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MONETARY POLICY TRANSMISSION AND BANK LENDING BEHAVIOR IN NIGERIA (2002-2024)

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Abstract

Despite continuous monetary policy interventions by successive Nigeria government, the transmission of policy signals to the banking sector has remains weak and inconsistent, resulting in persistently high lending rates and limited credit to the real sector of the economy. The main objective of this study is to examine the effect of monetary policy transmission on bank lending behavior in Nigeria. The study spanned for a period between 2002-2024. The study made used of ex-post facto research design. The study conducted both pre and post estimation test. ARDL model was used as the main estimation technique with the aid of E-view 10.0 statistical software was used. The study found that real interest rate has a positive and insignificant effect on prime lending rate in Nigeria, broad money supply has a negative and insignificant effect on prime lending rate in Nigeria and bank liquidity ratio has a positive and statistically significant effect on prime lending rate in Nigeria. The study concluded that monetary policy transmission through interest rate and banking sector liquidity channels plays a significant role in influencing lending behaviour in Nigeria's banking system. The study recommended that Central Bank should adopt a well-coordinated interest rate policy that promotes macroeconomic stability while ensuring that borrowing costs remain moderate enough to stimulate investment and productive economic activities. Central Bank should adopt a well-coordinated interest rate policy that promotes macroeconomic stability while ensuring that borrowing costs remain moderate enough to stimulate investment and productive economic activities. Policymakers should strengthen financial intermediation mechanisms within the banking sector to ensure that increases in money supply are effectively transmitted to the real sector through credit expansion.

Keywords: Monetary Policy, Bank Lending, Prime Lending Rate, Real Interest Rate, Broad Money Supply and Bank Liquidity Ratio

1. Introduction

The issue of monetary policy transmission has continued to be among the most imperative ways in which central banks can shape financial intermediation and economic performance in

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general. The success of this process is mostly dependent on the way in which the policy messages of the central bank pass through financial institutions to the actual economy. According to Mishkin (2019), most economic systems especially the third world economies, the banking sector is the main channel through which the monetary policy measures are transmitted to the credit market and the final outcome, which is economic activities . Interest rates, liquidity requirements, and money supply control are just some of the policy tools used by monetary authorities to operate their lending decisions of commercial banks and ensure macroeconomic stability (Mishkin, 2019). The central bank of Nigeria has continuously used an integrated method of policy instruments such as interest rate control, liquidity management in addition to monetary aggregates targeting to control the circulation of credit in the financial system besides provoking constructive investment (Central Bank of Nigeria, 2023).

Banking system is significant in transmitting the monetary policy since the banks mediate between the economy and the investors and savers and they control the availability and cost of credit in the economy. Whenever the central bank alters the value of critical policy variables like interest rates or liquidity levels, the measures are reflected in the balance sheet of the banks and hence on the lending behaviour. The channel of transmitting monetary policy through bank lending asserts that contraction of monetary policy lowers the bank reserves and loanable funds as well as limiting the bank capacity to give loans to borrowers. On the other hand, the expansionary monetary policy enhances the liquidity in the banking system thus prompting banks to increase the borrowing to households and companies (Bernanke and Gertler, 1995). The use of monetary policy by the banking system has also received a lot of interest in Nigeria where credit conditions and lending rates have continually been fluctuated over the last 20 years. Central Bank of Nigeria (CBN) has introduced several changes in monetary policy to increase the allocation of credit and financial stability. Various policy instruments like changes in interest rates, money supply control, and application of liquidity requirements have been extensively applied to have an effect on lending behaviour within the banking industry (Central Bank of Nigeria, 2023). The real interest rate movements are also relevant in influencing the decisions to borrow and lend as the movements will influence the real cost of credit and returns of investments in the economy. On the same note, the adjustments in the broad money supply (M2) indicate the amount of money as well as liquidity present in the financial environment and determines the ability of banks to increase credit. Bank liquidity ratios are also the presence of liquid assets in the banks which influences their willingness and capacity to lend (Akinlo & Oni, 2015). Akinlo and Oni (2015), Mishkin (2019), and Olayiwola and Akinbobola (2022) confirm this as reaffirmed by other scholars, such as Ngalawa and Viegi (2013).

Although the transmission of monetary policy has strategic significance in determining the lending behaviour of banks, most developing economies such as Nigeria are still faced with poor and even intermittent policy signals transmission to the banking industry. The responsiveness of the banks to changes in policies is usually undermined by structural rigidities in financial system, information asymmetry, and high risk perception among banks as well as macroeconomic instability. Despite the number of reforms designed to make the banking sector stronger and enhance the effectiveness of the monetary policy, in Nigeria, the lending rates are rather high and the credit to productive spheres is minimal. According to the data provided by the Central Bank of Nigeria, prime lending rates have changed considerably with time,

showing different reactions of the banks to the changes in the monetary policy and macroeconomic conditions (Central Bank of Nigeria, 2023).

Despite the prevailing literature on monetary policy transmission and the behaviour of the banking sector, a number of limitations are still clear in the literature. Most studies are mainly concentrated on developed economies where financial markets are more developed and the institutional frameworks are stronger restricting the application of their results to the developing nations like that of Nigeria. A significant percentage of the existing studies on monetary policy transmission in Nigeria are focused primarily on macroeconomic variables of the country like inflation and economic growth, and fewer studies focus on the particular links between the variables of monetary policy transmission and the lending behaviour of banks. One of the existing literature utilizes a narrow proxies in transmission of monetary policies without sufficiently capturing key monetary variables in real interest rates, aggregate money supply, and liquidity status at the banking sector.

This current study will aim at filling these gaps by analysing how the transmission of monetary policies will influence the bank lending behaviour in Nigeria by using real interest rate, broad money supply (M2), and bank liquidity ratio as proxy variables to the monetary policy transmission and the prime lending rate as the proxy variable to measure the bank lending behaviour. The time frame included in the scope of the study is 2002-2024 as in this way, one can embrace the recent changes in the monetary policy framework and dynamics of the banking sector in Nigeria. Descriptive statistics, correlation analysis as well as other diagnostic tests are to be conducted to examine the preliminary statistical properties of the data series in order to comprehend the basic properties of the variables and their relationships. The preliminary analysis is necessary as the empirical modelling without adequate knowledge about the statistical characteristics of the data can be biased in specifications and run unreliable results in the estimation (Aguilar et al. 2015).

The hypotheses of this paper are presented in null forms so as to achieve the of this paper objectives as follows:

H_{01}: Real interest rate do not have significant effect on bank lending behavior in Nigeria.

H_{02}: Broad money supply do not have significant effect on bank lending behavior in Nigeria.

H_{03}: Bank liquidity ratio do not have significant effect on bank lending behavior in Nigeria.

Beyond the introduction presented above, the remainder of this paper is organized into five sections. Section two reviews the relevant literature, while section three outlines the methodology for the study. Section four presents and discusses the results and findings. While, section five concludes the paper and provides policy recommendations.

2.0 Literature Review

Some of the recent empirical studies that have been conducted to gauge the connection between monetary policy transmission and bank lending behaviour include the developed, emerging, and developing economies. Pirozhkova and Viegi (2024) examined the efficiency of the bank lending channel of the monetary policy channel in South Africa. The analysis was based on the data on loans and the banking sector and used a proxy-structural vector autoregression model to test the effect of monetary policy shocks on credit supply in the banking sector. The results

showed that monetary tightening has a major impact of lowering the supply of bank loans, especially the mortgage lending and also the amount of deposits would be decreasing after policy shocks. This paper has found that the quality of the bank lending channel of monetary policy transmission is vested on bank funding conditions and deposit dynamics.

In a similar way, Jiang (2024) investigated how the monetary policy is transmitted and affects the bank credit and financial intermediation based on macroeconomic evidence and econometric models. The findings have established that monetary policy has a large impact on the real interest rate channel and bank credit channel which in turn influences the lending activities in the financial system. The paper also found that fiscal and financial variables enhance the effect of real interest rates on the provision of bank credit, and the relevance of interest rate fluctuations on the lending behaviour of banks.

In another related research, Bulus (2024) evaluated the effectiveness of the bank lending channel of monetary policy transmission in Nigeria by applying quarterly data on the post-financial liberalization era. This was done by using econometric estimation in order to consider the effects of the monetary policy variables on lending behaviour in banking industry. The results showed that transmission of the monetary policy via the banking system is notable but comparatively low owing to structural inflexibility of the Nigerian financial system. The paper also pointed out additional aspects in that liquidity state and monetary aggregates that impact the ability of banks to advance credit to the privacy sector.

In addition, Salihu et al. (2024) measured the connection between the monetary policy variables and the results of the banking sector in Nigeria. The study was based on data of the banking sector and econometric analysis with the result that monetary aggregates money supply have a positive effect on the performance of the banking sector and reserve requirements and other policy limitations can potentially decrease the responsiveness of banks to changes in monetary policies. The authors reached a conclusion that monetary policy instruments should be considered as significant predictors of the behaviour of the banking sector in Nigeria.

In more recent research, Tsibu (2025) examined the movement of monetary policy rates realignments as a result of the lending rates of the commercial banks in Ghana through time-frequency analysis. The paper has established that monetary policy rate changes have a substantial impact on the movement of the lending rates within the banking system and therefore the existence of a functioning interest rate transmission system. The results also indicated that the responsiveness of lending rates to policy rate changes is not constant with time because of the changing macroeconomic conditions as well as financial market forces.

As one of the related studies in Nigeria, Oguche (2026) explored the connection between the elements of monetary policy and the performance of the bank credit through the Autoregressive Distributed Lag (ARDL) model supplemented with TodaYamamoto causality test. The paper has revealed that there is a dynamic relationship between the monetary policy variables and the bank credit behaviour, indicating that the policy changes in the interest rates and the monetary aggregates produce a significant impact on the credit performance in the banking system.

Theoretical Underpinnings

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This study is anchored on the integration of the Monetary Policy Transmission Mechanism Theory and the Monetarist Theory of Monetary Policy to examine the complex relationship between monetary policy transmission and bank lending behaviour in Nigeria.

Monetary Policy Transmission Mechanism Theory

Monetary Policy Transmission Mechanism Theory, which was greatly contributed by Ben S. Bernanke and Mark Gertler (1995), offers an explanation of how the actions made by the central bank impact on economic activities via the financial system. According to the theory, the monetary policy tools including interest rates, money supply, and liquidity in the banking sectors influence the behaviour of financial institutions especially in their lending policies. According to the theory, fluctuations in real interest rates, money supply, and liquidity conditions have an impact on the level of credit availability and cost in the banking system. Another example comes in the form of the monetary policy in the economy of countries such as Nigeria where banks are the main providers of financial intermediation, and thus the monetary policy is more or less implemented via the banking sector and hence it affects the interest rates offered by banks and the general distribution of credit by banks in the economy.

Monetarist Theory of Monetary Policy

In the Monetarist Theory of Monetary Policy, which was formulated by Milton Friedman (1968) the focus is on money supply as the central element that determines the level of economic activities and finance in an economy. The theory hypothesizes that variations in money supply that circulates in the market have a great influence on interest rates, credit accessibility, and the overall economic performance. The monetarist perspective holds that the supply of money by the central bank will boost liquidity in the banking system, which in turn will prompt the banks to lend more money to businesses and households. On the other hand, the decrease in money supply results in less liquidity, which causes a tightening in the credit market and decreases the lending by the banks. The theory made the submission that fluctuations in the monetary aggregates like broad money supply (M2) affect the capacity of the banks to lend credit and set the lending rates in the monetary system.

3.0 Methodology

Ex-post facto research design was employed in this paper and ex-post facto researches involve use of past information to determine the relationship that exist among variables. The paper made used of secondary data that was in annual form that was obtained from CBN Statistical Bulletin during the period under review. This paper conducted descriptive statistics, correlation tests, and unit root tests, among others, conducted certain preliminaries that time series data require. The study problem needs an Autoregressive Distributed Lag (ARDL) model that will enable the estimation of the long-run association and direction of causality that exists among the variables. The Autoregressive Distributed Lag ARDL) was considered good for this study because it is able to deal with mixed stationarity and even provide estimates of long-run relationships and accommodation of heterogeneity and robustness against endogeneity.

The model used in the study was an adapted from the studies of Jiang (2024), Bulus (2024) and Salihu et al. (2024).

The structural version of the model is as given in the equation below 1;

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$Y = f(x)$ …… (1)

Where Y is the dependent variables, f is the functional and X represents independent variables.

The model was further expressed in mathematical equation (i) below;

PMLR = f(RINR, BMNS, BLQR)…….(ii)

To make the mathematical expression estimable, it is transformed as equation (iii) below:

$PMLR_t = \beta 0 + \beta_1 RINR_t + \beta_2 BMNS_t + \beta_3 BLQR_t + \mu$…….(iii)

Where:

PMLR = Prime Lending Rate

RINR = Real Interest Rate

BMNS= Broad Money Supply (M_2)

BLQR= Bank Liquidity Ratio

β_o = interpret

$_t$ = Time

$\beta_1 - \beta_3$ = Coefficient

$_e$ = error terms

The model above was modified to reflect that this study. Based on this the general model for employed for this study is specified in a time-series form which is presented below;

$PMLR_{t,=} \ \delta_o + \delta_1 RINR_{t-1} + \delta_2 BMNS_{t-1} + \delta_3 BLQR + \ \mu_t$

All the variables are defined in equation 2 as explained below:

δ_o = constant

δ_o - δ_3 = coefficients of the parameters

μ_t = the residual

Table 1: Measurement of Variables

Symbol	Definition	Variable	Measurement	Literature Justification	Expected Signs
PMLR	Prime Lending Rate	DV	Measured as the average interest rate that commercial banks charge their customers for loans.	CBN	NA
RINR	Real Interest Rate	IV	Measured as the nominal interest rate adjusted for inflation, reflecting the true cost of borrowing or	CBN	+

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			the real return on savings.		
BMNS	Broad Money Supply	IV	Measured as the total amount of money circulating in the economy, including currency in circulation, demand deposits, savings deposits, and other near-money assets held in the banking system.	CBN	-
BLQR	Bank Liquidity Ratio	IV	Measured as the proportion of a bank's liquid assets to its total short-term liabilities or deposits.	CBN	+

Source: Authors (2026)

4.0 Results and Discussion

This section discussed the various pre and post estimation test that was conducted by this study. The data for the study was logged to enable all the data to have equal scale.

Table 2: Descriptive Statistics

Variables	Mean	Median	Max	Min	Std. Dev	Skewness	Kurtosis	JB Stat
PMLR	1.222	1.227	1.395	1.060	0.075	-0.287	3.558	0.615
RINR	0.664	0.716	0.908	0.380	0.158	-0.269	1.781	1.702
BMNS	4.132	4.273	4.862	3.178	0.502	-0.506	2.125	1.714
BLQR	1.686	1.700	2.018	1.421	0.139	0.148	3.327	0.186

Source: Author's (2026)

The descriptive statistics in Table 2 above indicate that the average of the Prime Lending Rate (PMLR) is 1.222 and median is 1.227 which implies that the lending rate is quite concentrated around the average of the lending rate in the study period. The highest and lowest values of 1.395 and 1.060 respectively indicate moderate changes in lending rates in Nigeria. The standard deviation of 0.075 shows that there was not high volatility in the prime lending rate during the period. The value of skewness (-0.287) suggests that the distribution is skewed towards the negative direction slightly, that is, less frequent values were higher values and frequent values were lower. The value of kurtosis equals 3.558 which implies a slightly leptokurtic distribution which implies the mild distribution of values around the mean. The

Jarque Bera value of 0.615 is another indication to show that the variable is not significantly non-normative.

On the same note, the descriptive statistics of Real Interest Rate (RINR) illustrate that the mean is 0.664, and the median is 0.716 meaning that the distribution is fairly equal around the central value. The fact that the maximum and minimum values of 0.908 and 0.380 respectively depict that there was some amount of variation in the real interest rates over the study period. The standard deviation of 0.158 shows that real interest rates have moderate variation. The skew value of -0.269 is a negatively skewed distribution with a slight negative skewness and the value of kurtosis of 1.781 is platykurtic meaning that the series has a flatter distribution compared to normal distribution. The Jarque Bera statistic of 1.702 shows that the variable is pretty acceptable in the context of the normality assumption.

In addition, the descriptive statistics of Broad Money Supply (BMNS) indicates that the mean of the dataset is 4.132 and the median is 4.273 that could imply that there are few low values in the period that determine the distribution. The highest point of 4.862 and the lowest point of 3.178 show that there was significant growth in money supply in the years. Standard deviation of 0.502 indicates average fluctuations in money supply over the period of study. The value of skewness of -0.506 implies that the distribution is skewed towards the negative side, meaning that there are more lower values in the series than the high ones. Kurtosis value of 2.125 is an indication of the platykurtic distribution which implies that the data is relatively flatter relative to normal distribution. The Jarque Bera value of 1.714 also shows that the variable is not significantly against the normality assumption.

Furthermore, the descriptive statistics of Bank Liquidity Ratio (BLQR) have mean and median of 1.686 and 1.700 respectively, which means that the distribution is fairly balanced around the mean. The highest and the lowest values of 2.018 and 1.421 respectively indicate average changes in the liquidity position of the bank throughout the study period. The standard deviation of 0.139 shows that the liquidity ratios in the banking sector show a comparatively consistent trend. The skewness value equals 0.148, which indicates that the skewness was slightly positive meaning that the higher values of liquidity were more likely to take place within the period of study. The value of kurtosis 3.327 indicates that it has a slightly leptokurtic distribution with certain clustering around the mean. Jarque Ber of 0.186 shows that the variable is not significantly different than the assumption of the normal distribution.

Correlation Analysis

Table 3: Correlation Matrix

Covariance Analysis: Ordinary

Date: 03/15/26 Time: 20:04

Sample: 2002 2024

Included observations: 23

Correlation

t-Statistic

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Probability	PMLR	RINR	BMNS	BLQR
PMLR	1.000000			

RINR	0.590342	1.000000		
	3.351641	-----		
	0.0030	-----		
BMNS	-0.650854	-0.827283	1.000000	
	-3.928583	-6.748285	-----	
	0.0008	0.0000	-----	
BLQR	-0.245148	-0.199646	0.049649	1.000000
	-1.158768	-0.933689	0.227800	-----
	0.2596	0.3611	0.8220	-----

Source: Author's (2026)

Table 3 gives the correlation between the variables used in exploring the relationship between monetary policy transmission and bank lending behaviour in Nigeria showing linear relationships among the variables. The findings show that there are both positive and negative relationships between the variables taken into account by the study. Prime Lending Rate (PMLR) correlates positively with Real Interest Rate (RINR) indicating that advancement of real interest rates correlates with advancement of lending rates. Nonetheless, PMLR associates negatively with Broad Money Supply (BMNS) and Bank Liquidity Ratio (BLQR), which suggests that the better the liquidity position and the growth of money supply are, the lower the rates of lending become. The explanatory variables have a strong negative relationship between RINR and BMNS as well as a weak negative relationship between RINR and BLQR and a very weak positive relationship between BMNS and BLQR. Such mixed relationships imply different levels of relations between the variables applied to the analysis.

Unit Root

Pre - Estimation Test

Table 4: Summary of Unit Root

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Variables	t-statistics	Critical Values @5%	Order of Integration	Prob.	Remarks
PMLR	3.99	3.012	I(0)	0.0419	Stationary
RINR	4.12	3.03	I(1)	0.0055	Stationary
BMNS	3.31	3.01	I(1)	0.0273	Stationary
BLQR	4.41	3.01	I(1)	0.0026	Stationary

Source: Author's (2026)

The findings in Table 4 reveal that, the variables employed in the research are both level and first difference stationary. Particularly, Prime Lending Rate (PMLR) remains a stationary at level whereas Real Interest Rate (RINR), Broad Money Supply (BMNS) and Bank Liquidity Ratio (BLQR) are a stationary at first difference. According to this result, the paper will consider the Autoregressive Distributed Lag (ARDL) model as the primary method of estimation.

Table 5: ARDL Bound Cointegration Test

Test Statistic	Value	Significance Level	I (0)	I (1)
F-statistic	6.11262	10%	2.72	3.77
K	3	5%	3.23	4.35
		2.5%	3.69	4.89
	N = 21			

Source: Authors' (2026)

The computed F-statistic is 6.11262 which is greater than the upper bound critical value of 5 percent level of significance. In turn, the null hypothesis of no cointegration is rejected. This finding supports the long-run equilibrium relationship between the monetary policy transmission variables that comprise; Real Interest Rate (RINR), Broad Money Supply (BMNS), Bank Liquidity Ratio (BLQR) and bank lending behaviour represented by Prime Lending Rate (PMLR) in Nigeria in the period of 2002-2024.

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Model Validation and Soundness

Table 6 shows the post-estimation diagnostic test, which proves the reliability and sufficiency of the estimated model applied in the analysis of the relationship between monetary policy transmission and bank lending behaviour in Nigeria. Firstly, the coefficient of determination (R 2 = 0.795667) shows that approximately 79.57 percent of the variations in Prime Lending Rate (PMLR) as a proxy of the behaviour of the bank as a lender, are explained by the explanatory variables in the model. Moreover, F-statistic is equal to 5.354218 and it proves the significance of the model as a whole.

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Furthermore, Breusch Godfrey LM test was also used to test the existence of serial correlation in the remainder. The value of probability of 0.7275 exceeds the significance level of 5 percent meaning that there is no way of rejecting the null hypothesis of no serial correlation of 5 percent. This means that the model residuals are independent and there is no serial correlation amongst the residuals of the model. On the same note, the Breusch-Pagan-Godfrey test was applied to test heteroscedasticity. The value of 0.8409 is not less than the probability value of 1.96, which means that the model is not affected by heteroscedasticity, which implies that the residual variance is not changing.

Moreover, the functional form and specification of the model were checked with the help of Ramsey RESET test. The probability value of 0.8626 is statistically insignificant and hence the model does not have any specification error or omitted variable bias. Lastly, Jarque Bera normality test has a probability value of 0.395590 meaning that the residuals are normally distributed. All in all, the results of the diagnostic tests prove that the estimated model is statistically sound, specified, and adheres to the classical assumptions of econometric analysis.

Table 6: Summary of Post-Estimation Tests

Test	Statistic	Prob. (Statistics)
R^2	Goodness of Fit test	0.795667
F-statistic	Overall Significance	5.354218
Normality Test	Jarque Berra	0.395590
Heteroscedasticity	Breusch- Pagan – Godfrey	0.8409
Serial Correlation LM	Breusch- Godfrey	0.7275
Linearity Test	Ramsey Reset	0.8626

Source: Authors' (2026)

Model Estimation

ARDL Output

In this part, we estimate the model following the result that was obtained in Table 6 below.

Table 76: Summary of ARDL Estimation Result

Variable	Coef	SD	T-Sta	Prb.*
Long-Run Estimate				
RINR	0.188202	0.081861	2.299049	0.0699
BMNS	-0.014663	0.039673	-0.369588	0.7268
BLQR	0.148147	0.057141	2.592647	0.0487
C	0.880280	0.247228	3.560598	0.0162

Source: Author's (2026)

Discussion of Findings

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The study found that prime lending rate (PMLR) in Nigeria is positively and non-significantly affected by real interest rate (RINR), (0.188202). This means that an increase in the real interest rate will also result in a reduction in the lending rates by the banks. The implication of this result is that fluctuations in real interest rates affect the pricing of loans in the Nigerian banking industry. The rise in real interest rates will lead to an increase in the cost of borrowing and in this case, the commercial banks will raise their lending rates to ensure that they still make profits and manage credit risks. This observation helps to sustain the Monetary Policy Transmission Mechanism Theory that the monetary policy activities are channeled through the interest rate channel and affect the lending terms and credit flow in the banking system. The finding also aligns with the empirical results of Tsibu (2025) and Jiang (2024) who established that the variability in the interest rate conditions affects the lending rates and credit behaviour in the banking industry significantly. The interest rate movement is thus observed to be in accordance with the theoretically predicted channel that interest rate movements are one of the significant means by which monetary policy can impact bank lending behaviour.

It was also found that broad money supply (BMNS) has a negative (-0.014663) and insignificant (0.7268) impact on prime lending rate in Nigeria. This means that the rise in money supply is likely to lower the lending rates, which is not statistically significant at the time of study. The negative correlation implies that the more the liquidity in the financial system, the cheaper the cost of credit claim, as more loans were available in the banking system. The minimal impact however reflects that growth in money supply does not necessarily translate in decreased lending rates since there are structural issues in the Nigerian banking system namely credit risk concerns, poor financial intermediation and macroeconomic uncertainties. This observation can be attributed to the Monetarist Theory of Monetary Policy that was formulated by Milton Friedman (1968) and that highlights the role of money supply changes in determining the liquidity situation and availability of credit in an economy. However, the low statistical significance in this analysis indicates that money supply transmission to the lending rates is not that effective in the developing financial systems. The result is thus not comparable to the empirical findings of Oguche (2026) who showed that monetary aggregates and credit performance of the banking sector had a significant correlation.

The study established that the effect of bank liquidity ratio (BLQR) on prime lending rate is positive (0.148147) with a statistically significant impact (0.0487) in Nigeria. This implies that the higher the liquidity ratio, the higher the lending rates in the banking system. The implication of this finding is that the existence of more liquidity requirements to the banks can affect the lending behaviour of banks by impacting the cost structure of financial intermediation. The need to hold larger liquid deposits by the banks can push the banks to raise the cost of lending so that they can offset the opportunity cost of holding the liquid deposits rather than lending. This observation is consistent with the theory of the Monetary Policy Transmission Mechanism, especially through the bank lending channel, which states that the liquidity situation in banks determines their capacity, as well as, their willingness to lend to borrowers. The observation aligns with the empirical evidence that was presented by Pirozhkova and Viegi (2024) who established that the liquidity conditions have a significant impact on the behaviour of bank lending on the financial system. Thus, the outcome supports the theoretical stance that the liquidity position of the banking sector is a critical factor in relaying the monetary policy into the lending business and credit pricing within the economy.

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5.0 Conclusion and Recommendations

5.1 Conclusion

This paper investigated how monetary policy transmission influences the bank lending behaviour in Nigeria during the period 2002 to 2024 using real interest rate, broad money supply, bank liquidity ratio as proxies to monetary policy transmission, and prime lending rate as proxies to bank lending behaviour. The results showed that real interest rate has a positive impact on the lending rates and this shows that the movements of interest rates are significant in determining the pricing of credits in the banking industry. Broad money supply at a negative correlation with the lending rates, however, has no major impact on the bank lending behaviour in the period under consideration. Conversely, bank liquidity ratio demonstrates a positive and statistically significant impact on lending rates implying that liquidity situation in banks is still a significant factor in determining credit cost in Nigeria. In general, the study arrives at the conclusion that interest rate and banking sector liquidity channels of the monetary policy transmission is an important element in determining the lending behaviour of the banking system in Nigeria.

5.2 Recommendations

Based on the findings and conclusion of this study. The following recommendations are made;

1. Central Bank should adopt a well-coordinated interest rate policy that promotes macroeconomic stability while ensuring that borrowing costs remain moderate enough to stimulate investment and productive economic activities.
2. Central Bank should adopt a well-coordinated interest rate policy that promotes macroeconomic stability while ensuring that borrowing costs remain moderate enough to stimulate investment and productive economic activities.
3. Policymakers should strengthen financial intermediation mechanisms within the banking sector to ensure that increases in money supply are effectively transmitted to the real sector through credit expansion.

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