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Monetary policy ismeasures designed by the central authority to regulate the quality of money incirculations. This study is on the effect of monetary policy on the bankingindustry. The objective of the study is to determine the effect of monetarypolicy on the commercial bank and its effectiveness especially in controllingthe quality of money in circulation. Based on the finding, the researcher recommend among other that theregulatory should make sure that the banks adhere to the monetary policies, sothat sanity will be maintained in the banking industry and confidence restored.

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CHAPTER ONE

INTRODUTION

Monetary policy constitutes the major policy thrust of thegovernment in the realization of various macro economic objectives. It isrefers to the combination of discretionary measures designed to regulate thecontrol the money supply in an economy by the monetary authorities with a viewof achieving stated or desired macro- economics goals.

The monetarypolicies are designed to influence the behavior of the monetary sector. This isbecause change in the behavior of the monetary sector influence variousmonetary variable or aggregate. The monetary policy enforces at any point intime affect the level of money supply either by expanding it or throughcontraction of same. It influences the level of and structure of interest ratesand thus cost of funds in the the market, depending on the prevailing economicto condition.

The regulation andcontrol of the volume and piece of money is called discretionary control ofmoney: discretionary in the sense that it is made act the instance bank ofNigeria (CBN) has the responsibility of controlling money and credit in theeconomy in order to check inflationary and deflationary pressure. As the apexmonetary authority, has the duty of ensuring that polices are set in motion toregulate the financial sector so as to operate in the same direction with thereal sector in order to realize national economic objective.

Sector 2(c) of CBNDecree 24 of 1991 as amended stated that one of the principle object of thebank (CBN) shall be “to promote monetary stability and a sound financial systemin Nigeria “. While part v section 3 (a) of the same degree produce that thebank (CBN) shall power to carry out open market operations for the purpose ofmaintaining monetary stability in the economy of the country and withoutprejudice to the generality of the foregoing, the bank may also for thatpurpose issue sell, repurchase, amortize or redeem securities to be known asstabilization securities (which shall constitute it obligation) and thesecurities shall be issue at such rate of interest and under such condition ofmaturity, amortization , negotiability and redemption as the bank may deemappropriate”.

Moreover, thesepolices issued by the central banks are targeted toward the control of thecommercial banks and the commercial banks who mobilize these funds fromindividual depositor. Sometimes are restricted by the polices from engaging insome activities through shift of the of the monetary policy and that can affectthe bank.

1.1 BACKGROUND OFTHE STUDY

Monetary polices hascentral role in macro-economics managements, primary because of the closerelationship between the monetary aggregates and economic activities. This istime irrespective of whether one considering the monetarist or Keynesianframework.

The monetaryframework of an economy is definitely a scientific device but its applicationappears to be more of an art in practice , many factor other the logic of thetheoretical framework, comes into play, some of the key determinant of thetypes of monetary management.

The central bankderivable to introduce some monetary instrument, this fact should be born inmind as we as the subject of monetary policy impact on the financial sector ofNigeria central bank.

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