MONETARY POLICY AND PERFORMANCE OF THE NIGERIAN BANKING SECTOR

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ABSTRACT

This study examined the impact of monetary policy on bank credits to the Nigerian economy from 1981-2013. Data were obtained from the Central Bank of Nigeria records. A three variable unrestricted VAR(1) model involving banks’ total credit to the economy, money supply and monetary policy rate was estimated. Pre-estimation results show all the variables to be integrated at first difference, I(1) but were not cointegrated. Further results show that money supply has an instantaneous influence on both monetary policy rate and banks’ credit to the economy. Other results show that the direction of the reaction of money supply to a standard deviation structural monetary policy shock is not certain; money supply and banks’ credit to the economy responded negatively to structural shocks in monetary policy rate; banks’ credit to the economy responded positively to nominal structural shocks and; whereas money supply and banks credit to the economy responds positively to banking sector’s reforms monetary policy rate’s response is negative. The study concluded that short-run monetary policy in Nigeria is important in controlling interest rates and credit to the economy. It was therefore recommended that efforts should be geared towards strong banking sector reforms.

Keywords: Banking, Innovations, Money, Policy, Nigeria, Shocks