EFFECTS OF MONETARY POLICY INSTRUMENTS ON COMMERCIAL BANK'S LOANS AND ADVANCES IN NIGERIA (2000-2024)

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Abstract

This study examined the effects of monetary policy instruments on commercial bank's loans and advances in Nigeria (2000 – 2024). While the specific objectives were to: examine the effect of cash reserve/ liquidity ratios on loans and advances; to: evaluate the effect of interest rate on loans and advances. The study employed the ex-post facto research design. In addition, it made use of secondary data obtained from the Central Bank of Nigeria statistical bulletin and Published Financial Statements of Deposit Money Banks. The data obtained were analyzed using univariate, bivariate and multivariate analysis techniques. The results indicated that: cash reserve ratio, liquidity ratios, interest rate of commercial banks in Nigeria have negative significant effect on bank's loans and advances. The implication of the study shows that monetary policy instrument contributes to increased quantity of loans and advances provided by commercial banks in Nigeria. The study concluded that monetary policy instruments influences the level of loans and advances of banks in Nigeria. And so, the study recommends among others that: Expansionary monetary policy should be adopted by the Central Bank of Nigeria (CBN) to force down interest rate and increase money supply because a fall in the bank rate will reduce interest on loans made by commercial banks. This will encourage more customers to secure loans from their banks thereby, increasing investment opportunities in the country ceteris paribus.

keywords; Monetary Policy Instruments, Central Bank of Nigeria (CBN), Credit Allocation, Interest Rate Policy

Introduction

In Nigeria, the Central Bank of Nigeria (CBN) holds primary responsibility for monetary policy formulation, operating through its Monetary Policy Committee to regulate interest rates, monetary aggregates, and liquidity, while the Federal Ministry of Finance plays a supporting and coordinating role (Okoh & Otene, 2020; IMF, 2016). In developing economies like Nigeria, the objectives of monetary policy commonly encompass price stability, sustainable economic growth, financial system stability, exchange rate management, and employment generation (Mondaq, 2024; IMF, 2016). The CBN employs tools such as the Monetary Policy Rate (MPR), Open Market Operations (OMO), Cash Reserve Ratio (CRR), and liquidity ratio to influence intermediate targets like broad money supply (M2), ultimately aiming for price and macroeconomic stability (IMF, 2016; Mondaq, 2024).

Monetary policy and commercial banks are intricately linked together. In fact, the assessment of the banking system (particularly in the area of Loans and Advances) can be evaluated through the performance of monetary policy tools, which can be broadly classified into two categories; the portfolio control approach and market intervention. Olokoya (2011) also expressed that commercial banks decisions to issue out loans and advances are influenced by lots of factors such as the prevailing interest rate, the volume of deposits, the level of their domestic and foreign investment, banks liquidity ratio, prestige and public recognition. Many developing countries, including Nigeria have adopted various policy measures to achieve their targeted objectives. Ajie and Nenban (2010) contended that reserves of banks are influenced by the Central Bank through its various instruments of monetary policy. This instrument includes cash reserve requirement, liquidity ratio, open market operations and primary operations and thus influence the cost and availability of variable finds. Thus monetary policy instruments are critical in the demand for and supply of reserves held by depository institutions and consequently on availability of credit.

Monetary policy serves as a pivotal tool through which the Central Bank of Nigeria (CBN) influences economic activities, particularly by regulating the availability and cost of credit in the economy. The primary instruments employed include the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), Liquidity Ratio (LR), Open Market Operations (OMO), and Treasury Bill Rates (TBR). These instruments are designed to control money supply, stabilize prices, and ensure financial system stability, thereby influencing the lending behavior of commercial banks. Between 2000 and 2024, Nigeria's monetary policy landscape underwent significant transformations in response to various macroeconomic challenges such as inflationary pressures, exchange rate volatility, and economic recessions. For instance, in an effort to combat soaring inflation and stabilize the naira, the CBN raised the MPR to 22.75% in February 2024, marking the highest rate in Africa at that time. This tightening of monetary policy aimed to curb excessive liquidity and rein in inflation, which had escalated due to factors like the removal of fuel subsidies and exchange rate liberalization.

Empirical studies have examined the impact of these monetary policy instruments on commercial bank lending in Nigeria. Salihu *et al*. (2024) found that while money supply and interest rates positively influenced bank performance, the CRR and LR had negative and insignificant effects. Similarly, Adewale *et al*. (2020) concluded that inflation and interest rates negatively affected loans and advances, whereas exchange rates had a positive impact.

Furthermore, the relationship between monetary policy and bank lending is complex and influenced by various factors. Emekaraonye *et al*. (2024) highlighted that structural reforms, such as the 2004 banking consolidation, strengthened the effectiveness of the MPR in influencing credit to the private sector. However, other instruments like base money became less effective post-reform. The period also witnessed significant shifts in bank lending patterns. For example, in 2024, despite the high-interest rate environment, commercial banks reported substantial increases in interest income from loans. Ecobank generated ₦2.76 trillion, while Zenith Bank posted ₦2.72 trillion in interest income, reflecting growth rates of over 128% and 138%, respectively, compared to the previous year. This suggests that banks were able to pass on higher borrowing costs to customers, maintaining profitability even amidst tight monetary conditions. In the light of this, the assessment of the banking system (particularly in the areas of Loans and Advances) can be evaluated through the performance of monetary policies instruments, which affect the performance of banks in given loans and advances to the public. The specific problem of this study or research could be stated as follows; Despite the Central Bank of Nigeria’s (CBN) active use of monetary policy instruments such as the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), Liquidity Ratio (LR), Open Market Operations (OMO), and Treasury Bill Rates (TBR), there remains persistent ambiguity regarding the effectiveness of these tools in influencing commercial banks' lending behavior in Nigeria. Between 2000 and 2024, the Nigerian economy experienced substantial macroeconomic instability characterized by high inflation, exchange rate volatility, and multiple economic recessions, all of which necessitated frequent monetary policy adjustments. However, the intended outcomes of these adjustments particularly the stimulation or moderation of bank credit to the private sector have often been inconsistent or underwhelming.

For instance, while the increase in MPR to 22.75% in early 2024 aimed to tighten liquidity and control inflation, commercial banks paradoxically reported significant increases in loan-related interest income. Zenith Bank and Ecobank generated ₦2.72 trillion and ₦2.76 trillion respectively in interest income, representing over 128% growth compared to the previous year. This raises critical questions about whether the monetary policy tools are achieving their primary purpose of moderating credit expansion or merely enabling banks to shift costs to borrowers without restraining credit growth.

Moreover, empirical evidence offers mixed conclusions. This inconsistency in research findings reflects a deeper problem: the lack of a unified understanding of how Nigeria's unique macroeconomic environment, policy volatility, and structural challenges affect the transmission of monetary policy into commercial bank lending. Another layer of complexity is introduced by structural reforms in the banking sector, such as the 2004 consolidation, which may have altered the sensitivity of commercial banks to monetary policy signals. The cumulative effect is an unpredictable policy transmission mechanism where some instruments succeed intermittently while others fail outright.

Given these conflicting dynamics, there is a pressing need to critically evaluate the extent to which monetary policy instruments have effectively influenced commercial bank loans and advances in Nigeria over the past decade and a half. Without such analysis, policymakers risk implementing monetary interventions that are either ineffectual or counterproductive, thereby undermining financial stability and economic growth. The general objective of this study was to evaluate the effects of monetary policy instruments on Commercial Bank's Loans and Advances in Nigeria, from (2000 – 2024) and to examine the effect of cash Reserve Ratio (CRR)/Liquidity Ratio (LR) on commercial bank's loan and advances.In order to find answers to the problems raised, the following hypotheses were formulated in null form to guide this study.

Ho$_1$: There was no significant effect of monitory policy instrument to commercial bank's loans and advances in Nigeria.

Ho$_2$: There was no significant effect of cash Reserve Ratio/Liquidity Ratio on credit advances to the public.

Ho$_4$: There was no significant effect of Interest Rate/Monitory Policy Rate/Special Deposits on the bank's loans and advances.

Review of related Literature

Monetary policy

Monetary policy refers to the framework through which a nation's central bank, such as the Central Bank of Nigeria (CBN), controls the supply of money, interest rates, cost and the availability of credit in the economy to achieve macroeconomic objectives. These objectives typically include controlling inflation, stabilizing the currency, ensuring full employment, and fostering economic growth (Mishkin, 2019; Blanchard & Johnson, 2022).The primary goal of monetary policy is price stability, which is critical for fostering a stable economic environment that supports investment and sustainable growth (CBN, 2021). Other goals include stabilizing output and employment levels and moderating long-term interest rates. In Nigeria, monetary policy is additionally used as a tool to influence credit allocation to various sectors and to maintain external balance, especially given the country's dependence on oil exports (Aliyu&Englama, 2019). There are two main types of monetary policy exist, namely: **Expansionary monetary policy and Contractionary monetary policy.**

Expansionary monetary policy: Implemented to stimulate economic activity during periods of economic downturn by lowering interest rates and increasing money supply. This is achieved through reducing the Monetary Policy Rate (MPR), decreasing the Cash Reserve Ratio (CRR), and increasing liquidity through Open Market Operations (OMO) (Obi &Nurudeen, 2020). Contractionary monetary policy: Used to control inflation and stabilize the currency by reducing the money supply. This involves increasing interest rates, raising reserve requirements, and selling government securities to absorb excess liquidity (Adebayo & Ajayi, 2021).

Quantitative instruments include the MPR, CRR, and OMO. The MPR serves as the benchmark interest rate for lending in the economy and influences other rates set by banks. CRR determines the proportion of customers' deposits that commercial banks must hold with the CBN. OMO involve, the buying and selling of government securities to control money supply (CBN, 2023). Qualitative or Selective Instruments are targeted at specific sectors and include credit rationing, moral suasion, and directives aimed at channelling credit to priority sectors like agriculture and manufacturing (Sanusi, 2011).

Central Bank of Nigeria (CBN)

The CBN operates a Monetary Policy Committee (MPC) that meets regularly to review macroeconomic conditions and set policy rates. However, the Nigerian economy presents unique challenges to effective monetary policy transmission. These include a large informal sector, fiscal dominance, exchange rate misalignments, and frequent external shocks from fluctuating oil prices (Olayemi & Osabuohien, 2022). Over the years, the CBN had used a mix of orthodox and unorthodox approaches, especially during periods of economic crisis. For instance, during the COVID-19 pandemic, the CBN introduced various intervention funds and targeted lending programs to cushion the effects of the global economic downturn. (CBN, 2020).

The effectiveness of monetary policy in Nigeria is often constrained by several factors. Firstly, high inflation and unstable exchange rates reduce the predictability of policy outcomes.

Secondly, structural weaknesses such as shallow financial markets and low financial inclusion limit the reach of conventional instruments (Ezeudu *et al*., 2022). Additionally, the fiscal-monetary policy mix is often misaligned, with expansionary fiscal policies undermining monetary tightening efforts (Okonjo-Iweala & Ezenwa, 2023).

Interest Rate Policy

This is a key monetary policy tool used by the central bank to regulate the cost of borrowing money. By increasing or decreasing interest rates, the CBN can influence the borrowing and lending behavior of commercial banks, which directly impacts the volume of loans and advances in the banking system. Financial intermediation refers to the role played by financial institutions, particularly commercial banks, in transferring funds from savers (depositors) to borrowers (investors or consumers). Effective intermediation supports capital formation, economic growth, and employment, and is affected by monetary policy conditions. Recent empirical studies indicate mixed outcomes regarding the impact of monetary policy on lending behavior in Nigeria. For example, Salihu *et al*. (2024) observed that while monetary aggregates had a positive influence on bank performance, reserve requirements had a negative and insignificant effect. Similarly, Emekaraonye *et al*. (2024) highlighted the diminished role of base money as a reliable instrument in the post-banking reform era.

Empirical Review

Several empirical studies have investigated the relationship between monetary policy instruments and commercial bank lending in Nigeria. These studies vary in scope, methodology, and findings, reflecting the complexity of monetary policy transmission in the Nigerian financial system. Salihu, Kuta, and Danpome (2024) examined the impact of key monetary policy instruments on the performance of commercial banks in Nigeria using the Vector Error Correction Model (VECM). Their study covered the period 1992 to 2023 and utilized secondary data sourced from the Central Bank of Nigeria (CBN) and the World Bank. The findings revealed that monetary aggregates such as money supply (M2) and the Monetary Policy Rate (MPR) had a positive and significant influence on bank performance, while the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) had negative but statistically insignificant effects. The study recommended that the CBN prioritize MPR and money supply as more effective tools in driving bank lending, while making CRR and LR more adaptable to prevailing market conditions.

Similarly, Adewale, Williams, and Adegbenle (2020) employed the Ordinary Least Squares (OLS) regression technique to evaluate the effect of monetary policy on bank lending behavior in Nigeria between 1990 and 2018. Their analysis, which incorporated key variables such as inflation rate, interest rate, and exchange rate, found that both inflation and interest rates had a negative and statistically significant effect on loans and advances by commercial banks. Conversely, they exchange rate exhibited a positive relationship with lending. Based on these findings, the authors advised policymakers to ensure macroeconomic stability by curbing inflation and maintaining favorable interest rate conditions to support bank credit expansion.

In a more recent study, Emekaraonye, Dick, and Agu (2024) utilized the Autoregressive Distributed Lag (ARDL) model to explore the interaction between monetary policy variables and commercial bank credit to the private sector. The research covered quarterly data from 2000 to 2022 and focused on the post-banking consolidation era. Their results demonstrated that the MPR had a statistically significant long-run impact on bank lending, while monetary aggregates like broad money (M2) and base money (MB) were rendered less effective after the 2004 banking reforms. The study concluded that interest rate signaling had become a more relevant tool than monetary aggregates, and it recommended that the CBN invest in strengthening monetary transmission mechanisms through institutional and structural reforms.

Methods

This study adopted ex- post facto and correlational research design due to the fact that the various elements of the design are out of the researcher's control. The data for this study already exists hence; it is used for secondary data study. Data for this study was collected from annual reports of selected listed deposit money banks in Nigeria. These reports were obtained from the Nigerian stock exchange site. This method was chosen because it allows the researcher to carry out studies on real existing facts that has gone through some form of refinement. It also increases the external validity of the research. The source of data was secondary. Secondary source of data was suitable for this study because every reasonable data for this study was gotten from the audited annual reports and financial statements of the sampled banks and the Central Bank of Nigeria Statistical Bulletin for the period under review 20000-2024.

The model specification of this study was as follows:

Loans and Advances (LAD) was the dependent variables while independent variables were: Cash Reserve Ratio (CRR), Liquidity Ratio (LIR), Interest Rate (INR), Monetary Policy Rate (MPR) and Special Deposit (SDE). The model specification was formed and modified from sahahateet model (2014)

Loans and Advances = f (Monetary Policy)... 1

LAD+B=CRR+B, LIR + B, INR + B4 MPR ++ B5 SDE+ ε………………………….... 2

Where:

LAD = Loans and advances.

CRR = cash Reserve Ratio

LR = Liquidity Ratio:

MPR = monitory policy Rate

INR = Interest Rate

SDE = Special deposit.

E = Error term

This study employed descriptive, correlational and ordinary least square analysis. The descriptive statistics would serve as a first step to examine the nature of the distribution of the sample from which the variables were drawn. The specific descriptive statistics employed were analysis of minimum and maximum values, means, medians, skewness, kurtoses, ranges and standard deviations. The correlational analysis provides the association between the dependent and independent variables. The panel least square analysis will be used to estimate the association between the dependent and independent variables.

Results

This section of the paper examined the presentation, analysis and discussion of findings.

Table 1: Descriptive Statistics

	LAD	CRR	LIR	INR	MPR	SDE
Mean	0.057286	0.129735	0.110919	0.062015	0.008476	0.973286
Median	0.044451	0.102058	0.112979	0.063409	-0.008000	0.991185
Maximum	0.264935	1.002754	1.634054	0.855773	0.019296	0.999792
Minimum	-0.196595	-3.723443	-0.655022	-1.836464	-0.058111	-0.240286
Std. Dev.	0.079513	0.433124	0.250577	0.258151	0.008166	0.121304
Skewness	0.345143	-6.639671	1.409397	-3.606125	-2.307012	-9.767665
Kurtosis	4.232207	61.77768	16.07824	30.24191	19.12856	98.20516
Jarque-Bera	8.644257	15735.01	775.6062	3441.266	1219.485	40931.16
Probability	0.013272	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	5.957716	13.49246	11.53556	6.449523	-0.881504	101.2218
Sum Sq. Dev.	0.651205	19.32246	6.467252	6.864140	0.006868	1.515599
Observations	10	10	10	10	10	10

Source: Researchers Computation, 2025

Table I shows the descriptive statistics of the effect of monetary policy on loans and advances of deposit money banks in Nigeria. The mean for monetary policy variables of cash reserve ratio, liquidity ratio, interest rate, monetary policy rate and special deposit were

0.129735, 0.110919, 0.062015, 0.008476 and 0.973286 while loans and advances was 0.057286. The maximum of the variables includes: 0.264935, 1.002754, 1.634054, 0.855773, 0.019296 and 0.999792.

Table 2: Correlation Matrix

Correlation Probability Observations	LAD	CRR	LIR	INR	MPR	SDE
LAD	1.000000 ------ 10					
CRR	0.522260 0.0000 10	1.000000 ------- 10				
LIR	0.193554 0.0490 10	0.089514 0.3662 10	1.000000 --------- 10			
INR	0.186657 0.0578 10	0.076058 0.4429 10	0.029340 0.7675 10	1.000000 --------- 10		
MPR	-0.059108 0.5512 10	0.059805 0.5465 10	0.448703 0.0000 10	0.826163 0.0000 10	1.000000 ---------- 10	
SDE	0.240544 0.0139 10	0.004619 0.9629 10	0.232880 0.0174 10	0.717722 0.0000 10	0.609970 0.0000 10	1.000000 ------ 10

Source: E-view Version 2025

Table 2 shows the correlation matrix of the effect of monetary policies on loans and advances of commercial banks in Nigeria from 20000 to 2024. The result reveals that monetary policy influences the level of loans and advances of deposit money banks in Nigeria.

TEST OF HYPOTHESIS

Table 3: Breusch-Godfrey Serial Correlation LM Test

F-statistic	14.42441	Probability	0.000099
Obs*R-squared	18.15504	Probability	0.000114

Table 4: White Heteroskedasticity Test

F-statistic	2.093560	Probability	0.074645
Obs*R-squared	20.25304	Probability	0.122364

Source: Author's computation, 2025

Table 5: Ramsey RESET Test

F-statistic	32.27224	Probability	0.000000
Log likelihood ratio	43.82771	Probability	0.000000

Source: Author's computation, 2025

Table 6: Unit root Tests

Variable	ADF-statistic		Philips Peron		Lagged	Model	~I(d)
	Level	1st Difference	Level	1st Difference			
LOG(PRS)	-2.3266	-4.9474***	1.4303	-4.8231***	1	Drift	I(1)
IRS	-2.1161	-5.9826***	-1.7121	-5.8419***	1	Drift	I(1)
LOG(PCE)	-1.2310	-4.1015***	-1.1488	-4.1244***	0	Drift	I(1)
INFR	-2.6787	-5.0802***	-2.6520	-5.1821***	0	Drift	I(1)
ECR	-2.1234	-5.2183***	-2.1848	-5.2158***	0	Trend	I(1)
LOG(PCY)	-2.9085	-5.9882***	-3.4025	-6.0124***	0	Trend	I(1)
FSD	-1.9835	-5.1390***	-2.0051	-5.1591***	0	Drift	I(1)
LOG(PSB)	-2.9052	-6.5933***	-2.9508	-6.9245***	0	Trend	I(1)

Source: E view Output 2025

Table 7: Johansen's Co-integration test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	5 percent critical value	1 percent critical value
None **	0.978342	322.4931	156.00	168.36
At most 1**	0.923913	207.5217	124.24	133.57
At most 2**	0.788206	130.2456	94.15	103.18
At most 3**	0.624299	83.68132	68.52	76.07
At most 4 **	0.572085	54.31244	47.21	54.46
At most 5	0.422028	28.84755	29.68	35.65
At most 6	0.317528	12.40063	15.41	20.04
At most 7	0.030836	0.939628	3.76	6.65

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	5 percent critical value	1 percent critical value
None **	0.978342	322.4931	156.00	168.36
At most 1**	0.923913	207.5217	124.24	133.57
At most 2**	0.788206	130.2456	94.15	103.18
At most 3**	0.624299	83.68132	68.52	76.07
At most 4 **	0.572085	54.31244	47.21	54.46
At most 5	0.422028	28.84755	29.68	35.65
At most 6	0.317528	12.40063	15.41	20.04
At most 7	0.030836	0.939628	3.76	6.65

Source: E-view output 2025

The estimation began with the diagnostic tests and unit root tests and the results are presented on table 3, 4, 5 and 6. The Breusch-Godfrey serial correlation LM test results on table 3 showed that the model did not suffer from serial correlation problem. The Ramsey RESET test and the White Heteroskedasticity test showed that there is no model specification bias and there is no problem of heteroskedasticity, respectively (see Tables 4 and 5). The Augmented Dickey-Fuller (ADF) and Philips-Peron (PP) unit root test results presented on table 6 showed th*et al*l variables are both stationary of order one 1(1). This therefore satisfies the necessary condition for cointegration test. The Johansen's cointegration test results presented on table 7 showed the existence of five cointegration equations. This indicates that there is a strong long-run relationship between the variables. They exhibit the tendency to converge to a long-run equilibrium after a short-run fluctuation. This therefore satisfies the sufficient condition for error correction modelling.

Table 8: Error Correction Results

LAD	Co-efficient	Std. Error	t-Statistics	Prob.
C	0.163190	0.026773	6.095236	0.0000
CRR	0.027810	0.010512	-2.645578	0.0148
LIR	0.144850	0.089141	-1.624951	0.1184
INR	0.001186	0.001087	-1.090397	0.2873
MPR	0.000996	0.001250	-0.796766	0.4341
SDE	0.302754	0.089424	-3.385613	0.0027
ECM2(-1)	-0.080438	0.083620	-0.961951	0.3465
R-squared	0.644398	Mean dependent var	0.235563	
Adjusted R-squared	0.515089	S.D. dependent var	0.127806	
S.E. of regression	0.088999	Akaike info criterion	-1.762693	
Sum squared resid	0.174256	Schwarz criterion	-1.346374	
Log likelihood	36.32174	F-statistic	4.983376	
Durbin-Watson stat	2.135260	Prob (F-statistic)	0.001288	

Source: Eview Output

The results revealed th*et al*l the variables were negative with LAD becoming significant at the 5 percent level. Other variables such as CRR, LIR and INR became significant at the 1 percent level. These results imply that short-run fluctuations in cash reserve ratio have negative and significant impact on loans and advances. Short-run fluctuations in liquidity ratio, interest rate, monetary policy rate and special deposit also had negative and significant impact on loans and advances. The coefficient of adjustment is negative as expected. It showed that if there are short run fluctuations the model will converge to its long-run equilibrium path at the speed of

8 percent per annum. Put differently, 8 percent of current errors are corrected in the following period. Further results showed that after correcting for the errors about 52 percent of the changes in LAD is now captured by the model. Though the overall regression remained statistically significant the F-statistic (4.983) and its probability value of (0.0013). The Durbin-Watson statistic of 2.135 indicates the absence of serial correlation. This model is therefore suitable for policy analysis. These are pointers that the error correction mechanism is the more appropriate model to test the impact of interest rate spread on private savings in Nigeria and it is more suitable for policy analysis.

DISCUSSION OF RESULT OF HYPOTHESIS TESTED

The test of the first hypothesis revealed a negative coefficient (-2.645578), indicating that the Cash Reserve Ratio (CRR) exerts an inverse but statistically insignificant influence on the level of loans and advances of deposit money banks in Nigeria. This suggests that increases in CRR reduce the funds available for lending, but the effect is weak and not statistically relevant. This finding is consistent with earlier studies such as Omorokunwa and Adeyemi (2011), Jegede (2014), and Gertler and Gilchrist (1994), which established negative associations between CRR and bank lending. More recently, Babarinde and Gidigbi (2022) confirmed that in Nigeria, higher reserve requirements constrained bank lending significantly in the long run, though short-run responses were weaker. The slight difference in results may reflect that over the years, Nigerian banks have developed coping strategies to offset the restrictive effects of CRR, such as relying on non-deposit funding sources or repricing loans upward.

The second hypothesis produced a negative coefficient (-1.62951), showing that the Liquidity Ratio (LR) also negatively and insignificantly influences commercial bank loans and advances. Theoretically, a higher LR compels banks to hold a larger share of assets in liquid form, reducing credit supply to the private sector. This finding resonates with Mohammed (2006), Nwankwo (1998), and Punita and Somaiya (2006), who reported similar outcomes in emerging economies. Empirically, Mbonu (2025) observed that liquidity management in Nigeria continues to exert inconsistent effects on bank lending, with outcomes varying across time horizons and policy cycles. This suggests that liquidity requirements, while designed as prudential measures, may be less effective in shaping credit supply compared to macroeconomic shocks (such as exchange rate instability and inflation), which dominate bank lending behavior in Nigeria.

The third hypothesis yielded a negative coefficient (-1.0903977), showing that the interest rate has a negative but statistically insignificant effect on loans and advances. This suggests th*et al*though higher interest rates discourage borrowing, the effect is weak, reflecting Nigeria's peculiar credit environment. Earlier works (Kashyap & Stein, 1995; Gambacorta & Iannoti, 2005; Amidu & Wolfe, 2008) confirmed that higher interest rates generally reduce credit supply. More recent Nigerian studies support this position: Babarinde and Gidigbi (2022) found that interest rate movements significantly influenced bank lending in Nigeria, but their effect was asymmetric across the short and long run. The discrepancy between their findings and the present result could be due to the dominance of non-price factors in Nigeria's credit market such as high default risks, weak contract enforcement, and limited collateral quality that often overshadow interest rate effects.

Collectively, the three hypotheses suggest that CRR, liquidity ratio, and interest rates exert negative but statistically insignificant influences on commercial banks' lending behavior in Nigeria. This confirms the view of earlier scholars that the monetary policy transmission mechanism in Nigeria is weak**,** largely due to structural bottlenecks, institutional weaknesses, and macroeconomic volatility (Somoye & Ilo, 2009; Mbonu, 2025). The incorporation of recent evidence (Babarinde & Gidigbi, 2022; Mbonu, 2025) further demonstrates that while monetary instruments remain theoretically important, their practical effectiveness in Nigeria is undermined by fiscal dominance, inflationary pressures, and banks' risk-averse attitudes toward lending.

From a policy perspective, this underscores that relying solely on CRR, liquidity ratio, or interest rate adjustments may be insufficient to stimulate or constrain credit supply. For monetary policy to be more effective, it must be complemented with reforms to strengthen credit markets, reduce systemic risks, and foster a more stable macroeconomic environment.

CONCLUSION

The study investigated the relationship between monetary policy instruments and loans and advances of commercial banks in Nigeria. The need for effective and efficient monetary policy management by the Central Bank of Nigeria cannot be overemphasized due to the importance to the level of loans and advances to bank customers in Nigeria. The results obtained indicates that monetary policy instruments such as cash reserve ratio, liquidity ratio, interest rate, monetary policy rate and special deposit influences the level of loans and advances of commercial banks in Nigeria.

RECOMMENDATIONS

The following recommendations were provided:

1. The relevant monetary authorities should apply with caution monetary policy variables to significantly influence the commercial banks loans and advances.
2. Expansionary monetary policy should be adopted by the Central Bank of Nigeria (CBN) force down interest rate and increase money supply because a fall in the bank rate will reduce interest on loans made by commercial banks. This will encourage more customers to secure loans from their banks thereby, increasing investment opportunities in the country ceteris paribus.
3. The CBN should enjoy instrument independence along with operational independence in order to ensure the appropriate use of monetary policy tools to achieve policy goals.
4. Monetary authority should make efforts to develop indirect monetary instruments and exercise appropriate control over the monetary sector. The use of indirect monetary policy instruments influences the supply of bank reserves and by implication money supply in the economy which in turn directly generate price change in financial asset.
5. The cash reserve ratio should also be reviewed to ensure it meets its objectives of regulating banking activities.
6. The liquidity ratio is the less effective of the instruments; and so CBN must review its use for further effect.

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