

PDF - THE EFFECT OF MONETARY POLICY ON THE BANKING INDUSTRY - researchcub.info Abstract

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

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CHAPTER ONE

INTRODUCTION

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

The monetary policies are designed to influence the behavior of the monetary sector. This is because change in the behavior of the monetary sector influence various monetary variable or aggregate. The monetary policy enforces at any point in time affect the level of money supply either by expanding it or through contraction of same. It influences the level of and structure of interest rates and thus cost of funds in the the market, depending on the prevailing economic condition.

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

Sector 2(c) of CBN Decree 24 of 1991 as amended stated that one of the principle object of the bank (CBN) shall be "to promote monetary stability and a sound financial system in Nigeria ". While part v section 3 (a) of the same degree produce that the bank (CBN) shall power to carry out open market operations for the purpose of maintaining monetary stability in the economy of the country and without prejudice to the generality of the foregoing, the bank may also for that purpose issue sell, repurchase, amortize or redeem securities to be known as stabilization securities (which shall constitute it obligation) and these securities shall be issue at such rate of interest and under such condition of maturity, amortization , negotiability and redemption as the bank may deem appropriate".

Moreover, these polices issued by the central banks are targeted toward the control of the commercial banks and the commercial banks who mobilize these funds from individual depositor. Sometimes are restricted by the polices from engaging in some activities through shift of the of the monetary policy and that can affect the

bank.

1.1 BACKGROUND OF THE STUDY

Monetary policy has a central role in macro-economics management, primarily because of the close relationship between the monetary aggregates and economic activities. This is true irrespective of whether one is considering the monetarist or Keynesian framework.

The monetary framework of an economy is definitely a scientific device but its application appears to be more of an art in practice, many factors other than the logic of the theoretical framework, come into play, some of which are the key determinants of the types of monetary management.

The central bank is able to introduce some monetary instrument, this fact should be borne in mind as we discuss the subject of monetary policy impact on the financial sector of Nigeria's central bank.

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