BANK LENDING TRANSACTION AND FINANCIAL SYSTEM CONTROLS IN AN EVOLVING ECONOMY

Cordelia Onyinyechi Omodero, Covenant University
Asiriuwa Osariemen, Covenant University
Francis Odianonsen Iyoha, Covenant University

ABSTRACT

Fund availability for private sector operations is determined by a nation's financial system under the control of the Central Bank. The private sector investment and operations depend on the amount of funds accessible by the operators. Bank credit to the private sector is indispensable in every functioning economy to remain viable. To a considerable extent, private sector credit plays a significant role in ensuring the economic stability of a nation. In Nigeria, the scenario is the same. Thus, this study examines the extent to which monetary policy instruments affect the lending power of banks, especially to the major beneficiaries who are the private sectors. The study applies the relevant econometric techniques, which include a test of validity, normality and stability of the model used. The ordinary least squares method is employed to test the causality effect of the financial policy instruments on private sector credit. The study covered a period from 1998 to 2019. The findings indicate that interest and exchange rates are positively insignificant in affecting the credit banks provide to the private sector. The study also finds that money supply significantly and positively influences private sector credit. The study recommends that the money supply should be watched to avoid excess money in circulation while ensuring sufficient credit availability to the private sector for operations.

Keywords: Bank Policy, Money Supply, Monetary Policy, Financial System Controls.

JEL Classification Codes: E50, E51, E52, E58, E59

INTRODUCTION

Bank lending transaction is one of the primary functions of banks to generate revenue. The private sector existence and financial stability have always remained a function of banks' ability to make finance available to them. However, bank credit's availability to the private sector depends on financial system controls in place at every given time. The monetary policy determines the extent of credit availability and accessibility by the private sector in a country. In a more explicit form, the funding access and opportunities firms would have depended on the long term policies introduced to manage the loaning undertakings of banks (Ndigwe et al., 2020). Monetary policy or financial control system in a country has a prominent role in determining the amount of money in circulation and level of credit available to private sector operations (European Central Bank, 2011). The ultimate reason is to ensure price stability in an economy. The use of legal reserve requirements helps the monetary authorities to control the quantity of money that banks can maintain. At the same time, the open market operation minimizes the

Citation Information: Omodero, C.O., Osariemen, A., Iyoha, F.O. (2021). Bank lending transaction and financial system controls in an evolving economy. *Academy of Strategic Management Journal, 20*(5), 1-10