EFFECT OF MONETARY AND FISCAL POLICY ON THE PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

BY

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MATRIC NO: 16020101015

A LONG ESSAY SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, MOUNTAIN TOP UNIVERSITY, IN PARTIAL FULFILMENT FOR THE REQUIREMENTS FOR THE DEGREE OF BACHELOR OF SCIENCE (B.Sc. HONS)

OCTOBER, 2020

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Dedication

I dedicate this project to God Almighty and my family for the support they have given me so far.

Certification

This is to certify that this research project was carried out by **SOWUNMI EMMANUEL OLUWAJOMILOJU** at the Department of Accounting & Finance, Mountain Top University Ogun State, Nigeria under my supervision.

Sowunmi Emmanuel O _____

Signature & Date

Mr. Olurin Enitan _____

Supervisor Signature & Date

Dr J. O. Omokehinde _____

Head of Department Signature & Date

Abstract

Deposit Money Banks are very important in an economy as they mobilize savings for productive investments and facilitating capital flows to various sectors in the economy, thus stimulating investments and increase productivity. The operations of Deposit Money Banks are guided by monetary policy actions under the Central Bank of Nigeria directives. The purpose of this study was to investigate the effect of monetary and fiscal policies on the performance of Deposit Money Banks in Nigeria. Deposit Money Banks are profit-motivated institutions and their response to monetary and fiscal policies largely influences their profit margins. The study analyzed the response of five deposit money bank's performance to monetary and fiscal policies concerning their performance from 2009 to 2018. Deposit rate (DR), foreign exchange rate (FEXR), Money supply (MS), Annual budget (AB) are used as proxies for monetary and fiscal policies. Return on Asset (ROA) is used to represent deposit money banks' performance. The study employed ex post facto research design. The study focused on five deposit money banks selected at random. The study made use of secondary data extracted from the Central Bank Statistical Bulletins. Regression and correlation analysis was conducted to study the relationship between monetary, fiscal policies, and performance of the deposit money banks. The findings of the study showed that that none of the monetary and fiscal policy instruments have a statistically significant impact on the return of average assets which proxy for the bank's performance. The study recommended that Central Bank of Nigeria should broaden their horizon in the use of enhanced monetary policies that will go a long way to stimulate the real sector growth which will have an impact on the financial sector growth coupled with the methodologies employed by Central bank of Nigeria in forecasting inflation need to be made more dynamic to take into cognizance the recent dynamic nature of the economy.

Keywords: *Deposit money bank, financial performance, fiscal policy, monetary policy*

List of Abbreviations

CBN - Central Bank of Nigeria

MPR - Monetary Policy Rate

ROA - Return on Assets

DMB - Deposit Money Bank

IMF - International Monetary Fund

OMO - Open market operations

DR - Deposit Rate

AB - Annual Budget

MS - Money Supply

FEXR - Foreign Exchange Rate

ANOVA - Analysis of Variance

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Commercial Banks now referred to as Deposit Money Banks (DMBs) are financial institutions Approved to accept deposits and to make loans. DMBs carry out the following primary functions: acceptance of deposit from customers; granting of loans and overdraft to customers, transfer of customer's fund on instructions; educational loan schemes; provision of foreign exchange facilities; financing SME's; housing finance, etc. The secondary functions that DMBs perform are; discounting bills of exchange (it is a facility that allows holders of a trade bill to get bills discounted with the bank before maturity and agency function that is performed with some commission. Some of these agency functions are; transfer of funds, collection, and payment of various items; purchase, and sale of foreign exchange; purchase, and sale of securities; income tax consultancy; trusteeship and executorship and issuance of letters of reference. DMBs also perform some general utility functions such as overnight safe facility, traveller's cheques issuance and letter of credit issuance (Central Bank of Nigeria, 2017).

The role of the banking industry in the economic development of a nation cannot be overemphasized as they act as the main factors of growth and economic progress. The unwavering economic depression and financial distress in the world today elaborates on the relevance of this sector in the productivity of the economy. It is important to remember that the banking sector is one means of enforcing the government's monetary and fiscal policy. Banks are governed by national or central banks in most countries.

The Government is pursuing a monetary policy for efficient monetary regulation, the actions of the Central Bank of Nigeria (CBN) in the pursuit of the basic objectives of sustainable output efficiency, pricing volatility and a stable balancing role, by influencing the quality and costs of the lending (Michael & Ebibai, 2014). CBN maintains a minimum Loan to Deposit Ratio (LDR) of 60% which took effect from September 30, 2019, and the weight of 150% in the computation of LDR is to be assigned to Retail, Mortgage, SMEs, and Consumers in the encouragement of their lending. These measures were taken to upgrade the growth of Nigeria through investment in the real sector. However, these measures attracted a penalty, this inability to comply with the

above criteria would result in an extra Cash Reserve Requirement (CRR) equal to 50% of the lending shortfall of the target LDR. These requirements could have either positive or negative effects on DMBs' performance in general. The central bank may follow either an expansive or a strategy of contraction based on the macroeconomic conditions. For example, when an economy is showing clear signs of rising overall price levels (inflationary tendency), using monetary policy instruments, the CBN will lower the level of the supply of capital. When this happens, it is presumed that a contractionary monetary policy would be implemented by the central bank. Conversely, the economy may experience a deflationary trend, which is a prolonged decline in the overall price level; the central bank will raise the scale of the money through effective monetary policy instruments. The central bank is said to be pursuing an expansionary monetary strategy in that situation (CBN, 2017).

The monetary policy objectives can be achieved through various instruments of monetary policy. The methods can be split into direct control and indirect control strategies, according to Chuku (2009). Direct control strategies include direct interest rate regulation, moral suasion, credit controls, whereas indirect control techniques are Free Market Activity (OMO), discount rates, and reserve criteria. Jegede (2014) observed that monetary policy and Commercial banks are strictly connected and, as such, the banks' operations will be affected by all instruments employed by the Nigerian Central Bank to control interest-rate rates, the availability of credit, the security prices; growth in the money supply and the development of bank's liquidity.

The use of government spending, taxation, and borrowing to regulate economic activity trends and aggregate demand, production rates, jobs, and growth is part of fiscal policy (Abata, Kehinde & Bolarinwa, 2012). The government, within the purview of the Ministry of Finance Incorporated, uses tax revenue and expenditure policies to affect the economy which is subject to yearly changes and it is often politically influenced. It is designed to promote growth rate management to ensure a stable economy, to ensure the country attains full employment level, to ensure advanced capital, optimum allocation and utilization of resources.

Fiscal Policy could be neutral, expansionary, or contractionary. Fiscal policy is considered neutral when government spending is equal to its revenue. This is also known as a balanced budget. If government spending is entirely financed by tax revenues, the budget has a favorable impact on the country's economic activities. This is when a government conducts an

expansionary economic strategy while it has a budget deficit. The budget expense in such a case is higher than the tax collection. It is a preferred policy stance during a time of recession. Recent developments in the global economy especially in the euro area have, however, underscored the limitation of deficit financing in an economy. On the other hand, a government with contractionary fiscal policy has a surplus budget such that, public expenditure is lower than tax revenue. This policy may work to curb inflation (CBN, 2011).

The fiscal policy appears to indirectly influence the banking sector by changing the demand for credit as opposed to the monetary policy that explicitly affects this sector by changing its reserves and interest rates needed. Monetary policy and fiscal policy are interwoven, as both policies aim to accomplish the same macroeconomic objectives in general, but by different instruments. Monetary policy aims at achieving macroeconomic stability by altering the cost and level of money supply, while fiscal policy tends to achieve the same objective using public expenditures, taxes, and debt. The few studies (John, Olabisi & Dafe, 2013; Julius, Micheal & Agatha, 2018) on this topic have geared the research interest to shed more light on this so that this study will be a further exposition for further studies in this area and to assist government, CBN and other regulatory authorities in the effective management of monetary and fiscal instruments to ascertain economic development in the nation.

1.2 Statement of the Research Problem

Deposit Money banks primary objective is to make a profit through the provision of loans and advances to individuals, firms, and government. This objective can experience greater performance or can be vulnerable to incessant failures depending on the significant role played by the government and regulatory authorities. Monetary policy is a significant tool used by the government to achieve faster growth, stability in prices and exchange rate whereas fiscal policy objectives cannot be overemphasized as this is what the government uses to obtain an optimum allocation of resources, encouraging investments and accelerating economic development. Monetary and fiscal policy execution in Nigeria over the years has been considered unpredictable, suggesting no long-term commitment to achieve sustainable economic development.

Some studies (Abata et al, 2012; Chigbu & Njoku, 2013) further place more focus on monetary policy and its variables on the efficiency of banks with little fiscal policy knowledge. This study is therefore motivated by looking at the effects of both monetary and fiscal instruments on the effectiveness of Nigeria's deposit money banks to fill the gap in this exclusion.

1.3 Objectives of the study

The purpose of this analysis is to examine the effect on deposit money banks' success in Nigeria of the monetary and fiscal policy instruments. The main goals, however, are:

1. Ascertain if the deposit rate (DR) has a significant relationship with the performance of deposit money banks in Nigeria:
2. Determine if the foreign exchange rate (FEXR) has a significant relationship with the performance of deposit money banks in Nigeria:
3. Examine if the money supply (MS) has a significant relationship with the performance of deposit money banks in Nigeria.
4. Ascertain if the annual budget (AB) has a significant relationship with the performance of deposit money banks in Nigeria.

1.4 Research Questions

1. What significant relationship exists between the deposit rate and the performance of deposit money banks in Nigeria?
2. What significant relationship exists between the foreign exchange rate and the performance of deposit money banks in Nigeria?
3. What significant relationship exists between the money supply and the performance of deposit money banks in Nigeria?
4. What significant relationship exists between the annual budget and the performance of deposit money banks in Nigeria?

1.5 Research Hypotheses

The following hypotheses were formulated in a null form to guide the study.

H_{01}: Deposit rate does not have a significant relationship with the performance of deposit money banks in Nigeria.

H_{02}: Foreign exchange rate does not have a significant relationship with the performance of deposit money banks in Nigeria.

H_{03}: Money supply does not have a significant relationship with the performance of deposit money banks in Nigeria.

H_{04}: Annual budget does not have a significant relationship with the performance of deposit money banks in Nigeria.

1.6 Significance of the Study

The study will help many stakeholders to understand the implications of effective and efficient monetary and fiscal policies on DMBs' efficiency. It would assist the government and regulators to strategize and predict the effects of its policies to meet its objectives of economic growth and full employment. To the banking industry, it would uncover the relationship existing between our relevant variables, which will be of interest to the management of DMBs in their respective banks. This study would also benefit the academicians and scholars who would want to take up related topics for further research purposes.

1.7 Scope of the Study

This research is intended to analyze the effect of monetary and fiscal policies on the performance of depositary money banks. The analysis involved five DMBs in Nigeria. Secondary data from Central Bank of Nigeria and annual reports of these deposit money banks over ten years (2009 to 2018) were employed for this study.

1.8 Limitations of the study

The research centered on the effect of monetary and fiscal policy on DMB’s performance in Nigeria. The study was limited to five banks in Nigeria chosen at random. Further research on

this area can include a wider range of samples involving other financial institutions such as the mortgage and microfinance institutions.

1.9 Operational Terms

Monetary Policy: These are steps monetary authorities embraced to boost economic development and inflation by changing the level of money supply, achieving specific macroeconomic goals of price stabilization, productivity growth, and full employment.

Fiscal Policy: Fiscal policy is the mechanism by which the government uses fiscal expenditures, debt, taxes, and other resources to control the economic direction and to accomplish the macroeconomic goals of full employment, a favorable balance of payments, price stability, and production growth among others.

Interest Rate: This is a rate paid on savings and time deposits of different maturities such as one month and fixed deposits in financial institutions.

Foreign Exchange Rate: It is the domestic currency price specified in terms of the currency of another nation.

Money Supply: It is the overall amount of money in the economy and this includes currency of non-bank population outside banks and deposits with the DMBs.

Annual Budget: It is a systematic representation of a program over a given period. This can include expected amounts of purchases and profits, quantities of capital, expenditures, and expenses, assets, liabilities, and cash flows. The Annual Budget coordinates resources and expenditures and provides legal authority to obligate and spend funds

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review

The conceptual, analytical, and methodological analyses of monetary policy and fiscal policy are discussed in this subsection.

2.1.1 Concept of Monetary Policy

The concept of Monetary Policy emanated from the import of the Nigerian banking ordinance of 1952. The services provided by banks which include accepting deposits and providing credit facilities in compliance with the risk inherent in the banking industry has led to the regulation of banks. This regulation arose because of the incessant bank failures in the 1940s and 1950s. This revolution gave birth to the subsequent formulation of monetary policies from 1958, 1969, 1979 to date.

Monetary policy is characterized as a combination of measures or instruments designed by the Central Bank to control the demand, production, and cost of money in line with the economy's absorptive ability or the planned level of economic activity, without necessarily putting excessive pressure on domestic prices and exchange rates (Mordi, 2009).

According to Dwivedi (2005), economic policy is essentially high-quality steps undertaken by economic authorities, commonly the Central Bank, to manipulate and alter the cash supply to the public and credit flows to gain predetermined macroeconomic objectives. Loayza and Schmidt (2002) define monetary policy as formulating and implementing Central Bank policies to achieve the desired objective or set of objectives; policies and decisions aim to guide bank lending rates to levels where credit demand and money growth are consistent with aggregate elasticity of supply. Monetary policy usually refers to the Central Bank's acts to control the demand, availability, and cost of capital in the economy to meet the macroeconomic goals of government.

Nigeria's main monetary policy priorities include market stability and balanced economic development. Other underlying objectives are full employment, stable exchange rate, and long-

term interest rates stability. Achieving these objectives necessitates the setting of operating, intermediate, and final targets by the CBN under the monetary targeting framework.

The key targets of the monetary targeting framework are broad money (M2), which is the intermediate target; reserve money, which is the operating target, and final targets; - inflation and output stabilization. Setting intermediate and operating targets by the CBN requires determining an optimum level of money supply that meets the agreed goal.

Monetary policy can either be expansionary or contractionary depending on the basic coverage objective of financial authorities. It is expansionary when financial choices and moves are taken via the central financial institution to increase the level of the cash provide to enhance combination demand and assist economic activities. It can also be termed 'loose' monetary policy; it is implemented by either reducing the policy rate or by a reduction in statutory reserves and/or open market purchases of eligible securities from counterparties (usually DMBs). The effect of an expansionary monetary policy works through various links such as the lowering of the interest rate. This precipitate increased money supply leading to increases in bonds' prices and reduction in bonds' interest rate, etc. It can also be contractionary where CBN employs instruments to reduce the supply of money in an economy, by raising interest rates to curtail inflationary pressures. Contractionary monetary policy is generally directed at calming an overheating economy and rising inflationary pressures. It is always important for the monetary authority to ensure that the economy does not slide into recession in the process of implementing its policy measures. Contractionary monetary policy is implemented by either an increase in the policy rate or by an increase in statutory reserves and/or open market sale of eligible securities to counterparties (usually DMBs).

The Central Bank of Nigeria instruments used to implement monetary policies is divided into direct and indirect instruments. Direct instruments are those directives issued by the Central Bank to regulate the quantity and prices of DMBs and discount houses' financial assets/liabilities. They include credit ceilings and interest rates; they could be very useful in a quantity of deposit or credit, controlling price and effective in underdeveloped financial markets. The indirect monetary policy tools include open market operations (OMO), monetary policy rate (MPR), reserve requirement, discount window operations, and repurchase agreements. These are the instruments currently used in the formulation and application of monetary policy to ensure

efficient allocation of savings and credit in the economy. Monetary policy's efficiency and relative value as an economic stability mechanism range from country to country due to variations in institutional systems, variability in degrees of growth of money and capital markets resulting in different degrees of economic advancement and variations in prevailing economic conditions (Faure, 2007). Monetary Transmission Mechanism is a process through which money supply changes or other monetary aggregates pass through to affect prices (interest, exchange, and inflation rates), output/employment, and external balance (CBN, 2017).

2.1.1.1 Deposit Rate

Deposits in banks could be in the form of deposits in savings deposit, Fixed Deposit (Term Deposit) Foreign Exchange and Demand Deposit accounts. Each of these deposits has its peculiarities and the mode of operation. The aggregate of these forms the total deposits attributable to banks. Banks have their deposits in either of these forms. The Demand deposits are deposit operated with the use of cheques. As the name connotes, they are deposits that are withdrawable on demand, that is, without any notice to banks by their holders. Apart from cash which could be lodged into this account, cheques could be also being paid into it. They are also regarded as a current account. The savings deposits are deposits kept with banks which are withdrawable not by cheques but with forms designed for withdrawal. As a way of encouraging deposits into this type of deposit, interest is often paid for the balance in this account. Customers, however, could only pay cash into this account, while cheques could not be paid into it. Although with recent developments in the country's financial sector, modification has been made to some accounts which have some features of current accounts, through the payment of cheques into them. This form of Deposit is usually kept for a specific period. Funds in such accounts are not withdrawable until the specified period elapses. Interest at a high rate than the normal savings deposits is usually paid on them. If peradventure the customer requires the money before its due date, interest on such deposits is waived while the customer is paid only the normal savings interest. In all these deposits, except for the demand deposit, customers are encouraged to keep them through the payment of interest on them. Such interest is regarded in the study as the deposit rate.

2.1.1.2 Money Supply

The provision of money is the sum of cash at a given moment in the economy (Jhingan, 2006). This is the monetary balance available for the purchase of products or services within an economic environment. Money supply also referred to as Money Stock refers to the quantity of cash in the hands of the non-bank public at a time and the balance in deposit money accounts. This includes not the only currency in circulation (currency & coins), but also demand & time deposits, post office deposits, and related instruments. The money supply is grouped into classes termed as money aggregates. Money supply classes are frequently classified as M1, M2, and M3, which generally depend on the type and size of the account in which the device is held. M1 also known as narrow money involves total coins and notes in circulation and other counterparts of money that can readily be transformed into cash. M2 also known as broader money involves M1 as well as short-term bank deposits and some money market funds. M3 is the cash supply calculation including all components of M2 as well as time deposits, retail money market funds, and other broader liquid assets. Resources that are significantly less liquid than other elements of the money supply are included in the M3 measurement. Classification by M3 is therefore the broadest measure of an economy's money supply, stressing the position of money as a store of value and investment rather than as an exchange medium.

There are two ways in which a central bank qualifies money supply: narrow and broad money. Narrow money (M1) includes circulating currency plus deposits from current accounts with deposit money banks. Broad money, on the other hand, measures the complete amount of money supply in the economy and can be described as narrow money plus savings and deposits of time with banks including overseas deposits. Excess money supply exists when the quantity of cash in circulation exceeds the overall productivity level of the economy. It displaces the equilibrium of the price system when this occurs, as the surplus is more than can be absorbed by the economy. This will contribute to inflation, so the price of goods and services will continue to increase.

2.1.1.3 Foreign Exchange Rate

The rate of exchange is the rate at which one nation's currency is exchanged for the currency of another country (Dornbusch, 2004). This is the value of one single currency to another currency and the numerical value of the domestic currency of a nation at any time to other nations where

the home country has international or business connections. Exchange rates can affect the stability of money and stability of finances in addition to being the price of money in other currencies (Thammarak, 2014). Mankiw and Taylor (2006) describe it as the exchange price between the two countries. It is defined as the price of one nation's currency in comparison to another country's currency.

2.1.2 Concept of Fiscal Policy

A country's economy cannot achieve macroeconomic stability without fiscal policy. Economic growth and stabilization require a fiscal policy. This may be used to monitor production and purchasing commodities, services, and materials. Generally, fiscal policy is employed to correct economic imbalances in periods of recession and depression.

Fiscal policies are government measures designed to influence the quantity and allocation of revenue and expenditure, intending to achieve internal and external economic equilibrium and sustainable development (CBN, 2017). Furthermore, Idowu (2010) and Okunrounmu (2003) defined fiscal policy as deliberate changes in government spending, taxes, and other revenue levels, as well as borrowing to achieve national goals such as stability of rates, full employment, sustainable development, and balance of payments.

Olawunmi and Tajudeen (2007) identify fiscal policy as having been historically correlated with the use of taxes and public spending to control the level of economic development and add that fiscal policy enforcement is generally routed through the budget of the country.

2.1.2.1 Annual Budget

A budget is a detailed plan detailing what economic and non-economic measures a country wants to conduct with a specific emphasis on programs, targets, and success objectives that are substantiated by estimates of revenue and expenditures.

The budget can either be balanced, surplus, or nature deficit. A balanced budget is a kind of budget where total government receipt equals its expenditure; there is neither a deficit in the budget nor a budget surplus here. Surplus budget arises when the government revenue exceeds its expenditure; it can be used to correct imbalances arising from overheating or excessive

expansion of economic activities. Deficit budget on the other hand occurs when government expenditure exceeds government revenue. This is usually financed by borrowing.

The government embraces expansionary, contractionary, and neutral types of fiscal policy. The expansionary fiscal policy entails reducing taxes or raising government expenditure to increase aggregate consumption, demand, investments, and production levels. Contractionary fiscal strategy requires a tax hike or decrease in government expenditure to moderate aggregate consumption, demand, investment, and production. Balanced or neutral fiscal policy tends to maintain the level of taxes and expenditure to ensure that revenues match expenditure.

Fiscal policy priorities include rapid economic growth and development, the effective distribution of financial capital, the reduction of disparities in wealth and income, job generation, balanced regional development, and the reduction of the deficit in the balance of payments and infrastructure development. In most countries, unemployment became a significant political and economic problem. The years of violence, civil war, military rule, and mismanagement in Nigeria have impeded the country's economic development. Nigeria, blessed with varied and vast human and material riches; years of neglect and detrimental policies have, however, led to the under-utilization of these services, and this has added to Nigeria's rising unemployment. The unemployment rate in 2000 was 13.1%, and in 2010, 21.10%. There was an upward trend on average.

Poverty reduction was a major goal of different governments. This is demonstrated by the fact that numerous countries have launched multiple measures to reduce the rate of poverty. Examples are the Nigerian Directorate of Employment (NDE) introduced in 1989 and the National Poverty Eradication Programme (NAPEP) introduced in 2001. Per capita income is the primary indices for calculating the extent of deprivation. Nigeria's per capita income rose steadily from the year 2000, when it was N39, 657 and in the year 2010 when it hit N71, 131. The rise in per-capital income did not contribute to an improvement in residents' living conditions because of the growth in goods and services prices. Unemployment continues to soar high as less percentage of total expenditure is spent on capital projects which create jobs in an economy.

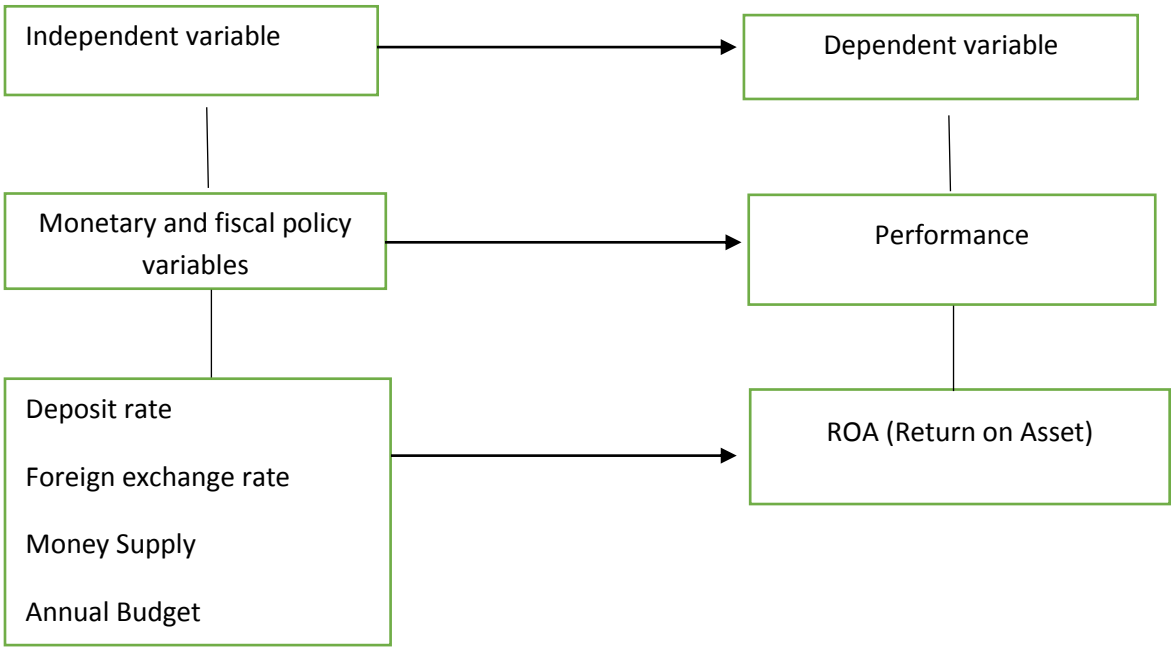
Inflation escalated to a double-digit level in 2000 and 2001 from 6.94 to 18.87 respectively. It continued up to 2005 and decreased to a single digit in 2006 and 2007. The double-digit continued from 2008 11.58%, 2009 11.54%, 2010 13.72%, 2011 10.84%, 2012 12.22%, reduced to single digit in 2013, 2014 and 2015 to 8.48%, 8.06% and 9.01% respectively. From 2016 it escalated once again to double-digit with a corresponding percentage of 15.68%, 2017 with 16.52% and 2018 at a rate of 12.09%. These issues outline the need for a study of the formation, strategy, and coordination of this economic growth policy in Nigeria. There are three types of instruments in the hands of monetary policy, they are namely: Public Expenditure, Taxes, and Public Debt.

Public spending refers to the amount of all money expended over typically one year by the government of a country. It includes both government-acquired goods and services and transfer payments. When there is an increase in public expenditure during the recession, It raises aggregate demand for goods and services and increases income, while a reduction in inflationary government spending appears to weaken aggregate demand and prices.

Taxes are mandatory levies imposed by the government on a person or legal entity where the default is punishable by statute. The government uses revenue from taxation to supply public goods; lowering taxes increases disposable income, leading to a rise in private consumption and spending on investment. In a recession, tax reductions will act as an efficient measure, whereas tax increases decrease disposable income, thus decreasing demand and spending on investment.

Public debt can be described as the borrowings by the government to fund public expenditures that are not financed by current tax revenues. Government debts are mainly divided into domestic and external debt. Domestic debts are owed to the country's lenders, while external debts are owed to foreign lenders. The government borrows from other nations, bilateral and multilateral institutions such as the World Bank and the International Monetary Fund (IMF) by issuing treasury securities such as bonds, certificates and bills or direct credit facilities.

Figure 2.1: Conceptual framework for the relationship between monetary and fiscal variables and the bank's performance in Nigeria.



Source: author's self-conceptualization (2020)

2.2 Theoretical Review

2.2.1 Keynesian Theory

John Maynard Keynes published a book titled General Theory of Employment, Interest, and Money which was to dose the classical doctrines and revolutionize the field. Following his initial contribution, he defined the volume of employment and national income. Therefore, Capital's Marginal Benefit assesses the expected return on capital and the production price of capital assets. There are two implications of the increase in spending. The first is an increase in total income calculated by the investment multiplier effects by Marginal Willingness to Spend, Spending, and Savings. The second result is that jobs increases, which in turn increases preferential liquidity (Jahan, Mahmud & Papageorgiou, 2014). The economic structure, seen in this way, lacks any stabilizing powers for full employment. On the other hand, no powers can

disintegrate an economy entirely. The economic system could operate at a less-than-full-employment level for long periods. Keynes further discussed four factors that could stabilize the economy. The first refers to the role of Marginal Propensity to Consume; that is, the rate of change in consumption when investments and income change. Keynes attributed a psychological character to this relationship and assumed that the marginal tendency to consume is greater than unity, but not too great. Thus, an expenditure shift could not stimulate demand to the extent of either creating full jobs or causing an economy to crash (Jahan, Mahmud & Papageorgiou, 2014).

Therefore, the economy is stabilized to a moderate (with unemployment) condition. The second stability condition relates to the inelasticity of investments due to interest rate changes or adjustments in prospective capital yield. Keynes pointed out, in line with the above theory, that a shift in perspective yield or interest rate cannot put the economy into full-employment equilibrium. The third condition centered on the labor market and indicates that the rate of money wage change is lower than that of employment. This has an empirical basis since the worker's bargaining position is increasing as employment increases. Yet as money wage follows the law of declining usefulness and, on the other hand, employers do not demand a big raise in their money wage (similarly, they are not able to consider a major reduction in unemployment). That situation also acts as a mechanism for market stabilization, because prices will also rise, but only slowly, as employment rises (Jahan, Mahmud & Papageorgiou, 2014). Eventually, the fourth condition of stability is that capital asset depreciation will increase investment in periods when Capital's Marginal Efficiency is very low. Therefore, as Capital's Marginal Output sinks, investment halt and capital assets wear out and must be replaced. This restarts activity investment and stabilizes the economy. He also rejected the classical theory of markets based on the principle of quantities of income, arguing that prices are determined by units of pay and rates of employment dependent on aggregate demand. The Keynesian model assumes a close economy and a perfectly free market with a relatively price- value aggregate supply mechanism, it is often presumed that the system does not operate in the job equilibrium and that it only operates in the short term. Monetary policy functions in the Keynesian view by controlling the interest rate, which in turn affects investment decisions and, subsequently, through the multiplier process, production, and revenue. The theory of Keynes denies Say's Law and the idea that the economy is self-regulating. Keynesian economics argues that there is no clear efficient process that transfers work and production to achieve maximum work, this assumption contrasts with

economic strategies that suggest a strong general equilibrium trend (Jahan, Mahmud & Papageorgiou, 2014).

2.2.2 Loanable Fund Theory

This theory owes its origin to a Swedish economist named Knut Wick-sell whose objective is to explain the causes of price fluctuations; he also argues that, if in the economic environment no asset credits or credits exist, the quantitative principle of money established by Ricardo is completely true. Under the theory of loanable funds, the equilibrium interest rate should be set by demand and by supply terms for loanable funds on the market. Loanable funds are the sum of money which is available and demanded at any time on the money market. Factors that regulate the supply of loanable funds and their demand are used to assess market rates. These funds are financial assets which comprise mainly of household savings and bank loans.

Philemon and Alex (2016) describe the theory of loanable funds as a complex and maximizing theory of bank operations integrating insights into development theory, financial intermediation, and portfolio theories. The unified model makes explicit the relation between asset portfolio performance and the service performance of a bank. Performance in the portfolio defines the rate of return on loans and deposited funds from banks and, in effect, the rate of discount used to calculate the present value of potential earnings on which portion is created by financial services. Nevertheless, efficiency influences the quantity of business production just insofar as portfolios of different risks require specific quantities of information processing. The theory shows that loanable funds are merely an intermediate input that passes through banks, while true bank added value is merely the services that facilitate the provision of capital. Besides, the definition points out the separability of the utilization of funds and value-added production functions in the overall optimization question of a bank, by resolving the fundamental issue of how to calculate bank output; this theory contributes to a broad literature on bank efficiency.

The interest theory of loanable funds suggests that the long-term determination of interest rates is the obligation of both deposits and assets, while short-term interest rates are calculated based on the financial conditions that exist in an economy. Wray (1992) argued that loanable fund theories like classical interest theory and keys interest theory are vague since the amount of capital

available for risky money demand cannot be measured without understanding how much money demand the deal is.

2.2.3 Loan Pricing Theory

Deposit money banks might not be able to charge an interest rate on loans and advance higher than normal as they want to maximize interest income. The negative choice and moral hazard will be considered by banks as it is difficult to determine the type of borrowers at the beginning of the banking relationship (Stiglitz & Weiss, 1981). This can lead to adverse selection issues if the interest rate paid by banks rises since only high-risk borrowers would be able to pay these high rates. Once these loans are issued by borrowers, because they can take on extremely risky ventures, they begin to establish moral hazard actions (Chodecai, 2004). In the view of Stiglitz and Weiss (1981), in most cases, the interest rate set by banks might not normally be commensurate with the borrowers' risk.

2.2.4 Monetarist theory

This theory is also called the Milton Friedman theory. It is an economic theory as well as a school of thought who were of the view that changes in money supply are the most important determinants of the rate of economic growth and the behavior of the business environment. They maintain that money supply is the main determinant of the current Gross Domestic Product (GDP) and the price level over longer periods. Monetarists held that only money matters and to effectively achieve the objectives of monetary policy, the growth rate of the money supply should be focused on. In his seminal work "A Financial History of the United States, 1867–1960", which he published with fellow economist, Schwartz (1963), argued that US Central Bank's poor monetary policy was the prime cause of the United States Great Depression in the 1930s.In their opinion, the Federal Reserve's fault to combat the forces that brought downward pressure on the money supply and its attempts to minimize the capital balance was the reverse of what should have been done. (Jahan & Papageorgiou, 2014)

The foundation of monetarism is the Quantity Theory of Money. This notes that velocity-multiplied money supply (the rate at which money changes hands) is equal to nominal economic expenditure (the number of goods and services sold multiplied by their average price paid). A constant in Velocity when Money supply is increased will either increase price or quantity or

both simultaneously. Any deterioration in the economy will increase the quantity at a rate faster than the price under the monetarist theory.

Banks generally serve as a financial intermediary in the provision of loans and advances required by different sectors of the economy. Nwanyanwu (2008) noted that the banking sector tends to make such credits accessible by mobilizing savers' surplus funds which do not have these immediate needs for investors who have great ideas about how to generate additional value in the economy but lack the resources required to execute the ideas.

Concerning the recent regulatory measure by the CBN, regulatory authorities using both direct and indirect controls is to ensure the proportion of which bank's loan and advances are to be allocated to more pressing sectors and others, this is to ensure and maintain productivity in these sectors which subsequently lead to economic growth/development.

2.2.5 Credit Market Theory

The neoclassical economists propounded the credit market theory which posits clarity of terms of credit of the market. If collateral and other limitations remain unchanged, the interest rate is the only price. Increasing demand for loans and consumer supply would contribute to higher interest rates, with lower interest rates creating lower demand. The greater the probability of default of the creditor, the higher the interest premium is assumed by Ewert (2000).

It is worthy of note that an increase in demand for credit might result in depreciation of the currency of a nation. Central Bank must therefore ensure regulation of the rate of interest to raise the cost of borrowing.

2.2.6 Liquidity Preference Theory

This theory was propounded by John Maynard Keynes in the year 1936. The interest rate is calculated by, according to Keynes, the demand for and supply of money. The interest rate may simply be interpreted as the reward of parting away with some sum of money for a specific period. The supply of money refers to the amount of cash in circulation and is normally at a fixed amount at a time point. It is mainly regulated by the country's central bank.

Money demand refers to the urge or demand to retain money. This plays an active role in deciding the interest equilibrium rate. Except for money acting only as a medium of trade, Keynes is not opposed to the classical and neo-classical notion of money.

According to Keynes, people hold money for three reasons which are transactional, precautionary, and speculative motives. Transaction refers to the desire to hold money for day to day transactions and settle petty expenses, precautionary motive deals withholding money for unforeseen circumstances while speculative motive entails desiring to hold money to take advantage of future changes in the interest rate or bond prices. The lower the interest rate, the greater the volatile stock market, and vice versa. The theory assumes that people want to keep money, not for day-to-day transactions, but precautionary and speculative purposes.

Critics have argued that in deciding the interest rate, the Keynes Liquidity Preference model lacks actual factors such as capital productivity and thriftiness. James Tobin criticized Keynes on the view of speculative demand for money that people hold money and bonds based on uncertainty instead of holding either money or bonds depending on the expectations of the future interest rate. According to Were, Kamau, Sichei and Kiptui (2013) cited in Ndubuaku, Ifeanyi, Nze and Onyemere (2017), The critics state that "Therefore, the Keynesians view interest rates not as they think they do - as decided by liquidity preference - but as some sort of mystical and unknown force based on the other elements of the economic system.

The theory sees interest rates as being influenced primarily by the degree of liquidity in the economy. The theory does not consider the position of the central bank's formulated macroeconomic policies but interest rates are guided solely by economic demand for capital. (Ndubuaku *et al*., 2017)

However, this work is focused on John Maynard Keynes's Keynesian theory, which notes that a change in money supply will permanently alter variables such as interest rate, aggregate demand, and wages, production, and income rates. This theory was explored in this study as a result of its popularity and extensive explanation of interest rate and government expenditure.

Figure 2.2: Theoretical Framework (2020)

2.3 Empirical Review

There are several empirical studies on the impact of monetary and fiscal policy on deposit money bank's performance using different econometrics tools. Nonetheless, few relevant documents combined both monetary and fiscal policy on the bank's success in Nigeria. Some of these studies are reviewed in this section;

Akanbi and Ajagbe (2012) researched the analysis of monetary policy on commercial banks. Using the Regression Model, they found out that net profit, liquidity ratio, cash ratio and the interest rate on savings conforms to the theoretical expectation, also rediscount rate charged by the Central Bank is too low and even when high, do not seriously deter commercial banks from lending and interest rate apart from being rigidly fixed by the Central Bank also affect its effectiveness. The study was carried out on three commercial banks and the data employed run through 1992 to 1999 collected from the various central bank of Nigeria statistical bulletin. They concluded with a recommendation that individual banks management should forward to CBN the annual plan of bank estimated capacity to raise a volume of funds enough to meet anticipated needs, there should be a reduction in lending rates to prevent the banks from folding up and the reversion to the modern technique of controlling liquidity in the economy should be encouraged.

Olanipekun and Benjamin (2015) analyzed the relative utility of fiscal and monetary instruments and the resilience of economic development in Nigeria to determine the optimum equilibrium of both policies. They employed an error correction mechanism using Augmented Dickey-Fuller, Philip Perron unit root, and Johansen co-integration test using annual data for the period 1970-2013. Monetary variables employed are narrow money supply, broad money supply, exchange rate, and interest rate while public revenue and public expenditure were used as fiscal variables. The data was produced mainly from the Statistical Bulletin published by the Central Bank of Nigeria. Unit root tests have shown that both fiscal and monetary variables in the country are non-stationary and are stationary at first. The result shows that there is a long-term relationship

between fiscal and monetary variables and economic growth and that the current exchange rate level and its immediate past level, the domestic interest rate, the current level of government revenue and the current level of money supply are also found to be the optimal policy tool mix for promoting short- and long-term economic growth. The paper concluded that fiscal and monetary policies are still compatible.

In its study of the relative effects of fiscal and monetary policies on Nigerian economic development Adefeso and Mobolaji (2010) have used annual data from 1970-2007. It was replicated. The research used secondary data from the Central Bank of Nigeria Statistical Bulletin. The mechanism for Error Correction and methodology for Co-integration is used to evaluate data and draw policy inferences. Johansen's co-integration indicates that there is a long-term relationship between economic development, degree of transparency, government spending, and large defined capital. The analytical finding found that the effect of monetary policy was much greater than fiscal policy and that the reduction of the degree of accountability did not change this conclusion. This report suggests monetary policy for economic stabilization purposes.

Abata, Kehinde and Bolarinwa (2012) carried out work on Nigeria's fiscal/monetary policy and economic growth. The paper claims in our Statutory Book that eliminating public fiscal restraint takes much more than enshrining fiscal policy laws, as the statutory books are full of dormant legislation and regulations. The paper indicates that some powerful stakeholders who are a stakeholder in favour of peace must be strong enough to call into doubt government fiscal recklessness for real progress on government fiscal prudence.

The impacts of monetary and fiscal policies on Nigeria's economic development since 1990 and 2010 have been examined by Chigbu and Njoku (2013). The independent variables are minimum rediscount rate (MRR), interest rate (IR), liquidity ratio (LR), corporate income tax (CIT), and federal budget (FB) while the dependent variable is the gross domestic product (GDP). Unit root test, co-integration, some of the econometrics techniques employed for data analyses were the vector autoregression (VAR) model and graph. The findings have shown that in Nigeria the calculation of the economic growth level reactions of money and fiscal policy is unpredictable over the years and that there is no long-term connection. The study further showed, however, that fiscal policy initiatives are more successful in gearing Nigeria's economic growth. The study

proposed that appropriate strategic policies be placed in place to enhance fiscal policy execution in Nigeria that would lead to national economic development in the long term, and that more robust and viable monetary policy measures should be taken to achieve sound economic growth.

John, Olabisi and Dafe (2013) assessed the legislative roles of financial institutions as being impacted by Nigerian fiscal and monetary policies. The banks selected for the analysis were Access Bank and Eco Bank. Questionnaires were administered and information evaluated using the Variance and Regression Analysis in this survey. The results indicated that Nigeria's financial institutions' economic and monetary policies have improved their operational efficiency by reducing the increasing financial indiscipline in financial and fiscal structures. It was concluded that fiscal and monetary policies galvanized government into dedicated budgetary management which would also resolve irregularities in the financial system.

Tariq and Maqbool (2011) looked at the role of monetary and fiscal policies in economic growth in Pakistan, using time series data from 1973-2008. The increased Dickey-Fuller unit root technique was used to validate the time-series properties. The methodology of the Autoregressive Distributed Lag Model (ARDL) was used to explain the long-term relationship between fiscal/monetary policy and economic development. The findings indicate that both monetary and fiscal policies play a significant part in Pakistan's economic development. The relationship between GDP and Government Current Expenditure (GCE) is found to be a negative while, Currency in Circulation (CIR) and Government Development Expenditure (GDE) affect GDP positively in the case of Pakistan. The study recommended that Pakistan should adopt measures to encourage Government Development Expenditure (GDE) and discourage Government Current Expenditure (GCE) in the country, which would lead to high economic growth in the country. Also, there is a need to increase Currency in Circulation (CIR) through monetary policy by providing investment opportunities and provide incentives to investors to bring their savings into the market.

Julius, Micheal and Agatha (2018) researched monetary policy and financial performance of Nigerian DMBs using Return on Assets, Net Interest Margin, Monetary Policy Rate, Cash Reserve Ratio, and Liquidity Ratio. The study evaluated the Central Bank of Nigeria's (CBN) monetary policy instruments during and after the 2000-2016 bank consolidation exercise and determined the effects of those policies regarding the financial performance of Nigerian deposit

money banks. An Autoregressive Distributed Lag Model (ARDL) review of secondary data gathered from the CBN Statistical Bulletin, 2016 reveals that the CBN's monetary policies have had a substantial impact on the short-run efficiency of DMBs, but an insignificant long-term influence. However, they recommended that CBN should intensify its monetary policy strategies in controlling the activities of money deposit banks in the short run as this policy has been found effective and in the long run, CBN should make use of other regulatory tools to control the activities of deposit money banks for the achievement of macroeconomic objectives. The management of deposit money banks can attempt to raise their net interest margin by efficiently managing their deposit mobilization and loan portfolio strategies, as this will result in better results, i.e. an increase in banks' profit before tax.

Udeh (2015) looked at the effect of monetary policy instruments on commercial bank profitability in Nigeria, using the experience of Zenith Bank Plc. It used data from the time series obtained from Zenith Bank Plc. Financial statements, as well as the Nigerian central bank bulletins, were issued from 2005 to 2012. To analyze the collected data, the Pearson Product moment correlation methodology was used while t-test statistics were used to verify the hypotheses. The study found that Zenith Bank Plc. cash reserve ratio, liquidity ratio, and interest rate had no major effect on the profit before tax.

The minimum rediscount rate was, however, found to have a significant effect on the bank's pre-tax earnings. The paper concluded that many monetary-policy instruments had no significant effect on the competitiveness of commercial banks in Nigeria. He also suggested that Nigeria's commercial bank management look past monetary policy instruments to raise their earnings.

An econometric approach to Kenya's monetary and fiscal policy shocks and economic growth was conducted by Mutuku and Koech (2014). This paper used the VAR framework to examine the relative power of policies to adjust Kenya's real performance. Analysis of the decomposition of variance and stimulus-response functions showed that fiscal policy had a substantial positive impact on Kenya's real output growth, while monetary policy shocks were relatively marginal, with fiscal policy shocks significantly altering real output for almost eight quarters. They recommended that both policies should be properly coordinated and Central Bank of Kenya, Ministry of finance with other financial regulatory authorities should carry out structural reforms

which will entail improving institutional governance and strengthen regulatory and legal framework in the financial system.

Anna (2012) studied the influence of monetary and fiscal policy on the economic development of Zimbabwe using an updated St Louis equation for the period 1981-1998. Time series, co-integration, and error correction approaches were measured to analyze the relative impact of monetary and fiscal policies on economic growth in Zimbabwe. Secondary data were gathered from different publications such as the Government of Zimbabwe (1987), the Annual Economic Review of Zimbabwe, the National Accounts 1985-97 of the Central Statistical Office (1998), and the Reserve Bank of Zimbabwe (different issues) monthly and quarterly bulletins. To make a total of 68 observations, quarterly data was used. For the data review, LIMDEP Version 6.0 and PC GIVE Version 8 packages were used for data analysis. The findings suggest that monetary control is relatively greater in assessing economic growth and more reliable than fiscal policy. Such results say the monetary policy should be a successful instrument for macroeconomic stabilization in Zimbabwe. The paper recommends that effective monetary policy to curb excessive growth rate in money stock should target the monetary base components especially the domestic credit, policymakers should ensure that monetary actions do not adversely affect exports and private investment performance and Zimbabwe should have a long-term plan for drought mitigation.

Olatunji, Onyinye and Peter (2017) carried out a study to evaluate the impact of macroeconomic policies on the efficiency of Nigerian financial institutions over 10 years (2007-2016). The macroeconomic policies used were monetary, fiscal, and commercial, with deposit rates, government spending, and import duties being their instruments respectively. Using the regression analysis method, the interrelationship between the measurement instruments was analyzed. The results showed a major association between fiscal and commercial policies and the deposit liability of money deposit banks, the study concluded that macroeconomic policies directly affect the operations of financial institutions. They suggested that the government should implement workable macroeconomic policies through CBN that would impact the economy.

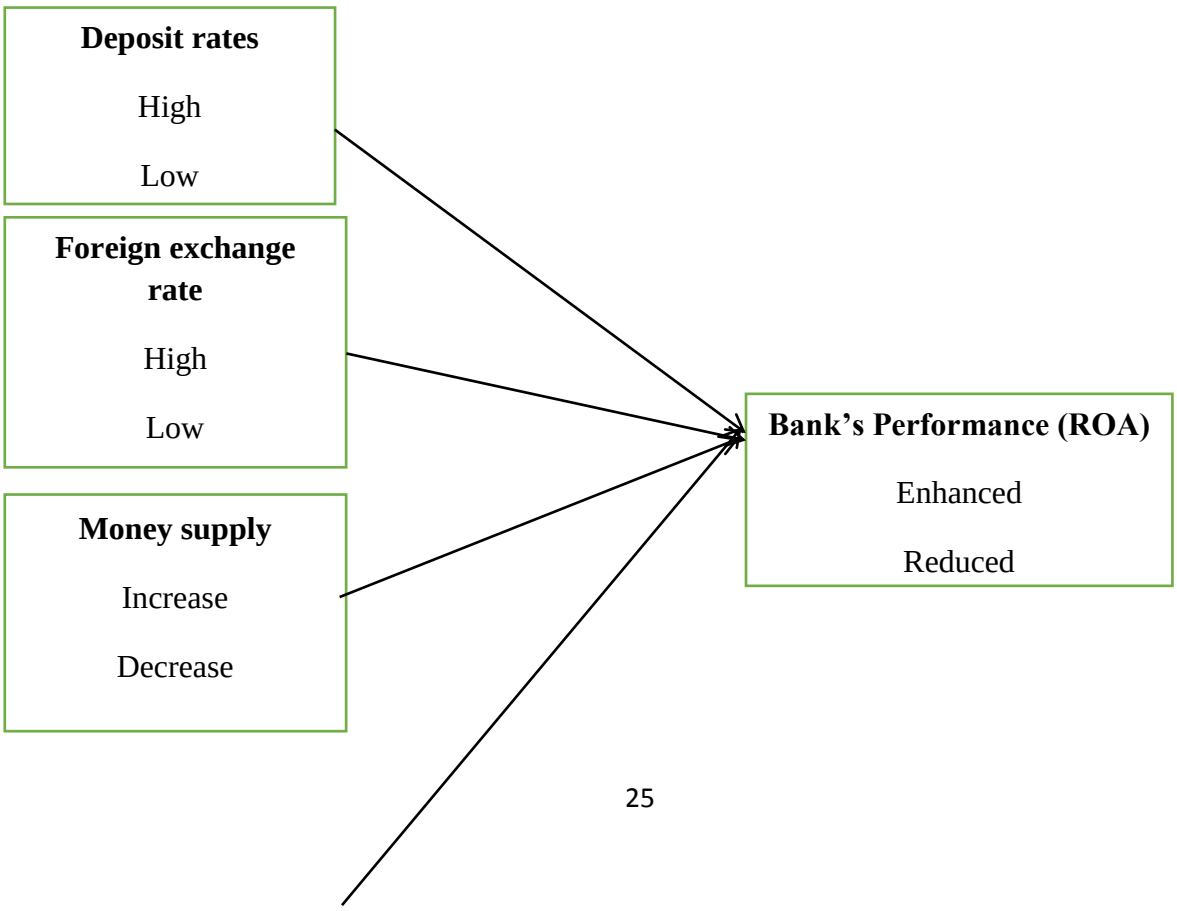
Between 1994 and 2014, Omodero, Ihendinhi, Ekwe and Azubuike (2016) analyzed the effect of fiscal policy on Nigeria's economy. Secondary data collection methods have been used for this analysis to produce data, and annual reports and a CBN statistical bulletin (2015) were included

in the data sources. The method used to evaluate the data in this analysis is the multiple regression of ordinary least square estimation. The analysis showed that no substantial relationship exists between capital spending, recurrent expenditure, tax revenue, and the economy's actual GDP. The study found, however, a major adverse association between the actual GDP and foreign debts. The study, therefore, advises that the government use fiscal policy to balance the implementation of appropriate monetary policy and uphold the rule of law to foster peace in Nigeria.

2.4 Gaps in Literature

An evaluation of the literature on the topic indicates that a great deal of work is being conducted on the impact on economic development of monetary and fiscal policy, with a minor focus on the success of DMBs. In the study of bank results in previous studies the omission of tax policy variables was found (variable(s) exclusion gap).

Also, by critically evaluating the effect of monetary and fiscal policy on the performance of DMBs in Nigeria, this study is intended to fill the void in the literature.



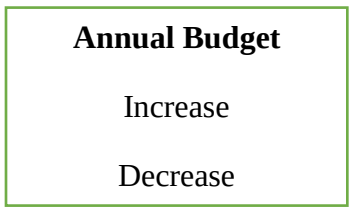


Figure 2.3: Operationalization

CHAPTER THREE

METHODOLOGY

3.1 Research Design

MacMillan and Schumacher (2001) described the research design as a plan for selecting topics, research sites, and procedures for data collection to address the research questions. They further point out that the goal of a sound research design is to achieve results that are deemed credible. The *Ex post facto* research model was used in this study to determine the degree to which money supply, deposit rate, foreign exchange rate, and annual budget would affect the output of deposit money banks in Nigeria.

3.2 Source of Data

For this study, secondary data were used and information was attained from the Central Bank of Nigeria (CBN) Statistical Bulletin, annual reports of the selected banks from 2009 to 2018. Secondary data were considered appropriate and were used because of their use in previous studies and have been validated by professionals and other regulatory authorities.

3.3 Population Size

They consist of 21 deposit money banks. They can be categorized as follows, those with international authorization consist of Access, Fidelity, First City Monument Bank, First Bank of Nigeria, Guaranty Trust Bank Plc, Union Bank Nigeria Plc, United Bank for Africa Plc and Zenith Bank Plc. DMBs with national authorization are Citi Bank Nigeria Limited, Ecobank Nigeria Plc, Heritage Bank Company Limited, Keystone Bank Limited, Polaris Bank Limited,

Stanbic IBTC Bank Limited, Standard Chartered, Sterling Bank Plc, Unity Bank Plc, and Wema Bank Plc while those with regional authorization are SunTrust Bank Nigeria Limited and Providus Bank Limited.

3.4 Sample Size and Sampling Technique

The sample size was drawn from the 21 deposit money banks based on simple random sampling. Five out of the nine banks with international authorization were selected. The banks are Guaranty Trust Bank (GTB), First Bank, Access Bank, Zenith Bank, and United Bank for Africa (UBA).

3.5 Model Specification

Given the objectives of the study, the research specified the following models to capture the hypothesized relationship:

Functional Model

ROA = F (DR, FEXR, MS, AB) ---------- (1)

Where:

ROA = Return on Asset

DR = Deposit Rate

FEXR = Foreign Exchange Rate

MS = Money Supply

AB = Annual Budget

Regression Model

$ROA_t = a_0 + a_1 DR_t + a_2 FEXR_t + a_3 MS_t + a_4 AB_t + \mu_t$ ---------- (2)

Where μ = Stochastic Error Term

a_1, a_2, a_3 and $a_4 > 0$

Table 3.1: Data Sources and Measurement

Variable	Description	Symbol	Sources	Measurement
Return on Assets	The return generated from the use of the banks' assets. A means of measuring Performance	ROA	Annual Reports of selected banks from 2009 to 2018	Percentage
Deposit Rate	The rate paid by banks on deposit held from customers	DR	CBN Statistical Bulletin 2009 to 2018 editions	Percentage
Money Supply	Aggregate or total money in circulation and balances held by banks in accounts	MS	CBN Statistical Bulletin 2009 to 2018 editions	Billions of Naira
Foreign Exchange Rate	This is the exchange rate of Naira to a dollar	FEXR	CBN Statistical Bulletin 2009 to 2018 editions	Ratio
Annual Budget	This is the estimate of government expenditure in a year	AB	CBN Statistical Bulletin 2009 to 2018 editions	Billions of Naira

Source: Authors Research Survey (2020)

3.6 Method of Data Analysis

The technique used in this study is the ordinary least square method (OLS) of multiple regressions as it is well known as the best linear unbiased estimator (BLUE). In analyzing data collected to assess the impact of monetary and fiscal policy on the banking sector, econometric instruments such as multiple regressions are used. The methodology of ordinary least square (OLS) technique of model estimation is mostly used in econometric analysis due to its computational simplicity and poses some salient features like optimal property of parameter estimates such as unbiasedness, fairly in computation when compared with other econometrics techniques and assumed minimum variable property (Greg, Udude, & Hope, 2015).

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Results

Data were attained from the Central Bank of Nigeria (CBN) Statistical Bulletin and annual reports of five selected banks in Nigeria. The data were summarized and presented in form of tables and figures. The collected data were analyzed and interpreted in line with the aims of the study namely, to ascertain if deposit rate (DR) has a significant relationship with performance of deposit money banks in Nigeria, to determine if foreign exchange rate (FEXR) has a significant relationship with performance of deposit money banks in Nigeria, to examine if money supply (MS) has a significant relationship with performance of deposit money banks in Nigeria, to ascertain if annual budget (AB) has a significant relationship with performance of deposit money banks in Nigeria.

The model description illustrates the model's predictive ability in regression analysis. R is the coefficient of association between the (observed) dependent variable and the (s) independent variable, the predictor(s). The sign of R indicates the direction of the relationship (positive or negative). The value of R ranges from -1 to 1. The absolute value of R indicates the strength, with the larger absolute value indicating a strong relationship.

The R squared (co-efficient of determination) shows the degree of linear- correlation of variables (goodness of fit) in regression analysis. This is the amount of variance described by the regression analysis in the dependent variable. In other words, it illustrates the degree to which

the variation in the dependent variable can be clarified by the independent variable(s). The sample R squared tries to predict how well the model matches the population optimistically. The modified R square in the regression model only accounts for the number of variables. The standard error of the calculation is the residuals' standard deviation. This attempts to fix R squared to represent the goodness of the model's fit more closely. It is the R square value modified in the regression model for the number of variables.

The standard deviation of the residuals is the standard error of estimates. As squared R increases, the estimate's standard error decreases. In other terms, a better match leads to fewer errors in the calculation. The survey statistics are a significant measure of how reliable a population parameter estimate is. The ANOVA table tells us the overall significance of the model. The t-test is used when the population parameters (mean and standard deviation) are not known. In the case of small samples where population variation is unknown, the T-test is based on the t-distribution and is considered a good test for determining the magnitude of the variations between the means for 2 samples. The F-statistics is the regression mean square (MSR) divided by the residual mean square. F-statistics determine whether the model is a good fit for the data based on its significance level. A significant value of F-statistics shows that the model is better at predicting the outcome value of the dependent variable than its average. If the significance value of the F-statistics is smaller than 0.05, the independent variable(s) is significant in explaining the variation in the independent variable, and the null hypothesis is accepted.

The standard co-efficient or beta is an attempt to make the regression co-efficient more comparable. It is a helpful way of seeing what effect it would have on the independent variable if it adjusts the explanatory variable by one standard deviation. It is usually equal to the correlation coefficient between the variables.

Hypothesis 1

Relationship between Deposit rate and return on assets of Nigeria

Table 4.1: Model 1 Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.259[a]	.067	-.049	.75345

a. Predictors: (Constant), DEPOSIT RATE

Table 4.2: ANOVA[a](Model 1)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.327	1	.327	.577	.469[b]
	Residual	4.542	8	.568		
	Total	4.869	9			

a. Dependent Variable: RETURN ON ASSETS

b. Predictors: (Constant), DEPOSIT RATE

Table 4.3: Regression Coefficients[a](Model 1)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.967	.796		3.727	.006
	DEPOSIT RATE	-.086	.114	-.259	-.760	.469

a. Dependent Variable: RETURN ON ASSETS

From the regression tables above (Tables 4.1- 4.3), The overview findings of the model revealed that the association between asset return and deposit rates was negative but poor in Nigeria. This is reflected in the value of the coefficient of the correlation (R) which is 0.259 and the coefficient (-.086). This R-value indicates that the strength of the relationship between the two variables under study is about 25.9%. The coefficient of determination (R^2) showed a value of 0.067 which indicates about 6.7%. This result implies that on average about 6.7% variations in return on assets within the period under review are systematically explained by changes in deposit rates. Thus, more than 93% of variations in the return on assets remain unexplained by this explanatory variable. The computed t-statistics for the study showed t-computed as -0.760. Using the conventional 5% level of significance, the critical value t-statistics at 9 df is 1.83. Since the t-calculated is lesser than t-critical value) 1.83> -0.760), we accept the null hypothesis that there is no statistically significant relationship between the deposit rate and return on assets. Since F-computed (0.577) is lesser than F-tabulated (5.12) at a 5% level of significance, we equally

accept the null hypothesis. It follows from the judgment law that if the F-value is less than the F-value tabled we agree with the null hypothesis and dismiss the alternative hypothesis. It can therefore be inferred that there is no meaningful correlation between the deposit rate (DR) and the success of deposit banks in Nigeria.

Hypothesis 2

Relationship between Return on Assets and Money supply

Table 4.4: Model 2 Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.680[a]	.462	.395	.57208

a. Predictors: (Constant), LNMS

Table 4.5: ANOVA[a](Model 2)

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	2.251	1	2.251	6.877	.031[b]
	Residual	2.618	8	.327		
	Total	4.869	9			

a. Dependent Variable: RETURN ON ASSETS

b. Predictors: (Constant), LNMS

Table 4.6: Regression Coefficients[a](Model 2)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	-13.967	6.240		-2.238	.056
	LNMS	1.700	.648	.680	2.622	.031

a. Dependent Variable: RETURN ON ASSETS

From the regression tables above (Table 4.4- 4.6), the model summary result indicated that there is a positive and strong correlation between return on assets and money supply in Nigeria. This is reflected in the value of the coefficient of the correlation (R) which is 0.680 and coefficient (1.700). This R-value shows that the relationship power of the two studied variables is about 68.0%. The coefficient of determination (R^2) showed a value of 0.462 which indicates about 46.2%. This result implies that on average about 46.2% variations in return on assets within the period under review are systematically explained by changes in money. Thus, more than 53% of variations in the return on assets remain unexplained by this explanatory variable. The computed t-statistics for the study showed t-computed as 2.622. Using the conventional 5% level of significance, the critical value t-statistics at 9 df is 1.83. Since the t-calculated is greater than t-critical value) 2.622> 1.83), We dismiss the null hypothesis that the relationship between money supply and return on assets is not statistically important. Since F-computed (6.877) is greater than F-tabulated (5.12) at 5% level of significance, we equally reject the null hypothesis. The ruling follows that if the F-value calculated approaches the F-value in the table, we deny a zero-important hypothesis and consider the alternate hypothesis. It can thus be inferred that the availability of money is substantially linked to deposit cash banks success in Nigeria.

Hypothesis 3

Relationship between Return on Assets and Exchange Rate

Table 4.7: Model 3 Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
3	.390[a]	.152	.046	.71824

a. Predictors: (Constant), EXCHANGE RATE

Table 4.8: ANOVA[a](Model 3)

Model		Sum of Squares	df	Mean Square	F	Sig.
3	Regression	.742	1	.742	1.438	.265[b]

	Residual	4.127	8	.516		
	Total	4.869	9			

a. Dependent Variable: RETURN ON ASSETS

b. Predictors: (Constant), EXCHANGE RATE

Table 4.9: Regression Coefficients[a](Model 3)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
3	(Constant)	1.534	.749		2.048	.075
	EXCHANGE RATE	-.004	.003	.390	1.199	.265

a. Dependent Variable: RETURN ON ASSETS

From the regression tables above (Table 4.7- 4.9), the model summary result indicated that there is a negative but a weak correlation between return on assets and exchange rate in Nigeria. This is reflected in the value of the coefficient of the correlation (R) which is 0.390 and the coefficient value of (-.004). This R-value indicates that the strength of the relationship between the two variables under study is about 39.0%. The coefficient of determination (R2) showed a value of 0.152 which indicates about 15.2%. This result implies that on the average about 15.2% variations in return on assets within the period under review are systematically explained by changes in deposit rates. Thus, more than 84% variations in the return on assets remain unexplained by this explanatory variable. The computed t-statistics for the study showed t-computed as 1.199. Using the conventional 5% level of significance, the critical value t-statistics at 9 df is 1.83. Since the t-calculated is lesser than t-critical value) 1.83> 1.199), We support the null hypothesis that the exchange rate and the return on investment are not statistically important. Since F-computed (1.438) is lesser than F-tabulated (5.12) at a 5% level of significance, we equally accept the null hypothesis. The decision rule follows that if the computed F-value is lesser than the tabulated F- value; We accept the null statement and deny the alternative assumption. It can therefore be inferred that the exchange rate in Nigeria has no essential connection to the success of the deposit money banks.

Hypothesis 4

Relationship between return on assets and budgetary allocations

Table 4.10: Model 4 Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
4	.574[a]	.329	.245	.63898

a. Predictors: (Constant), lnbudgt

Table 4.11: ANOVA[a](Model 4)

Model		Sum of Squares	df	Mean Square	F	Sig.
4	Regression	1.603	1	1.603	3.925	.083[b]
	Residual	3.266	8	.408		
	Total	4.869	9			

a. Dependent Variable: RETURN ON ASSETS

b. Predictors: (Constant), lnbudgt

Table 4.12: Regression Coefficients[a](Model 4)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
4	(Constant)	-13.658	8.102		-1.686	.130
	lnbudgt	1.836	.927	.574	1.781	.083

a. Dependent Variable: RETURN ON ASSETS

From the regression tables above (Table 4.10-4.12), the model summary result indicated that there is a positive and strong correlation between return on assets and budgetary allocations in Nigeria. This is reflected in the value of the coefficient of the correlation (R) which is 0.574 and the coefficient value of (1.836). This R-value indicates that the strength of the relationship between the two variables under study is about 57.4%. The coefficient of determination (R^2) showed a value of 0.329 which indicates about 32.9%. This result implies that on the average about 32.9% variations in return on assets within the period under review are systematically explained by changes in budgetary allocations. Thus, more than 67% variations in the return on assets remain unexplained by this explanatory variable. The computed t-statistics for the study showed t-computed as 1.981. Using the conventional 5% level of significance, the critical value t-statistics at 9 df is 1.83. Since the t-calculated is lesser than the t-critical value (1.83>1.781), We support the null hypothesis that the budget and the return on investment are not important. Since F-computed (3.925) is lesser than F-tabulated (5.12) at a 5% level of significance, we equally accept the null hypothesis. The decision rule follows that if the computed F-value is lesser than the tabulated F- value; We accept the null statement and deny the alternative assumption. It can be inferred therefore that there is not a relevant relationship in the annual budget (AB) with the success of Nigerian deposit money banks.

The overall relationship between the dependent variable (return on assets) and the independent variables (deposit rate, inflation rate, exchange rate, money supply, and budget)

Table 4.13: Model 5 Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
5	.793[a]	.629	.166	.67173

a. Predictors: (Constant), lnbudgt, DEPOSIT RATE, LNMS, EXCHANGE RATE

Table 4.14: ANOVA[a] (Model 5)

Model		Sum of Squares	df	Mean Square	F	Sig.
5	Regression	3.064	5	.613	1.358	.395[b]
	Residual	1.805	4	.451		
	Total	4.869	9			

a. Dependent Variable: RETURN ON ASSETS

b. Predictors: (Constant), lnbudgt, DEPOSIT RATE, LNMS, EXCHANGE RATE

Table 4.15: Regression Coefficients[a] (Model 5)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
5	(Constant)	-54.671	41.321		-1.323	.256
	DEPOSIT RATE	-.185	.270	.555	.684	.531
	(LNMS)	1.222	3.370	.488	.362	.735
	EXCHANGE RATE	-.012	.016	-1.174	-.758	.491
	LNbudget	5.291	5.236	1.653	1.010	.369

a. Dependent Variable: RETURN ON ASSETS

From the overall regression tables above (Table 4.13-4.15), the model summary result indicated that there is a positive and strong correlation between asset returns and all of Nigeria's monetary and fiscal policies on deposit rates, inflation, money supply, exchange rates, and budget allocations. This is reflected in the value of the coefficient of the correlation (R) which is 0.793. This value indicates that around 79.3% is the strength of the relationship between the variables under analysis. The coefficient of determination (R^2) showed a value of 0.629 which indicates about 62.9%. This result implies that on average about 62.9% variations in return on assets within the period under review are systematically explained by changes in all the independent

variables. Thus, more than 37% variations in the return on assets remain unexplained by these explanatory variables. Since F-computed (1.358) is lesser than F-tabulated (5.12) at 5% level of significance, we accept the null hypothesis of no statistically significant relationship between the banks' performance proxy by return on assets and the stated monetary and fiscal policies. If the estimated F-value is smaller than the tabulated F-value, the decision rule means that we accept the null hypothesis and reject the alternative hypothesis. It can therefore be inferred that monetary and fiscal policies do not have an important relationship with the success of Nigeria's deposit money banks.

The overall regression model can be stated as:

ROA = -54.671+ (-.185) (DR) + 1.222(MS) -0.012(EXCHR) + 5.291(BUDGT) +μ.

4.2 Discussion of Results

This section of the study discussed the results of the estimation in line with the objectives of the study. There are four specific objectives in this study. The first objective of ascertaining if the deposit rate has a significant relationship with the performance of deposit money banks in Nigeria was achieved by regressing the deposit against the return on the average asset which proxy for bank performance. The outcome showed that the deposit rate and return on average assets do not have a significant relationship. This finding agrees with Udeh (2015), Chigbu and Njoku (2013) as well as Greg *et al* (2015) which concluded that no significant relationship existed between deposit rate and bank performance in Nigeria, but it is contrary to Ndugbu and Okere (2015), Olatunji et al (2017) as well as Olanipekun and Benjami (2015).

The second objective of examining if the exchange rate has a significant effect on bank performance was achieved by having the regression of the exchange rate against return on average assets. The outcome showed that the relationship between the exchange rate and the return on average assets is not statistically important. This is contrary to the conclusion reached by Greg *et al* (2015) as well as Jegede (2014) studies from Nigeria.

By regressing the money supply against the return on the average asset that is responsible for bank performance, the second aim of assessing if the money supply has a major effect on bank performance was accomplished. The outcome revealed that the relationship between money

supply and return on average assets is statistically significant. This outcome disagrees with Udude (2014), which concluded with the result of no statistically significant relationship between money supply and bank performance. But it is inconsonance with Michael and Ebibai (2014) as well as Havi and Enu (2014) studies from Nigeria and Ghana respectively.

The last objective of ascertaining if the annual budget has a significant effect on bank performance was achieved by regressing the annual budget against return on assets. The result revealed that there is no statistically significant relationship between annual budget and return on assets. This outcome agrees with Chigbu and Njoku (2013) as well as Olatunji *et al* (2017) which concluded that there is no statistically significant relationship between annual budget and return on assets.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

The main objective of this study was to empirically evaluate the impact on bank production in Nigeria of monetary and fiscal policies using secondary data from the 2009 to 2018 annual time series obtained from the Statistically Bulletin (2018) of the Central Bank of Nigeria and the annual financial reports of the various sampled banks.

The study employed the use of regression analysis to analyze the secondary on each of the four objectives of the study. The findings showed that all the monetary and fiscal policy instruments studied, except for the money supply, had no statistically significant effect on the return on the average assets that are responsible for the success of the bank. Although some of these variables are correctly signed, for instance, the positive relationship between annual budget and bank performance, money supply, and bank performance, while there exists a negative relationship between exchange rate and bank performance including deposit rate and banks' performance.

5.2 Conclusions

Having analyzed the results, it could be seen that between the periods of the study, most of the fiscal and monetary policies instruments investigated did not impact the banks' performance proxy by return on average assets in Nigeria. The results negate the assertions that these policies should have a significant impact on the banks' performance. This could be linked to the fact that these policies are not formulated to enhance the performance of banks which are the engine room for real sector development.

5.3 Policy recommendations

From the findings which have emerged in this study, few policy implications can be deduced.

First, the Central Bank of Bank of Nigeria, the institution that is saddled with monetary policy formulated should broaden their horizon in the use of new monetary policies that will go a long way to stimulate the real sector growth which will have an impact on the financial sector growth.

Secondly, the methodology employed by the Central bank of Nigeria in forecasting inflation needs to be made more dynamic to take into cognizance the recent dynamic nature of the

economy. Inflation is a variable that has a spiral effect on other macroeconomic variables, the stability of inflation results in the stability of other macroeconomic variables.

5.4 Suggestions for Further Research

The plethora of studies in this area largely considered the effect either of these two policies on the performance of banks. Although this study considered the impact of the two studies together, the direction of causality has not been considered. This is an area where further research can be considered. Also, the impact of either fiscal or monetary dominance on bank performance can be perused to obtain information on the impact of one over the other.

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Appendices

Appendix 1: Summary of Empirical Review

S/n	Author	Year	Topic	Findings	Gaps
1	Akanbi and Ajagbe	2012	Analysis of monetary policy on commercial banks in Nigeria.	The results showed a net profit, liquidity ratio, cash ratio, and the interest rate on savings which confirms the prior expectation.	Years and samples of the study.
2	Olanipekun and Benjamin	2015	Fiscal and Monetary Policy Instruments and Economic Growth Sustainability in Nigeria.	The outcome also revealed that there is a long-term association between fiscal and monetary factors and economic development.	Various aspects of money supply and tax revenue are ignored.
3	Adefeso and Mobolaji	2010	The Fiscal-Monetary and Economic Growth in Nigeria: Further Empirical Evidence.	The analytical finding showed that the influence of monetary policy was much greater than fiscal policy and that this assumption was not diminished by removing the degree of transparency.	Few samples.
4	Abata, Kehinde and Bolarinwa	2012	Fiscal/Monetary Policy and Economic Growth in Nigeria: A Theoretical Exploration	Throughout Nigeria, there is a moderate long-run equilibrium relationship between economic development and factors throughout the monetary policy.	No quantitative variable, data, and analysis.
5	Chigbu and Njoku	2013	The Impact of Monetary and Fiscal Policies on Nigerian Economic Growth: 1990-2010.	The findings revealed that the calculation of the reaction of money and fiscal policies based on economic development in Nigeria over the years of research was found to be erratic, suggesting no long-term relationship.	Different variables with bank performance.
6	John, Olabisi and Dafe	2013	0perational performance of fiscal and monetary policies in Nigerian financial institutions.	Results revealed that fiscal and monetary policies in Nigerian financial institutions have improved operating performance by rising financial indiscipline in political and fiscal structures	Few samples and data of the study.
7	Tariq and Maqbool	2011	The Relative Effectiveness of Monetary and Fiscal Policies in Economic Growth: A Case Study of Pakistan	The findings indicate that both monetary and fiscal policies play a significant part in Pakistan's economic development.	Exclusion of bank performance variable.
8	Julius, Micheal and Agatha	2018	Monetary policy and financial performance of Nigerian deposit money	It indicates that the CBN's monetary policies had a major impact on the short-run results of DMBs but a marginal	Exclusion of fiscal policy variable.

			banks.	influence in the long-run.	
9	Udeh	2015	Impact of Monetary Policy Instruments on Profitability of Commercial Banks in Nigeria: Zenith Bank Experience.	The report showed that Zenith Bank Plc's cash balance ratio, liquidity ratio, and interest rate had no major effect on the income before tax.	Few samples and instruments of monetary policy.
10	Mutuku and Koech	2014	Monetary and fiscal policy shocks and economic growth in Kenya: VAR econometric approach.	It showed that fiscal policy has a substantial positive effect on real production growth in Kenya while monetary policy shocks are entirely negligible with fiscal policy shock substantially altering real output for nearly eight-quarters cycles.	Exclusion of bank performance variable.
11	Olatunji, Onyinye and Peter	2017	Macro-Economic Policies and the Performance of Nigerian Financial Institutions.	It showed a major relationship between fiscal and commercial policies and deposit liability of money deposit banks.	Exclusion of bank performance variable.
12	Omodero, Ihendinhi, Ekwe and Azubuike	2016	The impact of fiscal policy on the economy of Nigeria (1994 and 2014).	It showed that no substantial connection exists between capital investment, discretionary spending, tax revenue, and the economy's actual GDP.	Exclusion of monetary policy and bank performance variable.

Appendix 2: Return of Assets of Selected Banks.

YEAR	GTB	Access	Zenith	First Bank	UBA	TOTAL	AVER.
2009	2.48	-1	1.2	0.3	0.3	3.28	0.8
2010	3.42	2.4	2.1	1.5	0	9.42	2.4
2011	3.77	2.1	2.1	1.3	-0.5	8.77	2.2
2012	5.22	3.1	3.3	2.4	2.6	16.62	4.2
2013	4.69	1.63	3.03	2	1.9	13.25	3.3
2014	4.24	2.9	3.1	2	1.8	14.04	3.5
2015	4.07	2.8	3.5	0.4	2.2	12.97	3.2
2016	4.69	2.5	3.4	0.4	2.3	13.29	3.3
2017	5.27	2.1	3.36	0.9	2.1	13.73	3.4
2018	5.56	1.9	3.35	1.1	1.8	13.71	3.4

Appendix 3: Analyzed Data

YEAR	ROA	DR	MS	FEXR	AB	lnMS	lnBGT
2009	0.7	9.61	9420	147.35	4262.98	9.15	8.36
2010	1.9	6.42	11034.94	148.33	5299.96	9.31	8.58
2011	1.8	5.4	12172.49	159.31	5870.58	9.41	8.68
2012	3.3	7.77	13895.39	160.58	5581.14	9.54	8.63
2013	2.7	6.92	15158.62	173.21	6338.81	9.63	8.75
2014	2.8	9.5	15851.29	169.68	5423.09	9.67	8.6
2015	2.6	8.81	16575.62	197	6106.41	9.72	8.72
2016	2.7	4.18	17333.04	305.23	8532.4	9.76	9.05
2017	2.7	4.08	18125.08	306.31	7697.1	9.81	8.95
2018	2.7	4.07	27068.58	306.95	8887.04	10.21	9.09

Appendix 4: Budget Breakdown

YEAR	RECURRENT	CAPITAL	TRANSFER	DEBT	TOTAL
	(N' BILLION)	(N' BILLION)	(N' BILLION)	(N' BILLION)	(N' BILLION)
2009	2,127.97	1,152.80	172.22	809.99	4,262.98
2010	3,109.38	883.87	201.32	1,105.38	5,299.96
2011	3,314.51	918.55	479.00	1,158.52	5,870.58
2012	3,325.16	874.83	405.40	975.75	5,581.14
2013	3,689.06	1,108.39	387.87	1,153.49	6,338.81
2014	3,426.90	783.12	377.37	835.71	5,423.09
2015	3,426.90	783.12	338.55	1,557.83	6,106.41
2016	4,160.11	653.61	1,044.84	2,673.84	8,532.40
2017	4,779.99	1,242.30	434.41	1,240.40	7,697.10
2018	5,675.19	1,682.10	456.46	1,073.30	8,887.04