International Journal of Sustainable Economies Management

January-March 2014, Vol. 3, No. 1

Table of Contents

Research Articles

The *International Journal of Sustainable Economies Management* is indexed or listed in the following: Bacon's Media Directory; Cabell's Directories; Google Scholar; IndexCopernicus; JournalTOCs; MediaFinder; RePEc; The Standard Periodical Directory; Ulrich's Periodicals Directory

The Effect of Monetary Policy on the Nigerian Deposit Money Bank System

Alex Ehimare Omankhanlen, Department of Banking and Finance, Covenant University, Ota, Ogun State, Nigeria

ABSTRACT

This study investigates the effect of monetary policy on the Nigerian Deposit Money Bank (DMB) System. The Nigerian banking system is currently under-going a series of reforms in order to enhance its competitiveness and efficiency. The Ordinary Least Square (OLS) method is used to examine the effect of monetary policy on the Nigerian Deposit Money Bank System, using such variables as total loans and advances (TLA) as dependent variable and liquidity ratio (LR),cash reserve ratio (CRR), monetary policy rate (MPR), and average exchange rate (AER) as independent variables. The result of the findings shows that monetary policy rate reveal the most significant effect on commercial banks loans and advances during the period under study. The study thus recommends, among others, that the regulatory authority Central Bank of Nigeria should create credit procedures, policies and analytical capabilities which should be entrenched in the credit management of DMB's operations.

Keywords: *Bank, Cash Reserve Ratio (CRR), Loans and Advances, Monetary Policy, Nigeria*

INTRODUCTION

The Nigerian banking sector has been undergoing reforms for some time. In 1992, government owned banks were privatized and the capital market was deregulated. In 1993, indirect monetary instruments like Open market operations (OMO), Discount rates and Reserve requirements, Cash reserve ratio (CRR) and Liquidity ratio (LR) were introduced. Other policy instruments employed included the discount window operations, mandatory sale of special Nigerian Treasury Bills (NTBs) to banks and a requirement of 200 per cent treasury instruments to cover for banks foreign exchange demand at the Autonomous Foreign Exchange Market (CBN Annual Report, 2012).

In 1997 minimum paid-up capital for merchant and commercial banks was increased to 500 million naira; while in 2004, after the introduction of the Universal banking system, it was raised to 25 billion naira for commercial banks. Presently, the universal banking system has been stopped and individual banks are now

DOI: 10.4018/ijsem.2014010104