



## Effect of Monetary Policy Instruments On the Performance Of Deposit Money Banks In Nigeria

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### Abstract

This research investigates the effect of monetary policy instrument on the performance of deposit money banks in Nigeria. The research was based on country aggregate level annual data that covered a period of twenty three years spanning from 1990 – 2013 through the application of ordinary least square (OLS) method of regression and Augment Dicky – Fuller techniques in testing the unit root property of the series. The results of the unit root test suggest that all variables in the model are stationary at  $d(1)$  and the trace test indicated 1 co-integration test. The regression result indicated that monetary policies significantly affect banks. The major findings of this research is that effective monetary policies should direct on manipulating instruments and importance should be placed on justification for adopting a particular policy be rationalized in order to increase growth in economy, CBN should redefine monetary policy instruments in order to be more attractive to the DMBs and this will enable deposit money banks to embrace them beyond mere compulsion.

**Keywords:** Deposit money banks, monetary policy, money supply, interest rate and exchange rate.

### 1.0 Introduction

Monetary policy is a combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the anticipated level of economic activity (Folawewo&Osinubi, 2006). The purpose of monetary policy includes macro-economic goals of full employment, curb of inflation, price stability, exchange stability, wealth distribution, efficient resource allocation, favorable balance of payment and industrial development (Ojo, 2002).

The central bank is responsible for the conduct of monetary policy to pursue those objectives. Central banks in the world such as the Central Bank of Nigeria (CBN) often employ certain monetary policy instruments like bank rate, open market operation, changing reserve requirements and other selective credit control instruments. Although, some of the objectives depend on each other, for example, the objectives of price stability often conflicts with the objectives of interest rate stability and high short run employment.

For a country such as Nigeria to achieve economic stability, she must place importance on efficient monetary policy. It is important to note that the CBN has not been able to come up with sound monetary policy in the recent years to achieve the objectives.

The pursuit of price stability invariably point towards the indirect pursuit of other objectives such as economic growth, which can only take place under conditions of price



stability and allocate efficiency of the financial markets. This policy employs CBNs control of the money supply as instrument for accomplishing anticipated economic goals. However, according to Newman Enyioko (2012) monetary policy is used in fixing the deficiencies in the financial sector for sustainable development and promotes economic growth.

Theoretical and empirical literature have emphasized on the role of monetary policy instruments on countries economic growth and stability. Monetary policy instrument is used in restoring to equilibrium any perceived distortion on macroeconomic variables. A significant channel through which these policy objectives are achieved is through the DMBs. It is part of the responsibility of DMBs banks to assist in implementing the objectives. This is to say that monetary policy adjustments are inherent or indigenous in the DMBs banks net performance and profit. Monetary policy instruments when efficiently used is one of key drivers of economic growth through its impact on macro-economic variables. These instruments are intended to control the overall level of credit in the economy through DMBs banks.

Also, these monetary policy instruments are used as expansionary tools to increase the total supply of money in the economy such as curbing unemployment during period of recession by lowering the interest rate in the hope that easy credit will entice business to expand as well as curbing inflation so as to avoid the resulting distortions and deterioration of assets values.

These annual rituals of dishing out the monetary policies in Nigeria are expected to achieve high level of economic development, among other objectives. However, it is believed that inspite of the many years these policies have been used, there appears not to be seen much accompanying and noticeable economic development.

Despite these literatures, there was no enough literature on the effect of monetary policy instruments and the performance of deposit money banks performance in Nigeria and where they were found, they were faulty and obsolete. They cornered in one aspect and not done in Nigeria. Also, the processes of research were not well conducted.

## 1.2 Statement of problem

Monetary policy instrument is one of the vital economic stabilization policy used by all governments in ensuring economic growth and stability. In Nigeria, a number of monetary policy instruments have been designed and applied over the years to achieve the desired result of stable price level, low level of unemployment etc. In the process the DMBs banks are considered the primary vendors in the implementation of the policy; this is to say that the DMBs banks activities cannot be divorce from the prevailing goals of macroeconomic objective of the monetary policy. In their profit maximizing objective, the DMBs banks are always constrained to act within the general economic stabilizing objective of the country such as raising the cash reserve ratio (CRR), liquidity ratio (LR), interest rate (IR), money supply(m2), exchange rate(EXCHG R).

Also because of the inconsistency of the policy dynamism in the banking sector, the banks should keep the pace according to the policy. The policy is not stable because the economy is dynamic. At the time of expansionary monetary policy, DMBs are motivated to increase credit access to investors but during the contractionary monetary policy, the banks are



required to limit the circulation of money into the economy. Sometimes the direct approach such as credit rationing may also be applied.

Whatever approach adopted, the motive is for the general economic stability and growth which could not always be in tandem with the profit maximizing objectives of the DMBs. This is to say that discordant policy objective between the monetary policy implementation and the performance of the deposit money banks bank activities cannot be ruled out.

Pertinent question could therefore be the extent to which the changing monetary policy objectives impact on the performance of deposit money banks in the country. Moreover, little empirical evidence can be found explaining the impact of monetary policy implementation on the performance of deposit money banks. The previous literatures largely concentrate on one aspect; investigating the general performance of monetary policy on economic growth. This study seeks to be different by investigating the effect of changing monetary policy objectives on the general performance of the DMBs in Nigeria. Specifically, the study ascertains the effectiveness of the application of money supply (m2), interest rate(Ir), exchange rate(exr) as an instrument of monetary policy in Nigeria on the performance of DMBs.

### 1.3 Objectives of the study

The main objective of the study was to assess the effectiveness of the monetary policy instruments on performance of deposit money banks in Nigeria. The specific objectives include the following:

- i. To investigate the impact of monetary policy instruments on the performance of deposit money banks in Nigeria.
- ii. To determine the effect of money supply and interest rate on the performance of deposit money banks in Nigeria.
- iii. To investigate the effects of monetary policy on economic growth in Nigeria.

### 1.5 Hypotheses

Ho1: Monetary Policy implementation does not affect the performance of deposit money banks in Nigeria.

Hi1: Monetary Policy implementation affects the performance of deposit money banks in Nigeria.

Ho2: Money supply and interest rate does not affect the performance of deposit money banks in Nigeria.

Hi2: Money supply and interest rate affects the performance of deposit money banks in Nigeria.

Ho3: Monetary policy implementation does not contribute to economic growth in Nigeria.

Hi3: Monetary policy implementation contributes to economic growth in Nigeria.

## 2.0 LITERATURE REVIEW

This segment of the research will review the theoretical and empirical literature review. Substantial number of literatures discussing various theories relating to the relationship between monetary policy and the performance of deposit money banks are presented while the empirical literature, on the other hand, discusses various empirical studies on the subject matter.



## **2.1 Empirical literature review**

### **2.1.2 Monetary policy and banks performance: The Nigerian experience**

A lot of researches have been conducted on the impact of monetary policy on economic growth of Nigeria. Some opinions deliberated on the factor responsible for promoting economic growth while some discussed effect of such instruments on economic growth. Most of these earlier studies agreed on the fact that it is logical for banks to have some basic lending principles to act as a check in their lending activities. Since there are many studies in respect of the effect of monetary policy in Nigeria, it is therefore imperative to highlight and consider some factor that economist and professionals alike have proposed as virtually significant in explaining the effect of these instruments on commercial banks performance in Nigeria.

Okoye and Eze (2013) while accessing the effect of bank lending rate on the performance of Nigerian deposit money banks observed that lending rate and monetary policy rate are true parameter of measuring bank performance. Similarly, Felicia (2011) used regression analysis to investigate the determinants of commercial banks' lending behavior in Nigeria. The study discovered that commercial banks deposits have the greatest impacts on their lending behavior. More also, according to CBN (2012), the introduction of a flexible interest rate-based framework, made the monetary policy rate the operating target. The new framework has enabled the bank to be proactive in countering inflationary pressures. The corridor regime has helped to check wide fluctuations in the interbank rates and also engendered orderly development of the money market segment and payments system reforms, among others.

Similarly, in accessing the effect of interest rates on customer savings behavior in the Nigerian banking sector, Ojeaga and Odejimi, (2014) identifies a host of factors that are likely to influence customer confidence in commercial banks such as average income, commercial lending, central bank monetary policy and total annual commercial bank losses. Using quantile regression estimation method, the study found that interest rates were probably increasing bank deposits while income was also found to affect bank deposits in general. Rasheed (2010) used error correction model (ECM) to investigate interest rates determination in Nigeria. The study found out that as the Nigerian financial sector integrates more with global markets, returns on foreign assets will play a significant role in the determination of domestic interest rates.

Okoye, and Eze, (2013) study the impact of bank lending rate on the performance of Nigerian Deposit Money Banks between 2000 and 2010. It specifically determined the effects of lending rate and monetary policy rate on the performance of Nigerian Deposit Money Banks and analyzed how bank lending rate policy affects the performance of Nigerian deposit money banks. They found that lending rate and monetary policy rate has significant and positive effects on the performance of Nigerian deposit money banks. Akabom-Ita, (2012) examined the impact of interest rate on net assets of multinational companies in Nigeria from 1995 - 2010. The regression analysis showed that an increase in interest rate results in reduction in net assets.

Enyioko (2012) examine the performances of banks in Nigeria based on the interest rate policies of the banks. The study analyzed published audited accounts of twenty (20) out of twenty-five (25) banks that emerged from the consolidation exercise and data from the CBN. Applying regression and error correction methods to analyze the relationship between interest



rates and bank performance the study found that interest rate policies have not improved the overall performances of banks significantly. Aburime (2008) used a sample of banks with 1255 individual observation on unbalanced panel data over the period 1980-2006 to investigate the macroeconomic determinants of bank profitability in Nigeria. The result revealed that real interest rate, inflation, monetary policy and foreign exchange regime are positively associated with banks' return on assets. Ahmad (2003) reported that interest on loan is the largest constituent of income for Nigerian banks as evidenced from available data and that movement from one interest regime to another could have some effects on the profitability of banks in the system. Ogunlewe (2001) in a study of the monetary policy influence of bank's profitability, using data from Nigerian banks found the determinants of bank profitability to include reserve ratio, permissible credit growth, stabilization securities and exchange rate. The study also found determinants of banks' profitability to include total deposits, Treasury bill rates and lending rates.

### **2.3.2 Monetary policy and banks performance: The worlds experience**

Gertler and Gilchrist (1994) conducted a study that specifically looked at how bank business lending responds to monetary policy tightening. Their study reveals that business lending does not decline when policy is tightened. They concluded that the entire decline in total lending comes from a reduction in consumer and real estate loans. In contrast to Gertler and Gilchrist (1994) study, Kashyap and Stein (1995) find evidence that business lending may respond to a tightening of monetary policy. They find that when policy is tightened, both total loans and business loans at small banks fall, while loans at large banks are unaffected. The differential response of small banks may indicate they have less access to alternative funding sources than large banks and so are less able to avoid the loss of core deposits when policy is tightened.

Punita and Somaiya (2006) investigated the impact of monetary policy on the profitability of banks in India between 1995 and 2000. The monetary variables are banks rate, lending rates, cash reserve ratio and statutory ratio, and each regressed on banks profitability independently. Lending rate was found to have exact positive and significant influence on the profitability of banks which indicates a fall in lending rates will reduce the profitability of the banks. Their findings were the same when lending rate, bank rate, cash reserve ratio and statutory ratio were pooled to explain the relationship between bank profitability and monetary policy instruments in the private sector. Similarly, Samad (2004) study examined Bahrain's commercial banks performances during 1994-2001 with respect to credit (loan), liquidity and profitability. By applying students'-test to the financial measure, it was shown that commercial banks liquidity performance is not at par with the banking industry. That is commercial banks are relatively less profitable and less liquid as expected.

Naceur and Goaid (2010) investigated the determinants of commercial banks interest margin and profitability for Tunisia. The study observed the impact of banks characteristics, financial structure and macroeconomic indicators on banks net interest margin and profitability in Tunisia banking sector for the period of 1980-2000. It shows that individual bank characteristic explains a substantial part within the country variation in bank interest margin and net profit. High net interest margin and profitability tend to be associated with banks that hold a relatively high amount of capital and large overheads size is found to impact negatively on



profitability which implies that Tunis banks are operating above their optimum level. The mandatory interest rate according to William (2009) will result to a near shut down in lending ratio volume to any bank with major credit concern because, new policy ensures that only the highest quality borrowers have access to a new bank credit within the year.

Sufian (2011) examined the impact of bank specific and macroeconomic variables on the performance of Korean banking sector during the pre- and post-Asian financial crisis. A total of 251 bank year observations consisting of 11 commercial banks over the period 1993- 2003 were employed and tested using panel fixed and random effect regression , the result shows that inflation has positive association with banks' return on assets. Alper and Anbar (2011) investigated bank specific and macroeconomic determinants of commercial bank profitability in Turkey over the period of 2002-2010. The study uses both return on asset (ROA) and return on equity (ROE) as proxy for bank profitability. By employing balanced set of panel data and fixed effect model, the result shows that only real interest rate is positively related with profitability in regards to macroeconomic variables. In other words, an increase in real interest rate would lead to an increase in commercial banks' profitability in Turkey. However, Khwarish (2011) which focuses more on determinants of commercial bank performance in Jordan for 2000-2010 periods found that both inflation rate and annual growth rate for gross domestic product have negative and significant effects on both ROA and ROE of the commercial banks.

To conclude the literature review, Molyneux and Thorton (1992) investigated a multi-country setting by examining the determinants of bank profitability for a panel of 18 European countries for the 1986-1989 time periods. They found a significant positive association between the return on equity and the level of interest rates in each country.

## 2.2 Theoretical literature review

Numerous theories have been proffered which tried to explain the effect of monetary policy. This section explains some of the most commonly accepted theories used to explain the effect of monetary policy instruments on banks performance.

### 2.2.1 Theories of monetary policy

In investigating the effect of monetary policy instruments on banks performance in Nigeria, some theories were found relevant, these include:

#### 2.2.1.2 Quantity Theory of Money:

This theory states that money supply has a direct, proportional relationship with the price level. There is a direct relationship between the quantity of money and the level of prices of goods and services sold (Investopedia.com). In other words, more money equals more inflation. In a domestic framework, the following equation has been formulated:

Where-

$MV = PY$

M: Money supply/demand

V: Velocity of circulation (the number of times money change hands)

P: Average price levels

Y: GDP



While mainstream economists agree that the quantity theory holds true in the long run, there is still disagreement about its applicability in the short run. Critics of the theory argue that money velocity is not stable and, in the short-run, prices are sticky, so the direct relationship between money supply and price level does not hold. The classical economists view of inflation revolved around the Quantity Theory of Money. In other words, increases in the money supply would lead to inflation. The message was simple: control the money supply to control inflation.

The modern quantity theorists believe that changes in the quantity of money directly affect the real sector and that monetary policy alone is sufficient to stabilize the economy.

#### **2.2.1.3 Loan Pricing Theory:**

This theory investigates the relationship between interest rates and banks' performance. It states that banks cannot always set high interest rates. In trying to earn maximum interest income, banks should consider the problems of adverse selection and moral hazards since it is very difficult to forecast the borrower type at the start of the banking relationship, Stiglitz & Weiss (1981). If banks set interest rates too high, they may induce adverse selection problems because high risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behavior since they are likely to take on highly risky projects or investments (Chodecal 2004).

#### **2.2.1.4 Liquidity Preference Theory:**

This theory states that investors want to be compensated for interest rate risk that is associated with long-term issues. Because of the longer maturity, there is a greater price volatility associated with these securities. The structure is determined by the future expectations of rates and the yield premium for interest-rate risk. Because interest-rate risk increases with maturity, the yield premium will also increase with maturity. Also known as the Biased Expectations Theory.

**2.2.1.5 Arbitrage pricing theory (APT)** is a general theory of asset pricing which holds that the expected return of a financial asset can be modeled as a linear function of various macro-economic factors or theoretical market indices, where sensitivity to changes in each factor is represented by a factor-specific beta coefficient. The model-derived rate of return will then be used to price the asset correctly - the asset price should equal the expected end of period price discounted at the rate implied by the model. If the price diverges, arbitrage should bring it back into line.

If the afore mentioned theories are examined critically, it can be deduced that the loan pricing theory and the quantity theory of money evidently explains the impact of monetary policy instruments more than the liquidity preference theory, arbitrary pricing. Thus the relevance of loan pricing theory and quantity theory of money becomes imperative as it has a positive effect on the performance of deposit money banks in Nigeria.

### **3.0 Methodology**

This study looked at the effect of monetary policy instruments on the performance of DMBs in Nigeria using secondary data. Being an exploratory research process, the research features 5 macroeconomic variables, comprising of 2 dependent variables and 3 independent variables. The dependent variable is the performance of DMBs which is proxied by total assets



and GDP while the independent variables are money supply (m2) , interest rate(Ir) and exchange rate(exchr). Using the entire DMBs (24). This research merely used secondary data in handling all the objectives. The time series data were obtained from the Central Bank of Nigerias (CBN) statistical bulletin spanning from 1990 to 2013. Thus OLS techniques was used in the analysis.

### 3.5 OLS model specification

The model for OLS is given as follows:

- i.  $GDP_t = \beta_0 + \beta_1 + IR_t + \beta_2 + EXCHR_t + \beta_3 + M2 + Ut.....(i)$
- ii.  $GDP_t = \beta_0 + \beta_1 + IR_t + \beta_2 + EXCHR_t + Ut.....(ii)$
- iii.  $GDP_t = \beta_0 + \beta_1 + M2_t + \beta_2 + EXCHR_t + Ut.....(iii)$
- iv.  $TA_t = \beta_0 + \beta_1 + IR_t + \beta_2 + EXCHR_t + \beta_3 + M2 + Ut.....(iv)$
- v.  $TA_t = \beta_0 + \beta_1 + IR_t + \beta_2 + EXCHR_t + Ut.....(v)$
- vi.  $TA_t = \beta_0 + \beta_1 + M2_t + \beta_2 + EXCHR_t + Ut.....(vi)$

Where TA and GDP is the dependent variable while *money supply(m2)*, interest rate (Ir) and exchange rate(exchr) are the independent variables.  $\beta_0, \beta_1, \beta_2$  and  $\beta_3$  are the model parameters having the following *a priori* expectations:

$$\beta_0 > 0, \beta_1 > 0, \beta_2 < 0,$$

$\beta_0$  is to take care of the constant variable,  $\beta_1$  is the coefficient of M2 which is expected to be greater than zero ( $\beta_1 > 0$ ) because it is positively related to performance of deposit money banks in Nigeria.  $\beta_2$  is the coefficient of IR which is also expected to be greater than zero because it is also having a positive relationship with performance of deposit money banks and exchange rate is expected to be less than zero ( $\beta_2 < 0$ ) due to its negative relationship with performance of deposit money banks in Nigeria.

Table 1 Descriptive statistics of the basic data

	GDP	INTR	TA	M2	EXCHR
Mean	8.830592	2.941271	7.597080	7.116634	15.50819
Median	8.961335	2.931162	7.821417	7.231711	15.55861
Maximum	10.65483	3.490429	10.09828	9.626433	17.48639
Minimum	5.794872	2.379546	4.418841	3.967647	12.49706
Std. Dev.	1.409831	0.254496	1.835602	1.751971	1.593651
Skewness	-0.573742	-0.250551	-0.150581	-0.132588	-0.399968
Kurtosis	2.370640	3.320257	1.720343	1.843275	2.015414
Jarque-Bera	1.712813	0.353667	1.728221	1.408332	1.609310
Probability	0.424685	0.837919	0.421426	0.494521	0.447242
Sum	211.9342	70.59049	182.3299	170.7992	372.1966
Sum Sq. Dev.	45.71531	1.489675	77.49696	70.59625	58.41365
Observations	24	24	24	24	24

Source: computed from the data

Descriptive statistics





Table 1 presents the descriptive statistics of the data employed in this study. The minimum and maximum values of GDP are 5.794872 and 10.65483 with an average of 8.830592. INTR and TA, vary from a minimum of 2.379546 and 4.418841 and maximum of 3.490429 10.09828 with an average of 2.941271 and 7.597080 respectively while M2 and EXCHR range from minimum values of 3.967647 and 12.49706 and maximum values of 9.626433 and 17.48639 with average of 7.116634 and 15.50819 respectively. All the variables are negatively skewed and the probability significant levels for all the variables (GDP, TA, INTR, M2,EXCHR) are not statistically significant.

Table 4.2: Unit Root Tests Results

S/N	Variables	Intercept	Trend and Intercept	Adf statistic	Probability	Critical value
(i)	GDP		(d(1))	-5.381664	0.0014	1%level -4.440739 5%level -3.632896 10%level -3.254671
(ii)	IR	(d(1))		-6.962364	0.0000	1%level -3.788083 5%level -3.012363 10%level -2.646119
(iii)	M2	(d(1))		-4.148051	0.0052	1%level -3.831511 5%level -3.029970 10%level -2.655194
(iv)	TA		(d(1))	-4.453816	0.0109	1%level -4.498307 5%level -3.658446 10%level -3.268973
(v)	EXCHR		(d(1))	-4.862246	0.0042	1%level -4.440739 5%level -3.632896 10%level -3.254671

Table 4.3: Co-integration Tests Results

S/N	DEPENDENT VARIABLE	INDEPENDENT VARIABLES	TRACE STATISTIC	CRITICAL VALUE	PROBABILITY	LAGS INTERVAL	COINTEGRATING
(i)	GDP	M2 , EXCHR	16.45147	3.841466	0.0000	1,1	1
(ii)	GDP	IR , EXCHR	17.48074	12.51798	0.0068	1,1	1
(iii)	GDP	M2, IR ,EXCHR	16.78748	3.841466	0.0000	1,1	1
(iv)	TA	M2, EXCHR	11.91713	3.841466	0.0006	1,1	1



(v)	TA	IR, EXCH	9.326657	3.841466	0.0023	1,1	1
(VI)	TA	M2, IR, EXCHR	10.73983	3.841466	0.0010	1,1	1

Table 4.4: Linear Regression Results

S/N	Dependent Variable	Independent Variable	Coefficient	T-statistic	Prob.	F-stat.	Prob.	R <sup>2</sup>	Adjusted R <sup>2</sup>	Durbin-Watson Statistic
i)	GDP	M2 IR EXCHR C	-0.86643 - 0.113024 0.958383 - 5083148	0.530448 - 0.530448 - 0.530448 - 2.832801	0.6016 0.6396 0.0000 0.0103	415.405	0.000	0.984	0.981	1.33116
ii)	GDP	M2 EXCHR C	- 0.070287 - 0.95398 - 5463752	- 0.448528 - 5.537575 - 3466672	0.6584 0.0000 0.0023	646.833	0.000	0.984	0.982	1.27232
iii)	GDP	IR EXCHR C	- 0.086469 0.867240 - 4.364409	- 0.378642 23.78035 - 3.775150	0.7088 0.0000 0.0011	103.708	0.000	0.983	0.982	1.22195
iv)	TA	M2 IR EXCHR C	-0.86643 - 0.113024 0.958383 - 5083148	10.42123 0.862270 0.099244 - 0.374035	0.0000 0.3988 0.9219 0.7123	1873.821	0.000	0.996	0.995	0.844090
V	TA	M2 EXCHR C	1.031684 0.015683 0.011757	10.53912 0.145728 0.011942	0.0000 0.8855 0.9906	2858.15	0.000	0.996	0.995	0.64527



Vi	TA	IR EXCHR C	- 0.195372	- 0.550790	0.587 6		0.00 0	0.97 7		0.5876
			- 0.115262	19.68843	0.000 0	450.1 09			0.975	
			- 9.123977	- 5080988	0.000 0					

### Discussion

The unit root test, co-integration test and regression were analyzed. The findings of the results were obtained whereby descriptive statistics of the data was presented and all the variables were negatively skewed and the probability significant levels for all the variables (GDP, TA, IR, M2, EXCHR) are not statistically significant. The unit root test results indicated that all the variables are found to be stationary at 1, 5 and 10 percent respectively. These were tested at first difference level under intercept and trend. The ADF and critical values for all the variables are presented at 1, 5 and 10 percent level respectively while the result of co-integration test on the other hand reveal that trace test indicated 1 co-integration between the GDP and M2, IR EXCHR, GDP and M2, EXCHR, GDP and IR, EXCHR, and TA and M2,IR EXCHR, TA and M2, EXCHR, TA and IR EXCHR. Precisely the trace statistic and critical for the variables were found. The linear regression results of the variables used for the study indicated that the coefficient of M2 and the IR are statistically insignificant while the coefficient of EXCHR and constant are found to be statistically significant. This therefore implies that 1 percent change in M2 and IR reduces the GDP while 1 percent change in EXCHR raises

### Recommendations

Having recognized that monetary policy instruments affect the performance of DMBs Nigeria. To enhance their profits level, effective monetary policies should be direct on manipulating instruments and importance should be placed on justification for adopting a particular policy instead of others in order to manage the economy. The CBN should also redefine monetary policy instruments in order to be more attractive to the commercial banks and this will enable deposit money banks to embrace them beyond mere compulsion. There is need to strengthen and review bank lending rate policies and effective and efficient supervision and regulation of lending activities. Lastly, it is also suggested that the macroeconomic policies that could support lending rates such as monetary policy rate (MPR) should be set low as these would help to boost credit expansion and invariably returns and profitability of deposit money banks that could impact on the economy positively.

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