A CRITICAL APPRAISAL OF THE EFFECTS OF MONETARY POLICY ON COMMERCIAL BANKS IN NIGERIA

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ABSTRACT

Governments the world over due to the failure of Adam Smith's "invisible hand" to regulate economic activity in a manner that will achieve certain desired goals such as low inflation, full employment, balance of payment equilibrum and equitable income distribution have had cause to deliberately attempt to influence the course of economic activity through several policy options. a number of such options are categorised as Monetary Policy and are geared towards influencing the quantity, cost and direction of money supply in the economy.

This study is focused on the influence of various policy measures on commercial banks. The importance of banking institutions to the realisation of Monetary Policy objectives is best appreciated when it is realised that they are in the main, channel through which policy measures are made to bear on the real sector of the economy.

An understanding of the evaluation of the Nigerian Banking System as a component of the Financial System is therefore imperative as background knowledge on which this study is premised. This we attempted in Chapter One.

The Nigerian Banking System is part of the country's colonial heritage which over the years has undergone certain changes to suit indigenous purposes. However, available literature still point to problems of inadequate financing of certain key sectors vital to economic development and self reliance. There are also problems resulting from the underdeveloped stage of the Financial System as a whole which has proved to be a hindrance to the achievement of both internal and external economic balance. The banks have not really lived up to expectations and so gaps exist in the network as can be recognised from the fact quite a large percentage of the country's money supply is outside the banking system. This therefore, results in poor savings and in addition, the mechanism for channeling it into investment is faulty.

Chapter Two examines the role of the Central Bank of Nigeria as the body charged with Monetary Policy formulation and implementation and its effects on the business environment of banks. Here, the relationship between the macroeconomic goals such as full employment, low inflation, economic growth and balance of payment equillibrum and the activities of the banks and the manner in which major instruments of Monetary Policy namely: Reserve