EFFECT OF GOVERNMENT POLICIES ON THE LENDING ABILITY OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The study evaluated the effect of government policies on the lending ability of deposit money banks in Nigeria. The study was anchored on the Keynesian theory of monetary policy and the quantitative analysis via the ex-post facto research design was adopted. Data of bank credit to private sector, total domestic debt (proxy for economic growth) and broad money supply were obtained from the Central Bank of Nigeria statistical bulletin and National Bureau of Statistics from 1999-2019. Data obtained was analyzed using the Ordinary Least Square estimation technique. The findings showed that money supply has a significant and positive effect on the lending ability of deposit money banks in Nigeria. In addition, it was found that monetary policy rates have significant and positive effect on the lending ability of deposit money banks in Nigeria. More so, government borrowings have significant and negative effect on the lending ability of deposit money banks in Nigeria. On the basis of the findings, it was recommended among others that the monetary authority in Nigeria should manage the monetary policy rate properly for it to be attractive and affordable for investors to borrow money from the bank. Again, the government should employ other measures such as budgetary control to support and strengthen the monetary policy in order to control the credit creation of deposit money banks in the country.

Keywords: Lending; Money supply; Monetary policy; Government policy; Domestic debt

Introduction

Government policy is a rule or principle that guides decisions, resulting in positive outcomes that enhance the economy. These policies come in different ways, which includes monetary, fiscal and supply-side policies. However, this study focused on monetary and fiscal policies of the Nigerian government. According to Uremadu (2012), a financial system of any economy is made of institutional arrangements designed to transform savings into investments. While there is widespread agreement that banks play a key role in the transmission of monetary policy actions, there is considerable controversy over the precise role banks play.

The Nigerian banking system can be said to be the one that does the essential role of aiding government policy implementation and facilitating the role of financial intermediations in the economy (Omankhanlen, 2014). Extant studies have been inconclusive as to how government policies affect the lending ability of the banks.

The study by Olweny and Chiluwe (2012); and Udeh (2015) found an insignificant relationship between monetary policy instruments and bank lending ability.
Remarkably, the review of existing studies on government policy and lending ability revealed that almost (if not all) all the studies were centered on monetary policy alone, without due attention to the fiscal aspect of government policy. Consequently, this present study found a gap in that respect, hence the inclusion of fiscal policy variable in its empirical model in assessing the effect of the government policy (monetary and fiscal policies) on the lending ability of the deposit money banks in Nigeria. Given this gap in the literature, the following specific objectives were derived:

1. To determine the effect of money supply (M_2) on the lending ability of deposit money banks in Nigeria.
2. To ascertain the effect of monetary policy rates on the lending ability of deposit money banks in Nigeria.
3. To examine the effect of government borrowings on the lending ability of deposit money banks in Nigeria.

Furthermore, three (3) research hypotheses were developed and tested at 0.05% significance level. The hypotheses of the study were expressed in their null form as follows:

H_{O1}: Money supply has no significant effect on the lending ability of deposit money banks.
H_{O2}: Monetary policy rates have no significant effect on the lending ability of deposit money banks.
H_{O3}: Government borrowings have no significant effect on the lending ability of deposit money banks.

Literature Review and Theoretical Framework

Monetary Policy

The monetary paradigm, monetary policy manipulates the money supply and rates of interests in such a way to achieve the goals of the manifestation of the ruling party (Shoaib, 2010). It is concerned with discretionary control of money supply by the monetary authority (Central Bank of Nigeria) in order to achieve the desired economic goals of the government. Monetary policy consists of the government's formal efforts to manage the money in its economy in order to realize specific economic goals. Three basic kinds of monetary policy decisions can be made, namely, the amount of money in circulation, the level of interest rates and the functions of credit markets and the banking system (Ogunjimi, 2017).

The combination of these measures is designed to regulate the value, supply and cost of money in an economy, in line with the level of economic activity. Excess supply of money will result in an excess demand for goods and services, prices will rise and balance of payments will deteriorate. Nigeria's monetary policy is anchored on the monetary targeting framework and price stability, which represents the overriding objectives of monetary policies. It is a combination of the measure designed to regulate the value, supply and cost of money in the economy in consonance with the expected level of economic activities (Central Bank of Nigeria, 2015).

Monetary policy may be inflationary or deflationary depending upon the economic condition of the country. Contractionary policy is enforced to squeeze down the money supply to curb inflation while expansionary policy is to stimulate economic activities to combat unemployment in periods of economic recessions.

There are several selected instruments of monetary policies which include cash ratio, liquidity ratio, monetary policy rates, money supply and bank credits among others. First, *cash ratio* is the proportion of total deposit liabilities which deposit money banks and other financial institutions are expected to keep as cash with the CBN (Udeh, 2015). It is the statutory cash reserves that banks are to keep with the CBN and this cash ratio was designed to help rescue the liquidity of the banks and hence control the volume of banks credit that can be extended by deposit money banks.

Second, *liquidity ratio*: The liquidity ratio is the proportion of total deposits to be kept in specified liquid assets mainly to safeguard the ability of the banks to meet depositors' cash withdrawals and ensure confidence in the banking system (Olweny & Chiluwe, 2012). It is generally accepted that liquidity ratio is used to increase or decrease cash availability of commercial banks, however, researchers have argued that the major use of the statutory reserve ratio of banks is to float government securities, it therefore intends to direct commercial bank credit towards the public sector.

Third, *monetary policy rate* is the minimum lending rate of the CBN at which it rediscounts bill of exchange and government securities held by the deposit money bank (Morgan, 2012). When the CBN notice an inflationary pressure in the economy, it raises the bank rate. In this period, borrowing from the CBN becomes difficult and deposit money banks borrow less from it. Also the deposit money banks borrowers such as the individual and industries borrow less from it due to an increase in its lending rate. On the contrary in a depressed economy, the Central Bank lowers its bank rate making it cheaper to borrow from them. The deposit money banks also lower their lending rate making it easy for businessmen to borrow money.

Fourth, *money supply* is the total currency outside the banks, demand deposits at deposit money banks, domestic deposits at the CBN, less Federal and State governments deposits with deposit money banks. This mainly involves buying government bonds "expanding the money supply" or selling them "contracting the

money supply". When the CBN disburses or collects payment for these bonds, it alters the amount of money in the economy while simultaneously affecting the price of short-term government bonds. The change in the amount of money in the economy in turn affects interbank interest rates.

Furthermore, *bank credit to private sector* is the total loans and advances given by the banks to economic agents (CBN, 2009). It is the extension of money from the lender to the borrower (Ebi & Emmanuel, 2014). Bank credit is a core business of financial institutions or banks because banks mobilized deposits from the surplus units of the economy and channeled it to the deficit units who need funds for productive uses. Therefore, the relationship between Banks and customers is that of debtors and creditors.

Kahn (2010) observed that monetary policy objectives are concerned with the management of multiple monetary targets among which are price stability, promotion of growth, achieving full employment, smoothing the business cycle, preventing financial crises, stabilizing long-term interest rates and the real exchange rate. Through the control of monetary policy targets such as the price of money (interest rate - both short term and long term), the quantity of money and reserve money amongst others; monetary authorities directly and indirectly control the demand for money, money supply, or the availability of money (overall liquidity), and hence affect output and private sector investment.

Concept of Fiscal Policy

Fiscal policy is the use of the central authorities of government revenue and expenditure in an effort to influence the circular flow of income. By fiscal policy, we mean the process of shaping taxation and public expenditure in order to help to damped the savings of the business cycle and to contribute toward the maintenance of a growing high employment free from volatile inflation. Umoh (2013) was of the view that the government of any nation has the economic policies among which is the fiscal policy and this policy relates to the variability in the revenue and expenditure items of the nation financial statement.

Fiscal policy is aimed at increasing employment opportunities or to attain full employment, achieving price stability, promote economic growth and development, achieving equity in income redistribution and achieving favorable balance of payment. Although particular tax and expenditure measures affect the economy in so many ways and may be designed to serve a variety of purposes, several or less distinct policy objectives may be set forth which now rank as the functions of fiscal policy.

Broadly, the objectives of fiscal policy are geared towards the *allocation function* which refers to the provision of social goods or process by which total resources used is divided between private and social goods and by which the mix of social goods is

chosen; *distribution function* which is concerned with the redistribution of income; and *stability function,* which provides a reasonable degree of price level stability, slowness of foreign account, an acceptable rate of economic growth and development without the economic trends to be subjected to substantial fluctuations.

Fiscal policy instruments are broadly classified into two namely, automatically fiscal stabilizers and discretional fiscal policy measures. The *automatically fiscal stabilizers* are ingenious devices that help to bring the economy back to an even level without a deliberate action on the part of anyone. They are designed to function in a countercyclical fashion to improve the performance of the economy. On the other hand, the *discretional fiscal policies* are policies which have been designed by a legislative or executive action in order to deal with the problem at hand. These measures require speed of decision and can be successful in temporal and reversible fiscal changes for stabilization purposes. Discretionary fiscal policy includes: Tax transfer scheme, tax on goods for instance value added tax (VAT), annual budget, as well as policies regulating the banking sector in Nigeria

Theoretical Framework

This study hinges on the Keynesian Theory of 1936 postulated by John Maynard Keynes which he published in his book "general theory of employment, interest and money". The Keynesian theory initiated the Keynesian revolution; the theory suggests that monetary policy influences investment decisions of financial institutions such as deposit money banks and the public via multiplies processes.

The Keynesian monetary theory posits that government had the responsibility to undertake actions to stabilize the economy and maintain full employment and economic growth, using fiscal and monetary policies. This theory is in tandem with our study which examined how the monetary and fiscal policies of the CBN could impact on the lending ability of deposit money banks.

Empirical Review

Quite a number of studies have been done on the effect of government policy on the lending ability in Nigeria; however, most of these studies were based on one aspect of government policy – monetary policy. For instance, a study on the dynamics of monetary policy and inflation in Nigeria was carried out by Okotori (2016). Variables of money supply, exchange rate, monetary policy rate, treasury bills rate, reserve requirement and liquidity ratio were employed. The study adopted the Augmented Dickey-Fuller (ADF) unit root, Johansen Co integration and Error Correction model (ECM) for analyses of data. The study found that money supply, exchange rate, monetary policy rate, treasury bills rate, reserve requirement and liquidity ratio have significant and effective impact on the inflation rate.

Uwazie and Aina (2015) examined the causes and effects of monetary policy on commercial banks credit in Nigeria. The study variables were bank credit, broad

money supply (LM2), monetary policy rate (MPR), liquidity ratio (LR), inflation rate (IFR) and exchange rate (EXR). The regression results revealed that there was a causal effect between monetary policy and commercial banks credit in Nigeria.

Examining the effect of monetary policy instruments on banking sector credits in Nigeria, Osakwe (2015) obtained secondary data on bank reserve ratio (CRR), liquidity ratio (LR), and monetary policy rate (MPR). Analysis was carried out using Augmented Dicker-Fuller (ADF) unit roots, Johansson co-integration, vector error correction model and the impulse response function (IRF). Finding from the ECM showed that monetary policy in Nigeria is a reliable short term mechanism for controlling the banks in Nigeria vis-à-vis financial intermediation functions.

Similar to the study of Okotori, 2016, Yusuf (2016) assessed the impact of monetary policy in Nigeria on inflation, exchange rate and economic growth. The Johanssen co-integration results indicated that a negative relationship between monetary policy and inflation in Nigeria. While Okwori and Abu (2016) who assessed monetary policy and inflation targeting in Nigeria, using VECM, concluded that monetary policy is significant in curbing inflation threshold in Nigeria; however, the study found the effect of monetary policy variables to be weak in controlling inflation in Nigeria.

Ajayi and Atanda (2012) evaluated the impact of monetary policy instruments on Nigerian banks' performance by deployed Engle-granger two-step co-integration approach. Time series data on bank rate, inflation rate, exchange rate, liquidity ratio and cash reserves ratio were obtained from the CBN statistical bulletin and National Bureau of statistics. Findings indicated that bank rate, inflation rate and exchange rate are credit enhancing variables, while liquidity ratio and cash reserves ratio exert negative impact on banks total credit.

Olweny and Chiluwe (2012) examined the relationship between monetary policy and private sector investment. Time series data on lending rates, cash reserve ratio and private sector investment was obtained from the CBN statistical bulletin. Analysis of data was done using VECM and findings revealed that government domestic debt and treasury bill rate have negative relationship with private sector investment.

Udeh (2015) examined the impact of monetary policy instruments on profitability of Zenith Bank Plc. in Nigeria. Data on cash reserve ratio, lending rate, interest rate and profit before tax was obtained from the CBN statistical bulletin and annual financial statements of Zenith Bank Plc. The study deployed Pearson product moment correlation technique to analyze the data and the study revealed that cash reserve ratio, liquidity ratio and interest rate did not have significant impact on the profit before tax of Zenith Bank Plc.

Methodology

This study applied the quantitative analysis based on the *ex-post facto* research design to study the effect of government policies on the lending ability of deposit money banks in Nigeria. Also, the ex-post facto research design was adopted because the study involved the use of data on variables which the researcher cannot change or manipulate.

The data for this study include broad money supply, lending rate, and bank credit to private sectors, which were sourced from the CBN statistical bulletins, and National Bureau of Statistics from 1999-2019. The study adapted the model by Abubakar (2016), which studied the long-run relationship between government policy and lending ability of banks. The model is as specified below:

$$TBCR = f(MPR, LR) \quad -----------3.1$$

Where: TBCR = Total Bank Credit; MPR = Monetary Policy rate; LR = Lending Rate

However, the researchers modified this model using bank credit to private sectors alone as the dependent variable and including broad money supply, monetary policy rates and government borrowings as the explanatory variables. Also, natural logarithm was introduced to bring the variables of the model to a single unit of measurement, since the values of other variables were expressed in different units. The modified models are as shown below:

Model 1:

$$BCR = f(M2,) \quad -----------3.2$$

$$logBCR = \beta_0 + log\,\beta_1 M2 + \varepsilon \quad ------3.3$$

Model 2:

$$BCR = f(MPR) \quad -----------3.4$$

$$logBCR = \beta_0 + log\,\beta_1 MPR + \varepsilon \quad ------3.5$$

Model 3:

$$logBCR = f(TDD) \quad -----------3.6$$

$$logBCR = \beta_0 + log\,\beta_1 TDD + \varepsilon \quad ------3.7$$

Where: *BCR* =Bank credit to private sector; TDD= Total Domestic Debt (proxy for Government Borrowings); M2= Broad money supply; β_0 = constant parameter; β_1- β_5 = Slope of the regression line; ε = error term.

Data obtained in the study were analysed using the Ordinary Least Square (OLS) method. The OLS was chosen because alternative econometric techniques such as Two Stage Least Squares (2SLS) give limited information. The statistical analysis was carried out via computer software application E-Views 8.0.

The criteria for interpretation of result were all based on three statistical criteria, adjusted R-squared, F-statistic and Durbin Watson (DW) test of autocorrelation. *Coefficient of determination (R^2)* measures the proportion of the total variation in the dependent variable that is jointly explained by the linear influence of the explanatory

variable. The value of R^2 lies between zero and one, i.e., $0<R^2<1$ with values close to 1 indicating a good degree of fit.

The F-statistics was used to test whether or not there is a significant relationship between the dependent and independent variable in the estimated models. If the probability at which the F- values significant is less than the chosen level of significance, then we accept that there is a significant relationship between the dependent and independent variables in the regression equation.

The DW test for autocorrelation compared the calculated d* value from the regression residuals with the dL and du in the DW tables and with their transforms (4-dL) and (4-du). The result of the serial correlation LM test overrides the DW test of autocorrelation. The serial correlation LM test is superior and preferred to DW in testing autocorrelation in any stated model. The decision rule for testing the formulated hypotheses is that if the calculated significance value is higher than 0.05, accept the null hypothesis and reject the alternate. However, when the significance value is less than 0.05, reject the null hypothesis, and accept the alternate.

Apriori Expectations

This refers to the supposed relationship between and or among the dependent or independent variables of the model on the premises of the neoclassical theory. The parameter estimates of the models were interpreted on the basis of the supposed signs established by neoclassical theory. Put differently, the parameter estimates of the model were checked to find out whether they conform to the postulations of neoclassical theory.

Table 3.1: A Priori Expectation

Symbol	Variable	Expected Signs
MPR	Monetary Policy Rate	-
GOVB	Government Borrowings	-
M2	Money supply	-

Source: Keynesian Fiscal Public Theory

RESULTS AND DISCUSSIONS

Table 4.1: Data on selected variables from 1999 to 2019

Year	MPR (%)	M_2 (Billion)	BCR(Billion)	GOVB(Billion)
1999	14.00	10,354.69	8.169	66.8
2000	15.00	9,457.90	6.174	95.4
2001	11.60	8,237.09	9.881	220.4
2002	8.20	8,931.48	8.084	302.6
2003	12.9	9,239.80	8.909	278.7
2004	14.0	9,600.45	8.462	256.9
2005	15.0	10,349.74	8.435	294.1
2006	11.6	10,652.88	8.120	466.1
2007	8.2	9,238.09	13.797	648.4
2008	6.6	10,864.00	18.633	748.7
2009	15.1	11,094.42	19.626	1,324.80
2010	11.0	10,780.63	13.491	1,926.00
2011	11.0	11,525.53	11.044	2,523.50
2012	12.0	13,303.49	10.605	4,227.10
2013	11.0	15,483.83	11.533	10,180.30
2014	12.0	15,688.96	13.297	6,957.50
2015	11.0	18,913.02	13.079	4,989.40
2016	14.0	19,349.83	14.608	7,913.80
2017	14.0	23,465.83	12.852	6,532.60
2018	12.55	28,391.54	10.247	8,974.40
2019	13.19	29,456.00	11.158	13,226.00

Source: CBN Annual report for various years and World bank Publications

Key: Monetary policy rate (MPR), Broad money supply (M_2), government Borrowings (GOVB) and Bank Credit (BCR).

Table 4.1 showed that domestic credit was very low in 2000 but increased in 2001. Domestic credit remained relatively stable between 2003 to 2006 before it had a sharp increase in 2007. It was at its peak in 2009 after it witnessed sharp decrease in 2010, which could be an effect of the global financial crisis. From 2011 to 2019, domestic credit had a topsy-turvy movement. Money supply showed a decline in 2001 and 2002 and remained relatively constant in 2005 and 2006. However, there was huge increase in money supply in 2012 and 2013 till 2019. Monetary policy rate was increasing and decreasing randomly in no particular order. It witnessed an all time high of 15% and all time low of 11%.

Table 4.2: ADF Test Result

Variables	ADF Test Statistic	Test Critical Value at 1%	Test Critical Value at 5%	Order of Integration/Connotation
BCR	-6.404592 (0.00)*	-2.653401	-1.953858	1(1)/Stationary
M2	-4.590698 (0.00)*	-2.653401	-1.953858	1(1)/Stationary
MPR	-8.977234 (0.00)*	-2.653401	-1.953858	1(1)/Stationary
GOVB	-2.235668 (0.02)**	-2.679735	-1.958088	1(1)/Stationary

Source: Computer analysis using E-views8.0

Augmented Dickey-Fuller (ADF) test was used to check for stationarity of data to ensure that the variables are from stationarity defect linked with most time series data. The ADF Table 4.3a show that all the variables are stationary at first difference as such, inferences made from analysis will not be spurious.

H_0: Money supply has no significant effect on the lending ability of deposit money banks in Nigeria.

Table 4.3a: Ordinary Least Square Regression Result for Model 1
Dependent Variable: BCR
Method: Least Squares
Date: 12/06/21 Time: 04:13
Sample: 1999 2019
Included Observation: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.01105	1091.252	-1.384659	0.1789
M_2	0.517156	11.39116	-0.892934	0.3808
R-squared	0.997440	Mean dependent variable		34043.52
Adjusted R-squared	0.447013	S.D. dependent variable		17236.97
S.E. of regression	942.0178	Akaike info criterion		16.68951
Sum squared residual	21297542	Schwarz criterion		16.92525
Log likelihood	-236.9979	Hannan-Quinn criteria		16.76334
F-statistic	2337.698	Durbin-Watson stat		2.567555
Prob (F-statistic)	0.000000			

Source: Computer output data using E-views8.0

Table 4.3a shows broad money supply has positive and significant relationship with bank credit as shown by the coefficient of 0.517156. This signifies that a percentage increase in money supply will also increase bank lending ability by 52%, while if money supply remains constant, bank lending ability will grow by 11%. The R-squared coefficient of 0.447440 showed that the regression line is well fitted. That is to say that about 44% variation in the real bank credit is caused by money supply alone and no other variable.

The Durbin Watson statistic of 2.56 above 2.0, therefore, it unveils that the variables in the model are not serially correlated. The F-statistics value of 0.00000 is less than the significance value of 0.05, therefore we reject the null hypothesis and accept the alternate that Money supply has a significant effect on the lending ability of the banks in Nigeria.

H_0: Monetary policy rate has no significant effect on the lending ability of deposit money banks in Nigeria.

Table 4.3b: Ordinary Least Square Regression Result for Model 2

Dependent Variable: RGDP
Method: Least Squares
Date: 12/06/21 Time: 04:26
Sample: 1999 2019
Included Observation: 20

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.602444	5.453550	2.027302	0.0004
MPR	-0.476800	0.168933	0.198643	0.0011
R-squared	0. 628855	Mean dependent variable		4.400000
Adjusted R-squared	0. 608723	S.D. dependent variable		7.595234
S.E. of regression	7.089562	Akaike info criterion		6.878690
Sum squared residual	1306.809	Schwarz criterion		7.065516
Log likelihood	-99.18035	Hannan-Quinn criteria.		11.53058
F-statistic	7.428155	Durbin-Watson stat		2.042124
Prob(F-statistic)	0.005032			

Source: Computer output data using E-views8.0

Monetary policy rate coefficient of -0.476800 suggests that a percentage increase in Monetary policy rate resulted in 47% decrease in bank credit, a proxy for bank lending ability within the period covered by the study and this is statistically Significant. The multiple coefficient of determination (R^2) is approximately 0.61, that is, the explanatory variables explained about 61% of the total variation in the dependent variable. We can say that the model is fitted. Also, Durbin Watson Coefficient showed no autocorrelation Problem.

The P-value of 0.005032 is less than the significance value of 0.05; hence we reject the null hypothesis and conclude that monetary policy rate has no significant effect on the lending ability of the banks in Nigeria.

H_0: Government borrowings have no significant effect on the lending ability of deposit money banks in Nigeria.

Table 4.3c: Ordinary Least Square Regression Result for Model 3
Dependent Variable: BCR
Method: Least Squares
Date: 12/06/21 Time: 04:30
Sample: 1999 2019
Included Observation: 20

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.671063	4.979631	2.562036	0.0041
GOVB	-0.491213	0.090560	-2.580891	0.0310
R-squared	0.554216	Mean dependent variable		4.400000
Adjusted R-squared	0.523347	S.D. dependent variable		7.595234
S.E. of regression	7.051416	Akaike info criterion		6. 867900
Sum squared residual	1292.784	Schwarz criterion		7. 054726
Log likelihood	-99.01849	Hannan-Quinn criteria		9.463370
F-statistic	8. 548519	Durbin-Watson stat		2.079460
Prob(F-statistic)	0.000232			

Source: Computer output data using E-views8.0

The government borrowing coefficient of -0.491213suggests that a percentage increase in government borrowing will result to 49 percent decrease in bank credit, a proxy for bank lending ability within the period covered by the study and this is statistically significant. The multiple coefficient of determination (R^2) is approximately 0.52, that is, the explanatory variables explained about 52% of the total variation in the dependent variable. We can say that the model is well fitted. Also, the Durbin Watson Coefficient is above 2.0, showing no autocorrelation problem.

The P-value of 0.000232is less than the significance value of 0.05; hence we reject the null hypothesis and conclude that government borrowings have a significant effect on the lending ability of the banks in Nigeria.

The test result from table 4.2a showed that money supply has a significant and positive relationship with bank lending ability. This signifies that when there is increase in money supply, people will increase their level of savings and this will aid the deposit money banks to have adequate loanable funds after maintaining the statutory reserve. The results also showed a positive and significant relationship

between banks' lending ability. This finding is somehow perplexing as one would have thought that an increase in lending rate would negatively affect the lending of deposit money banks as people would not be interested in borrowing.

The finding also disagrees with the a-priori expectations of the study. Finally, the last test result showed that increasing government borrowings will shrink aggregate savings in the economy. Reduced aggregate savings will leave the deposit money banks with limited cash to create credit. This is shown by the negative relationship between government borrowing and bank lending ability proxied by bank credit.

Conclusion and Recommendations

This study was set out to examine the effects of government policies on the lending ability of the deposit money banks in Nigeria. From the result of the analysis, the study found that money supply and monetary policy rates have significant and positive effects on the lending ability of deposit money banks in Nigeria. On the other hand, government borrowings have a significant and negative effect on the lending ability of deposit money banks in Nigeria.

Impliedly, fiscal policy requires more significant improvement in efficient and effective management than monetary policy in order to improve the bank lending ability in Nigeria. The study reveals that, bank lending ability can only be improved when the combination of monetary and fiscal policies are effectively and efficiently managed. Following the findings of this study, the following recommendations were proffered:

- Monetary authority should manage the monetary policy rate properly for it to be attractive and affordable for investors to borrow money from the bank.
- The government should employ other measures such as budgetary control to support the monetary policy to control the credit creation of deposit money banks.
- The government should put in place stringent rules and measures for M2 to increase lending through open market operations (OMO) by purchasing of government securities such as treasury bill, treasury bonds etc. so there will be money available for lending and this will reduce the lending interest rate so that it will be easier for customers to assess loans from the bank for investment purposes.

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