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The Conduct of Monetary Policy by the Central Bank of Nigeria 1959–1995

by

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The statutory powers of the Central Bank of Nigeria, CBN to conduct monetary and financial policy derives from the CBN Act of 1959 as amended in several decrees and consolidated in decrees 24 and 25 of 1991. More specifically, the laws state that the Bank's principal objective "shall be to issue legal tender currency in Nigeria, to maintain external reserves, to safeguard the international value of the currency, to promote monetary stability and a sound financial structure in Nigeria and to act as banker and financial adviser to the Federal Government". The Bank since its inception broadly interprets the objectives of its monetary policy functions to include:

(i) the achievement of relative stability of domestic prices;
(ii) maintenance of a healthy balance of payments position and a stable exchange rate;
(ii) the promotion of a rapid and sustainable rate of economic growth and development; and
(iv) the development of a sound financial system.

For analytical purpose, the 35-year period which the CBN has conducted monetary and financial policy can be conveniently divided into two regimes:

(i) The regime of direct controls and institutional development, spanning the period from 1960 - 1986; and

(ii) The regime of indirect controls, financial reform and deregulation, from the adoption of Structural Adjustment Programme (SAP) in September 1986 to date.

The direct technique of monetary policy aims at influencing the cost and availability of bank credit, the regulation of deposit and lending rates as well as sectoral credit allocation. The indirect technique seeks to achieve the same objective through the use of market related instruments, especially Open Market Operations, supplemented by Discount Window Operations of the Central Bank. Thus, indirect monetary policy actions are expected to be transmitted to the rest of the economy through the financial markets.

For ease of exposition, the presentation will be divided into six parts. Part I contains the theoretical framework for the design of monetary policy. Part II deals with the conduct of monetary and financial policies and the regime of direct control in 1960-1986. Factors and developments which influence the Bank in adopting specific policy stance and the use of policy instruments are indicated. Part III summarises the outcomes of policies pursued during the regime of direct con-

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trols. The inadequacies of policy instruments and factors militating against the effectiveness are indicated. The ensuing monetary instability and adverse macroeconomic developments especially in the 1980s leading to a shift to the indirect approach in 1986 are also summarised. Part IV describes the conduct of financial and monetary policy from 1986 to the present. The outcomes of policies are reviewed in part V. Part VI deals with the lessons of CBN's conduct of monetary policy in Nigeria and proffers some recommendations to guide the conduct of monetary policy now and in the future.

PART I

THE THEORETICAL FRAMEWORK FOR MONETARY POLICY

The economic programme of Nigeria, as in most countries typically defines the main economic objectives in terms of the outcome for real growth of GDP, inflation, and balance of payments. This is irrespective of whether direct or indirect approach is being used to control money and credit. To achieve the macro-economic targets, the authorities implement set of fiscal, monetary, and other economic and structural policies. The Central Bank's role is to conduct appropriate monetary policy which is consistent with the above objectives. In this regard, the Central Bank determines the amount of money supply that is consistent with the country's macroeconomic objectives and manipulates the monetary instruments at its disposal in order to achieve that amount.

In order to determine the money supply, the Central Bank will need information on the balance of payments, government budget deficit or surplus and other economic indicators, e.g., growth, prices, etc. On the basis of the information, three basic tables are prepared: balance of payments, government budget and monetary survey. The three tables are shown below in simplified form:

BALANCE OF PAYMENTS (BOP)	GOVERNMENT BUDGET (Gov B)	MONETARY SURVEY
Current Account (X,I) + Capital Account = Change in NFA	Revenue - Expenditures = Change in NCG	NFA + NDA = M or NFA + NDC + OAN = M

NFA = Net Foreign Assets
NCG =. Net Credit to Government
NDA = Net Domestic Assets
NDC = Credit to the Domestic Economy (Net)
OAN = Other assets (Net)
M = Money supply (currency in circulation + deposits)
X = Exports
I = Imports

As can be seen from the above, the three tables are closely linked. Both the outcome of the balance of payments (ΔNFA) and of the government operations (ΔNCG) influence the monetary survey. At the same time, the real growth of the economy and prices influence the balance of payments (growth in exports, demand for imports, etc.) and the government budget (oil revenue, tax collection, expenditures for wages, materials, etc). The monetary survey is the consolidation of the balance sheet of the Central Bank, the commercial banks and merchant banks.

The monetary survey uses the balance sheet identity of the form:

$$M2 = (M1 + QM) = NFA + NDC + OAN \quad \ldots\ldots (1)$$

$$\Delta M2 = \Delta(M1 + QM) = \Delta NFA + \Delta NDC + \Delta OAN \quad \ldots\ldots (2)$$

Where: M2 = money supply (broadly defined)
M1 = money supply (narrowly defined)
QM = quasi-money or Time + Savings deposit at commercial and merchant banks.
NFA = foreign assets (net)
NDC = aggregate domestic credit (net)
OAN = other assets (net)
Δ = change.

Thus, given the projected growth in output, inflation and accretion to external reserves (NFA) in the relevant future period, the Central Bank determines the level of money supply and bank credit consistent with the above macroeconomic framework using an appropriate form of the demand for money function such as:

$$\ln (M2/P_t) = a_0 + a_1 \text{Ln } \pi + a_2 \text{Ln } Y + a_3 \ln (M2/P_{t-1}) + a_4 \text{Ln } (i) \quad \ldots\ldots (3)$$

Where

$(M2/P_t)$ = real money supply (broadly defined deflated by the price level)

P = general price level at time t

π = inflation rate

Y = real gross domestic product

$(M2/P_{t-1})$ = the dependent variable (real money supply) lagged one period

i = interest rate.

Given the computed values of broad money M2, foreign assets (net) NFA and other assets net OAN, the credit absorptive capacity of the economy, i.e., the change in aggregate domestic credit (NDC), consistent with growth in real GDP, inflation rate and balance of payments target follows from equation (2), such that:

$$NDC = M2 - NFA - OAN \quad \text{......} \quad (4)$$

$$\Delta NDC = \Delta M2 - \Delta NFA - \Delta OA \quad \text{......} \quad (5)$$

The ensuing addition to aggregate domestic credit is then decomposed into change in credit to Government (DCG) and change in credit to the private sector (DCP). Having determined the level of government deficit to be financed by the banking system, credit to the private sector is derived as a residual:

$$\Delta DCP = \Delta NDC - \Delta DCG \quad \text{......} \quad (6)$$

The DCP so derived becomes the maximum amount of increase in credit to be extended to the private sector. The framework just described had formed the basis of the credit ceilings imposed on individual banks until they were dispensed with in September, 1992.

Under the indirect approach, the level of monetary and credit aggregates consistent with the achievement of macroeconomic objectives continued to be determined by the CBN as explained above, but the achievement of the target is through the control of base money (B). The feasibility of controlling bank credit and hence money supply in this way hinges on the principle that banks maintain a stable relationship between their reserves (vault cash and deposit with central bank) and the amount of credit they extend, such that credit control can be achieved by controlling base money.

Concepts of Monetary Base or Base Money

Monetary base (B) is composed largely of:

(i) currency with non-bank public (C_p);

(ii) cash reserves of banks (R) comprising vault cash and balances held with the central bank;

The main sources of base money (B) comprise:

(i) Net Central Bank Claims on Government (NCGCB)
(ii) Net Foreign Assets (NFACB); and
(iii) Other assets (net) of the Central Bank (OACB)

Thus, the balance sheet identity of the Central Bank can be written as:

$$NCGCB + NFACB + OACB = Cp + R = B \quad (7)$$

The Concept of Money Multiplier

The process of money creation and the concept of money multiplier derive from the idea that banks can and do expand money supply by a multiple of reserves available to them. This is exhibited in the relation:

$$M2 = m.B \quad (8)$$

Where M2 = Money Supply broadly defined

m = Money Multiplier; and
B = Base Money.

From (8), the multiplier may be derived as:

$$m = M2/B = (Cp + D)/(Cp + R) = (Cp/D + D/D)/(Cp/D + R/D) \quad (9)$$

$$\text{or} \quad m = \frac{1 + c}{c + r} \quad (10)$$

Where D = deposit held by banks;

c = ratio of currency to deposits;

r = ratio of bank reserves to deposits;

and all other variables are as previously defined. Following from equation (10), equation (8) may be re-written as follows:

$$M2 = \{(1 + c)/(c + r)\}(R + Cp) \quad (11)$$

Equation (11) can be used to estimate the level of money supply arising from a given level of base money (B) and the multiplier. Consequently, the Central Bank can control the money supply (M2) through changes in bank reserves (R) and currency outside banks (C_p) which, as shown above, is comprised of its known liabilities.

The Central Bank can also influence the multiplier (m) in the desired direction. The currency-to-deposits ratio (c) is a function of the preference of economic agents for holding money either in the form of currency or demand deposits. While this ratio is generally thought to be outside the control of the Central Bank, it may be sensitive to interest rate movements. Bank reserves to deposits ratio (r) may be influenced by monetary policy instruments such as.interest rate and open market operations (OMO). More importantly, (r) can be directly influenced by the Central Bank through the use of reserve requirements.

PART II

THE CONDUCT OF MONETARY POLICY 1960 - 1986

For analytical purposes, the period 1959 to 1986 can be divided into three (3) sub-periods:

(i) The formative years 1959 - 1969
(ii) The oil boom era 1970 -1979
(iii) The collapse of the oil boom 1980 - 1986

The Formative Years: 1959 - 1969

From its inception in 1959 and like the central banks of other developing countries, the Central Bank of Nigeria was largely influenced by the then popular doctrine of 'cheap money policy' and the use of direct controls. Similarly, developments in the economy and the changing views of the monetary authorities on the perceived role of the financial system continued to influence the design and implementation of monetary and financial policies. The initial strategy was "The Nigerianisation of the credit base" through the creation of local money and capital market instruments which will eventually enable the CBN implement monetary policy. The second policy strategy, which was in accord with contemporary economic thought, was the use of cheap money policy to finance rapid economic development, through keeping interest rates low and the creation of Development Finance Institution (DFIs) to finance targeted sectors at low rates of interest. Thirdly, as the financial system grew, more attention was diverted to increasing the powers of the CBN and strengthening its supervisory and regulatory capacity in order to improve the financial structure.

The three major developments which helped to promote cheap money policy in the period were:

(i) The First National Development Plan 1962 - 1966;

(ii) The socio-political crisis of 1966 which culminated in a 30-month civil war lasting July 1967 to January 1970; and

(iii) The collapse of the consortium arrangement for financing the Nigerian export produce in 1968.

The Conduct of Financial and Monetary Policy

In order to create an institutional environment in which cheap money can be raised for economic development, the CBN took the following steps:

(i) increasing the issue of Federal Government Development Stocks which had been introduced in 1958;

(ii) introduction of treasury bills in 1960;

(iii) introduction of produce bill finance scheme in 1962; and

(iv) introduction of the CBN operated call money scheme in 1962.

The Federal Government debt instruments were issned at rates determined by the Federal Government, and the unsubscribed portion of any issue was taken up by the CBN. In addition, the Bank stands ready to rediscount or buy-back any of the instruments listed above. The implementation of the First National Development plan was accompanied by a growing budgetary gap, especially as the projected foreign aid did not materialise. More Federal Government debt instruments were issued at lower rates. This was a major factor in the cheap money policy pursued during most of the formative years. Interest rate policy was dominated by the desire to enable government borrow as cheaply as possible. The treasury bill issue rate was lowered from 6.625 per cent when they were first issued in 1960 to 3.5 per cent in 1963 and 1964. The rediscount rate also trailed downwards at about 1/2 percentage point above the former.

Cheap money policy inevitably resulted in rapid expansion in monetary aggregates. Domestic prices nevertheless ramined reasonably stable, but demand pressure shifted to the external sector with a rapid depletion of external reserves. Between 1960 and 1964 aggregate credit increased from ₦33.3million to ₦306.4million. The money stock M1 and M2 increased by 29.7 and 44.0 per cent, respectively, while external reserves declined from ₦348.6million to ₦162.5million.

Some measures of credit restraint were applied between the last quarter of 1964 and October 1966 mainly in defence of the deteriorating balance of payments position. The CBN imposed the following guidelines marking the beginning of credit ceilings:

(a) the imposition of 17.6 per cent ceiling on the increase in CBN credit;

(b) a credit expansion ceiling of 15 per cent (reduced to 13 per cent in 1966) on commercial bank aggregate loans and advances;

(c) within the above ceiling, a sub-ceiling of 4 per cent was imposed on aggregate credit expansion to finance institutions (e.g. hire purchase firms), individual borrowers for consumption expenditure and importers;

(d) **the upward adjustment of the interest rate structure:** the CBN minimum rediscount rate was increased from 4 to 5 per cent; the treasury bill issue rate was raised from 3.5 to 4 per cent; commercial banks' minimum lending rate from 7 to 7.5 per cent; and commercial banks' minimum deposit rate from a range of 3 - 3.5 to 3 - 4 per cent; and

(e) active use of moral suasion - exhortation of banks to exercise restraint in making purely consumer loans.

The socio-political disturbance of 1966 led to disruption and slow-down in economic activities, a drastic fall in government revenue and a rapid expansion in expenditures.

In the efforts to reflate the sagging economy, the aggregate and sectoral credit ceilings imposed in the last quarter of 1964 were removed in October, 1966. When political disturbances culminated in a civil war, the need for war finances dominated monetary and fiscal policies in 1967 through the first half of 1969. Measures taken to facilitate war finance included:

(a) lowering of the CBN rediscount rate from 5 to 4.5 per cent in May 1968, with similar reductions effected in the whole structure of interest rates;

(b) raising the legal limit on treasury bill issues to 85 per cent in 1968, 100 per cent in 1969 and 150 per cent in 1970, of the estimated revenue of the Federal Government and the gross revenue of the states;

(c) the introduction of new government debt instrument - treasury certificates of one and two-year maturities; and

(e) the take over of financing the Produce Marketing Boards to purchase export produce.

As a result of war finances, banking systems credit to the government rose by 84.1 and 84.9 per cent, respectively in 1967 and 1968. By contrast credit to the private sector declined by 7.7 per cent in 1967 and rose by only 0.3 per cent in 1968. By mid-1969, credit to the private sector fell further by 24.3 per cent below end-1968 level, while that to government rose by over 38 per cent. The inevitable result was the generation of strong inflationary pressures; dwindling foreign exchange reserves and the build-up of import payment arrears.

As the end of the civil war became imminent, the CBN anticipated that the unleashing of post-war pent-up demand would complicate the problem of monetary instability already created by war finances. The CBN consequently embarked on a monetary policy stance designed to stimulate domestic production and restrain activities in the low priority or less prodnctive sectors of the economy. This led to the introduction of credit ceilings and sectoral credit allocation. The dreaded post-war inflation did not materialise because of the increase in oil revenue from 1970.

The Oil Boom Era

The advent of the oil boom in 1971 accelerated in 1973 and led to several changes in the structure of the economy which influenced monetary policy in the 1970 decade. A major feature of the economy was the growing importance of petroleum and the decline in the agricultural sector. Although the oil sector accounted for only 20 per cent of GDP, its share in total exports rose rapidly to 60 per cent in the early 70s to over 90 per cent since 1973. By contrast, the share of agriculture in GDP fell by half to only 20 per cent while the economy increasingly depended on food imports. Similarly, the share of non-oil exports declined from 30 per cent in 1970 to less than 10 per cent at the end of the decade. The decline in non-oil export reflected the increasing over-valuation of the Naira and accompanying distortion in relative prices as well as the ban imposed by government on some non-oil export commodities in the second half of the period in order to satisfy increased domestic demand.

The role of the public sector in economic activities expanded rapidly as a result of large increases in revenue accruing to government from petroleum and the strategy to utilise the large public resources to expand infrastructural facilities for rapid industrial and social development. The Federal Government established over 200 commercial and non-commercial firms.

Following the significant increase in capital formation based on oil income, domestic output grew rapidly, but the agricultural sector lagged behind. The industrial sector, dominated by oil, recorded impressive performance, while the manufacturing sector was over-dependent on imported raw materials.

The balance of payments position improved rapidly from the early 1970s followed by the emergence of deficits in the second half of the decade following declines in petro-dollar receipts and the large import contents of both public and private expenditures.

Despite increased government revenue, fiscal deficits also emerged especially from 1975. Rising bank credit to both the government and private sectors led to rapid monetary expansion and intensification of inflationary pressures towards the end of the decade. The main objectives of monetary policy in the 1970s were the maintenance of price stability and a healthy balance of payments, and the promotion of economic growth and development. Monetarv control in the period depended on the use of:

- credit ceilings;
- sectoral credit allocation;
- interest rate controls;
- imposition of special deposits; and
- exchange control.

Credit Ceilings and Sectoral Credit Allocation

The single most important instrument of monetary control relied upon by the **CBN** for the contraction of monetary aggregates in the period 1969 to 1985 was setting of target for increase in aggregated credit to the domestic economy. The aggregate credit target is then translated to aggregated credit ceiling on individual banks. In the period 1969 to March 1972 credit ceilings were also applied to specified components of individual banks credit. The ceiling on each banks aggregate loans was fixed at 10 per cent in fiscal 1969/70, raised to 20.0 per cent the following fiscal year and lowered again to 8.4 per cent in 1971/72, as monetary instability persisted. Within the overall ceiling, credit to the industrial sector was initially allowed to increase at an annual rate of 30 per cent, then raised to 45 and brought down again to 30 per cent in 1971/72. By contrast much lower percentage increases of 5 to 10 per cent were stipulated for services and general commerce, while loans to the category "others" were required to decline by 10 per cent in 1969/70, to stagnate in 1970/71 and decline again by 33.6 per cent in 1971/72.

The imposition of ceiling on individual bank's credit was dispensed with between April 1972 and March 1976 and resumed from April 1976, and remained in vogue until Septemoer 1992. When aggregate credit ceilings were dropped between April 1972 and March 1976, however, the sectoral distribution of credit which favoured the productive sectors and discriminated against consumption-prone expenditure was continued. Accordingly, the production sector was to obtain a minimum of 45 per cent in 1972, rising to 48 per cent in 1976. General commerce was allocated a maximum of 32 per cent, falling to 30 per cent in 1976. The share to the sector "others" stagnated at 12 per cent.

The dispensation with aggregate credit ceiling between 1972 and 1976 reflects the more favourable policy environment created by the oil boom. The previous concern about balance of payments and dwindling reserves became a thing of the past. By 1973 external reserves at ₦439 million were already 28.4 per cent higher than their 1960 peak. In 1974, reserves rose more than

seven-fold of the 1973 level, hitting a new peak of ₦3,703 million in 1975. The preoccupation of monetary policy was the control of domestic inflation emanating from high liquidity traceable to government expansionary budgetary policy based on the rapid monetisation of petro-dollar. However, excess liquidity was seen as an opportunity to stimulate investment and domestic supply. Bank margins were reduced by raising deposit rates and reducing lending rates.

Following a 64 per cent increase in commercial bank credit in 1975/76, aggregated ceiling on commercial bank credit was re-introduced in 1976/77 fiscal year. The percentage sectoral allocation that operated since March 1972 was also retained till the present time. Reserve drain resumed in 1976, when it dropped to a still robust level of ₦3,483million. Further drains were experienced in 1977/78, when they fell to ₦1,078.5million. Thus, from fiscal 1978/79 concern for the rapidly depleting external reserves also became a focus of policy along side the concern for price stability. Nevertheless, the monetary management experiment applied up to 1986 was essentially a continuation of the existing approach, but with significant innovation brought into the package of measures e.g.

(i) Extension of CBN credit guidelines to include merchant bank in 1977, but ceilings were set in terms of total assets.

(ii) Banks were compelled to deposit with the CBN shortfalls in allocations to sub-sectors of agriculture and residential building construction. The CBN in turn transferred such deposits to the Agricultural Co-operative Bank and the Federal Mortgate Bank for on-lending to their customers;

(iii) Cash ratio to be deposited at the CBN (defined as cash/demand deposits) ranging from 5 to 12.5 per cent were imposed on the commercial banks according to a four group classification based on the size of total deposit liabilities:

Class A Banks over ₦300million deposit liabilities	–	12.4%
Class B over =₦=100 million but less than ₦300million	–	10.0%
Class C Banks over =₦=30million but less than ₦100million	–	7.0%
Class D less than =₦=30million	–	5.0%

(iv) Compulsory deposit by banks at the CBN of importers advance deposits against letters of credit in order to reduce bank reserves; and

(v) More active administration of interest rates.

The Collapse of the Oil Boom

The Oil Boom collapsed in mid - 1981. Crude Oil export declined from a peak of 2.2 million barrels per day (mbd) in 1979 to 1.23 and 1.0 mbd in 1981 and 1982. Crude Oil export prices fell from a peak of US$40 per barrel in 1981 to US$29 in 1983 and to only US$14.85 in 1986. Consequently, foreign exchange receipts fell from a peak of US$24.9 billion in 1980 to US$17.2 billion in 1981, US$12.8 billion in 1982; US$10.1 billion in 1983 and US$5.2 billion in 1986. At first, the Government hoped that these adverse external sector developments would be short-lived and resorted to increased deficit backed by more stringent exchange controls and import restrictions.

Monetary policy objectives as well as the application of direct instruments of policy remained in vogue throughout the period. However, the permissible aggregate credit expansion target and consequently the ceiling imposed on individual bank's credit expansion were progressively reduced. The ceiling on individual banks credit which was 30 per cent between 1980-82 was reduced to 7 per cent in 1985.

PART III

AN APPRAISAL OF MONETARY AND FINANCIAL DEVELOPMENTS 1960 - 1986

Institutional Developments

The Nigerian financial system witnessed a rapid structural expansion during the period 1960 - 1986. The rudimentary financial system inherited by the CBN in 1960, consisting of 12 commercial banks, with assets of only ₦236million; 1 finance house, a few foreign owned insurance companies, Regional Government-owned finance corporations and loan boards, some co-operative societies and thrift institutions and the Lagos Building Society, has by 1986 grown into a relatively well developed financial system. Before the adoption of SAP in 1986, the Nigerian financial system is reputed for being one of the most complex and diverse in Sub-Saharan Africa. It could boast of:

- 29 Commercial banks with 1,394 branches and assets equal to ₦31,995 million;
- 12 Merchant banks with 27 branches and assets equal to ₦5,001 million;
- 4 Development banks with assets equal to ₦2,162 million;
- 80 + insurance companies with assets equal to ₦2,032 million;
- 23 Registered Stock brokers and finance companies;
- A nation-wide Post Office Saving Bank; and
- The Nigerian Stock Exchange based in Lagos with two trading floors outside Lagos.

Developments in Monetary Aggregates and other Macro Economic Aggregates

Some of the outcome of monetary policy measures and the extent to which policy objectives were achieved are examined below: The objectives of monetary policy were largely met from 1959 to 1975. However, in the sub-period 1975-79 monetary aggregates, the fiscal deficit, GDP growth rate, inflation rate and the balance of payments position moved in undesirable directions. The annual average rates of growth in narrow money M1 and broad money M2 which stood at 24.5 and 24.3 per cent, between 1970 - 1974 rose to 41.4 and 36.9 per cent, respectively, in the period 1975 - 1979. Growth in net foreign assets was the major source of monetary expansion in the period 1970 - 1974, by contrast, growth in net domestic credit, especially to government became the major source of rapid monetary expansion in the period 1975–1979. From a position of surplus in 1970–1974, Federal Government fiscal operations resulted in increased deficits which averaged 6.1 per cent of nominal GDP in 1975–1979. The GDP growth rate declined from 10.3 in the sub period - 1970–1974 to 6.4 per cent between, 1975–1979 while the inflation rate rose from 10.4 to 20.3 per cent. The balance of payments position moved from a buoyant surplus to deficit within the decade under review.

The monetary control framework, the interest rate regime and the lack of co-ordination of Federal Government fiscal operations with monetary policy objectives, increasingly frustrated the achievement of monetary policy objectives in the period 1980–1985. The continued reliance of the monetary control framework on credit ceilings and selective credit controls increasingly failed to achieve set monetary targets as they became less effective with time. The rigidly controlled interest rates at low levels helped to encourage inflationary monetary expansion without promoting the growth of the money and capital markets. The low yield on government debt instruments made them unattractive to private sector investors while the CBN which absorbs the unsubscribed portion pumps high - powered money into the system. The imposition of regulated interest rates on the DFIs constrained the growth of the capital markets as these institutions could not profitably raise funds in the capital market for their operations.

The rapid growth in domestic liquidity continued between 1980 and 1985. Narrow money (M1) grew by 50.1 per cent in 1980 and by an average of 7.6 per cent during the rest of the period. Broad money (M2) increased by 46.1 per cent in 1980 alone and further by an average of 10.6 per cent a year in the rest of the period. The reduced average rate of monetary expansion in the period 1981–1985 reflected the rapid decline in foreign assets (net) of the banking system. The major expansionary factor in money supply was the high rate of domestic credit expansion. (see table 1)

As elaborated elsewhere [Ojo (1992), pp. 12-13] on the aggregate, compliance by commercial banks with credit guidelines was unsatisfactory during the period. The growth and employment objective was certainly not achieved. The downturn in the economy resulted from the drastic decline in oil export earnings and revenues. Imports, particularly of capital goods and raw materials fell sharply and this made it extremely difficult to sustain the economy's production capacity which had thrived on foreign inputs. The average inflation rate during the period, estimated at 17.8 per cent per year was slightly less than the average of 20.3 per cent in the preceding five year period. Single digit inflation rates were recorded in 1980, 1982 and 1985, but the rates recorded in 1981 (20.9%), 1983 (23.2%) and 1984 (39.6%) were much higher than the long-term average for the economy. The objective to maintain external equilibrium was also not attained except in the earlier part of the period when the balance of payments recorded declining, but modest surplus. In 1984 and 1985, however, balance of payments deficits were recorded. Furthermore, the problem of external debts emerged as a new phenomenon that would later change the overall picture of the external sector position. Total external debt outstanding moved from only ₦2.3 billion in 1981 to ₦10.6 billion in 1983 and ₦17.3 billion in 1985. The debt service ratio increased from only 5 per cent in 1981 to 33.2 per cent in 1985.

Financial Repression and Financial Liberalisation

Financial regimes characterised by administered low-interest rate policies, high and variable rates of inflation, and credit rationing due to interventionist government policies in developing countries have come to be described as **financial repression** [Mc Kinnon and Shaw (1973)]. In the Nigerian case, prolonged government intervention in the financial system created distortions and became increasingly counterproductive. Such distortions which characterise financial repression are exemplified in what follows:

(i) enforcement of controls discourages savings, stimulates current consumption, produces damaging scope for corruption, encourages inefficient investment and directed granting of unproductive or non-performing loan, and consequent systematic insolvency;

(ii) the banking industry becoming less competitive as market shares of banks are strictly determined by the credit ceilings;

(iii) loss in competition which in turn would lead to reduced efficiency of the system as banks are required to undertake the same proportional lending, irrespective of their efficiency;

(iv) the growth potentials of dynamic small-to-medium new banks being constrained by the imposition of ceilings;

(v) credit ceilings generating arbitrarily high lending rates and other distortions in the adminis tration of the limited loanable funds at the disposal of banks;

(vi) banks adopting various ploys to circumvent the ceiling by window dressing and/or falsification of returns and by the use of off-balance sheet items such as acting as "brokers" between providers and takers of funds. Such practices, in the Nigerian case, severely lowered the efficiency of the banking system and reduced the system's share of the financial market, as uncontrolled informal financial institutions grew (e.g. the phenomenal growth in the number of finance houses);

(vii) more resources and the supervision efforts of the Central Bank being diverted to the enforce ment of compliance with credit ceilings and interest rate regulations etc., with less attention being devoted to the more important issues of solvency and general "health" of the financial system with serious long-term consequences.

Increased awareness of the adverse consequences of financial repression and pressure from the World Bank and the International Monetary Fund (IMF) were, among other things, the compelling reasons for moving from a regime of direct controls to that of indirect controls and financial reform which is the subject matter of the next section.

PART IV

THE REGIME OF MONETARY POLICY AND FINANCIAL SECTOR REFORMS AND DEREGULATIONS IN NIGERIA 1986 TO DATE

Monetary Policy and Financial sector reforms constituted an integral part of the Structural Adjustment Programme (SAP) which was introduced in July 1986. Specifically, financial sector reforms were among other objectives aimed at the following:

- Removing the pervasive distortions (financial repression) introduced into the system through prolonged use of direct controls and excessive government intervention; and

- Improving the efficiency of the financial system in the mobilisation and distribution of finan cial resources for economic development.

These are further elaborated upon in what follows:

(i) **Credit Policy**

(a) Credit ceilings on individual banks loans and advances were retained until September 1992. However, some innovations were introduced between 1988 and 1991, and they include:

- the elimination of exceptions within the ceiling;

- the equal treatment or percentage increment imposed on both commercial and merchant banks. Prior to August 1988, the ceiling on merchant bank was set as a percentage of total assets, which contributed to the relative increase in the share of merchant banks in total credit.

(b) **Selective Lifting of Credit Ceiling on Individual Banks**

Credit ceiling on individual banks, which for over two decades was the main instrument of monetary control, was selectively lifted with effect from 1st September, 1992. The lifting of credit ceiling was limited to banks adjudged healthy by the CBN. A bank was considered healthy if it met CBN guidelines on the following criteria during the previous three months:

(i) specified cash reserve requirement;
(ii) specified liquidity ratio requirement;
(iii) Prudential guidelines;
(iv) statutory minimum paid-up capital requirement;
(v) capital adequacy ratio; and
(vi) sound management.

(c) **Rationalisation of Sectoral Credit Allocation**

The sector and sub-sector specific credit distribution targets were compressed from about 18 to 4 sectors in 1986 and to only 2 in 1987. Under the two-sector categorisation, agricultural and manufacturing enterprises were classified as priority sectors to which at least 50 per cent of each banks credit were allocated, and other sectors were to receive at most 50 per cent.

(ii) **Cash Reserve Requirements**

Cash reserve requirements had been in use since 1988. Commercial Banks' cash reserve requirements were initially set at 2% and 5% of demand deposits for small and big banks respectively in August, 1988. The ratios were raised in January and April 1989, and again in January 1990, when they reached 5 - 8 per cent, respectively. Merchant banks, hitherto excluded were subject to cash reserve requirement of 5 per cent in January 1990. In 1991, the base for calculating cash reserve requirements was extended beyond demand deposit to include time and savings deposits, as well as net interbank placements. The ratio was then fixed at 3 per cent of total demand liabilities of each bank. This ratio was raised to 6 per cent in September 1992, when credit ceiling on individual banks was lifted.

(iii) **Liquidity Ratio**

Liquidity ratio had been fixed at 25 per cent of commercial banks' demand liabilities since the inception of the CBN in 1960. In September, 1986, the liquidity ratio of commercial banks was raised to 30 per cent and for the first time a ratio of 30 per cent of demand deposits and call money was imposed on merchant banks. In January 1988, the liquidity ratio of merchant banks was varied from 30 per cent of demand deposits and call money to 20 per cent of total deposits. This was raised to 30 per cent in 1990, in line with the ratio for commercial banks.

(iv) **Deregulation of Interest Rates**

In order to ameliorate the distortions associated with regulated interest rates and create a suitable environment for the use of open market operations, banks' deposit and lending rates were deregulated in 1987. The Federal Government re-imposed controls on the interest rate structure in 1991, removed them in 1992 only to be re-imposed in January 1994 and 1995.

Some modifications made in interest rate policy during the period included the following:

- In November 1989, an agreement between banks and the CBN stipulated a maximum spread of 7.5% between savings deposit rate and the prime lending rate and a maximum difference of 4% between the prime lending rate and the maximum lending rate of each bank, within the deregulated interest rate framework.

- In January 1989, banks were required to pay interest of up to 5% on demand deposits, the actual rate to be agreed between the bank and the customer. Payment of interest on demand deposit was made mandatory since January 1990.

- Also in January 1992 when interest rate deregulation was reinstated, banks were required to maintain a maximum spread of 5% between their average cost of funds and their maximum lending rates.

(v) Monetary Policy Innovations (New Instruments)

(a) Movement of Government Deposits

Between May-June, 1989, in the bid to reduce bank liquidity and moderate credit expansion, public sector accounts were transferred from banks to the CBN and the banks were prohibited thenceforth, from accepting foreign guarantees and/or foreign currency deposits as collateral for domestic loans denominated in naira.

(b) Issue of Treasury Instruments by Auction

In November 1989, the CBN introduced an auction-based system for issuing treasury bills and certificates and the issue of these instruments as bearer bills to enhance transferability, with the objective of increasing private sector participation in the holding of government debt instruments; promoting greater reliance on market forces in the determination of yields on the instruments; and encouraging the development of the secondary market for government short-term debt instruments; as well as enhancing the efficiency of public debt management and the conduct of monetary policy.

(c) Stabilisation Securities

Stabilisation Securities were introduced in October 1990 as short-term (90-day) non-marketable securities issued by the CBN and allocated to banks to mop-up excess liquidity in the banking system. Interest is paid at 1 percentage point above treasury bill issue rate. In the intervening period of nine months (between the lifting of credit ceilings in September 1992 and the commencement of OMO in June 1993), the Bank relied largely on periodic issues of stabilisation securities to eliminate some of the excess liquidity of commercial and merchant banks.

(d) Open Market Operations

The introduction of Open Markets (OMO) on the 30th of June 1993 was a major advance in the process of gradual shifting from reliance on direct instruments to more market-based forms of monetary and credit control.

Financial Sector Reform Policy

Financial sector policy reform measures adopted were intended to improve the efficiency of the financial system in the mobilisation and allocation of resources. The strategy was to introduce measures to increase competition, strengthen the supervisory and regulatory capacity of the regulatory authorities, improve the financial structure and redress the financial repression already identified above.

The measures include the following:

(i) the rationalisation and liberalisation of the procedure for the licensing of new banks in 1987 to promote competition;

(ii) the establishment of the Nigerian Deposit Insurance Corporation (NDIC) to collaborate with the CBN in promoting the soundness of the banking sector;

(iii) raising of Commercial and Merchant Banks minimum paid-up capital from ₦10 million and ₦6 million to ₦20 milliom and ₦12 million, respectively in 1989 and to ₦50 million and 40 million respectively, in 1990, to take effect from June 1992;

(iv) the identification of insolvent banks in 1989 and the subsequent setting up of a joint CBN/NDIC Committee on Problem Banks;

(v) the introduction of 1990 Guidelines on Accounting Standards designed to ensure accuracy, reliability and comparability of financial statements;

(vi) the issuance of Prudential Guidelines on Capital Adequacy, based on the Accounting Standards in (v) above and the international (Basle) standards which relates banks' capital to risk-weighted assets;

(vii) the sale to the public in 1992 and 1993, Federal Government's shares in nine banks totalling ₦873.3 million with a gross value of ₦1.07 billion;

(viii) the promulgation of the Central Bank Decree No. 24 1991 and the Banks and other Financial Institutions Decree (BOFID) - Decree No. 25, of 1991 which vested in the CBN the sole authority for granting licences to banks, discount houses and finance companies;

(ix) extension of the regulatory and supervisory powers of the CBN on Discount houses and finance houses;

(x) the reduction of Federal Government borrowing from the CBN in any one year from 25 to 12.5 per cent of the estimated revenue for that year;

(xi) the enhancement of the supervisory and regulatory capacity of the CBN especially since early 1992;

(xii) the issuance of guidelines for the licensing and operation of finance houses and discount houses in 1991 and the actual licencing of 310 finance houses and 3 discount houses in 1992 and 1993;

(xiii) the promulgation of Failed Banks (Recovery of Debts) and Financial Malpractices in Bank Decree in 1994; and

(xiv) the establishment of the Financial Services Regulation Cordination Committee (FSRCC) under the auspices of the CBN in 1994.

PART V

AN ASSESSMENT OF INDIRECT CONTROLS AND NIGERIA'S FINANCIAL REFORM

In this section, an attempt is made to assess the result of the various elements of the financial reform package in relation to the objectives of policy. Specifically we examine:

(i) developments of the financial system in relation to the financial reform measures adopted;

(ii) monetary and credit developments, encompassing interest rate, bank credit and money supply; and finally

(iii) the performance of the ultimate objectives of policy i.e. inflation, exchange rate and real sector developments and performance.

EFFECTS OF REFORM ON THE FINANCIAL SECTOR

Financial Structure

The number and diversity of the Nigerian Financial Institutions as well as the scope of financial services they offer increased dramatically during the reform period. In the period between 1986 and 1994, the number of Commercial and Merchant Banks increased from 41 to 120, while the number of their branches almost doubled from 1394 to 2665. Completely new institutions fostered in the period include 970 Community Banks, 279 Peoples Bank Branches, 279 Mortgage Banks, 725 Finance Companies, about 140 Bureau de Change and 3 Discount houses. While the number of development banks remained at 4, the number of insurance companies had almost doubled to 120 and the number of stock brokerage firms had increased from 23 in 1986 to 140. Similarly, the Nigerian Stock Exchange expanded its trading floors outside Lagos from 2 to 3.

Structure of Assets and Liabilities

Total assets of the financial system grew more than ten-fold between 1986 and 1994 but the growth was led by CBN share which increased from 33.5 per cent in 1986 to about 53 per cent in 1991 before declining slightly to about 48 per cent in both 1993 and 1994. The expansion in CBN share - which was accompanied by corresponding decrease in the banking system's share of assets - reflected CBN holdings of Federal Government debt instruments (see Table 2). The decline since 1992 resulted from significant drops in foreign assets.

Commercial Banks continued to maintain a dominant position in mobilising financial savings, while the role of Merchant Banks and development banks decreased in terms of shares of total assets, deposit liabilities and aggregate credit (see Tables 2 and 3). Even within the sub-sector of commercial banks, there are indications of higher concentration of deposits in the bigger and stronger banks as a result of "flight to safety" following the increasing distress in the financial system.

Competition

There is no strong evidence of increased competition arising from the establishment of new banks and non-bank financial institutions. However, a myriad of new financial instruments have been introduced by banks to mobilise deposits; but the effects of such competition is yet to be felt. Indications are that the big banks are growing bigger while the smaller ones are becoming weaker and increasingly distressed.

Ownership Structure

There has been significant reduction in Federal Government ownership of banks following the sale of shares in 9 banks out of the total of 14 in which the Federal Government owned shares (including the three largest Commercial Banks and the largest Merchant Bank). Consequently the Federal Government's share in total bank capital has fallen to only 2.5 per cent in 1993.

Financial Condition

In spite of the measures taken to improve the health or general condition of financial institutions as gauged by the criteria of capital adequacy, asset quality, liquidity, earnings and quality of management, available information indicate substantial deterioration in these areas.

Capital Adequacy

Banks were given up to June 1992 to meet the minimum capital requirement introduced in 1990, but at the end of 1992 at least 10 insured banks (notably state government-owned banks) had not complied. The level of under capitalisation of banks insured by NDIC increased progressively from ₦1.25 billion in 1989 to ₦5.55 billion in 1992 and ₦9.1 billion in 1993.

Asset Quality

Asset quality of banks has degenerated. Classified loans (bad and doubtful loans) of banks insured by NDIC rose from ₦18.8 billion in 1989 to ₦32.8 billion in 1993, representing 45 and 41 per cent of total loans and advances, respectively.

Distressed Banks

The number of distressed banks increased from 7 at the end of 1989, to 15 in 1992, 24 in 1993 and 42 in 1994. The level of under capitalisation of distressed banks increased from ₦1.0 billion in 1989 to ₦13.6 billion in 1993. Three insured distressed Commercial Banks and one Merchant Bank were liquidated by the Joint CBN/NDIC Committee in 1994. However, concrete resolution is yet to be taken on the many distressed banks identified as early as 1989, while accrued losses mount. Distress has also spread to other banks and non-bank financial institutions, including Development Banks, Finance Companies, Community Banks and Primary Mortgage Institutions.

PERFORMANCE OF MONETARY POLICY

Money Supply

The substantial growth in money supply observed prior to 1986 moderated significantly in the first two years of the reform. Money supply M1 and M2 which grew by 17.6% and 10.3% in 1985 increased on average by 6.2 and 12.6 per cent in 1986 and 1987, respectively. However, both measures of money grew very rapidly from 1988. M1 grew more than eight-fold between 1988 and 1994 from N21.1 billion to ₦172.0 billion, while M2 grew more than six -fold from ₦42.8 billion to ₦267.8 billion. M1 and M2 recorded annual average growth rates of 42.4 and 36.4 per cent, respectively, from 1988 and 1994. The major factor responsible for the expansionary money supply was bank credit to the Federal Government especially from the CBN. (See Tables 1 and 4). From 1988 to 1994, Bank credit to government contributed 110.2% increase in M1 and 86.7% of the increase in M2. Consequently, in the seven-year period 1988 to 1994 money supply persistently exceeded its target.

Bank Credit

Aggregate bank credit to the domestic economy increased rapidly during the reform period; especially in 1988 and between 1990 and 1994. Most of the credit expansion went to the Federal Government and emanated from the CBN. Aggregate domestic credit rose nearly ten-fold from ₦36.8 billion in 1986 to ₦350.6 billion at end 1994. In the same period, the share to government rose nearly twelve-fold from ₦19.5 billion to ₦228.3 billion (See Table 3 and Charts I and II).

Nominal And Real Interest Rates

Interest rates assumed an upward trend but did not rise dramatically immediately after their deregulation in August 1987 (see table 4). Given the relatively low rate of inflation of 10.2 per cent in 1987, real deposit and lending rates turned positive. However, inflation rose dramatically to 38.3 and 40.9 per cent in 1988 and 1989. Consequently, despite the sharp increases in deposits and lending rates triggered largely by the transfer of government deposits from bank to the CBN in May-June 1989, real interest rates were negative in 1988 and 1989. Both deposit and lending rates, however, turned highly positive in 1990 and 1991 when inflation rate fell to 7.5 and 13.0 per cent respectively. Bank deposit rates rose in line with the CBN minimum rediscount rate of 18.5 per cent in 1989 and 1990, but the margin on lending rates widened in 1990 as deposit rates were scaled down and lending rates edged up. The emergence of distressed banks which engaged in distressed borrowing largely to finance their foreign exchange operations did not only push up short term rates, but also led to serious distortions in the interest rate structure. Interbank call money rates rose to unprecedented levels. Moreover, the introduction of stabilisation securities in October 1990 also pushed up bank lending rates.

The Federal Government capped the deposit and lending rates in 1991 in reaction to rising lending rates in 1990, when the inflation rate fell to 7.5 per cent. This was quickly reversed early in 1992 as the ceilings failed to achieve the intended purpose. As interest rate restriction did not apply to finance companies, banks which did not already own finance companies, sought close affiliation with them in order to circumvent the CBN guidelines. Banks also reverted to some of the pre-SAP practices of circumventing the interest rate cap.

The return to liberalisation of interest rates in 1992 and 1993 coincided with periods of high and rising inflation - 44.6% in 1992 and 57.2% in 1993. Interest rates rose to unprecedented levels while the margin between deposit and lending rates widened. Deposit rates turned increasingly negative while lending rates turned marginally positive. Both deposit and lending rates have turned even more negative since the re-capping of interest rates in 1994 when an inflation rate of 57 per cent was recorded (see table 5).

Exchange Rate

The naira exchange rate depreciated persistently since the introduction of economic reforms in 1986. This resulted, among other things, from the persistently higher inflation rates than those of Nigeria's major trading partners, supply shortages, speculative demand and capital flight. The last two factors were further aggravated by macroeconomic and political instability.

Domestic Output

Domestic output increased at a faster rate especially in the period 1988 to 1990. Between 1992 and 1995, the Gross domestic product (GDP) declined on average by 0.4 per cent a year. Domestic output virtually stagnated in the first two years of reform, but picked up strongly in 1988. The GDP growth rate jumped to 7.0, 7.4 and 8.3 per cent in 1988, 1989 and 1990, respectively. Thereafter the growth rate decelerated persistently from 4.8 per cent in 1991, to 2.9 per cent, 2.3 per cent and 1.4 per cent in 1992, 1993, and 1994, respectively.

PART VI

LESSONS OF FINANCIAL REFORM AND POLICY RECOMMENDATIONS

In this concluding part, an attempt is made to summarise the lessons learned and draw policy oriented conclusions from the experience with financial policy reform and make recommendations. The objective is to help improve on the on-going reform package and provide sounder basis for the design and management of future economic programmes.

Both from the theory of financial liberalisation and the experiences of Nigeria and other countries that have implemented financial reform programmes, the following lessons may be drawn:

(i) There is a positive but indirect relationship between real deposit interest rates and growth. The casual chain runs as follows: increasing real deposit rates help increase financial savings; financial savings have positive impact on investment which in turn, foster growth.

(ii) The positive impact of real deposit rates is more pronounced when real rates are achieved through reductions in inflation rate than by increase in nominal rates.

(iii) Reduction of inflation to low stable rates and down-sizing fiscal deficits to low sustainable rates are essential conditions for a successful financial reform programme.

(iv) The generally high spread between lending and deposit rates during the period of interest rate deregulation reflects the fact that the cost of financial intermediation is too high in Nigeria.

RECOMMENDATIONS FOR SUCCESSFUL FINANCIAL REFORM AND MONETARY POLICY

Bringing Inflation Under Control

Monetary Policy should be motivated by three major goals:

(a) bringing inflation under control;
(b) fostering financial deepening and;
(c) avoiding distortions brought about by interest rate regulation, directed credit etc.

Bringing inflation under control has two aspects:

(a) lowering its average value; and
(b) reducing the variability of inflation over time.

Controlling inflation in this way will reduce anticipated inflation and engender domestic price and exchange rate stability. It will also lead to the emergence of real interest rates without raising nominal rates. In short, it will lead to the achievement of the much needed but elusive macroeconomic stability.

Establishment of Realistic Interest Rate

The view that high interest rates hamper growth - because when the cost of capital is high, firms do not invest - has been discredited by the Nigerian experience. The capping of interest rates have been accompanied by the use of commodities as a storage of value, as well as hedges in foreign currencies and capital flight. Banks have also resorted to various methods of circumventing the ceilings. The only sustainable price of money (interest rate) over any length of time is the market-determined rate. To achieve a low market determined rate brings us back to the issue of effective control of the inflation rate.

THE FINANCIAL SECTOR

Improve and Enforce Bankruptcy Laws

The pervasive aggregate excess liquidity in the banking system (as shown in Table 4) is indicative of the big banks' reluctance to lend for "lack of worthy projects". It reflects the difficulty that banks experience in trying to recoup their loans even from delinquent borrowers who are still solvent. The ensuing low asset quality and pervasive distress has adversely affected the credibility of the financial system and public confidence.

To alleviate the widespread problem of bank loan delinquency:

(i) Laws should be enacted or existing laws up-dated and forcefully applied to speedily liquidate the assets of delinquent borrowers. The Failed Banks (Recovery of Debt) and Financial Malpractices in Bank Decree of 1994 is a move in the right direction, but it is medicine after death. The intention of the proposed law is to forestall the "killing of banks" by delinquent borrowers.

(ii) Data on delinquent borrowers should also be kept by the CBN or a mandated institution, and the centralised information should be made available to banks and used by the CBN to continually assess the quality of banks' loan portfolio.

Reduce Cost of Financial Services

The high cost of financial services deters the public from using the banking system which in turn hinders financial development. Cost of financial services should be reduced by:

(i) Reduction in reserve requirements.

(ii) Elimination of directed credit and the fines imposed for non compliance, the costs of which are subsequently passed to the customers.

(iii) Relieving banks of the burden of investing specified proportions of their deposit in treasury instruments for financing government deficit spending.

Restore Confidence in the Financial Sector

Public confidence has been eroded by pervasive distress in the financial sector. The regulatory authorities should increase their efforts to restore confidence by:

(i) More timely resolution of the problem of distressed banks: they should either be liquidated or re-capitalised and restructured for sale to new owners or acquisition by viable institutions.

(ii) Continuous improvement and strengthening of regulatory and supervisory capacity to enforce capital adequacy and asset quality guidelines.

Co-ordination of Monetary and Fiscal Policies

Persistent fiscal deficits, largely financed at below market rates, are incompatible with financial liberalisation. The inherent cost in terms of inflationary pressures and exchange rate depreciation is too considerable to be ignored. Therefore:

(i) Government should borrow at market rates from the public rather than the banking sector.

(ii) The provisions of CBN Decree No. 24 of 1991 limiting CBN financing of government deficit to 12.5% of estimated government revenue in any fiscal year should be observed.

(iii) Measures enshrined in the SAP for reducing and streamlining government expenditure and increasing government revenue should be faithfully implemented.

Keep the Real Exchange Rate Stable

The real exchange rate can be stabilised more easily by the stabilisation of inflation rate at, or below the inflation rates of the countries of intervention currencies.

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TABLE 1

FACTORS AFFECTING MONEY SUPPLY, 1963 – 1994
(in ₦ million unless otherwise indicated)

	1963	1965	1970	1975	1980	1981	1982	1983	1984	1995	1986	1987	1988
CREDIT TO DOMESTIC ECONOMY	212.4	336.4	1,140.4	488.6	10,787.5	16,268.5	21,907.0	28,182.1	31,141.6	32,680.3	36,819.1	46,926.4	57,328.3
CREDIT TO PRIVATE SECTOR	210.6	282.0	478.0	1,770.1	7,190.9	9,654.2	11,371.5	12,353.9	12,942.0	13,700.2	17,365.0	25,476.1	29,773.6
of which Comm. & Merch. Banks' claims	178.8	268.6	349.0	582.3	3,794.7	1,710.4	7,475.2	11,291.1	11,639.8	12,276.6	15,738.6	23,558.8	27,355.1
CREDIT TO FED. GOVT.	1.8	54.4	662.4	-1281.5	3,596.6	6,614.3	10,535.5	15,828.2	18,199.6	18,980.1	19,454.1	21,450.3	27,552.7
of which CBN claims on Govt.	-4.8	43.4	148.4	-1858.7	956.8	4,580.9	7,557.0	10,528.2	9,409.3	8,841.7	14,884.4	14,293.5	21,767.8
FOREIGN ASSETS (NET)	168.4	165.0	157.6	3,840.0	5,640.9	2,579.3	1,066.9	894.8	1,456.5	1,831.1	5,019.3	8,064.7	10,267.0
OTHER ASSETS (NET)	-25.6	44.0	- 348.0	-706.1	-2031.0	-3299.7	-6079.8	-9708.0	-11037.6	-10692.8	(17,623.0)	-22898.3	-24813.0
BROAD MONEY (M2)	356.2	457.4	950.0	3,622.5	14,397.4	15,548.1	16,894.1	19,368.9	21,560.5	23,818.6	24,215.4	32,092.8	42,780.3
QUASI MONEY	93.0	140.4	341.6	1,578.4	5,170.6	5,803.2	6,845.4	8,086.5	9,396.4	10,550.8	11,487.1	17,366.6	21,631.7
MONEY SUPPLY (M1)	263.2	317.0	608.4	2,044.1	9,226.8	9,744.9	10,048.7	11,282.4	12,164.1	13,267.8	12,728.3	14,726.2	21,148.6
Contribution to growth of M1 (%)													
CREDIT TO DOMESTIC ECONOMY		47.1	253.6	-170.1	503.8	59.4	57.9	62.4	26.2	12.6	31.2	79.4	70.6
CREDIT TO PRIVATE SECTOR		27.1	61.8	212.4	265.2	26.7	17.6	9.8	5.2	6.2	27.6	63.7	29.2
of which Comm. & Merch. banks' claims		34.1	25.4	38.3	157.2	-22.6	59.2	38.0	3.1	5.2	26.1	61.4	25.8
CREDIT TO FED. GOVT.		20.0	191.8	-319.5	238.6	32.7	40.2	52.7	21.0	6.4	3.6	15.7	41.4
of which CBN claims on Govt.		18.3	33.1	-329.9	137.7	39.3	30.5	29.6	-9.9	-4.7	45.5	-4.6	50.8
FOREIGN ASSETS (NET)		-1.7	-2.3	605.3	88.1	-33.2	-15.5	-1.7	5.0	3.1	24.0	23.9	15.0
OTHER ASSETS (NET)		-7.0	-95.9	-58.9	-64.8	-13.8	-28.5	-36.1	-11.8	-2.8	-52.2	-41.4	-13.0
QUASI MONEY		18.0	63.5	203.3	175.7	6.9	10.7	12.4	11.6	9.5	7.1	46.2	29.0
MONEY SUPPLY (M1)		20.4	91.9	236.0	351.4	5.6	3.1	12.3	7.8	9.1	(4.1)	15.7	43.6
MONEY SUPPLY (M1) check:		20.4	91.9	236.0	351.4	5.6	3.1	12.3	7.8	9.1	(4.1)	15.7	43.6
										6.2	6.4	11.8	15.0

TABLE 1 (Contd.)

	1989	1990	1991	1992	1993	1994
CREDIT TO DOMESTIC ECONOMY	49,259 1	66,976.5	83,823 7	141,735 7	274,134 3	350,622 7
CREDIT TO PRIVATE SECTOR	30,942.8	36,631.0	45,325.2	61,020.3	95,285.0	122,273.3
of which Comm. & Merch. banks' claims	29,440 6	135,230 9	43,033 9	57,094 1	90,625.3	116,676.6
CREDIT TO FED GOVT	18,316.3	30,345.5	38,496.5	80,715.4	178,849.5	228,349.4
of which CBN claims on Govt.	15,189.8	22,993.4	32,182.7	78,556.1	140,939.1	182,192.7
FOREIGN ASSETS (NET)	23,290.0	44,832.2	58,794.9	39,390.3	587,11.3	58,894.1
OTHER ASSETS (NET)	-26326 2	-46906 0	-56466.1	-52608.3	-140387.0	-141757.0
BROAD MONEY (M2)	46,222.9	64,902 7	36,788.0	28,517.7	192,458.6	267,759.8
QUASI MONEY	20,525.3	27,669.0	36,788.0	53,111.2	76,067.9	95,755.1
MONEY SUPPLY (M1)	25,697.6	37,233.7	49,364.5	75,406.5	116,390.7	172,004.7
		Contribution to growth of M1 (%)				
CREDIT TO DOMESTIC ECONOMY	-38 1	68 9	45 2	117.3	175.6	65 7
CREDIT TO PRIVATE SECTOR	5.5	22.1	23.4	31.8	45.4	23.2
of which Comm & Merch banks' claims	9.9	411.7	-247.6	28.5	44.5	22.4
CREDIT TO FED. GOVT.	-43 7	46.8	21 9	85.5	130.1	42.5
of which CBN claims on Govt.	-31 1	30 4	24 7	93.9	82.7	35.4
FOREIGN ASSETS (NET)	61.6	83.8	37.5	-39.3	25.6	0.2
OTHER ASSETS (NET)	-7.2	-80 1	-25.7	7 8	-116.4	-1 2
QUASI MONEY	-5 2	27 8	24.5	33 1	30.4	16 9
MONEY SUPPLY (M1)	21.5	44.9	32.6	52.8	54.4	47.8
MONEY SUPPLY (M1) check	21 5	44 9	32.6	52.8	54 4	47.8
Narrow Money (M1) Target Growth Rate	14 7	13 0	14.6	24 3	20.0	29.1

TABLE 2

ASSETS OF FINANCIAL INSTITUTIONS
(N' million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
TOTAL ASSETS	28,647	24,429	39,476	48,825	52,206	100,800	79,493	100,657	145,206	184,838	255,795	346,475	488,961	702,003	130,141
Central Bank of Nigeria	9,357	9,709	10,658	14,623	14,341	15,728	26,654	33,183	61,522	87,650	133,359	183,265	234,255	320,210	397,274
BANKING SYSTEM	17,349	12,377	25,965	31,007	34,513	81,397	48,024	62,108	76,432	86,661	110,378	147,505	232,278	344,774	394,014
Commercial Banks	16,341	10,478	22,662	26,702	30,017	31,396	39,579	49,828	59,228	64,874	82,958	117,512	181,736	275,476	324,002
Merchant Banks	1,008	1,899	3,305	4,305	4,496	50,001	8,445	12,280	17,204	21,787	27,420	29,993	50,542	69,298	70,012
OTHERS	1,941	2,343	2,853	3,195	3,352	3,675	4,815	5,366	7,252	10,527	13,058	15,705	22,428	37,019	38,854
Development Banks 1/	657	795	1,077	1,101	1,138	1,052	1,529	1,727	2,071	2,855	3,879	4,760	9,309 2/	21,510	24,917
Insurance Companies	949	1,049	1,310	1,552	1,138	2,092	2,647	3,162	4,472	6,741	8,060	9,323	10,458	13,741	11,580
Federal Mortgage Bank	335	499	466	542	1,664	531	639	477	709	931	1,119	1,622	2,661	1,768	2,357
(PERCENTAGE SHARES)															
TOTAL ASSETS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Central Bank of Nigeria	32.7	39.7	27.0	29.9	27.5	15.6	33.5	33.0	42.4	47.4	51.9	52.9	47.9	45.6	47.9
BANKING SYSTEM:	60.6	50.7	65.8	63.5	66.1	80.8	60.4	61.7	52.6	46.9	43.0	42.6	47.5	49.1	47.5
Commercial Banks	57.0	42.9	57.4	54.7	57.5	31.1	49.8	49.5	40.8	35.1	32.3	33.9	37.2	39.2	39.0
Merchant Banks	3.5	7.8	8.4	8.8	8.6	49.6	10.6	12.2	11.8	11.8	10.7	8.7	10.3	9.9	8.4
OTHERS	6.8	9.6	7.2	6.5	6.4	3.6	6.1	5.3	5.0	5.7	5.1	4.5	4.6	5.3	4.7
Development Banks	2.3	3.3	2.7	2.3	2.2	1.0	1.9	1.7	1.4	1.5	1.5	1.4	1.9	3.1	3.0
Insurance Companies	3.3	4.3	3.3	3.2	3.2	2.1	3.3	3.1	3.1	3.6	3.1	2.7	2.1	2.0	1.4
Federal Mortgage Bank	1.2	2.0	1.2	1.1	1.1	0.5	0.8	0.5	0.5	0.5	0.4	0.5	0.5	0.3	0.3

1/ Nigerian Industrial Development Bank,
Nigerian Agricultural and Co-operative Bank and
Nigerian Bank for Commerce and Industry.
* Provisional.
** The figures may not total up to OTHERS due to rounding-up errors

Source: Central Bank of Nigeria.

TABLE 3

INSTITUTIONALISED FINANCIAL SAVINGS
(₦ million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Commercial Bank Deposits	5,163	6,024	6,838	8,083	9,391	10,551	11,488	15,089	18,397	17,813	23,137	30,360	42,439	60,891	76,128
National Provident Fund	339	405	443	475	505	544	581	614	651	699	724	650	757	787	857
Federal Savings Bank	7	6	5	5	8	8	17	20	22	38	N.A.	N.A	N.A	N.A.	N.A.
Federal Mortgage Bank	41	57	75	90	114	118	121	134	196	213	305	434	729	820	845
Merchant Bank Deposits	220	328	691	794	971	1,318	1,740	2,823	3,983	3,971	4,349	5,007	11,665	19,297	20,639
Other	0	0	0	0	0	0	0	0	0	1,067	1,137	1,288	1,753	N.A.	N.A
Total	5,770	6,620	8,052	9,445	10,989	12,539	13,947	18,860	23,249	23,801	29,652	37,739	57,343	81,780	98,469

Source: CBN Annual Report and Statement of Accounts

N.A. - None Available

TABLE 4

MONEY AND BANKING STATISTICS
(₦ million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Currency in Circulation	3,589.5	4,347.7	4,728.8	5,299.3	5,347.1	5,375.0	5,696.3	6,854.9	10,210.5	13,110.3	16,212.5	25,331.2	39,199.1	60,980.4	96,057.5
Currency in Outside Banks	3,185.9	3,861.9	4,222.4	4,842.8	4,883.5	4,909.9	5,177.9	6,298.6	9,412.3	11,688.4	14,940.6	23,108.2	36,765.1	56,260.8	90,492.0
Demand Deposits	6,040.8	5,883.0	5,826.2	6,439.6	7,320.6	8,357.9	7,927.1	8,607.2	11,736.3	14,009.2	11,193.1	26,256.3	45,399.1	60,129.9	81,512.7
Money Supply (M1)	9,226.8	9,744.9	10,048.6	11,282.4	12,204.1	13,267.8	13,105.0	14,905.9	21,148.6	25,697.6	37,233.7	49,364.5	82,165.0	116,390.7	172,004.7
Quasi Money	5,170.6	5,803.2	6,845.4	8,086.5	9,396.4	10,550.8	11,487.7	15,088.7	21,831.7	20,525.3	27,699.0	36,788.0	53,115.1	76,067.9	95,755.1
Broad Money (M2)	14,397.4	15,548.1	16,894.0	19,368.9	21,600.5	23,818.6	24,592.7	29,994.6	42,780.3	46,222.9	64,932.7	86,152.5	135,280.1	192,458.6	267,759.8
Aggregate Credit (Net)	10,780.1	16,261.4	21,899.5	28,178.4	31,136.5	32,680.3	36,820.3	42,082.0	52,060.5	52,320.9	57,675.0	83,823.7	145,516.8	271,350.9	350,622.7
Credit to Private Sector	7,190.9	9,654.4	11,371.5	12,353.9	12,942.0	13,700.2	17,355.0	19,817.0	25,089.8	30,782.9	36,631.0	45,325.2	59,327.4	92,501.6	122,273.3
Credit to Government	3,389.2	6,607.0	10,528.0	15,824.5	18,194.5	18,980.1	19,455.3	22,265.0	26,970.7	21,557.3	21,043.0	38,498.5	88,189.4	178,849.3	228,349.4
<u>Liquidity Ratio</u>															
Commercial Banks	47.6	38.5	40.4	83.4	52.1	67.5	57.0	49.0	59.4	59.8	59.4	36.4	31.4	42.2	48.5
Merchant Banks	45.0	41.8	49.1	81.1	82.2	93.7	47.9	39.5	30.4	27.1	30.7	29.6	24.7	44.4	48.7
<u>Changes in (%)</u>															
Money Supply (M1)	50.1	5.6	3.1	12.3	8.2	17.6	(12.0)	13.7	41.9	21.5	44.9	32.6	66.4	41.7	47.8
Broad Money (M2)	46.1	8.0	8.7	14.6	11.5	10.3	3.2	22.0	42.6	8.0	40.5	32.7	57.0	42.3	39.1
Aggregate Credit	21.7	50.8	30.3	33.1	10.5	5.0	12.7	14.3	23.7	1.5	26.8	45.3	73.6	86.5	29.2
Demand Deposits	59.1	(2.6)	(1.0)	10.5	13.7	14.2	(5.2)	8.6	36.4	19.4	59.1	18.2	72.9	32.4	35.6
Credit to Government	4.4	84.1	59.4	50.3	15.0	4.3	2.5	14.4	21.1	(20.1)	40.8	82.9	123.9	107.5	27.7
Credit to Private Sector	32.8	34.3	17.8	8.6	4.8	5.9	26.8	14.1	26.6	22.6	19.1	23.7	30.9	55.9	32.2

TABLE 5

SELECTED PREDOMINANT INTEREST RATES AND INFLATION RATE (PER CENT)

Rates	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Minimum Rediscount Rate	6.0	6.0	8.0	8.0	10.0	10.0	10.0	12.8	12.8	18.5	18.5	15.5	17.5	25.0	13.5
Treasury Bills Rates	5.0	5.0	7.0	7.0	8.5	8.5	8.5	11.8	11.8	17.5	18.5	14.5	21.0	26.9	12.5
Treasury Certificate Rates:															
(a) One-year maturity	5.5	5.0	7.5	7.5	9.0	9.0	9.0	12.3	12.3	16.4	18.2	15.5	22.0	27.4	13.0
(b) Two-year maturity	6.0	6.0	8.0	8.0	9.5	9.5	9.5	12.8	12.8	17.8	18.5	15.5	22.5	27.8	13.5
A. COMMERCIAL BANKS															
1. DEPOSIT RATES:															
(a) Time: (i) 3 Months	5.8	5.5	7.3	7.3	9.8	9.3	9.3	14.9	13.9	18.9	19.8	15.7	20.8	23.6	13.3
(ii) 3-6 Months	6.0	6.0	7.5	7.5	9.5	9.5	9.5	15.3	12.1	21.6	20.4	16.1	22.3	23.3	13.5
(iii) 6-12 Months	6.3	6.5	7.8	7.8	9.8	9.8	9.8	15.8	14.3	21.4	20.9	16.5	22.1	24.0	13.8
(iv) Over 12 Mths		6.0	8.0	8.0	10.0	10.0	10.0	15.8	14.3	21.2	20.9	16.5	20.5	28.0	13.8
(b) Savings Deposit	6.5	6.0	7.5	7.5	9.5	9.5	9.5	14.0	14.5	16.4	17.8	14.7	18.1	16.7	–
	6.0														
2. LENDING RATES:															
(a) First Class Advances	•														
(b) Other Advances	7.5	7.8	10.3	10.0	12.5	9.3	10.5	17.5	16.5	26.8	26.8	20.2	29.8	36.1	20.5
	9/5	10.0	11.8	11.5	13.0	11.8	12.0	19.2	17.6	24.6	26.5	21.0	31.2	18.3	21.0
B. MERCHANT BANKS															
1. DEPOSIT RATES:															
(a) Time: (i) 3 Months									14.5	22.0	23.5	18.0	38.0	40.1	13.9
(ii) 3-6 Months									15.0	24.0	22.5	18.4	38.2	39.3	14.3
(iii) 6-12 Months									15.5	25.0	23.9	18.4	37.0	39.2	14.5
(iv) Over 12 Mths									15.5	28.0	24.1	18.9	35.5	38.7	14.6
2. LENDING RATES:															
(a) First Class Advances									16.0	30.0	26.5	21.4	46.2	59.0	20.8
(b) Other Advances									17.0	30.0	29.0	21.0	50.6	62.7	21.0
INFLATION \1	9.9	20.9	7.7	23.2	39.6	5.5	5.4	10.2	38.3	40.0	7.5	13.0	44.6	57.2	57.0

\1 Inflation as measured by the Consumer Price Index of the FOS

Source: Central Bank of Nigeria

FIG. I

BANKING SYSTM'S CREDIT TO THE ECONOMY: PRIVATE AND GOVERNMENT SECTORS (1980–1994)

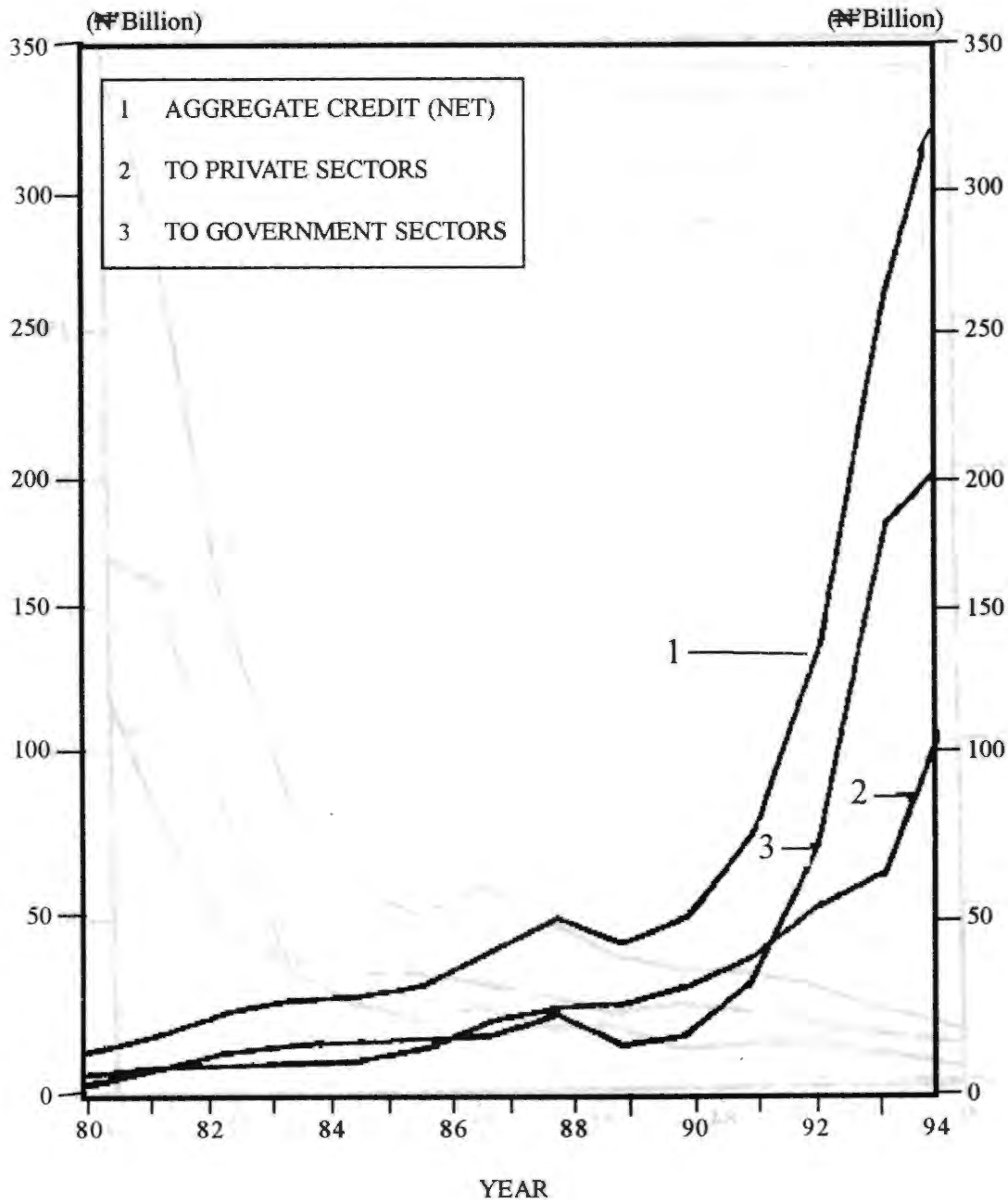

FIG. II

BANKING SYSTEM'S CREDIT TO THE ECONOMY
(By Central & Commercial Banks)
(1980–1994)