

Monetary Policy and Profitability of Nigerian Deposit Money Banks

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Abstract

This study explored the impact of monetary policy on the profitability of Nigerian deposit money institutions. In this study, an expo-facto research design was used. 13 DMBs listed on the Nigeria Exchange Group from 2014 to 2021 made up the study's sample. Purposive sampling was used to choose the sample size of 10 banks. Data was gathered from secondary sources using the banks' publicly available financial filings. Both descriptive and inferential statistics were used to analyze the data. The investigation's findings demonstrated that though EXR had a substantial adverse impact on PBT, CRR and MS had a considerable favorable impact. The outcome also showed a favorable and substantial correlation between CIR and LIQ. The study came to the conclusion that banks' PBT and CIR rise when financial instruments are introduced. Therefore, it was advised that bank management develop policies to support their financial objectives and maintain optimal liquidity, which will prevent idle cash or bank cash out. The Central Bank should also establish a CRR to promote the expansion of credit and money supply, which will increase the profit

Keywords: Monetary policy, Cash Reserve Requirement, Interest Rate, Exchange Rate, Liquidity.

1. Introduction

The Central Bank of Nigeria (CBN) makes careful efforts as part of monetary policy to manage the money supply in order to achieve specific financial goals. Because they play so many different functions, the contribution of Nigeria's deposit money banks to development processes cannot be overstated (Ayodele, 2014). Fiscal tactics like monetary policy mechanisms have been argued to be effective means of regulation that have a tendency to influence the financial condition of banks in conventional and monetarist views. The Central Bank of Nigeria (CBN) believes that via monetary policy, it will be possible to safely guarantee the financial health of deposit and money institutions (Akomolafe et al., 2015). Inappropriate financing distribution to production industries is still a problem, and this raises concerns about the extent to which fiscal instruments might affect how bank credit flows into the Nigerian economy. The Central Bank of Nigeria uses tools of financial regulation such the cash reserve requirement, money supply, exchange rate, interest rate, and liquidity to influence the security of deposit money banks' assets and ensure consistency of their performance. However, the results of these financial execution tools in Nigeria have been inconsistent (Ifurueze, 2022).

Over the years, there has been ample discussion on how much money affects

economic and financial developments. It is also widely understood that fiscal regulation affects how every economy is run. Divergent opinions exist on the severity of the effects and the routes by which they are realized (Bala et al., 2022). This is particularly important in Nigeria because the country's securities markets are underdeveloped and because the government has used a variety of fiscal management tools over the years to regulate and monitor the price, volume, availability, and circulation of cash credit alongside the appearance of deposit money banks (Ndugbu & Okere, 2015).

Studies on the impact of financial regulation on profitability as evaluated by return on asset and net interest margin undertaken by Ugwu et al. in 2020 and Mulwa in 2015, respectively, indicated an insignificant connection among the variables. Although the studies only utilized three variables to illustrate monetary policy, this study employed five variables to do so. Studies on the influence of monetary regulation on profitability as a metric of listed companies' economic success in Nigeria and Kenya by Bala et al. in 2022, Ademola et al. in 2022, and Abonyo in 2020 establish real effects on banks' return on assets. The latest study's data coverage spans to the year 2021, making it more current and up-to-date than previous studies, whose data collection lasted until 2019. The return on asset was overemphasized in earlier research as a performance proxy as if it were the only metric that could be used to gauge profitability.

Ifurueze, (2022) established the short- and long-term relationships among financial policy instruments alongside quoted insurance companies' economic expansion in Nigeria determined by the sector's contributions to the GDP and came to the conclusion that the explanatory variables had only a short-term impact on the firms' economic growth. Profit before tax was utilized as an indicator of profit in the Akomolafe *et al.* 2015 investigation into fiscal policy and banks' achievement in Nigeria; however different proxies for independent variables were used than in this study and their work focused on insurance sector while this study used banking industry. This study is being conducted with a purpose to fill the vacuum left by these studies. Previous studies solely looked at return on assets as an indicator of profitability, ignoring other indicators such as cost to income ratio and profit before tax, which are the subject of this study. The data used for this study ranged from 2014 to 2021, making it more recent and up-to-date than data from earlier studies

2. Literature Review

2.1 Conceptual Review

2.1.1 Profit Before Tax (PBT)

Profit before tax is a metric that looks at how much money a corporation makes before having to pay its earnings tax. In essence, it is the entire amount of a company's profits before any taxes. Profit before tax includes all profits that a company makes, whether they come from current operations or non-operating activities. Pre-tax profit or earnings before tax (EBT) are other names for it. Operating earnings less interest is what the revenue statement refers to as profit before taxes. The PBT computation was developed to account for the fluctuating tax expense. It gives both investors and owners a clear picture of the quantity of income a business is bringing in.

2.1.2 Cost Income Ratio (CIR)

The ratio of costs to revenues represents a single amongst the efficiency metrics designed to analyze the performance of a certain entity. It is employed to assess how a bank's operating expenses stack up against its income. A reduced proportion of expenses to income improves the corporation's performance. The cost to revenue ratio is often used to measure banks success. It demonstrates how well a bank is run. A lower ratio is preferred because it points out that banks are making more money during operations. Indirect links exist between the

cost-to-income ratio and the bank's profitability. Operating costs are divided by operating income; this determines CIR and includes other revenue as well as the net profit from interest.

2.1.3 Cash Reserve Ratio (CRR)

Cash reserve ratio, according to Ude (2015), is the proportion of total deposit obligations that DMBs alongside other monetary institutions must have on hand to satisfy CBN cash regulation. Again, in accordance with Otalú et al, 2014, banks are obligated to hold mandatory funds reserves approved by the CBN. To assist in restoring the banks' liquidity, this cash ratio was developed, thus, it places a cap on the quantity of financial services that DMBs are allowed to offer. Banks are impacted by CRR changes, ROA is affected anytime the CRR is raised. Spreads between loan and deposit rates increase when financial intermediation costs rise. It is expected that if the CBN strengthens the velocity of exchange among banks, this rate will go up and rates for deposits will decrease because the steady interbank rate frequently varies amongst the rates of deposits and loans (Glocker & Towbin, 2012). Variations in the rates of borrowing and deposit have influenced the bank's spread and subsequently its return on assets.

2.1.3 Money Supply (MS)

The stock of money is the entire quantity of cash alongside other liquid assets that exist in a financial system on a specific date. The total amounts of currency in circulation as well as any bank resources which might be quickly converted into cash are both included in the money supply. It is also acknowledged as collective safe assets that people, relationships, and businesses may use to make transactions or maintain as momentary investments. M1 is the total comprising the public's cash as well as transaction money at deposit-taking institutions (both monetary institutions that primarily obtain their funding from the general populace by means of savings, such as commercial banks, savings banks, credit unions, and savings account and loan organizations, whereas M2 is the sum of all of the public's cash along with small-denomination short-term savings (those held for less than one year) at deposit-taking institutions (those held for less than one year).

2.1.4 Interest Rate (INTR)

The Central Bank lends money to sound DMBs at the rate determined by monetary policy (MPR), which is a highly advantageous interest rate. The MPR has a unswerving result on the magnitude and quality of finance, the accessibility of savings account this ultimately has an impact on the presence of reserves and the economy as a whole aggregate, the presence of financial assets which has an impact upon job creation and GDP and availability of reserves. It also determines the nominal anchor rate for financial market's interest rate regime. Credit and advance profitability increase as interest rates rise because the gap between the federal funds rate and the fee the bank charges its customers expand. A rise in interest rates directly raises cash yield, and the money earned goes to improve asset returns.

2.1.5 Liquidity Ratio (LIQD)

Olweny and Chiluwe (2012) defined the ratio for liquidity as the ratio of overall savings that are required to be held in particular liquid securities as a prerequisite for monetary organization to be capable of meeting depositors' demands for cash withdrawals and preserve client trust in the financial sector. It is well known that LR is utilized to change the quantity of cash that commercial banks have access to. Academics claim that the main objective of banks' mandatory reserve proportions is to flog government securities. Consequently, According to Otalú *et al*, 2014, it intends to guide borrowing from banks to the public sector.

2.1.6 Exchange Rate (EXR)

The overall number of payments, which may be excessive or insufficient, directly affects

both the supply and the value of money. Using the real conversion rate and the balance of payments, CBN regulates the overall exchange rate by trading in and out of foreign currency while keeping it at proportions that are not detrimental to the country's money supply. The real currency exchange rate has influence on the current account surplus or shortage when it is out of alignment because of its effect on competitors (Imoisi *et al*, 2013).

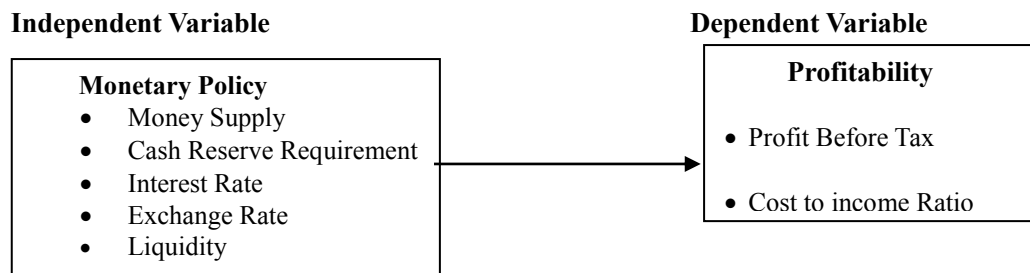


Figure 2.1: Conceptual Framework showing interaction between monetary policy and profitability

2.2 Theoretical Framework

2.2.1 Quantity Theory of Money

The quantity theory of money is the foundation of this topic. The quantity theory of money, developed by Nicolaus Copernicus in 1517, is the school of thought related to economics and finance that is most widely recognized. The theory was applied as a component of a more comprehensive approach to micro and macro matters known as classical economics from the writings of Irving Fisher, whose equation of exchange served as the basis for the quantity theory of money (Ibeabuchi, 2007). Money has no impact on the economic aggregate, according to Anyanwu (1993), just pricing. The theory was used by classical economics to determine the level of overall prices. As proposed by Amacher & Ulbrich (1986), the majority of scholars held that the amount of money drives overall demand, which subsequently in turn determined the price level. According to Onouorah *et al*, 2011, the quantity theory of money represents a specific viewpoint on the market mechanism of the private economy and the function of the government. It also discusses the impact of money on the economy along with how a central bank ought to regulate the amount of cash in circulation.

Additionally, Punita and Somaiyi (2006) noted that the optimum framework for obtaining both economic and social intended outcomes was offered by private market entities such as deposit money institutions. The ideology held that the function of government was to establish a legal system, provide safety to safeguard private property, and maintain a steady fiscal and monetary structure. According to Soludo (2007), central banks undertake monetary policy to manage the flow of cash via banks, which are seen as the private market sector that mobilizes the most money in each economy. This is because central banks accept the premise that cash impacts the economy. According to Onyemaechi (2005), the Great recession's impact on perceptions toward the use of money and monetary regulation as a tool for economic stabilization was profound. The trust in a self-regulating market that produced socially desirable results was undermined, and monetary policy came to be seen as an inadequate means of combating recessions.

2.3 Empirical Review

Punita and Somaiya (2006) offered some different evidence indicating that lending rate has substantial as well as beneficial outcome on the profits of banks, confirming that a

fall in lending rates would lower the profit margin of banks. They observed the effect of monetary regulation changes on profits for banks throughout India between 1995 and 2000. The bank's interest rate, cash buffer ratio, and mandatory ratio were also discovered having a negative impact on banks' profits. Amidu and Wolfe (2008) examined the impact of monetary regulations on loans from banks in Ghana. The outcome of the work showed that the lending practices of Ghanaian banks were significantly both modifications to the money supply and the nation's economic support. Additionally, their findings support past research that demonstrates how CBN's prime rate and inflation rate have a detrimental consequence on bank lending.

Nguyen *et al* (2017) reviewed the monetary policy performance of Vietnam's commercial banks. Information was acquired from 20 commercial banks that were active in the Vietnamese banking industry between 2007 and 2014. For the regression, panel data were used. The required reserve ratio (RRR), discount rate (DIS), and monetary base (MB) were substituted for monetary policy. Profit before tax served as a benchmark for commercial banks' performance. The findings demonstrated a favorable correlation between bank earnings and monetary regulation

Mbabazize *et al* (2020) Employing Researchers looked at the impact of monetary regulation on the monetary health of commercial banking institutions in Uganda using an annually updated data spanning 2010 through 2018. Using the System Generalized Method of Moments (GMM) method, the research findings showed that the cost of loans has significant beneficial effects on banks profit but the effect of inflation on the banks' performance is adverse.

Ademola *et al* (2022) studied the performance of 20 DMBs in Nigeria in regard to monetary policy from 2014 to 2019. As monetary policy indicators, used are minimal discount rate, liquidity metric, and money reserve requirement. An indicator of performance is return on asset. They found that the minimal discount rate, cash reserve needs, and return on asset had a substantial but unfavorable relationship using descriptive and inferential statistics. The analysis demonstrates that while monetary policy has a significant impact on Nigeria's DMB performance, the amount of liquidity shows a significant positive impact on return on assets.

Bala *et al* (2022) studied the connection between Performance and monetary policy of Nigeria's listed deposit money banks from 1988 to 2019. They used the liquidity rate, interest rate, and bank lending rate as variables to characterize monetary policy, using bank loans and advances as banks success metrics. The Autoregressive Distributed Lag (ARDL) method was used to investigate the short- and long-term effects of monetary policy on performance. The results of the study demonstrated that bank borrowing rates had significantly and favourably affected bank loans and advances over both the long and short terms. Liquidity alone had a large short-term impact, despite the fact that interest rates on bank loans and advances had a positive long-term effect.

Ejem and Ogbonna (2020) examined how banks that accepted deposits responded to changes in Nigeria's financial regulations. The study was conducted from 1998 till 2018. The primary takeaways from the work is that cash reserve ratio has a detrimental and substantial impact on banks' success in Nigeria, but other aspects of financial regulation seem to have a negligible effect. In addition, it was found that financial institutions respond unfavorably to disruptions from important monetary policy mechanisms alongside of their own shock. The findings demonstrated that the monetary policy rate has an impact on both the long-term and short-term growth of banks. The saving deposit rate, liquidity ratio, and proportion of cash reserve have minimal short-term effects but have significant implications for the future. Furthermore, it was found that unified fiscal policy measures in Nigeria had a stronger short-

and long-term influence on efficiency of banks compared to distinct instruments.

Osho and Adelalu (2020) spent 15 years (2005–2019) researching the relationship involving Nigeria's listed deposit-taking bank operations and the country's monetary policies. Collective and separate effect of financial policy parameters on ROA were evaluated using the currency exchange level, proportion of monetary policy and maximum bank interest rate. In line with the outcome of the study, the dependent variable and the exogenous factors are strongly and positively correlated. Therefore, as shown by explained factor, these explanatory variables have a major influence on the financial success of deposit money institutions in Nigeria.

3. Methodology

Ex-post facto research design was used in the study to accomplish the stated goal. Information was gathered from public annual reports of the banks under consideration as secondary sources. All deposit money banks that were listed on the Nigerian Exchange Group between 2014 and 2021 made up the population. Because the ten (10) specified banks had complete financial data during the study's time frame, these institutions' samples were purposefully chosen. Multiple regressions and descriptive statistics were used in the data analysis process.

3.1 Specification of Model

The following model specification was created in accordance with a study by Akomolafe *et al.* (2015) on the financial instruments and profitability of a few insurance companies in Nigeria.

$$LPRO_t = \beta_0 + \beta_1 INT_t + \beta_2 LMS_t + \beta_3 LCA_t + \beta_4 LME_t + \mu_t$$

However, the model was modified in line with the objective of this study with inclusion of exchange rate, cash reserve requirement and liquidity and the model was then expressed as

$$PBT_{it} = \beta_0 + \beta_1 MS_{it} + \beta_2 CRR_{it} + \beta_3 INTR_{it} + \beta_4 EXR_{it} + \beta_5 LIQD_{it} + \varepsilon_{it} \quad (i)$$

$$CIR_{it} = \beta_0 - \beta_1 MS_{it} - \beta_2 CRR_{it} - \beta_3 INTR_{it} - \beta_4 EXR_{it} - \beta_5 LIQD_{it} - \varepsilon_{it} \quad (ii)$$

Where:

PBT_{it} = Profit Before Tax (Log of PBT)

CIR_{it} = Cost to Income Ratio ($\frac{\text{Operating expenses}}{\text{Operating Income}}$)

MS = Money Supply (log of money supply)

CRR = Cash Reserve Ratio (log of cash reserve)

INTR = Interest Rate (log of interest rate)

EXR = Exchange Rate (log of exchange rate)

LIQD = Liquidity ($\frac{\text{Current Assets}}{\text{Current Liabilities}}$)

Subscript i = banks

Firms Subscript t = Year ranging from 2014 to 2021

$\beta_1 - \beta_5$ = Unknown Coefficient of Estimates

μ_{it} = Error term

β_0 = Parameter to be estimated

A priori Expectation

$\beta_1, \beta_2, \beta_3, \beta_4$ and $\beta_5 > 0$

$\beta_1, \beta_2, \beta_3, \beta_4$ and $\beta_5 < 0$

4. Data Analyses and Discussion of Findings

4.1 Descriptive Statistics

According to the descriptive statistics in Table 1, the average cost-to-income ratio for banks is 0.7162, or almost 72%, which is high and may be harmful to banks' performance. While the average CRR, MS, LIQ, INT, and EXR rate are 6.5799, 4,4127, 5,8509, 1.9993, and 2.4102 respectively, the profitability average was 0.6512. The Jarque-Bera of the variables demonstrated the data's normality and goodness of fit. Nearly all of the variables have the JB and are normally distributed ($p\text{-value} > 0.05$). All the variables, with the exception of liquidity, are moderately skewed. Some are positively skewed while some are negatively skewed. The kurtosis value of the variables is platykurtic in nature since their values are less than 3 except for liquidity that is leptokurtic.

Table 1: Descriptive Statistics

	CIR	PBT	CRR	MS	LIQD	INT	EXR
Mean	0.7162	0.6516	6.5799	4.4127	5.8509	1.1993	2.4102
Median	1.0522	0.3564	5.9552	4.4564	1.1327	1.2233	2.4857
Maximum	1.3046	0.8041	9.0288	4.6055	281.77	1.2861	2.6384
Minimum	0.1386	0.3384	4.2894	4.1904	0.4363	1.0627	2.1966
Std. Dev.	1.7821	1.4977	1.3418	0.1287	29.264	0.0663	0.1554
Skewness	0.4274	0.3395	0.4626	-0.1086	8.6945	-1.0551	-0.2004
Kurtosis	1.9600	1.6538	1.7440	1.8074	81.615	2.9242	1.5682
Jarque-Bera	9.6123	9.4192	10.039	6.0609	26.741	18.393	9.1190
Probability	0.5792	0.0906	0.6607	0.4829	0.0000	0.0101	0.1467
Sum	559.51	559.51	651.41	436.86	579.24	118.73	238.61
Sum Sq. Dev.	219.84	219.84	176.45	1.6245	83.929	0.4317	2.3692
Observations	80	80	80	80	80	80	80

Source: Authors' Computation (2023)

4.2 Correlation Matrix

The correlation test is employed in this study to ascertain the degree to which all the variables are connected with one another. Additionally, the test is employed to determine whether the variables of interest are correlated. This is due to the potential for analytical collinearity to skew the true picture of the link between the explained and explanatory components. This is necessary to provide a fuller picture as opposed to when the variables that are autonomous are each singly regressed against performance. As a result, Table 2 shows the values of the correlation coefficients amongst the variables. In a nutshell, because there is a weak and negative correlation between both, as the cash reserve ratio increases the cost to income ratio decreases. Both the MS and ER show a negative. Therefore, a rise in the cash supply and currency exchange ratio should result in a decrease in the cost to income ratio. The relationship between CR and CIR was weakly but significantly positive. While interest and PBT have large but negative relationships, CRR and MS also have marginally positive relationships with PBT. There are beneficial and significant connections between MS, ER, and CRR

Table 2: Correlation Matrix

Probability	CIR	PBT	CRR	MS	INT	ER	CR
CIR	1.0000						
PBT	0.0150	1.0000					
CRR	-0.0708	0.4772	1.0000				
MS	-0.1795	0.0770	0.1988	1.0000			
INT	0.0591	-0.0570	-0.1531	-0.6666	1.0000		
ER	-0.2152	0.0701	0.1603	0.5362	-0.5434	1.0000	
CR		-0.1149	-0.0771	0.2285	-0.2746	0.1963	1.0000

Source: Authors' Computation (2023)

4.3 Monetary Policy and PBT of quoted DMBS in Nigeria

In Table 3, the results of the redundant fixed and Hausman tests showed that the most suitable estimation panel was fixed effect. The outcome demonstrates that monetary policy has a major impact on the financial health of money deposit institutions. R^2 showed that the explanatory variable explained 92% of the variation in the value of the dependent variable. Factors unrelated to the model account for 8% of the variation. With a p-value of 0.5, F-Statistics indicates a strong fit, and a value of 1.6953 for Durbin Watson's, the model is demonstrated to be autocorrelation-free. PBT was positively impacted by CRR ($t=3.3088$, $p<0.05$), which suggests that PBT rises as cash reserve requirements rise. With each additional unit of CRR, PBT's worth will increase by 15%. Considering the likelihood of 0.05, there is a significant but unfavorable link between EXR and PBT ($t=-2.4373$, $p<0.05$). This demonstrates that PBT decreases when the exchange rate increases. Additionally, the outcomes showed that MS raises banks PBT ($t= 2.3747$, $p<0.05$). Banks' profit before tax rises in direct proportion to the volume of cash in circulation.

Table 3: Regression Result of Monetary Policy and PBT

Variables	Pooled		Fixed Effect		Random Effect	
	Coeff.	T-Stat	Coeff.	T-Stat	Coeff.	T-Stat
C			-0.5771	-0.2385	-2.0620	-0.8493
CRR	-0.0385	15.543*	0.1524	3.3088*	0.5669	5.1927*
LIQD	0.9436	-0.1327	-0.0263	-0.2146	-0.0652	-0.4895
INT	0.0194	-0.4208	-0.2624	-0.4731	-0.1266	-0.2125**
EXR	-0.5114	-0.0093	-1.1852	-2.4373**	-1.1827	-2.1892
MS	-0.1113	0.0212	1.4558	2.3747**	1.5817	2.3587**
R^2	0.72		0.92		0.40	
Adjusted R^2	0.70		0.90		0.37	
F-Statistic			70.150		12.691	
F-Stat. (Prob)			0.0000		0.0000	
Durbin-Watson stat	1.9043		1.6953		1.5471	
Breusch Pagan Test			23.3244	0.0000		
Hausman Test			10.0537	0.0143		

Source: Authors' computation (2023)

MONETARY POLICY AND COST TO INCOME RATIO OF NIGERIAN DMBS

As Depicted In Table 4, The Two Tests Involving Hausman And Redundant Favoured Random Effect As The Most Suitable Estimator. The Outcome Of The Regression Reveals That The Cost Revenue Ratio Of Sampled Institutions Was Significantly Impacted By Financial Policy. The Connection Amid The

Explained And Explanatory Variables Was Described Using The Random Statistic Panel, Which Was Deemed Adequate. The Explanatory Variable, According To R^2 , Explained 57% Of Changes In The Bank Cost Income Ratio. The Remaining 43% Are Accounted For By Non-Model Related Factors. Strong Fit Is Indicated By F-Statistics With A P-Val. > 0.05 , And The Durbin Watson's Value Of 1.5446 Reveals That There Is No Problem Of Correlation. Only Liquidity Out Of All The Indexes Of Monetary Regulation Had A Optimistic Impact On Cost To Income Ratio ($T=2.7619$, $P<0.05$); This Suggests That As Bank Liquidity Rises, Cir Also Rises Automatically. The Cost Income Ratio Will Rise By 2% For Every 1% Increase In Bank Liquidity.

Table 4: Regression Result of Monetary Policy and Cost to Income Ratio of Nigerian DMBs

Variables	Pooled		Fixed Effect		Random Effect	
	Coeff.	T-Stat	Coeff.	T-Stat	Coeff.	T-Stat
C			2.0630	1.6853	2.4924	1.9722
CRR	-1.4110	-0.2781	-1.5600	-0.8193	6.1210	1.0697
LIQD	0.2607	0.7109	0.2020	4.2718*	0.0238	2.7619*
INT	0.0548	2.8047	-0.0362	-0.9208	-0.0458	-1.0762
EXR	-0.0381	-0.9865	-0.3267	-1.0658	-0.0039	-1.0346
MS	3.5105	0.8019	7.5806	0.4927	1.2106	0.0410
R^2	0.4900		0.6990		0.5720	
Adjusted R^2	0.4301		0.6342		0.5347	
F-Statistic			2.7774		1.2055	
F-Stat. (Prob)			0.00000		0.0000	
Durbin-Watson stat	1.9770		1.5106		1.5446	
Breusch Pagan Test					14.337	0.1108
Hausman Test					12.432	0.4520

Source: Authors' computation (2023)

DISCUSSION OF FINDINGS

According to the findings of this study, CRR and MS have significant and favorable effects on sampled banks' PBT, which suggests that an increase in CRR and MS will result in an increase in PBT. This may be explained by the fact that, despite the government's adoption of contractionary monetary policies a type of monetary regulation meant to slow down the rate of monetary expansion and the amount of cash available to banks for trading; banks are still able to manage the resources at their disposal and invest their depositors' money in a variety of short and long term investment vehicles, particularly loans and advances. Because of this, the more loans and advances they provide to borrowers, the more gain they made. The inverse relationship between EXR and PBT further suggests that rising EXR will increase the bank's foreign debt and deter customers from making on-time loan payments, both of which will eventually result in lower earnings from loans.

The outcome also demonstrated that a boost in bank liquidity will result in a rise in CIR. This suggests that holding too much cash may result in considerable costs for banks, which would affect their profitability because the greater the CIR, the lower the profitability of banks. This research supports studies by Osho & Adelalu, Oladele et al., 2017, Eke et al.,

2017, and others that uncovered the beneficial effect of monetary regulations on performance but refutes studies by Ademola et al., 2022, and Punita & Somaiya, 2006 that found an adverse association between fiscal regulation and achievements.

CONCLUSION AND RECOMMENDATIONS

With an emphasis on profitability assessed by earnings before tax and cost-to-income, the study offered empirical proof of how monetary policy had influenced the financial success of 10 DMBs in Nigeria. The ratio of expenses to revenues and earnings before taxes are both found to be favorably shaped by monetary policy. Therefore, it is advised that bank management develop policies to support their financial strategies and maintain optimal liquidity, which will prevent idle cash or bank cash out. The Central Bank should also establish a CRR to promote increased money supply and credit, both of which will increase the profitability of DMBs.

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