TITLE PAGE

EFFECT OF MONETARY POLICY ON THE PROFITABILITY OF FIRST BANK NIGERIA PLC KADUNA MAIN BRANCH

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT,
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DECLARATION

I hereby declare that this research project was carried out by me under the guidance and supervision of **MRS MARY D. MUSA** of the Department of Business Administration and Management, Kaduna polytechnic. All authors whose work has been referred to in this project have been duly acknowledged.

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APPROVAL PAGE

This research project work was written by me **NASIBA RABIU KABIR** with registration number **KPT/CBMS/19/45274** and submitted in compliance with the established policy of the Department of Business Administration and Management, College of Business and Management Studies (CBMS), Kaduna Polytechnic, Kaduna. It has been read and approved to meet the requirement for the award of Higher National Diploma in Business Administration and Management.

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DEDICATION

This research project work is dedicated to Almighty ALLAH.

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First and foremost, my sincere thanks and gratitude goes to Almighty GOD for giving me the opportunity of becoming what I am today, and had made it possible for me to overcome all the hurdles, up to this happy moment.

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ABSTRACT

This research project is conducted to effect of monetary policy on the profitability of First Bank Nigeria Plc Kaduna Main Branch; the objective of the study was: to examine the effect of monetary policies on profit margin of First Bank Nigeria Plc, Kaduna and to examine the effect of monetary policy on the market share of First Bank Nigeria Plc Kaduna;. To achieve the stated objectives, a survey research design was adopted for the study. The population of the study was 57 staff, out of which a sample size of 62 respondents were drawn for the study. Findings show that, monetary policy is uniquely capable of affecting the long run- price level through the process of money creation. It was concluded that, the rate of monetary policy is directly proportional to cost of capital in an organization and that monetary policy impacts the cost of debt and the relative cost of consumption versus saving all of which directly or indirectly impact aggregate demand. Hence recommended that, there is need therefore for the strengthening of this monetary instrument and the activities of various regulators should be harmonized do as to avoid duplication of functions.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the contemporary economic development environment, studies have shown that bank is the life wire of an economy, both the developed and developing economy and that no economy can grow economically without banking business. The banking sectors have over the years encountered some problem due to ineffective control and non compliance of CBN guidelines. Commercial banks like first bank of Nigeria plc. Sometimes have problem of low profit margin. The failing of the banking sector will lead to economic depression. This is because banking sector is seen as the life wire of the economy. One of the most complex issues facing government is identifying the appropriate level and form of intervention in the banking sector. Its efficiency as a regulator is a significant determinant of the overall efficiency of the economy. The extent of regulatory intervention may also determine whether financial markets can develop to their full potential or not. Ultimately, any inefficiency must be funded by higher charges passed on to the community as cost arising from stringent regulation. The more sophisticated the monetary policy, the greater its vulnerability to failure of banks to deliver against its promises.

When these failures occur, investment which is an important factor in economic growth is kept low. Consequent upon this, trust and confidence in the financial system may go down and sourcing of funds from banks may face a downward trend due to increase in cost of loan.

Banks can hardly survive without a positive return on capital invested. Profitability is therefore the driving factor for activities of commercial banks. Consequently, banks engage in a variety of products and services for the achievement of this profit or to be profitable (Nwankwo, 2018). The commonest and most important of these activities is the giving out of loans to borrowers seeking financial accommodation. In doing this, it is expected that the borrower pays back the principal and interest (Jude, 2019). This interest in all bank services forms the bedrock of profitability in the banking sector.

Basically, a bank has a two-fold function in connection with receiving deposits and making loans, there are many services that bank render which are fundamental important to normal function of our economic system (James, 2018). For example, bank provide a safe place for the deposits of fund, which temporarily are not needed by their owners, through the bank services in changing money, individual may obtain currency of coin, in the denomination desired (James, 2018). Also, through cheques, depositors can pay their bills, reducing carrying of money from place to place, thereby minimizing risks (Nwankwo, 2018). The banks also assist in the book keeping operations of his depositor record of both cash and credit funds received and disbursed and equally rendering receipts in the form of cancelled cheques for bill discharged (James, 2018).

Banks are the intermediaries through which the surplus and deficit units in any economy interact to exchange financial value indirectly. When the surplus units make deposits in the banks, they are given out to loan seeking customers or investors preparing to embark on viable projects with an interest charge on the loan. Consequent on the vital role of intermediation played by banks, the banking sector is highly regulated by the government (Jude, 2019).

To carry out this regulation effectively, government employs monetary policies as the primary tool to regulate the banking sector. Embedded in these monetary policies are the different types of instruments that are used to regulate the operations of banks in the economy. Being an external factor to the banks, the tools could act as a militating or mitigating factor in boosting banks profitability (Hosea, 2019).

The way and manner these factors are applied to banks vary from one country to the other and has traceable relationship to the state of the particular country's economy. In stable economies, these tools are spared of frequent manipulations and vice versa. Economic activities, to a large extent, depend on these tools especially in countries where the capital market is still in its primordial stages of development (Ebraham, 2019).

In Nigeria, monetary policy tools have been subjected to various forms of gyrations in keeping with the fluctuations in economic indices. Each time these policies change, bank operations are certainly affected (Judith, 2014). However, whether these changes in monetary policy instruments significantly affect profitability of banks remains a matter for investigation. The research therefore, seeks to examine the effect of monetary policy on the profitability of First Bank Nigeria Plc, Kaduna.

First Bank within twenty-two years has demonstrated its resilience irrespective of the business/economic cycle and witnessed exponential growth in virtually all areas (First Bank, 2012). In spite of the monetary policies, this growth seems to be persistent.

Banks equally assist in facilitating credit transaction through their services to customer in obtaining information with regard to the financial responsibility of prospective purchased of the customer goods and services (Nwankwo, 2019). Finally, banks grant loans to individuals, merchant, manufacturer, and others. A banking service made possible by the accumulated funds of depositors and the ability of banks to create money and use the same money created to make profit, which is the aim of going into business.

If these services aim at making profit is received by the public without interruption, the banks of the country must be managed wisely. The management of an individual's bank represented by its board of directors and its executive officer must be familiar with banking practices and procedures. They must have a thorough knowledge of the problem of banking industry and finance in general and its customer and their territory in particular.

1.2 Statement of the Problem

The increase in cost of capital often deters prospective investors from engaging in new ventures as well as discourages customers of companies from optimal patronage of their products. It therefore, stands to reason that increase in cost of capital results in cyclical effects in the economy. In view of this, any review of monetary policy is often greeted with wide spread apprehension, that cuts across various sectors of the economy.

On the other hand, a decrease in the cost of capital tends to stimulate more aggressive investment in any economy. The higher the volume of investment, the greater the competition. Even though consumers of products from various companies stand to benefit from this situation in the short run, it may portend serious danger in the economy if it is allowed to stretch to the extreme. As companies engage in stiff competition, weak ones (especially those that are disadvantaged technologically) may be driven out of business.

This may result in monopolies with their obvious consequences in the economy.

It is in response to the above problem that informed the study on the subject matter. ‘’ the effect of monetary policy on the profitability of first banks Nigeria Plc, Kaduna.

1.3 **Objectives of the Study**

The general objective of this study is to examine the effect of monetary policy on the profitability of First Banks of Nigeria Plc.

The specific objectives are:

i To examine the effect of monetary policies on profit margin of first bank Nigeria Plc, Kaduna

ii To examine the effect of monetary policy on the market share of First Bank of Nigeria Plc, Kaduna.

iii To identify the effect of monetary policy on cost of capital in first bank of Nigeria Plc, Kaduna

1.4 Research questions

In achieving the state objectives, the following research question will be raised:

i What is the effect of monetary policy on profit margin of first banks Nigeria Plc, Kaduna?

ii What is the effect of monetary policy on the market share of First Bank of Nigeria Plc, Kaduna?

iii What is the effect of monetary policy on cost of capital in first bank of Nigeria Plc, Kaduna?

1.5 Significance of the Study

This study is extracted to explain the effect of monetary policy on bank profitability in first bank of Nigeria. the result and recommendation from this study will beneficial to policy maker on the type of policy to be introduced. The result will also be relevant to entrepreneurs, future investor and the entire public. it will help researcher in other related field to carry out further research on the subject matter in the future. Finally, the research will be beneficial to the student as it is a prerequisite for the award of Higher National Diploma in Business Administration and Management.

1.6 SCOPE OF THE STUDY

The scope of this study is to determine the effect of monetary policy instrument on profitability of first bank of Nig. The research covers the period of 2017-2021

1.7 Definition of Terms

Monetary policy: Is a policy that deals with discretionary control of money supply by the monitoring authorities in order to achieve stated economic goals.

Fiscal Policy: This is the government policy that deals on how bank organization expand their money through taxies. Anyanwaokoro (2019)

Profitability This is the Excess of enterprises returns over its expenditure.

Lending Policy: The establishment of directives and other use of the funds from stock holders, depositors and other to control the composition and size of the loan portfolio and the circumstances under which it is appropriate to make a loan. It is designed and contained in the current monetary policy.

Money Supply This is the amount of money in the economy at a given time. When the supply increases, the value of a unit of currency decreases, and people spend more. When the supply of money decreases, a unit of currency gains value, keeping inflation down. Central Bank changes the money supply b buying or selling bonds or by printing money.

Interest Rate: Central Bank determines the lowest possible interest rate. In an economy, called the "Prime Rate" The central bank charges this rate on loans to commercial banks, and commercial banks charge each other a similar rate on loans.

Aggregate Demand: Aggregate demand is the total amount of spending in an economy. Government can affect aggregate demand through fiscal policy in two way: taxation and expenditure.

Commercial Banks-: Commercial banks are financial institutions which hold themselves out to the public (individual firms, organization and governments) by accepting deposit and giving out advances as well as performing other services to their customers. They are otherwise known as joint stock banks.

Central Bank-: The Apex bank in Nigeria to which has been entrusted the supervision of issuing guidelines and monitoring of banking operations.

Lending-: A facility offered by a bank to its customers or non customers on the ground that such a facility will be returned with the principal and interest when due.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discuss the review of related literature regarding the impact monetary policies on the profitability. Authors whose works are cited will be duly acknowledged.

2.2 Concept of Monetary Policy

Monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in an economy. It can be described as the art of controlling the direction and movement of credit facilities in pursuance of stable price and economic growth in an economy (Chowdhury, Hoffman and Schabert, 2018). Put differently, monetary policy refers to the actions of the Central Bank to regulate the money supply which could be through discretional monetary policy instruments such as the open market operation (OMO), discount rate, reserve requirements, moral suasion, direct control of banking system credit, and direct regulation of interest rate (Loayza, and Schmidt-hebbel, 2018).

Monetary policy comprises the formulation and execution of policies by the central bank to achieve the desired objective or set of objectives; the policies and decisions are aimed at guiding bank lending rates to levels where credit demand and money growth are at a level consistent with aggregate supply elasticity (Loayza and Schmidt, 2016). The objectives and goals that the central bank seeks to achieve generally are low inflation (usually targeted), protection of value of currency, full employment and sustainable economic output (economic growth). Monetary policy covers the monetary aspect of the general economic policy which requires a high level of co-ordination between monetary policy and other instruments of economic policy of the country. The effectiveness of monetary policy and its relative importance as a tool of economic stabilization varies from one economy to another, due to differences among economic structures, divergence in degrees of development in money and capital markets resulting in differing degree of economic progress, and differences in prevailing economic conditions (Faure, 2017).

In Nigeria, the banking ordinance of 1952 is seen as the root of monetary policy guiding the financial institutions in the country. Banks offer demand on transaction deposits as well as provision on lending services and because of these degree of risks in the banking sector, their businesses are heavily regulated. This regulation of banks came into existence to combat bank failures of the 1940s and 1950s. Subsequently, other monetary policies came up in 1958, 1969, 1979 and it has been so till date. Monetary policy could either be expansionary or contractionary depending on the overall policy objective of the monetary authorities. Monetary policy is expansionary when the policy thrust of the authorities increases the supply of money in the system; and contractionary when the action reduces the quantity of money supply available in the economy or constrains the growth or ability of the deposit money banks to grant further credits.

2.3 Concept of Profitability

According to Faure (2017), Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. There are many different ways for you to analyze profitability. This lesson will focus on profitability ratios, which are a measure of the business's ability to generate revenue compared to the amount of expenses it incurs. Let's look at a few of the primary analytical approaches. The role of traditional marketing used to be quite simple. It sought to inform a potential customer about what a business had to offer (product or service), usually through mass advertising. If there was a good fit between the market and the offering, the customer had the ability to buy, and the price point was in line with the value presented – a sale ensued.

Traditionally, the ability to drive sales was in large part a function of repetition and money. A somewhat linear relationship followed where advertising costs in equaled sales out. Those with the biggest budgets tended to own markets based of their ability to blanket the three channels of print, radio, and television and establish brand dominance. They interrupted a consumer’s attention to push a product or service, regardless of where that consumer might be in the buying funnel (Faure, 2017).

Yet, with enough repetition and a big enough reach (plus dumb luck), a company would likely find a potential customer that had that specific need and would consider buying as they would be perceived as the market leader based on showing up the most in traditional media.

Douglas (2019) explain profitability as a set of financial metrics that are applied to a business's capability to make money, after all expenses and other costs have been subtracted over a specific period of time. Not to be confused with sales. Sales figures and growth can be misleading. While it shows that marketing may be working or there is a good product/market fit, it does little for the business's future to focus on this metric outside of profitability. Case in point: many companies go bankrupt in the midst of growth cycles by not closely tracking profitability(Faure, 2017).

In short: Profitability is how much you make from a sale after you subtract everything it costs to make that product – it's that simple. Don't forget hidden costs like accounting, rent, acquisition, etc. that need to be amortized over time.

2.4 Monetary Policy and Nigerian Banking Industry

According to Nwankwo (2018), the responsibility for monetary policy formation rests with the central bank of Nigeria. Monetary policy objective is couched in maintaining price stability on one hand and achieve price stability and other macroeconomic objectives like promoting non-inflationary growth. The primary means adopted to achieve this objective is to set aggregate money supply targets and to rely on the open market operations (OMO) and other policy instruments to achieve the targets.

Monetary policy in Nigeria has relied more on indirect transmission mechanism. Over time, the practice is to target the monetary base. However, the practice of targeting base money is based on the assumption that there is a stable money demand formation in the economy. The minimum rediscount rate is central to monetary policy making and analysis Nwankwo (2018). This reliance on indirect transmission process anchored on instruments which exact impact are not known makes monetary policy making in Nigeria a very challenging responsibility. A resultant of this has been large discrepancies between policy targets and outcomes overtime. Sometimes it is difficult to relate targets to outcomes in much meaningful ways. The magnitude and persistence of the variations are quite high. For example, target growth or M_1 and M_2 were over short by 121% and 554% respectively in 2017 while targets reserves were over short by 792% in 200. the central bank usually blames this on fiscal dominance, but it need to be proven empirically that even the nature of monetary policy is not itself a factor in this amorality (Nwankwo, 2018).

On the 28th of November, 2018, the monetary policy committee of the central bank adopted a new monetary policy framework that took effect from December, 11 2006. The framework introduced a new monetary policy rate (MPR) to replace the minimum rediscount rate (MPR). The MPR will determine the lower and upper band on the CBN standing facility and is expected to have the capability of acting as the normal anchor for other rates. It is expected to discontinue out right discounting of bills in the CBN to encourage trading among market operations; ensure the full employment of information technology infrastructure for the effective implementation of the new framework as a follow up to banking consolidation. The monetary policy committee would meet every other month to review developments in the economy. The new framework became necessary as the MPR has not been sufficiently responsive to CBN's policy interactive, especially in tackling the problem of excess liquidity in the system. The new monetary policy framework which hinges on an interest rate corridor provides for the CBN lending facility as well as the acceptance of overnight deposit from operations at specified rates (Nwankwo, 2018).

Under the new initiatives, the CBN discount window could be assessed by market operators (discount houses and deposit money banks) that are in need of funds meet liquidity shortage, and those with excess liquidity could deposit the funds overnight. A review of monetary developments showed that the broad money supply (M2) fell by 2.0 percent to n2, 034.4 billion at the end of March 2004, in contract to the increase of 2.4 percent recorded in the 7.8 percent increase in March a year earlier. The cumulative growth since the end of December 2003 show that M_2 grew by 1.93 percent at the end of March 2004. Significantly lower than the

16.0 percent target for the entire fiscal 2004. The slow growth in broad money was attributed to the decline in the banking system credit (net) to the federal government. The banking system's credit to the private sector, on the other hand, rose by 13.7 percent during the first quarter of 2004. The cumulative growth since the end of December 2003 showed a decline of 165.2 percent at end march 2004 which contributed with the 13.4 percent programmed target for the fiscal year. The main factor contracting the growth in narrow money supply was the substantial fall in the banking system's net chains on the federal government Nwankwo (2018).

Chief executive officer oceanic bank international PLC Dr (MRS) Cecilia ibru, in the economic report for the quarter of 2008, stated that provisional data indicated growth in monetary aggregate in the fourth quarter of 2008. Broad money supply (M_2) and narrow money (M_1) raised by 2.5 and 7.8 percent to N9,180.9 billion and N4,876.2 billion respectively compared with increase in M2 was attributed wholly to the 27.0 percent rise in credit to the domestic economy (net). Over the level at end December 2007, M2 grew by 58.0 percent, compared with growth of 54.2 percent at the end of the third quarter. Banking system credit (net) to the federal government declined by 17.2 percent to N2, 674.5 billion compared with the decline of 18.9 percent in the preceding quarter. The fall was attributed to the decline in bank's holding of federal government securities. Banking system's credit to the private sector rose by 7.9 percent to N8.066.3 billion, compared with the increase of 10.7 percent in the bank's claims on the sector. Over the end of December level, credit to the private sector increased by 59.5 percent Nwankwo (2018).

2.5 Influence of Monetary Policy on the Financial Performance

According to David-Douglas (2016), banking is all about control of funds and valuable materials; and monetary policy is all about control of money supply by the monetary authorities in order to achieve stated or desired economic goals. Among these objectives is price stability which in turn is likely to restrain banking business and profitability (Ajayi, 2019).

In Nigeria there are six phases of monetary policy:

i The phase of cheap money policy (1962-1964);

ii The phase of credit restraint policy (1965-1966);

iii The phase of monetary eases policy (1967-1969);

iv The phase of moderate/ease monetary restraint policy (1970-1976);

v The phase of stringent monetary restraint policy (1977-1985); and,

vi The phase of market -based technique (1986-2000) (Bullion, *2021).*

In the period 1962-1964 (the period of cheap money policy), the monetary authorities were concerned with the need for a strong local credit base (Anyafor 2021). (Anyanwu, 2019) observed that during the period 1965-1966, in an attempt by government to restore balance of payments, credit restraint was adopted and the instruments used were direct credit control and moral suasion. During period of monetary ease policy (2019)

According to (Raheem, 2020), monetary policy was focused on the use of interest rates; moral suasion and credit ceiling were relaxed. Banks were persuaded to maintain some restraint in financing non-essential imports. The period 1970-1976 known as the phase of moderate/ease monetary policy was one of wage increase in Nigeria, coupled with increase in government expenditure leading to increase in bank activities and profitability (Nnanna 2018). The period 1977 -1985 (stringent monetary policy period) witnessed reduction in excess liquidity of banks using various combination of instruments by the monetary authorities, which in turn constrained banking activities, income and profit (Sanusi & Nnanna, 2016). (Ekezie, 2017). Posits that the state of the economy has influenced banking sector in Nigeria in various periods; this is because during the period of serious inflation, stringent control instruments to restrain banking activities had been Used which in turn reduced profit of banks. In supporting this view, (Nwankwo, 2018) posited that during the period of economic crisis and serious inflation banks suffer on both sides - on the side of monetary authorities and on the side of the public. This is because during period of economic instability marginal propensity to consume is always high and marginal propensity to save is low, leading to paucity of bank deposits thereby almost rendering banks liquid; and on the side of monetary authorities, in order to restore economic stability, stringent monetary policy instruments are applied to restrain banks from credit expansion and hence limiting the size of their profits. In supporting this view (Uchendu, 2019); (Inanga and Emenuga, 2018) observed that inflation negates private savings, bank deposits and the profit of banks.

The relationship between monetary policy and corporate profitability in the banking sector has much to do with the demand for money, inflation rate and the effectiveness of monetary policy. For instance, monetary policy will only be effective if the demand for money function is stable. Most studies recognized that demand for money was not only a function of demand and supply but of other· variables (Essien *et al,* 2019). For instance, after the Second World War, when attention began to focus on the problems of developing countries, it became necessary to develop a framework for explaining the role of money in business activities and economic development process. It was felt that expanding money supply and lowering interest rates might be good policy for investment, growth and development. Consequently, there has been a focus on issues such as the relationship between financial intermediation and economic growth, the sensitivity of savings to changes in real interest rates, relationship between demand for money and income, interest rate and expected rate of inflation. Attempts to demonstrate the determinants and the demand for money and monetary stability in Nigeria date back to the early 1970s. (Tomori, 2018) observed that this issue generated a lot of debate in what is now known as "Tatoo Debate". It should be noted that the central issue lying between corporate profitability of banks and monetary policy is the decision of the monetary authorities to control the velocity of money. According to (Henry and Star, 2017), in Nigeria, there is no correlation between inflation rate and interest rates, reflecting the fact that interest rates, most of the time, are heavily controlled, which in turn negates corporate profitability in banks. To justify the reasons for government's intermittent intervention in the interest rate in the face of deregulation, (Anaro, 2019) said that interest rates by banks negate economic growth, as the gap between the average palings rate is not supportive of achieving capital formation; and in response to this, the CBN decided to intervene by pegging interest rate at 23%. In the same vein, (Soludo, 2016) said that in taking proactive steps towards revamping global financial crises, the CBN intervened in the financial system, especially in the area of interest rate by pegging interest rate at 23% on the ground that the interest rate should not be left to correct itself without government intervention.

2.6 Types of Monetary Policies in Nigeria Banking System

The stance of monetary policy refers to the position taken by the monetary authorities on whether to increase or reduce the supply of money in economy during a policy period, usually one year. This gives rise to two types of monetary policies, namely expansionary or a monetary ease policy, and contractionary or stringent, or tight monetary policy. Monetary policy is said to be expansionary or a monetary ease policy when the monetary policy decides to increase the supply of money or reduce the cost of money in the economy so as to stimulate an increase in economic activities. This can be accomplished through the buying of securities in open market, a reduction in interest and discount rates, a reduction in reserve requirements, and relaxing of credit controls, among other. The overall effect of expansionary monetary policy is to have more money in the hands of the public. This will lead to an increase in aggregate demand, investment, saving, employment, output, and economic growth. While at the same time increasing the rate of inflation.

A contractionary monetary policy does the opposite of expansionary policy. Monetary policy is said to contractionary when the monetary authorities embark on policies that will reduce the supply of money or increase the cost of money in an economy, in order to generate a contraction in economic activities. The effect of contractionary policies is to reduce the liquidity (spendable money) in the hands of the public. This will lead to a reduction in aggregate demand, which will reduce the general price level and reduce the profit of commercial banks. However, it will equally lead to a reduction in the level of investment, employment, output and economic growth. The government switches from contractionary to expansionary policies as the need arises depending on the economic objective, which she is giving priority. (Anyafo, 2019).

2.7 Empirical Studies

The empirical studies is found in the determination of monetary policy in the economy, it is vast and it is reasonable to focus on the most available ones: According to David-Douglas (2016), banking is all about control of funds and valuable materials; and monetary policy is all about control of money supply by the monetary authorities in order to achieve stated or desired economic goals.

Sanusi (2017), observed that in line with general philosophy of economic management under the structural adjustment programme, monetary policy was aimed at reducing the emergence of market-oriented serving and efficient resources allocation.

Oluremi (2015), investigated the process of monetary policy mechanism in Nigeria in order to provide an explanation for the profit of commercial bank in Nigeria with inflation. Double digit inflation was found to have originated from the rapid growth in the economy, the government then followed the monetization policy with a real bills doctrine, the success of which was ensured by the generous lending stance of central bank.

Kogar (2015) examined the relationship between financial innovations and monetary control and concludes that in a changing financial structure, Central Banks cannot realize efficient monetary policy without setting new procedures and instruments in the long-run, because profit seeking financial institutions change or create new instruments in order to evade regulations or respond to the economic conditions in the economy.

Nnanna, (2018) observe that though, the Monetary management in Nigeria has been relatively more successful during the period of financial sector reform which is characterized by the use of indirect rather than direct monetary policy tools yet, the effectiveness of monetary policy has been undermined by the effects of fiscal dominance, political interference and the legal environment in which the Central Bank operates.

Busari (2012) stated that, monetary policy stabilizes the economy better under a flexible exchange rate system than a fixed exchange rate system and it stimulates growth better under a flexible rate regime but is accompanied by severe depreciation, which could destabilize the economy meaning that monetary policy would better stabilize the economy if it is used to target inflation directly than be used to directly stimulate growth.

Batini, (2019) stressed that, in the 1980s and 1990s monetary policy was often constrained by fiscal indiscipline. Monetary policies financed large fiscal deficit which averaged 5.6 percent of annual GDP and though the situation moderated in the later part of the 1990s it was short lived as

Batini, described the monetary policy subsequently as too loose which resulted to poor inflation and exchange rates record.

Folawewo and Osinubi, (2016) investigated how monetary policy objective of controlling inflation rate and intervention in the financing of fiscal deficits affect the variability of inflation and real exchange rate.

Sanusi (2017) stated that, the ability of the CBN to pursue an effective monetary policy in a globalized and rapidly integrated financial market environment depends on several factors which include, instituting appropriate legal framework, institutional structure and conducive political environment which allows the Bank to operate with reference to exercising its instrument and operational autonomy in decision- making, the degree of coordination between monetary and fiscal policies to ensure consistency and complementarity, the overall macroeconomic environment, including the stage of development, depth and stability of the financial markets as well as the efficiency of the payments and settlement systems, the level and adequacy of information and communication facilities and the availability of consistent, adequate, reliable, high quality and timely information to Central Bank of Nigeria.

In the need to analyze the nature of this project Effect of monetary policy on profitability, findings experts and scholars in the field proved useful, these frameworks were however limited. Their findings are pointed out further.

Sanusi (2017) findings were based on research carried out in economic management under structural adjustment program (SAP), monetary policy aimed at reducing emerging market oriented saving and confident resources. The findings failed to emphasize on how commercial could optimize the economy.

Although oluremi (2016) concerned with the investigation of monetary policy mechanism in Nigeria but failed to achieve to achieve the optimal growth of monetary policy.

Ojo (2018) tried to analyze the money supply function for Nigeria, but applied the chow stability test to examine the nature of monetary policy to develop the economy.

Humprey (2016) emphasized the relationship between monetary stability and efficiency during the relatively long period of 10years.

Kogar (2015) findings examined the relationship between financial innovations and monetary control although it concluded that in a changing of financial structures, central bank of Nigeria cannot realize efficient monetary policy without setting new procedures.

The study pointed by batini (2014) stressed that monetary policy is aimed at fiscal indiscipline. Although he described the monetary policy subsequently as too loose which resulted to hyper inflation.

Folawewo and osinubi (2016) analyzed on monetary policy objectives of controlling inflation rate and analysis was carried out using a national expectation framework that incorporates the fiscal rate of exchange rate. But they failed to point out if there was need to improve the collection of money and method of doing it.

2.8 Theoretical Literature

The theories of monetary policy, which received considerable attention in the literature, are the Keynesian theory of monetary policy and the classical theory of monetary policy.

2.8.1 The Classical Theory

The fundamental principle of the classical theory is that the economy is self-regulating. Classical economists maintain that the economy is always capable of achieving the natural level of real GDP or output, which is the level of real GDP that is obtained when the economy's resources are fully employed. While circumstances arise from time to time that cause the economy to fall below or to exceed the natural level of real GDP, self-adjustment mechanisms exist within the market system that work to bring the economy back to the natural level of real GDP. The classical doctrine—that the economy is always at or near the natural level of real GDP is based on two firmly held beliefs: Say's Law and the belief that prices, wages, and interest rates are flexible Say's Law.

2.8.2 The Keynesian Theory

The central question of the theory of optimal monetary policy is: how should monetary policy react to shocks (Clarida, 2019) What is monetary policy science or art (Walsh, 2016) The theory of optimal monetary policy suggests that monetary policy is a science. This implies that economists know what they need to know in order to design and implement a "good" monetary policy. The theory of monetary policy relies on the assumption that policy makers are well-meaning central bankers who aim to maximize the utility of a representative household.

2.9 Summary of the Chapter

The output result is the deviation of output from its equilibrium level. A major cause for changes in the inflation rate, the output gap is of primary interest to monetary policy. The central bank tries to close the gap between actual output and potential output. Excessive inflation sets in if the central bank pursues a too ambitious output goal, because increasing output raises real marginal cost. In response, firms raise their prices.

Follow the Taylor Principle, the Taylor principle says that monetary policy should react to an increase in the inflation rate with an over-proportional increase of the nominal interest rate.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The effectiveness of every research work, according to Osuala (2015), lies mostly on the various methods and approaches employed by the researcher in the conduct of the study. In view of this, this chapter contained detailed information regarding the various methods and approaches employed by the researcher for the purpose of this study. The contents of this chapter, however, include: the research design; area of study, population of the study, sample size and sampling technique; data collection techniques; validity and reliability of instrument, and method of data presentation and analysis

3.2 Research Design

The research design used for this study was a survey approach in order to collect quantitative data which was analysed using descriptive statistical tools. The use of a survey enables generalisation to be conducted using findings generated from a sample size which is representative of the whole population.

3.3 Area of the Study

The First Bank of Nigeria Plc, No.15, Yakubu Gawon Way, Kaduna was the area used for the study.

3.4 Population of the Study

Odo (2019) defined population as the ‘’ability of any group, persons or object, which is defined by some unique attributes’’. In this study, the population comprise of staff of first bank Yakubu Gawon Way, Kaduna state, which is estimated to be about seventy (57) staff.

3.5 **Sample Size and Sampling Techniques**

Orji (2019) defined a sample size a similar group of elements drawn through a definite procedure from a specified population. The sample size for the study is 62 respondents were determined from krejcie and Morgan table for determining sample size. The researcher used random sampling technique to draw sample size for the study

3.6 Instruments of Data Collection

The researcher employed the use of structured questionnaire that allows for a gradual response. The questionnaire was design using Likert’s scale rating of five (5) points ranging from 5, 4, 3, 2, & 1 with a degree of Strongly Agree(SA), Agree (A), Undecided (U), Disagree (D), and Strongly Disagree (SD) respectively. The choice of this method is because it is less cumbersome and non-complex in nature. It allows respondents to choose from options with a degree of agreeing to the statement or disagree as the case may be. Also, they are easy to administer and help keep the respondent’s mind fixed to the subject and facilitate the process of tabulation, analysis and scientific generalizations.

3.7 Validity and Reliability of Instruments

Validity is often defined as the extent to which an instrument measures what it asserts to measure (Blumberg, 2015). Validity of a research instrument assesses the extent to which the instrument measures what it is designed to measure (Robson, 2019). It is the degree to which the results are truthful.

The questionnaire formulated for the purpose of this research work was presented to the project supervisor for validation, on which immeasurable comments and observations that will be made and necessary corrections based on the supervisor (Mrs. Mary D. Musa) and two other experts. Observations were effected on the questionnaire before being administered to the studied respondents.

In order to determine the reliability of the instrument (questionnaire), the researcher employed test retest technique of reliability test. In this case, the researcher structured the questionnaire and distribute 20 copies to the respondents and retrieved them back in order to assess whether the respondents understand the contents of the questionnaire or not, and make any necessary correction there-from before the administration of the actual questionnaire that were presented and analyzed for the purpose of this study.

3.8 Method of Data Collection

To avoid bias and ensure orderliness, appropriateness and efficiency in questionnaires administration, the researcher personally administer the formulated questionnaire to the respondents randomly. This is made possible with permission from the Director, Human Resource Department. And also, personally collect the questionnaire.

3.9 Method of Data Analysis

The data collected was presented in tables of frequency showing the different values of random variables together with their associated or corresponding frequencies; while the analysis are based on the use of Mean Score (x) to ascertain the degree of agreement and disagreement of each statement/variable. The Mean statistical method was made possible with the Likert's Rating Scale of 5 — 1, that is.:

The formula for mean score is as follows:

Mean (x) = $\frac{\sum fx}{\sum f}$ Where; f = frequency x = rating points

∑f= Total frequency∑ = Summation

$\frac{5+4+3+2+1}{5}$ $\frac{15}{5}$ =**3.00**

SA	A	UD	D	SD
5	4	3	2	1
4.5-50	3.5-49	2.5-3.49	1.5-2.49	0.5-1.49

With this method, survey statements are either agreed or disagreed with a cut-off point of 3.00

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter represented the analysis of the data collected in the course of the study The data collected and presented with the aid of a frequency distribution table. A total number of 50 copies of questionnaire were produced and administered, all were filled and returned. The 50 copies of the questionnaire formed the basis for the data analysis and interpretation.

4.2 Characteristics and Classification of Respondents

Table 4.2.1: Gender Characteristics of Respondents

Gender	No. of Respondents	Percentages (%)
Male	20	40
Female	30	60
Total	**50**	**100**

Source: Field Survey, 2022

The above table indicates that 60% of the respondents were female while the remaining 40% of the total respondents were male. This implies that there are more female than the male.

Table 4.2.2: Age Distribution of Respondents

Variable	No. of Respondents	Percentages (%)
18-20	13	26
25-30	25	50
35-above	12	24
Total	**50**	**100%**

Source: Field Survey, 2022

The data in table 4.2.2 above shows the age distribution of the respondents. It revealed that the majority of the respondents are within the age of 25 - 30 years.

Table 4.2.3: Educational Qualification

Variable	No. of Respondents	Percentages (%)
SSCE/WASSCE	-	-
ND/NCE	28	56
B.Sc/HND	14	28
Postgraduate	8	16
Total	**50**	**100%**

Source: Field Survey, 2022

The data in table 4.2.3 shows the educational qualification of staff with the results as follow: 0 respondents representing 0.0% are SSCE/WASSCE holders, 28 respondents representing 56% are ND/NCE holders, 14 respondents representing 28% are B.Sc./HND holders while 8 respondents representing 16% are postgraduate holders.

Table 4.2.4: Length of Service in the organisation

Variable	No. of Respondents	Percentages (%)
6-11 years	17	34
12-20	20	40
21 years and above	13	26
Total	**50**	**100%**

Source: Field Survey, 2022

The data in table 4.2.4 shows that 17 respondents representing 34% works for the service of 6-11 years. 20 respondents representing 40% are 12-20 years. While 13 respondents representing 26% work for over 21 years.

4.3 Data Presentation and Analysis

This section presented the data and discussed the findings of the study, which set out to examine the effect of monetary policy on the profitability of First Bank of Nigeria Plc, Kaduna. The findings were based on analysis of the 50 valid responses from the respondents.

Variables		SA	A	U	D	SD	∑fx/∑f	Mean	Remark
Monetary policy is uniquely capable of affecting the long-run price level through the process of money creation.	F x fx	30 5 150	10 4 40	2 3 6	5 2 10	3 1 3	50 209/50	4.2	Strongly agreed

Source: Field Survey, 2022

Research Question 1: What is the effect of monetary policy on profitability margin of First Bank of Nigeria Plc, Kaduna Main Branch?

S/N		SA	A	U	D	SD	Total	Mean	Remark
1	Monetary policy is uniquely capable of affecting the long-run price level through the process of money creation.	30 5 150	10 4 40	2 3 6	5 2 10	3 1 3	50 418/50	4.2	Strongly agreed
2	The increase on money supply lowers interest rates, and increases demand.	20 5 100	20 4 80	4 3 12	2 2 4	4 1 4	50 200/50	4.0	Agreed
3	It lowers the value of the currency, thereby decreasing the exchange rate.	20 5 100	5 4 20	5 3 15	- 2 0	20 1 20	100 155/50	3.1	Agreed
4	High rate of monetary policy and foreign exchange rate increase the level of inflation.	30 5 150	10 4 40	2 3 6	5 2 10	3 1 3	50 209/50	4.2	Strongly agreed

Source: Field Survey, 2022

From the above table, variable 1 which has a mean score of 4.2 which is above the cut of mark *of 3.0* shows that Monetary policy is uniquely capable of affecting the long-run price level through the process of money creation.

Variable 2 with a mean score of 4.0 which is equally above the cut off mark of 3.0, the respondent also agrees that, it lowers the value of the currency, thereby decreasing the exchange rate. Variable with mean score of 4.2 shows that monetary policy rate and foreign exchange rate increase the level of inflation.

Based on the above findings, it can be concluded that, monetary policy rate and foreign exchange rate increase the level of inflation.

Research Question 2: What is the effect of monetary policy on the market share of First Bank of Nigeria Plc, Kaduna?

S/N	Variables	SA	A	U	D	SD	Total	Mean	Remark
5	A higher monetary policy rate results in high lending rate causing security prices to be volatile and investment in capital market less attractive	30 5 150	10 4 40	2 3 6	5 2 10	3 1 3	50 418/50	4.2	Strongly agreed
6	Tighter monetary policy leads to an increase in the rate at which firms' future cash flows are capitalised causing stock prices to decline	20 5 100	20 4 80	4 3 12	2 2 4	4 1 4	50 200/50	4.0	Agreed
7	The best contribution monetary policy can make to market share is to ensure prices are stable	20 5 100	5 4 20	5 3 15	- 2 0	20 1 20	100 155/50	3.1	Agreed
8	It increase the cost of borrowing for Nigeria corporates and brings down their cost of funds.	30 5 150	10 4 40	2 3 6	5 2 10	3 1 3	50 209/50	4.2	Strongly agreed

9	This also reduces the financial risk in their balance sheet and helps improve valuations of these companies in the medium term.	10 5 50	10 4 40	2 3 6	5 2 10	23 1 23	50 129/50	2.6	Strongly agreed

Source: Field Survey, 2022

From the above table, variable 5 with a mean score of 4.2 above the cut off mark of 3.0 which agreed that, a higher monetary policy rate results in high lending rate causing security prices to be volatile and investment in capital market less attractive.

Variable 6 has a mean score of 4.0 and that Tighter monetary policy leads to an increase in the rate at which firms' future cash flows are capitalised causing stock prices to decline.

Variable 6 with a mean score of 3.1 reveals that even when employee are not motivated, they will still improve organisation performance.

Variable 7 stays at 3.6 as a mean score which signifies accepted depict that the best contribution monetary policy can make to market share is to ensure prices are stable.

Variable 8 has a mean score of 4.2 which is above the 3.0 cut off market depicts that It increase the cost of borrowing for Nigeria corporates and brings down their cost of funds.

Variable 9 has a mean score of 2.6 which is below the 3.0 cut off point depicts that This also reduces the financial risk in their balance sheet and helps improve valuations of these companies in the medium term.

Based on the findings, it can be concluded that, a higher monetary policy rate results in high lending rate causing security prices to be volatile and investment in capital market less attractive.

Research Question 3: What is the effect of monetary policy on cost of capital in first bank of Nigeria Plc, Kaduna?

S/N	Variables	SA	A	U	D	SD	Total	Mean	Remark
10	Monetary policy impacts the money supply in an economy, which influences interest rates and the inflation rate.	30 5 150	10 4 40	2 3 6	5 2 10	3 1 3	50 418/50	4.2	Strongly agreed
11	It impacts the cost of debt and the relative cost of consumption versus saving all of which directly or indirectly impact aggregate demand.	20 5 100	20 4 80	4 3 12	2 2 4	4 1 4	50 200/50	4.0	Agreed
12	The financial policy provides guidelines for the company's financial funds, and cost of capital is the opportunity cost of these funds.	20 5 100	5 4 20	5 3 15	- 2 0	20 1 20	100 155/50	3.1	Agreed
13.	Modifying average interest rate paid on debt (ID) and long-term interest (L).	30 5 150	10 4 40	2 3 6	5 2 10	3 1 3	50 209/50	4.2	Strongly agreed
14.	Monetary policy impacts the money supply in an	20	5	5	-	20	100	3.1	Agreed

	economy, which influences interest rates and the inflation rate.	5 100	4 20	3 15	2 0	1 20	155/50		

Source: Field Survey, 2022

From the above table, variable 10 with a mean score of 4.2 which is above 3.0 agrees that Monetary policy impacts the money supply in an economy, which influences interest rates and the inflation rate.

The response from variable 11 with a mean of 4.0 strongly agreed that it impacts the cost of debt and the relative cost of consumption versus saving all of which directly or indirectly impact aggregate demand.

A critical analysis of variable 12 with a mean of 3.1 reveals that, financial policy provides guidelines for the company's financial funds, and cost of capital is the opportunity cost of these funds.

Variable 13 in its outcome with a mean score of 4.2 shows that Modifying average interest rate paid on debt (ID) and long-term interest (L).

Variable 14 which has a mean score of 3.1 which is above the cut off mark of 3.0 establishes that Monetary policy impacts the money supply in an economy, which influences interest rates and the inflation rate.

4.4 Summary of Findings

Although, the findings of this study revealed a complex situation, we finally arrived at the following conclusion:

i. Monetary policy is uniquely capable of affecting the long-run price level through the process of money creation.

ii. It lowers the value of the currency, thereby decreasing the exchange rate.

iii. A higher monetary policy rate results in high lending rate causing security prices to be volatile and investment in capital market less attractive.

iv. Monetary policy impacts the money supply in an economy, which influences interest rates and the inflation rate.

v. financial policy provides guidelines for the company's financial funds, and cost of capital is the opportunity cost of these funds.

4.5 Discussion of Findings

Research Question 1: What is the effect of monetary policy on profitability margin of First Bank of Nigeria Plc, Kaduna Main Branch?

It was found that, Monetary policy is uniquely capable of affecting the long-run price level through the process of money creation, that, it lowers the value of the currency, thereby decreasing the exchange rate. Variable and also that, monetary policy rate and foreign exchange rate increase the level of inflation. Based on the above findings, it can be concluded that, monetary policy rate and foreign exchange rate increase the level of inflation. This is inline the study of James (2019) whose stated that, monetary policy impact on profitability margin banking industry.

Research Question 2: What is the effect of monetary policy on the market share of First Bank of Nigeria Plc, Kaduna?

The study found that, a higher monetary policy rate results in high lending rate causing security prices to be volatile and investment in capital market less attractive. It was also found that tighter monetary policy leads to an increase in the rate at which firms' future cash flows are capitalised causing stock prices to decline. So also, the research found that even when employee are not motivated, they will still improve organisation performance.

This is in agreement with the study Anyanwaokoro, (2017) who found that, rate of monetary policy determine the rate of market share of banking industry.

Research Question 3: What is the effect of monetary policy on cost of capital in first bank of Nigeria Plc, Kaduna?

It was found that Monetary policy impacts the money supply in an economy, which influences interest rates and the inflation rate. Also the study found that monetary policy impacts the cost of debt and the relative cost of consumption versus saving all of which directly or indirectly impact aggregate demand.

This is in agreement with the study of Busari (2012) whose found that, the rate of monetary policy is directly proportional to cost of capital in an organizations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study was carried out to determine the effect of monetary policy on the profitability of first bank Nigeria plc, Kaduna. The objective of this research was: to determine the effect of monetary policy and profitability actions on the returns of First Bank of Nigeria Plc, Kaduna Main Branch and also, to find out how monetary policy and profitability affect the return of First Bank of Nigeria Plc, Kaduna Main Branch sensitive to bank- specific characteristics such as size, leverage and profitability.

This study was significant to researcher as it discussed the concept of monetary policy and its impact on profitability as such future writers will make use of this information.

Larger banks and banks with low-capital ratios are more sensitive to changes in the federal funds target rate. The survey research design was used for the study. Questionnaire method was used as a means for data collection. The population for this study was the sum of 50 staff of the studied bank of which the whole population was used as the sample size for the study using Ndagi ()1996) sample size determination method. The data collected was analyzed using simple percentage for characteristic of respondents and mean statistical method.

It was found that, the rate of monetary policy is directly proportional to cost of capital in an organization. It was also found that, monetary policy impact on the value of the currency, thereby decreasing the exchange rate. Hence recommended that, Modalities should be worked out for a situation in which these regulators can be supervised by each other. Greater cooperation should be facilitated among the various regulators without compromising.

5.2 Conclusion

Based on the findings above, the study concluded that, the rate of monetary policy is directly proportional to cost of capital in an organization. It was also concluded that monetary policy impacts the cost of debt and the relative cost of consumption versus saving all of which directly or indirectly impact aggregate demand. The researcher also concluded that, monetary policy rate and foreign exchange rate increase the level of inflation based on the fact that, larger banks and banks with low-capital ratios are more sensitive to changes in the federal funds target rate.

5.3 Recommendations

Based on the findings, the researcher recommended that:

i. There is need therefore for the strengthening of this monetary instrument.

ii. The activities of various regulators should be harmonized so as to avoid duplication of functions.

iii. Modalities should be worked out for a situation in which these regulators can be supervised by each other. Greater cooperation should be facilitated among the various regulators without compromising.

iv. There is need to improve on services delivery by Banks. E-banking is not yet fully developed; as yet, the banks are reluctant to invest their funds into development their information technology (IT) capabilities.

v. Attention should be given to develop a more efficient payment system that would reduce the volume of cash payments through the encouragement and use of various payment mechanisms, such as cheques and other near money instruments.

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Department of Business Administration and Management,
CBMS,
Kaduna Polytechnic Kaduna.
27th July, 2022

The Human Resource Manager,

First Bank Nigeria Plc,

Yakubu Gawon Way,

Kaduna.

Dear Sir,

LETTER OF INTRODUCTION

The researcher is a student of the above department undertaking a research on the topic" Effect of monetary policy on the profitability of First Banks of Nigeria Plc".

The questionnaire is to help the researcher acquire the necessary information for the purpose of the project writing.

Kindly express your opinion by responding to the attached questionnaire by ticking (   ). Your responses will be treated in strict confidence and would be use only for the purpose of this study.

Thanks for your co-operation

Yours faithfully

Nasiba Rabiu Kabir
Researcher

APPENDIX

Instruction:

Please tick (✓) at the appropriate box in section A below. Respond to section B Question 1, 2 and 3 base on your opinion, using SA = Strongly Agree, A = Agree, UD = Undecided, D = Disagree and SD = Strongly Disagreed.

Section A: Questionnaire

Classification of Respondents

1. Sex Distribution

a. Male ( )

b. Female ( )

2. Classification of Age

a. 18-20 years ( )

b. 25-35 years ( )

c. 35 and above ( )

3. Academic Qualification

a. SSCE/NECO ( )

b. NCE/ND ( )

c. HND/B. Sc./B.ED ( )

d. Post Graduate ( )

e. Professional Qualification ( )

4 Length of service in the bank.

6-11 years
12-20
21 years and above

SECTION B

Research Question 1: What is the effect of monetary policy on profit margin of first bank Nigeria Plc, Kaduna?

S/N	Variables	SA	A	UD	D	SD
1	Monetary policy is uniquely capable of affecting the long-run price level through the process of money creation.					
2	The increase on money supply lowers interest rates, and increases demand.					
3	It lowers the value of the currency, thereby decreasing the exchange rate.					
4	monetary policy rate and foreign exchange rate increase the level of inflation.					

Research: 2 What is the effect of monetary policy on the market share of First Bank of Nigeria Plc, Kaduna?

S/N	Variables	SA	A	UD	D	SD
1	A higher monetary policy rate results in high lending rate causing security prices to be volatile and investment in capital market less attractive					
2	Tighter monetary policy leads to an increase in the rate at which firms' future cash flows are capitalised causing stock prices to decline					
3	The best contribution monetary policy can make to market share is to ensure prices are stable					
4	It increase the cost of borrowing for Nigeria corporates and brings down their cost of funds.					
5	This also reduces the financial risk in their balance sheet and helps improve valuations of these companies in the medium term.					

Research question 3: What is the effect of monetary policy on cost of capital in first bank of Nigeria Plc, Kaduna?

S/N	Variables	SA	A	UD	D	SD
1	Monetary policy impacts the money supply in an economy, which influences interest rates and the inflation rate.					
2	It impacts the cost of debt and the relative cost of consumption versus saving all of which directly or indirectly impact aggregate demand.					
3	The financial policy provides guidelines for the company's financial funds, and cost of capital is the opportunity cost of these funds.					
4	Modifying average interest rate paid on debt (ID) and long-term interest (L).					