy since 1986

Nigeria is one of the largest oil producing state in the world. However, due to the crash in the International Oil market and the deteriorating economic conditions in the country. The Structural Adjustment Programme (SAP) was adopted in July 1986 against the crash in the international oil market. It was designed to achieve fiscal balance and balance of payments viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions, reducing the heavy dependence on crude oil exports and consumer goods imports enhancing the non-oil export base and achieving sustainable growth and development. Other aims were to rationalize the role of the public sector and accelerate the growth potentials of the private sector. The main strategies of the programme were the deregulation of external trade and payments arrangements, the adoption of a market-determined exchange rate for the Naira, substantial reduction in complex price and administrative controls and more reliance on market forces as a major determinant of economic activity. The objectives of monetary policy since 2000 have remained the same as in the earlier period stimulating output and employment, and the promotion of domestic and external stability. In line with the general philosophy of economic management under SAP, monetary policy was aimed at inducing the emergence of a market-oriented financial system for effective mobilization of financial savings and efficient resource allocation. The main instrument of the market-based framework is the open market operations. This is complemented by reserve requirements and discount window operations. The adoption of a market-based framework such as OMO (Open market operation) in an economy that had been under direct control for long, required substantial improvement in the macroeconomic, legal and regulatory environment.

A number of measures were introduced to reduce liquidity in the system to improve macroeconomic stability, efforts were directed at the management of excess liquidity. These included the reduction in the maximum ceiling on credit growth allowed for banks; the recall of the special deposits requirements against outstanding external payment arrears to CBN from banks, abolition of the use of foreign guarantees/currency deposits as collaterals for Naira loans and the withdrawal of public sector deposits from banks to the CBN. Also effective August, 1990, the use of stabilization securities for purposes of reducing the bulging size of excess liquidity in banks was re-introduced. Commercial banks' cash reserve requirements were increased in 1989, 1990, 1992, 1996 and 1999.

The rising level of fiscal deficits was identified as a major source of macroeconomic instability. Consequently, government agreed not only to reduce the size of its deficits but also to synchronize fiscal and monetary policies. By way of inducing efficiency and encouraging a good measure of flexibility in banks' credit operations, the regulatory environment was improved. Consequently, the sector-specific credit allocation targets were compressed into four sectors in 1986, and to only two in 1987. From October, 1996, all mandatory credit allocation mechanisms were abolished.

The commercial and merchant banks were subjected to equal treatment since their operations were found to produce similar effects on the monetary process. The liquidity effect of large deficits financed mainly by the Bank led to an acceleration of monetary and credit aggregate in 1998, relative to stipulated targets and the performance in the preceding year. Outflow of funds through the CBN weekly foreign exchange transaction at, the Autonomous Foreign Exchange Market (AFEM) and, to a lesser extent, at Open Market Operation (OMO) exerted some moderating effect. The reintroduction of the Dutch auction system (DAS) of foreign exchange management in July, 2002 engendered relative stability, and stemmed further depletion of reserves during the second half of 2002. However, the financial system was typically marked by rapid expansion in monetary aggregates, particularly during the second half of 2000, influenced by the monetization of enhanced oil receipts. Consequently, monetary growth accelerated significantly, exceeding policy targets by substantial margins. Savings rate and the inter-bank call rates fell generally due to the liquidity surfeit in the banking system through the spread between deposit and lending rates remained wide. Specifically, 2003 policy measure were design to promote a stable macroeconomic environment to achieve a non-inflationary output growth rate of 5 per cent. In pursuit of its development effort, the Bank, in collaboration with the Bankers' Committee, established the Small and Medium Industries Equity Investment Scheme (SMIES). In 2003, credit delivery to real sector was encouraged through the SMIEIS and an incentive of lower Cash Reserve Requirement (CRR) regime was prescribed for those banks that increased their credit allocation to the real sector by 20 per cent or more. Moreover, the Bank provided guarantees for agricultural loans under the Agricultural Credit Guarantee Scheme (ACGS).

In recognition of the fact that well-capitalized banks would strengthen the banking system for effective monetary management, the monetary authority increased the minimum paid-up capital of commercial and merchant banks in February 1990 to N50 and N40 million from N20 and N12 million, respectively. Distressed banks whose capital fell below existing requirement were expected to comply by 31st March, 1997 or face liquidation. Twenty six of such banks comprising 13 each of commercial and merchant banks were liquidated in January, 1998. Minimum paid up capital of merchant and commercial banks was raised to a uniform level of N500 million with effect from 1st January, 1997, and by December 1998, all existing banks were to recapitalize. The CBN brought into force the risk-weighted measure of capital adequacy recommended by the Basle Committee of the Bank for international Settlements in 1990. Before then, capital adequacy was measured by the ratio of adjusted capital to total loans and advances outstanding. The CBN in 1990 introduced a set of prudential guidelines for licensed banks which were complementary to both the capital adequacy requirement and Statement of Standard Accounting Practices. The prudential guidelines, among others, spelt out the criteria to be employed by banks for classifying non-performing loans. The CBN has continued to examine and monitor banks in order to promote stable banking system. Also the Bank handles the problem of distressed and illiquid banks. The CBN imposes holding actions and revokes licenses of affected banks as well as encourages mergers and acquisitions. In an effort to improve the operations of the money market, an auction-based market for treasury securities was introduced in 1989; and these treasury instruments were made bearer bills to enhance transferability and promote secondary trading. The developments in the money and capital markets were mixed in 1998. While the activities in the money market were influenced largely by developments in the Autonomous Foreign Exchange Market (AFEM), the capital market witnessed increased transactions in terms of volume despite the observed decline in market capitalization. The sanitization and restructuring of the financial sector by the CBN continued in 1999 and 2000, resulting in the decline in the number of distressed banks. Moreover, the CBN in the context of its surveillance role carried out routine and target examinations of the financial institutions to ensure compliance with guidelines and ensure efficiency in their operations. The operational environment for banks was further liberalized in 2001 with the introduction of universal banking, while the supervisory framework of the financial system was enhanced with the establishment of a new department in the Bank to supervise other financial institutions. In 2002, monetary policy implementation was faced with some challenges as the problem of excess liquidity persisted, and the demand pressure in the foreign exchange market intensified. In order to encourage banks to reduce interest rate on lending, the Minimum Rediscount Rate (MRR) was reviewed downward accompanied with moral suasion. These developments led to a fall in bank deposit and lending rate, particularly during the second half of 2002. Since 2008, the conduct of monetary policy by the Central Bank of Nigeria has been designed to influence the growth of money supply and consistency with the required aggregate Gross Domestic Product (GDP) growth rate, financial stability, maintain a stable and competitive exchange rate of the naira and achieve positive real interest rates.

The Central Bank of Nigeria policy performance review within 2008-2011shows there was largely influenced by the global financial crisis which started in 2007 in the U.S. and spread to other regions and emerging markets including Nigeria and this created liquidity crisis in the banking system, large quantum of non-performing credits, capital outflows and pressure on the exchange rate, decline in oil prices and falling external reserves, sharp drop in government revenue, huge fiscal injections and collapse of the capital market. Consequently in the wake of the global financial crisis, the Bank largely adopted the policy of monetary easing to address the problem of liquidity shortages in the banking system from September 2008 to September 2010.

The recent monetary policy in Nigeria in 2018 continued to be influenced by developments in the global and domestic economic and financial environment. At the global level, the key influences were: increased monetary policy divergence among the advanced economies; continued uncertainties surrounding the BREXIT negotiations and sustained monetary policy normalization in the US as the Fed hiked its interest rate and gave forward guidance of more, with implications for capital reversals from the emerging markets and developing economies. Also, the emerging trade tensions between the United State and other major world economies as well as geopolitical tensions. The global economy continued on the path of recovery, stemming from the strengthening of domestic investment demand and relatively easier financing conditions in the advanced economies, as well as the sustained recovery in oil and other commodity prices, trade tensions to market sentiments. In the domestic economy the promising developments during the period include improved fiscal receipts and accretion to reserves as a result of sustained recovery in oil and other commodity prices, improved oil production, improvement in the 2017 capital budget implementation which was extended into the first half of 2018, sustained development finance interventions in the real sector by the Central Bank of Nigeria, and continued implementation of Economic Recovery and Growth Plan (ERGP). The outcome was reflected in improving but still fragile economic recovery during the year. Consequently, Gross Domestic Product (GDP) growth moderated to 1.95, 1.50 and 1.81 per cent (year-on-year) in the first, second and third quarters of 2018 from 2.11 per cent in the fourth quarter of 2017. Price developments, the Bank noted that the continuing liquidity surfeit in the banking system, notwithstanding, inflationary pressure moderated in the review period as headline inflation declined progressively from 15.13 per cent in January to 11.44 per cent in December 2018. The development largely reflected the relative stability in the foreign exchange market, improvements in food supply, and stability in utility prices

Monetary policy in the review period, was informed by key considerations which included; the slow output recovery; high but moderating inflation rate which remained above the Bank's target range; continuing liquidity surfeit in the banking system; weak macro-prudential indicators; growing sovereign debt and low fiscal buffers. These developments and the need to achieve the Bank's mandate of price and exchange rate stability provided the basis for the sustenance of the tight monetary policy stance during the year. Consequently, the Bank kept the Monetary Policy Rate (MPR) at 14.0 per cent and retained its standing facility corridor at +200/-500 basis points. The Bank also continued its reliance on Open

Market Operations as main tool for liquidity management, complemented with regular foreign exchange interventions.

The broad view for the domestic economy in 2019 shows a positive outlook for the domestic economy. Output growth is expected to be driven by the fiscal increase in oil and non-oil receipts to support the Federal Government's Economic Recovery and Growth Plan. The economy is projected to grow by 2.0 per cent by the IMF, 2.2 per cent by the World Bank and 2.28 per cent by the CBN. Key factors to these forecasts are softening oil prices, persistent security challenges arising from insurgency in the North East and herdsmen/farmers clashes in some parts of the country and perceived political risks associated with the 2019 general elections. The Outlook for the global economy remains uncertain due to the effect of on-going trade tensions between the US and its key allies, slower growth in China, unclear direction of BREXIT negotiations and continuing monetary policy normalization in some advanced economies.

4. Practical Part

4.1 Research methodology

Methodology is a set of rules and procedure upon which a research is based and against which claims for knowledge are evaluated for more decision making.

It can also be the specific procedure for collecting, analysing and interpreting data necessarily to solve problem, such that the difference between the cost of obtaining various level of accuracy and the expected value of the information associated with each level of accuracy. The main aim of this chapter is to explain methods employed in the research study, collection, analysing and interpretation of the statistical information after investigation.

4.2 Research design and Source of Data

The research design is the plan, structure and strategy of investigation draw up so as to obtain answer to research questions. The data for this study were derived from the various publications of the Central Bank of Nigeria and National Bureau of Statistics. The exploratory research design is used in this study in order to obtain data relating to the general nature of the problem and the related variables. In this case, the researcher proceeds without a rigid plan but a tentative checklist of guide may be used. The research design that is employed in this study is the DESCRIPTIVE and EXPLANATORY design method. The design method will help to identify, describe the problems, and take an explanatory approaches to encapsulate the subject matter of the project.

4.3 Population of the study

The study is focused on the economy of Nigeria, considering the impacts of government monetary policies. However, more emphases will be on Lagos state, as this remains the commercial centre of the Nigeria economy where virtually all the bank's head offices are located. Nigeria is the largest country and economy in Africa and 7th in the world with the population of over 200million people (United Nations, March 2020).

The Central bank of Nigeria manages the monetary affairs of the economic through the operations of commercial banks which are 26 in numbers.

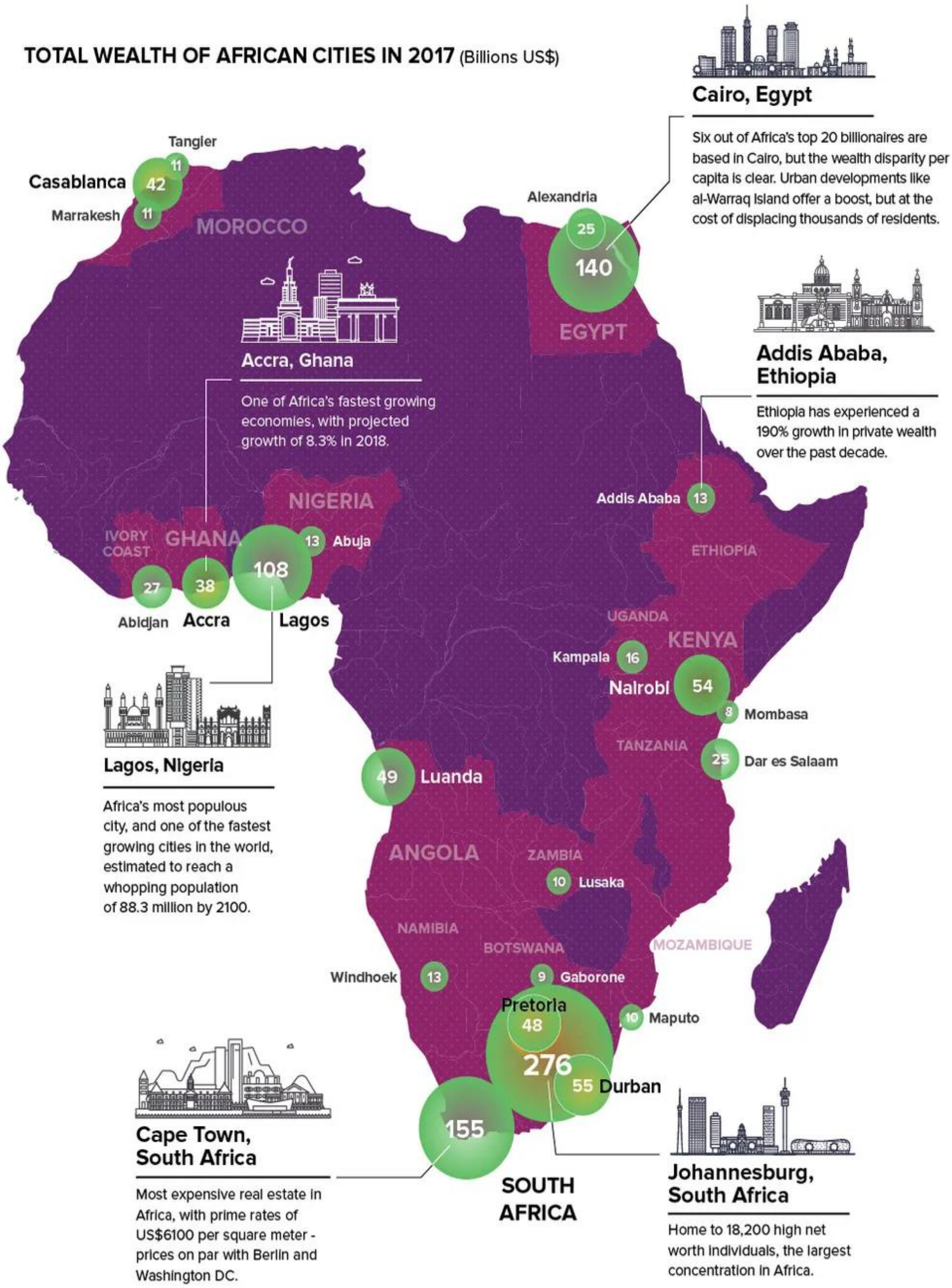

Figure 4.1: Map of commercial centers in Africa

The model for this study is as follows:

GDPGR = f (INR, EXR, IFR, BMS/GDP)

GDPGR = a0 + a1 INR + a3EXR + a3IFR + a4BMS/GDP + μ

Where:

GDPGR = Gross Domestic Product's Growth Rate (a proxy for economic growth)

INR = Interest Rate

EXR = Exchange Rate

IFR = Inflation Rate

BMS/GDP = Ratio of Broad Money Supply to Gross Domestic Product

μ = Error Term

a1 - a4 = Regression Coefficients

5. Results, Analysis and Discussion

5.1 Data Presentation

Table 5.1: Nigeria's GDP Growth Rate, Exchange Rate, Interest Rate, Inflation Rate and Broad Money supply from 1997 to 2016.

Year	GDPGR	INR	EXR	IFR	BMS/ GDP
1997	0.09	23.32	21.87	8.5	0.099
1998	0.12	21.34	21.87	10.0	1.123
1999	0.16	27.19	92.69	6.6	0.134
2000	0.30	21.55	102.11	6.9	0.131
2001	0.18	21.34	111.94	18.9	0.184
2002	0.39	30.19	120.97	12.9	0.193
2003	0.17	22.88	129.36	14.0	0.196
2004	0.30	20.82	133.50	15.0	0.187
2005	0.29	19.49	132.15	17.9	0.181
2006	0.29	18.70	128.65	8.2	0.205
2007	0.15	18.36	125.83	5.4	0.248
2008	0.19	18.70	118.57	11.6	0.330
2009	0.13	22.62	148.88	12.6	0.380
2010	0.23	22.51	150.30	13.7	0.202
2011	0.15	22.42	153.86	10.8	0.193
2012	0.14	23.79	157.49	12.2	0.194
2013	0.12	24.69	157.31	8.52	0.189
2014	0.11	25.74	158.55	8.0	0.199
2015	0.06	26.71	193.28	9.0	0.198
2016	0.08	27.29	258.94	15.7	0.208

Source: Central Bank of Nigeria Statistical Bulletin 2017

5.2 Results of Analysis

The data represented in Table 4.1 were used for the analyses

Table 5.2: Descriptive statistics

Variables	Mean	Std Dev	Std Error	Minimum	Maximum	Median
GDPGR	0.183	0.089	0.0199060	0.060	0.390	0.155
INR	22.983	3.215	0.7189824	18.360	30.190	22.565
EXR	130.906	51.502	11.5162212	21.870	258.940	130.755
IFR	11.3210	3.784	0.8462294	5.400	18.900	11.200
BMS/GDP	0.249	0.215	0.0480288	0.099	1.123	0.195

Source: Author's computation using: SAS (SASApp: Linux)

Summary Statistics

Results

The MEANS Procedure

Variable	Mean	Std Dev	Std Error	Minimum	Maximum	N	Median
GDPGR	0.1825000	0.0890225	0.0199060	0.0600000	0.3900000	20	0.1550000
INR	22.9825000	3.2153871	0.7189824	18.3600000	30.1900000	20	22.5650000
EXR	130.9060000	51.5021067	11.5162212	21.8700000	258.9400000	20	130.7550000
IFR	11.3210000	3.7844528	0.8462294	5.4000000	18.9000000	20	11.2000000
BMS/ GDP	0.2487000	0.2147915	0.0480288	0.0990000	1.1230000	20	0.1950000

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Figure 5.1: The Means Procedure: using SAS sytem (SASApp, Linux)

The descriptive statistics displayed in Table 4.2 shows that GDPGR has the lowest mean value of 0.1825000, while EXR has the highest mean value of 130.9060000.The median is 0.1550000 for GDPGR, 22.565000 for INR, 130.7550000 for EXR, 11.2000000 for IFR and 0.1950000 for BMS/GDP.

The exchange rate shows the maximum value of 258.9400000 and was attained in 2016, while GDPGR has the Minimum value of 0.060000 recorded in 2015. GDPGR has the least standard deviation of 0.0890225, and it implies that GDPGR is the most stable variable among all the variables considered in this study. Where, EXR is the most volatile variable because it has the highest standard deviation of 51.5021067.

Model: Linear_Regression_Model
Dependent Variable: GDPGR

Number of Observations Read	20
Number of Observations Used	20

Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	4	0.03058	0.00764	0.96	0.4598
Error	15	0.12000	0.00800		
Corrected Total	19	0.15058			

Root MSE	0.08944	R-Square	0.2031
Dependent Mean	0.18250	Adj R-Sq	-0.0095
Coeff Var	49.00951		

Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	0.28346	0.17228	1.65	0.1207
INR	1	-0.00313	0.00678	-0.46	0.6508
EXR	1	-0.00057577	0.00046903	-1.23	0.2385
IFR	1	0.00711	0.00568	1.25	0.2303
BMS/ GDP	1	-0.13711	0.10458	-1.31	0.2096

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Figure 5.2: Linear Regression model: using SAS sytem (SASApp, Linux)

5.3 Regression result

The regression result is described in the below table, where GDPGR is used as the dependent variable.

Method/Model: Linear regression model

Sample/Observation: 1997-2016 (n) Numbers of year considered

Dependent variable: GDPGR

Table 5.3: Regression Model

Variables	PRAMETER ESTIMATE	STANDARD ERROR	t value	Pr> [t]
INTERCEPT	0.28346	0.17228	1.65	0.1207
INR	-0.00313	0.00678	-0.46	0.6508
EXR	-0.00057577	0.00046903	-1.23	0.2385
IFR	0.00711	0.00568	1.25	0.2303
BMS/GDP	-0.13711	0.10458	-1.31	0.2096

Source: *Author's computation using: SAS (SASApp: Linux)*

The regression results in above Table 5.3 shows that the effects of INR, EXR and BMS/GDP on GDPGR are negative. However, their individual effect is not significant. However, the IFR has a positive but with a less significant effect on GDPGR. The R-square shows that, the model is fit as 21% of the changes in the dependent variable are explained by the independent variables in the model. The prob. of F-statistic shows that the overall regression is statistically significant at 1% level

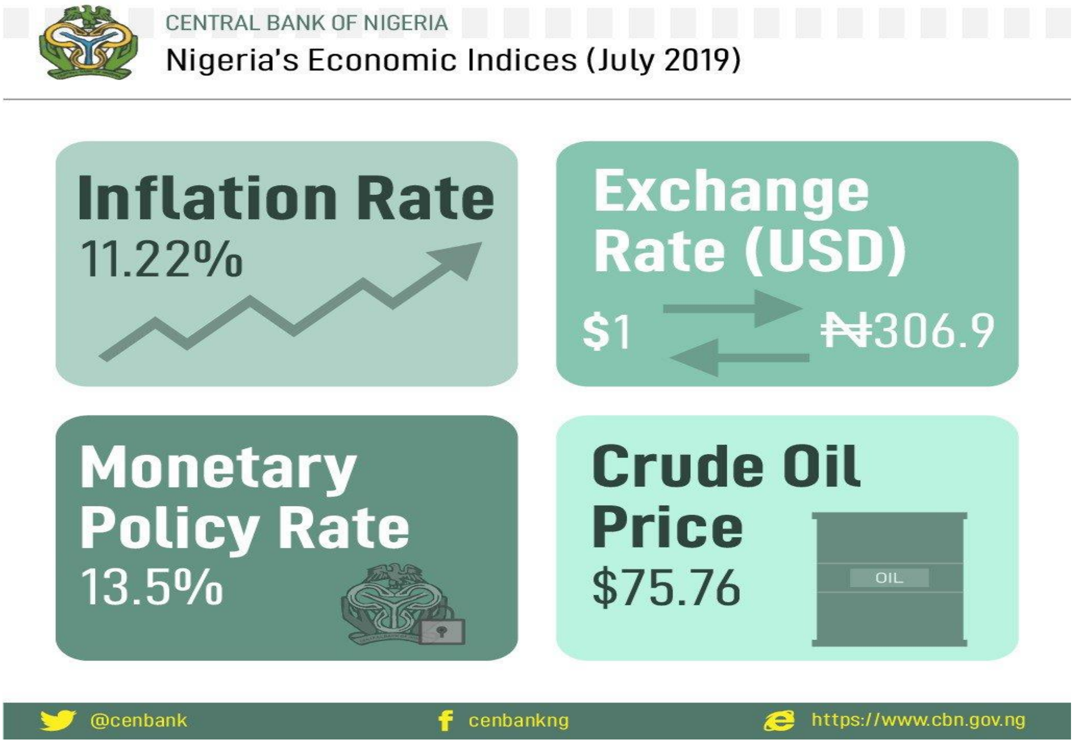

Figure 5.3a: Source Central bank of Nigeria pulications 2019

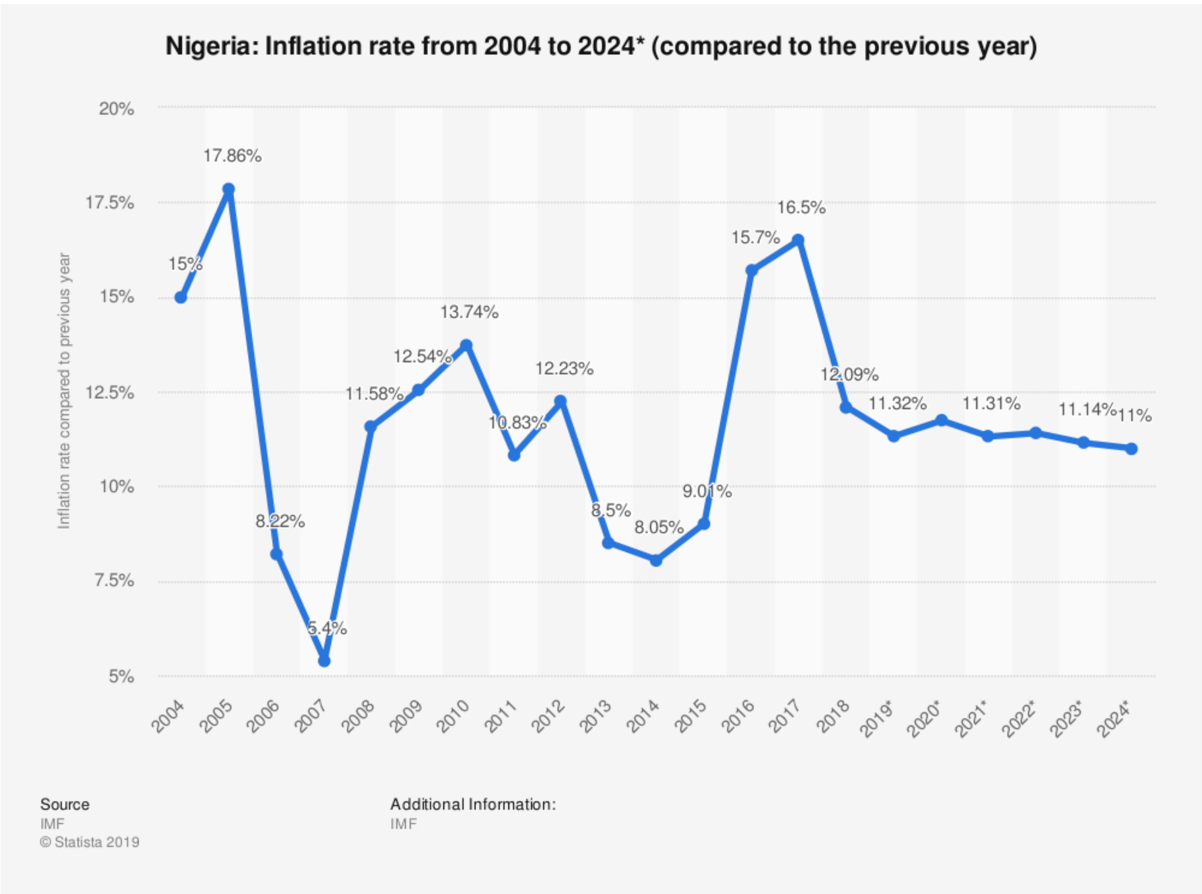

Figure 5.3b:Nigeria Inflation rate slope: Source, IMF statistics 2019

5.4 Test of Hypotheses

The hypotheses are stated in both null and alternative for proper test, they are stated as follows:

- **Ho1:** Interest rate has no significant effect on economic growth in Nigeria
- **H$_1$1**: Interest rate has a significant effect on economic growth in Nigeria
  The results of the analyses show the effect of interest rate on economic growth is not statistically significant. Thus, the null hypothesis is accepted while the alternative hypothesis is rejected.

- **Ho2:** Exchange rate has no significant effect on economic growth in Nigeria
- **H$_1$2:** Exchange rate has a significant effect on economic growth in Nigeria
  The results of the analyses show that, the exchange rate has a negative but not significant effect on economic growth. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected.

- **Ho3:** Inflation rate has no significant effect on economic growth in Nigeria
- **H$_1$3:** Inflation rate has a significant effect on economic growth in Nigeria.
  According to the results of the analyses, it revealed that inflation rate has a significant positive effect on economic growth. As such, the null hypothesis is rejected and the alternative hypothesis is accepted. Which implies that inflation rate has a significant effect on economic growth in Nigeria.

- **Ho4:** Ratio of broad money supply to GDP has no significant effect on economic growth in Nigeria
- **H$_1$4:** Ratio of broad money supply to GDP has a significant effect on economic growth in Nigeria.
  The results indicated that the ratio of broad money supply to GDP has a no significant effect on economic growth. Hence, the null hypothesis is accepted and the alternative hypothesis is rejected.

5.5 Discussion of Findings

The results indicated and revealed that interest rate has a negative and not significant effect on the growth of Nigeria economy. Sequel to the research and findings of other authors mentioned in this study. Akujuobi(2010) whose research also found no significant effect of interest rate on economic development of Nigeria. The findings also show that the exchange has a negative but not significant effect on the growth of Nigeria economy. This result correspond with the findings of the CBN (2014) Central Bank of Nigeria that revealed that exchange rate does not significantly explain the variations in output. However, study conducted by Fasanya, Onakoya and Agboluaje (2013) found that exchange rate is a significant monetary policy instrument that enhance growth in Nigeria economy.

This study also shows that broad money supply to Gross domestic has a negative but not significant effect on economic growth, which is line with Precious and Palesa(2014) that indicate money supply does not hinder the growth of South Africa economy, thus it an insignificant monetary policy instrument.

Consequently, the study shows that inflation rate has a positive and significant effect on economic growth. This implies that the inflation rate is a key drive monetary policy that affects the economic growth of Nigeria with relation to GDPGR as the dependent variable.

More so, the study found a long run relationship between monetary policy variables and economic growth

6. Conclusion and Recomendation

6.1 Conclussion

From the examined variables on the impact of monetary policy on economic growth in Nigeria. The study reveals, Interest rate, excahnge rate and the Broad Money supply/Gross domestic Product have negetive but no significant effect on the economic growth while the regression analysis establish a significant posstive effect on the Inflation rate.

In conclusion, the study reveals that inflation rate is a significant and feasible monetary policy instrument that affects the growth of Nigeria economy. The Nigeria government and the Central Bank of Nigeria when making monetary policies can use this as a tool that can be used to achieve a higher economic growth as it has a significant positive effect.

6.2 Recomendation

The monetary authority in Nigeria should pay more emphasis to inflation rate in the economy, it is clear and shows that the variable have a significant effect on economic growth. Attention and target should not be on having a very low inflation as this would affect the economy negatively. Thus, to achieve a higher rate of Economic growth, inflation rate should be moderate between 7-10%. (single digit)

Though, other variables considered in the study such as the exchange rate, Interest rate, and the ratio of money supply to GDP do not have significant effect, however should be monitored and kept in check to ensure they are reduce and are low as they have a negative effect on economic growth. Monetary policies should be used to create and enhance favourable investment climate by facilitating the emerging market base interest rate and exchange rate regimes that will attract and support both domestic and foreign direct investment.

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Appendix

Definition of Terms

Central Bank: A central bank is an apex financial institution with the autonomy responsibility and control of the production and distribution of money and credit for a nation or group of nations. It formulates monetary policy and regulates the activities of member's bank.

Bank: It is a financial establishment licensed to receive deposits, create credit (loans), and provide financial services &wealth management.

Monetary policy: this is the process by which the government, central_bank, or monetary authority of a country controls the supply money, availability of money, cost of money or rate of interest, in order to attain a set of objectives oriented towards the growth and stability of the economy. Monetary theory provides insight into how to craft optimal monetary policy.

Bills of Exchange: It is an unconditional order in writing addressed by one person to another. Signed by the person giving it, requiring to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money to or to the order of specified person or to bearer.

Treasury bill: This is a short-time instrument use by the government in raising funds. They are financial asset which can be easily converted into cash and are monitored and issued by banks or assigned financial institution.

Foreign Exchange: The mechanism by which international debts between countries under difference currencies are discharge without the passing of actual money.

Equity: The value of an asset of company after all debts, mortgages and other charges attaching to the asset have been discharged. Hence, it is the ordinary shares of companies also known as "Net worth".

Liquidity Ratio: The proportion of specified liquid asset to total deposit of a bank. The minimum proportions required of commercial banks vary from time to time under the directories of the Central Sank.

Cash Rate: This is the cash a commercial bank must hold in order to meet the cash requirement of its customers.

CIBN: The Chattered Institute of Banker of Nigeria. They are professional body, which upholds and further helps in regulating and ensuring the observation of professional ethics and norms, reviewing and tackle problems confronting it members in the banking sector.

Gross Domestic Product: Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific period of time.

Unit Banking: This is that system where an Individual bank undertake banking business either though a single office or through a few branches operating within a limited area.

Interest Rate:
The interest rate is the amount a lender charges for the use of assets expresssed as a percentage of the pricipal. The interest rate is typically noted on an annual basis known as the annual percentage rate (APR). The assets borrowed could include cash, consumer goods, or large assets such as vichle or buildings.

Exchange Rate An exchange rate is the value or rate of one nation's currency versus the currency of another nation or economic zone. For example, how many Nigeria Naira does it take to buy one U.S. dollars?

Inflation Rate: Inflation indicates a decrease in the purchasing power of a nation's currency. It is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. It is the constant rise in the general level of prices where a unit of currency buys less than it did in prior periods. Often expressed as a percentage.

Broad Money Supply: The money supply is the entire stock of currency and other liquid instruments circulating in a country's economy as of a particular time. The money supply can include cash and balances held in checking and savings accounts and other near money substitutes including bond and stocks.