



Impact of Monetary Policy on Bank Lending Ability in The Nigeria Deposit Money Banks (DMBS)

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Abstract

This study investigate the effects of exchange rate volatility on Nigeria's industrial productivity, employing Structural Vector Autoregression (SVAR) and System Generalized Method of Moments (GMM) models on annual data from 1981–2023. Johansen cointegration tests confirm a long-run equilibrium, with a 12% annual adjustment speed toward stability. Results reveal a significant negative relationship between exchange rate volatility (ERV) and manufacturing capacity utilization (MCU), with ERV explaining 32% of MCU's variance long-term. A 1-standard-deviation ERV shock reduces industrial productivity by 1.2% initially, cumulating to 6.3% over five years. Inflation (INF) and forex reserves (FXS) further exacerbate and marginally mitigate industrial decline, respectively. The findings align with Aliyu (2020) and Adelowokan et al. (2015), highlighting systemic vulnerabilities from Nigeria's oil dependency and import reliance. Policy recommendations include harmonizing exchange rate windows, boosting forex liquidity for critical industries, and implementing import substitution strategies under the National Development Plan 2021–2025.

Keywords: Exchange rate volatility, industrial productivity, forex reserves, error correction model, Nigeria

JEL Classification:

Contribution to/Originality Knowledge

1.0 Introduction

The great uncertainty and persistent increase in the monetary policy instruments and economic losses associated with the pandemic have made markets highly volatile and unpredictable, leading to higher bank loan risk. Lending during economic downturns has been the topic of intensive examination, with common wisdom claiming that financial crises disturb the credit allocation mechanism, resulting in restricted loan supply and increased in borrowing costs (Wu et al., 2020).

The provision of lending, which can be done on shorter-term deposits to make longer-term loans, is one of the services that deposit money banks offer to their clients. Converting short-term obligations (deposits) to long-term assets (loans) is known as maturity transformation. The act of a bank lending money to a person, business organization, company, or government on mutually agreed terms and conditions for repayment with interest over a certain period of



time is known as bank lending (Ihenetu, 2021). Bank lending is the practice of providing funds for business operations while levying interest (Sunday & Ehiejele, 2017)

Banks are always careful with their decision to lend out due to some factors that may affect the bank adversely such as interest rate, cash reserve ratio, monetary policy rate, liquidity ratio, the level of deposit of the bank, etc (Sanusi, 2011). Hamilton et al (2021) and Afolabi et al (2018) document that monetary policy have adversely effects deposit money banks' lending ability in Nigeria. Monetary policy at times seems to contradict the interest and plan of DMBS. When the Central Bank of Nigeria (CBN) want to achieve contractionary economy goal, it might not be in line with the motive and interest of DMBS, because every deposit money banks wants return on investments which is mainly achieved through interest on loan advances and contractionary monetary policy does not encourage such while in the expansionary monetary policy is the opposite.

In cash reserve ratio, the Monetary Policy Committee meeting voted unanimously to raise the cash reserve ratio from previous 27.5 to 32.5 percent by the CBN governor, Godwin Emefiele announced this on 27th September, 2022. This shows that 32.5% of customer deposits held by commercial banks is retains by CBN, restricting the banks from accessing the money and have insufficient fund for loan advances which makes it difficult for bank-dependent borrowers to access funds through loan advances, which has negative effect on the bank lending activities.

Furthermore, the monetary policy rate (MPR) is the rate at which CBN lend to commercial banks, it is also the benchmark against which other lending rates in the economy are pegged on. The CBN has raised its benchmark rate from it rate 14 percent to 15.5 percent by the CBN governor, Godwin Emefiele on the 27th of September 2022 after the Monetary Policy Committee meeting. Currently, the monetary policy rate is high and its hampers the lending ability of DMBS. if the cost of accessing loan from the CBN by the commercial banks is high, it discourages the DMBS from accessing such loans, which in turn affect their fund's availability to advance loans to bank-dependent borrowers CBN monetary policy committee meeting, (2022).

Money supply refers to the total stock of monetary assets comprising currency in circulation (cash and coins) and deposits held in bank accounts available within an economy at a given time. In Nigeria, the Central Bank of Nigeria (CBN) monitors and manages money supply as part of its broader monetary policy objectives. According to the CBN's Money and Statistics Report, broad money supply (M3) increased from ₦45.19 trillion in January 2022 to ₦49.36 trillion in August 2022, reflecting a growth of 9.21% or ₦4.16 trillion within that period (CBN Monetary Policy Committee, 2022). One of the primary mechanisms through which changes in money supply influence the Nigerian economy is via interest rates and inflation. When the CBN injects more money into the economy, typically through open market operations or lowering the monetary policy rate, it increases liquidity in the banking system, reduces interest rates, and stimulates borrowing and investment. However, if this increase in money supply is not matched by a corresponding rise in output, it can lead to demand-pull inflation—where too much money chases too few goods—ultimately eroding the purchasing power of the naira

(Uchendu, 1996; Omotor, 2008). Therefore, the CBN must balance monetary expansion with price stability to avoid inflationary pressures while supporting economic growth.

Given this context, this study seeks to address the following research questions: Do deposit money banks exhibit resilience to monetary policy shocks? Are certain borrowers so reliant on bank credit that changes in bank lending behaviour significantly affect their investment and spending decisions? Does bank size and equity improve lending capacity? And do Nigerian banks continue to fulfil their traditional role of financial intermediation through loan provision? These questions are critical in understanding the dynamics of bank lending in the face of monetary policy changes. Accordingly, the objectives of this study are: (i) to evaluate the impact of monetary policy instruments on the lending behaviour of deposit money banks in Nigeria; (ii) to examine whether bank size and capital structure enhance resilience to monetary policy shocks; and (iii) to assess whether lending activity remains a core function of Nigerian banks under varying policy conditions.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Bank Lending

Bank Lending is the process of giving out loans to customers by banks with the aim of making profit by adding interest on the principal amount collected by customer and during the process bank makes sure that customers provide security like (land, house etc.) to secure the loan (Olabode, 2017). An individual, group, business, government, or other entity may be granted a loan by a bank under mutually agreed-upon terms and conditions for repayment with interest over a specified period of time (Ihenetu, 2020). Bank lending can be defined as the process of providing funds for business transaction, from which an interest is charged (Wu et al., 2020). One of the key services that deposit money banks provide is lending. In order to fulfil their intermediation duties, deposit money banks lend the mobilized deposits from the deficit economic unit on a short-, medium-, or long-term basis. This assists the deposit money banks in achieving their profitability principles and other ends, purpose for which they are setup. The core service of the banking industry is lending, (Sunday and Ehiejele, 2017).

2.1.2 Monetary Policy

The term monetary policy has been defined by experts from many perspectives. According to Central Bank of Nigeria (CBN, 2014), monetary policy concept is defined through the annual report and statistical bulletin as combination of measures designed to regulate, value, supply and cost of money in an economy, in consonance with level of economic activities. Monetary policy involves themeasures through which the central bank manages the supply of money so as to stabilize prices (CBN, 2014). Monetary policy is a blend of measures and or set of instruments designed by the monetary authorities to regulate the volume, supply and cost of money consistent with the absorptive capacity of an economy or the expected level of economic activity without necessarily generating undue pressure on domestic prices and the exchange rate (Mordi, 2009). Monetary authorities do not regulate the cost and supply of liquidity to the economy directly, rather through instruments that impacts heavily on deposit



money banks in banking operations. According to CBN (2011), monetary policy is a deliberate action of the monetary authorities to influence the quantity, cost and availability of money credit in order to achieve desired macroeconomic objectives of internal and external balances. The action is carried out through changing money supply and/or interest rates with the aim of managing the quantity of money in the economy.

2.1.3 Deposit Money Banks (DMBs)

Deposit Money Banks (DMBs) are financial institutions licensed to accept deposits from the public, provide credit facilities, and perform financial intermediation by channeling funds from surplus units (savers) to deficit units (borrowers) within an economy. They play a vital role in promoting economic development through maturity transformation, payment facilitation, and liquidity management (Sanusi, 2011). DMBs typically include commercial banks and other deposit-taking institutions that operate under the regulatory framework of the Central Bank of Nigeria (CBN), adhering to prudential guidelines on capital adequacy, reserve requirements, and lending practices (CBN, 2022). As financial intermediaries, they contribute significantly to monetary policy transmission by influencing credit availability, interest rates, and investment behavior (Ajayi & Atanda, 2012). Their performance and stability are thus critical for maintaining financial system soundness and supporting macroeconomic objectives.

2.2 Theoretical Review

2.2.1 Anticipated income theory

This study is based on the Anticipated income theory, this theory reveals that the earning power and reputation of the borrower is the ultimate guarantee to meeting up with the short-term obligation and liquidity of bank depends on the anticipated income of the borrower, not really the use of fund. This theory was developed by Prochnow (1944) on the basis of the practice of extending term loans by the US commercial banks. This theory reveals that the earning power and reputation of the borrower is the ultimate guarantee to meeting up with the short-term obligation and liquidity of bank depends on the anticipated income of the borrower, not really the use of fund. This theory tenaciously clings to the movement toward self-amortizing commitments by banks and emphasize that systematic repayment schedule on many types of loans and serial maturity debts, has the ability to provide an automatic liquidity schedule out the repayment capabilities of the borrower (Nwankwo, 1991; Ekpung, et al., 2015). Nwankwo (1991) further stressed that ‘the resulting cash flow thus becomes an important source of cash flow for the lender. That liquidity in credit granting may diminish in periods of cyclical expansion, restoration will occur during periods of contraction when loan growth slows while repayment continues.

2.3 Empirical Review

Empirical studies that examine the relationship between monetary policy instruments and bank lending in Nigeria. Several researchers have employed diverse methodologies ranging from OLS and ARDL to ECM to analyze how variables such as interest rates, inflation, money supply, and liquidity ratios impact credit allocation and banking stability.

Lateef et al. (2020) investigated the impact of monetary variables on bank lending in Nigeria, using time series data from 1980 to 2018 and applying the Autoregressive Distributed Lag (ARDL) technique. The study revealed that both inflation and interest rates significantly and negatively affect loans and advances, while the exchange rate exerts a significant positive effect; liquidity ratio and money supply were found to be statistically insignificant. Additionally, Granger causality analysis showed that inflation causes lending rates but not the other way around. The study concluded that managing inflation is critical to enhancing bank credit growth. However, it overlooked institutional variables such as capital adequacy and credit risk, creating a gap regarding internal banking dynamics.

Similarly, Okoro et al. (2018) examined the impact of financial intermediation on the effectiveness of monetary policy in Nigeria, using data from the CBN and applying the Ordinary Least Squares (OLS) method. The results indicated that interest rates significantly influence bank loans and advances, and cash reserve ratio positively and significantly impacts demand deposits. The study reinforced the anticipated income theory and emphasized the regulatory role of monetary tools. Nonetheless, the reliance on a single-equation model and the absence of long-run analysis suggest a methodological limitation in explaining dynamic interactions.

In the same vein, Hamilton et al. (2021) explored the extent to which adjustments in the monetary policy rate (MPR) affect banking system stability, employing both inter-temporal OLS and Error Correction Modeling (ECM) on data from 1989 to 2018. Findings showed that MPR has a negative long-run effect improving stability but a positive short-run effect, which could elevate risk-taking and non-performing loans. The authors concluded that excessive MPR hikes could destabilize the banking system. Yet, the study did not directly assess how these dynamics translate to changes in bank lending, leaving a gap in credit allocation analysis.

Furthermore, Toppie et al. (2022) assessed the short- and long-term impacts of macroeconomic variables such as money supply, real interest rate, and credit to the private sector on the liquidity ratio of deposit money banks in Nigeria from 1990 to 2020, using ARDL and stationarity tests. The study found that current money supply and real interest rate negatively affect liquidity, whereas their lags showed positive effects; credit to the private sector had a consistently negative impact. The research concluded that macroeconomic shocks have lagged effects on liquidity, but it did not establish how this affects actual loan disbursement, highlighting a gap in connecting liquidity with credit expansion.

Lastly, Okoye et al. (2021) evaluated the effect of government policies money supply, monetary policy rate, and government borrowing on the lending ability of deposit money banks in Nigeria using ex-post facto design and OLS from 1999 to 2019. The results indicated that money supply and monetary policy rate significantly enhance lending, while government borrowing negatively affects it. The study recommended better monetary policy management and fiscal discipline to support lending. Nevertheless, the analysis did not differentiate between short-run and long-run effects or control for heterogeneity among banks, limiting the depth of policy recommendations.

Collectively, these studies highlight the varied influence of monetary policy tools on bank lending and stability in Nigeria; however, many of them fall short in integrating institutional-level variables, addressing bank heterogeneity, and distinguishing between short-run and long-run dynamics gaps that future research could effectively explore.

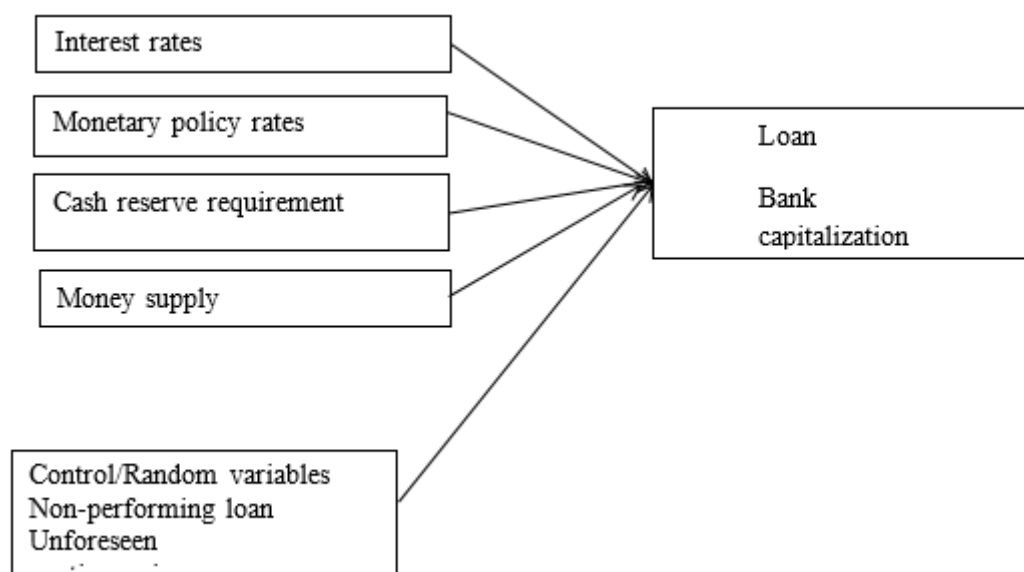


Figure 1: Conceptual Framework: **Source:** Researcher's Conceptualization (2024).

Based on the review of the previous studies, the model below is generated. The model illustrates the proposed framework that serves as the basis for this study. This focus on the links among the independent variable (monetary policy) through its instrument which is interest rates, monetary policy rate, cash reserve requirement, money supply) towards the dependent variable, listed deposit money banks' lending ability (Loans) and the control/random variable is non-performing loan and unforeseen contingencies.

3.0 Methodology

This section outlines the methodological framework adopted to investigate the impact of monetary policy on the lending behaviour of deposit money banks in Nigeria. It details the research design, data sources, measurement of variables, and estimation techniques used to achieve the study's objectives.

3.1 Research Design

This study adopts an ex-post facto research design to examine the impact of monetary policy on the lending capacity of deposit money banks (DMBs) in Nigeria. Ex-post facto, meaning "after the fact," refers to research conducted using data from events that have already occurred, without manipulating the independent variables (Onwumere, 2009). This design is appropriate for investigating causal relationships where experimental control is not feasible.

3.2 Data Source

The study relies entirely on secondary data covering the period from 2012 to 2022. Data were sourced from official publications of the Central Bank of Nigeria (CBN), including the Statistical Bulletins, Monetary Policy Committee (MPC) Reports, and the annual financial statements of 22 listed deposit money banks. These 22 banks were selected based on the MPC report of December 31st, 2022, which classified them as the healthiest and most active banks in the Nigerian financial system.

3.3 Data Measurement

The study utilizes well-established indicators to measure each variable. Interest Rate (INTR) is measured as the annual average lending rate offered by banks to borrowers, expressed in percentage terms, as commonly adopted in monetary policy studies (Ajayi & Atanda, 2012). The Monetary Policy Rate (MPR), representing the Central Bank of Nigeria's benchmark interest rate, is measured in percentage and serves as the anchor rate for other interest rates in the economy (CBN, 2022). Cash Reserve Ratio (CRR), defined as the percentage of a bank's total deposits that must be held with the CBN, is also expressed in percentage and serves as a liquidity control mechanism (Sanusi, 2011). Money Supply (MS) is measured using the broad monetary aggregate M3, which includes currency in circulation, demand deposits, and other liquid assets, in line with conventional macroeconomic analyses (Omotor, 2008). Non-Performing Loans (NPL) are quantified as a percentage of total loan portfolios classified as impaired or in default, reflecting credit risk exposure (Ezeabasili et al., 2017). Finally, Bank Lending (BLEND)—the dependent variable—is measured by the total volume of loans and advances disbursed by deposit money banks, serving as an indicator of credit availability in the banking sector (Onafowokan & Lawal, 2016).

3.4 Estimation Techniques

To estimate the relationship between monetary policy variables and bank lending, the study employs the Pooled Ordinary Least Squares (POLS) estimation technique. POLS is selected because, when the assumptions of the Classical Linear Regression Model (CLRM) are met, it produces estimators that are Best Linear Unbiased Estimators (BLUE)—meaning they are efficient, consistent, and unbiased (Brooks, 2008; Petra, 2007). The robustness of this technique is supported by diagnostic tests such as multicollinearity, heteroscedasticity, and model specification tests. The following model is specified to achieve the objectives of this study:

$$BLA_{it} = \beta_0 + \beta_1 INTR_{it} + \beta_2 MPR_{it} + \beta_3 CRR_{it} + \beta_4 MS_{it} + \beta_5 NPL_{it} + \varepsilon_i \quad (1)$$

Where:

BLA= Bank lending ability proxy to loan and bank capitalization ratio.

INTR = Interest rate.

MPR = Monetary policy rate

CRR = Cash reserve requirement.

MS = Money supply.

NPL = Non-Performing Loans

β_0 =Regression intercept

$\beta_1, \beta_2, \beta_3, \beta_4$, and β_5 = Coefficient of the independent variables.

it = Subscript for time series and cross- section in the equation or short and long-term relations coefficients.

ϵ_i = Error term or contribution of variables not considered by the study.

4.0 Results and Discussion of the Findings

This section presents the empirical findings of the study and interprets their implications for understanding the impact of monetary policy on bank lending in Nigeria. It begins with descriptive statistics that summarize the distribution and variability of the dataset, followed by correlation analysis to explore the relationships between variables. Robustness tests are then conducted to validate the reliability of the regression model.

4.1 Descriptive Statistics

The descriptive statistics is presented in Table 1, where minimum, maximum, mean and standard deviation of the data for the variables used in the study are described.

Table 1: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Dev	N
BLA	0.0000	149.75	18.873	24.177	220
INTR	-3.6941	1.3840	-0.0174	0.5784	220
MPR	-3.3200	149.75	18.873	24.177	220
CRR	0.0000	47.230	7.7476	10.489	220
MS	0.0043	2.9300	1.4264	1.2892	220
NPL	-0.4703	140.820	8.2967	18.6030	220

Source: Descriptive statistics results using Stata 14.0, 2024.

Table 1 presents the descriptive statistics for the dependent and independent variables, showing notable variations across the dataset. Bank Lending Ability (BLA) has a mean of 18.87% with a wide dispersion (SD = 24.18), indicating significant variability among banks. Interest rates average -1.74%, suggesting a general decline, with a high standard deviation of 0.5784 indicating broad fluctuations. The Monetary Policy Rate (MPR) has the same mean and standard deviation as BLA, again reflecting wide dispersion. The Cash Reserve Requirement (CRR) averages 7.75% with a standard deviation of 10.49, implying data spread beyond the mean. Money Supply (MS) shows a mean of 1.43 and a lower SD of 1.29, indicating moderate variation. Lastly, Non-Performing Loans (NPL) average 8.30 with an SD of 18.60, suggesting some variability, although the summary mistakenly cites the mean as 140.82%, which contradicts earlier values, indicating a possible typographical error in the original text.

4.2 Correlation Analysis

The Pearson correlation analysis is used in this study to assess the impact of monetary policy instrument on bank lending ability on deposit money banks in Nigeria as shown on the correlation matrix below;

Table 2: Correlation Matrix

Variables	BLA	INTR	MPR	CRR	MS	NPL
BLA	1.0000					
INTR	0.0985*	1.0000				
	0.1455					
MPR	0.9998*	0.1098	1.0000			
	0.0000	0.1043				
CRR	0.4237*	-0.0874	0.4228	1.0000		
	0.0000	0.1963	0.0000			
MS	0.7774*	0.0362*	0.7767*	0.6436	1.0000	
	0.0000	0.5928	0.0000	0.0000		
NPL	0.4407*	0.0974	0.4407*	0.0782	0.3823*	1.0000
	0.0000	0.1499	0.0000	0.2482	0.0000	

Source: Correlation Matrix Result Using Stata, (2024)

Note: * = Significant at 1% (0.01) and ** = Significant at 5% (0.05)

Table 2 presents the correlation between monetary policy instruments and bank lending ability (BLA) of listed deposit money banks in Nigeria. The results show a positive but insignificant relationship between interest rate (INTR) and BLA, suggesting a mild upward effect. However, MPR, CRR, MS, and NPL all exhibit significant positive relationships with BLA, indicating that increases in these variables are associated with higher bank lending ability. Specifically, MPR shows a nearly perfect positive correlation (0.9998), while MS and NPL also display strong and significant positive correlations (0.7774 and 0.4407, respectively). Additionally, the correlation coefficients among the explanatory variables are generally below 0.8, indicating no serious multicollinearity, which is further validated by acceptable VIF and tolerance values. This confirms the appropriateness of the model specification used in the study.

4.3 Robustness Tests of the Variables

This subsection presents the results of diagnostic tests conducted to validate the reliability and robustness of the regression model. The tests assess issues such as multicollinearity, heteroscedasticity, and model specification. The outcomes guide the selection of the most appropriate estimation technique for accurate inference.

Table 3: Summary of Diagnostic Test Results

Test Description	Statistic	Value	p-value
Multicollinearity Test (VIF & Tolerance)	VIF	< 10	—
	Tolerance	> 0.1	—
Breusch-Pagan / Cook-Weisberg Test for Heteroscedasticity	$\chi^2(1)$	—	0.0000
Lagrangian Multiplier Test for Random Effects	chibar ² (01)	—	< 0.05

Source: Author's Computation Using Stata 14.0, 2024.

The diagnostic tests conducted in section 3 confirm the robustness of the regression model used in the study. The multicollinearity test shows that the correlation coefficients among the independent variables are all below 0.8, with VIF values less than 10 and tolerance values above 0.1, indicating no multicollinearity issues. However, the heteroscedasticity test reveals a p-value of 0.0000, indicating the presence of heteroscedasticity and thus a violation of the constant variance assumption of the classical linear regression model. To address this, both fixed and random effects regressions were conducted. The Hausman test result showed that the data did not satisfy its asymptotic assumptions, prompting the use of the Lagrangian Multiplier test. The result of this test led to the rejection of the null hypothesis, confirming that the random effects model is the more appropriate specification for the analysis.

4.4 Regression Results and Discussion

This subsection presents the outcome of the multiple regression analysis used to assess the influence of selected monetary policy variables on bank lending behavior in Nigeria. The analysis includes coefficients, t-statistics, p-values, and multicollinearity indicators (VIF/Tolerance) for each explanatory variable. The model's goodness-of-fit is evaluated using the R-squared and F-statistic, with interpretations provided below.

Table 3: Regression Results

VARIABLES	Coefficients	T-Statistics	T-Sig	VIF/Tolerance
Constant	0.2081	1.72	0.085	
INTR	0.0120	0.24	0.813	1.04/0.96
MPR	0.9964	9.89	0.000	2.74/0.36
CRR	-0.0063	-2.06	0.040	1.86/0.54
MS	-0.0216	-0.34	0.736	3.74/0.27
NPL	0.0011	0.80	0.424	1.30/0.77
R ²				0.7298
F- Stat.				40.37
P-sig				0.0000

Source: Author's Computation Using Stata 14.0, 2024.

The regression results show that the model is a good fit, with an R² of 0.7298 indicating that 73% of the variation in Bank Lending Ability (BLA) of listed deposit money banks in Nigeria is explained by interest rate (INTR), monetary policy rate (MPR), cash reserve ratio (CRR), money supply (MS), and non-performing loans (NPL). The overall F-statistic of 40.37 is significant at 1%, confirming the model's adequacy. Among the variables, only MPR has a significant positive impact on BLA, with a coefficient of 0.9964, indicating a strong direct relationship and leading to the rejection of its null hypothesis. INTR and NPL show positive but statistically insignificant effects on BLA, thus failing to reject their respective null hypotheses. CRR has a significant negative impact at the 10% level, implying that higher reserve requirements reduce lending ability, yet its null hypothesis is not rejected. MS shows a negative but insignificant effect on BLA, also resulting in a failure to reject its null hypothesis. Overall, MPR stands out as the most influential factor on bank lending among the variables studied.

4.5 Discussion of Findings

The findings of this study reveal that the monetary policy rate (MPR) significantly and positively affects the lending ability of deposit money banks in Nigeria, aligning with the conclusions of Hamilton et al. (2021), who found that policy rate adjustments influence bank behavior both in the short and long run. This result supports the anticipated income theory and suggests that, within the Nigerian context, banks may perceive MPR hikes as a signal of policy credibility and macroeconomic stability, prompting increased lending activities (Okoro et al., 2018). On the other hand, the significant negative impact of the cash reserve ratio (CRR) is consistent with the findings of Okoye et al. (2021) and Afolabi et al. (2018), who noted that higher reserve requirements reduce liquidity and limit banks' ability to extend credit. Although interest rate (INTR), money supply (MS), and non-performing loans (NPL) were not statistically significant, their directional coefficients mirror those reported by Lateef et al. (2020) and Topbie et al. (2022), indicating potential long-run relevance or interaction effects not captured in this model. The positive but insignificant effect of NPL may reflect short-term tolerance by banks toward credit risk, particularly in a regulated environment where risk-weighted assets are closely monitored (Ezeabasili et al., 2017). Overall, the results underscore the importance of dynamic and well-coordinated monetary policy in influencing credit supply and supporting financial intermediation in emerging economies like Nigeria, as also emphasized by Omotor (2008) and Ajayi and Atanda (2012).

5.0 Conclusion and Recommendations

In conclusion, this study examined the effect of monetary policy on the lending ability of deposit money banks (DMBs) in Nigeria, using annual panel data from 22 listed banks between 2012 and 2022. The findings indicate that monetary policy tools have varying degrees of influence on bank lending behavior. The monetary policy rate (MPR) exhibited a strong positive and statistically significant impact, suggesting that MPR adjustments are a powerful determinant of credit expansion. Conversely, the cash reserve ratio (CRR) showed a significant negative relationship, indicating that higher reserve requirements restrict banks' capacity to lend. Other variables such as interest rate (INTR), money supply (MS), and non-performing loans (NPL) had statistically insignificant effects, although their coefficients were theoretically consistent in direction. The study concludes that effective monetary policy—particularly through MPR and CRR—plays a pivotal role in enhancing or constraining bank lending in Nigeria. As such recommend that;

In line with the empirical findings, the following recommendations are proposed:

- i. The Central Bank of Nigeria (CBN) should continue to manage the MPR in a stable and transparent manner to improve planning and encourage credit expansion by banks.
- ii. It is recommended that the CBN consider lowering the CRR, especially during periods of economic contraction, to free up more loanable funds and stimulate lending to the private sector.



- iii. Deposit money banks should not rely solely on interest adjustments to influence lending. Instead, lending decisions should be based on borrower creditworthiness and broader macroeconomic indicators.
- iv. The CBN should exercise caution in expanding the money supply without ensuring that it translates into productive credit. A more targeted liquidity injection strategy is needed to avoid financial distortions and inflationary pressures.
- v. A balanced monetary policy framework is required one that aligns reserve requirements, interest rate policy, and liquidity management to support the credit delivery role of banks without compromising financial system stability.

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