The Role of Central Banks during Economic Downturn: Lessons and Options for Financing Government Programmes in Nigeria

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I. Introduction

Central banks by their very nature are unique institutions and therefore, play a very important role in all economies—whether in advanced, emerging markets and developing economies. This role is often derived from their mandate(s), as enshrined in the laws establishing them and have tended to evolve as the economy processes. In discerning the role played by central banks, it is observed that there is role that is generally common, irrespective of whether the economy is advanced, emerging or developing while some roles tend to be economy specific. For example, while the stabilisation role appears to be common across economies; in modern times, the developmental role tends to be more closely associated with emerging markets and developing countries—largely because these economies are more or less still evolving.

Economic history has taught us that even some central banks in the advanced economies played an important role in the financing of government programmes/projects in their early days, for example, the Deutsche Bundesbank of Germany in rebuilding the country after the world war 2. Other countries include: the UK (1694), the US in the 19th century, France (1800), Belgium (1850), and Spain (1874) (see Epstein, 2006). Two central banks that are known to have been actively involved in financing government programmes/projects in recent times are Banco Central Do Brazil (Central Bank of Brazil) and Bank Negara Malaysia (Central Bank of Malaysia).

The financing of government programmes/projects by central banks seemed to have lost some of its popularity even among emerging markets and developing economies during the period leading to the 2007-2009 global financial crisis and its attendant economic downturn. The crisis and the associated economic downturn has apparently opened up another wave of debate among economists on the role of central banks during economic crisis.

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In the period leading to the 2007/2009 global financial and economic (GFE) crises, a consensus seemed to have emerged that the stabilisation role of central banks—maintaining price stability, should be the centerpiece of central banks' monetary policy. Indeed, in some economies, it is the sole objective of monetary policy. This seeming consensus emanated from the apparent "success" of central banks that adopted inflation-targeting (IT) as a monetary policy framework from the early 1990s, in stabilising their economies—that is, taming inflation.

The "dismal" performance of most of the IT countries during the crisis has raised concerns as to the universal applicability of this paradigm—pursuing price stability as the sole objective of monetary policy during economic crisis. Undeniably, the GFE crises have braught to the fore the need for central banks to always pay serious attention to what is happening in the macro-economy and how it impacts on the banking system as well as the financial system as a whole.

The theme of this executive seminar, and indeed, the topic for this session, raises some fundamental issues/questions with regard to the role of Central Bank of Nigeria during economic downturn.

The issues are of particular relevance to the Nigerian economy of today and include the following:

- What is(are) the traditional role(s) of central banks?
- Should this(these) role(s) change in economic downturn?
- Should central banks really be involved in financing government programmes at all, particularly during economic downturn?
- If the answer to the preceding question is yes, what are the likely implications and does the initial conditions matter in that regard?
- What lessons can we draw from central banks' experiences during the recent global financial and economic crises?
- Since financing government programmes by the CBN is not new, how successful has the Bank been in this area?
- Can these lessons help shape the future direction of CBN's role in the economy, particularly against the backdrop of the current economic recession in the country?

II. Traditional Roles of Central Banks in the Economy

The role that a central bank perform in an economy derives principally from the mandate(s), as set out in the laws establishing that central bank. Traditionally, in most countries the central bank serves as the principal authority for the nation's financial matters, in addition to being a key partner in economic policy issues.

Overall, the roles that virtually all central banks routinely perform include:

- Implementing monetary policy geared toward delivering robust and consistent growth and employment;
- Determining interest rates that facilitate the effective mobilisation and efficient utilisation of scarce financial resources to support productive investment, growth and development;
- Controlling a country's money supply to ensure a non-inflationary growth trajectory;
- Promoting the stability of the country's financial system through the effective regulation and supervision of the banking industry;
- Managing the country's foreign reserves and gold reserves;
- "Lender of Last Resort" role—to maintain liquidity in the economy to prevent the financial system from collapsing; and
- Promoting the development of the payment system infrastructure and safeguarding its smooth functioning.

Perhaps, it is important to stress that these roles evolved gradually over the years. In the specific case of the Central Bank of Nigeria, in addition to the roles listed above, the Bank has also been assigned a developmental role, as stated in Section 31, of the CBN Act 2007. This role aims at promoting and developing not only the capital markets, but also supporting financial/economic growth and development.

Of all these roles, perhaps the ones that bear a direct link to the theme of this seminar and the subject of the session are those related to the conduct of monetary policy—interest rate and lender-of-last resort, and developmental functions.

III. Selected Country Experiences of Central Banks' Role during the 2007-2009 Global Financial and Economic Crisis

The 2007-2009 global financial crisis and the ensuing economic slump witnessed an unprecedented direct intervention by central banks in economic activities and financing of government programmes aimed at mitigating the adverse impact of the crises.

Indeed, central banks all over the world unleashed their "lender-of-last resort" role by adopting non-traditional measures through massive injection of liquidity to stem the collapse of their financial systems and to stimulate the real economy in the wake of the economic recession that accompanied the financial turmoil. These non-traditional measures have been termed "Quantitative Easing" (QE for short) in the economics lexicon and involved the large-scale purchase of assets that central banks would normally not touch and the unlimited supply of reserves to shore-up base money.

III.1 Advanced Economies

According to Fawley and Neely (2013), the QEs programmes of the Federal Reserve (Fed), Bank of England (BoE), European Central Bank (ECB) and Bank of Japan (BoJ) were initially targeted at alleviating financial market distress, but this was later broadened to include achieving inflation targets, stimulating the real economy, and containing the European sovereign debt crisis. They noted further that the ECB and BoJ focused their programmes on direct lending to banks - reflecting the bank-centric structure of their financial systems - while the Fed and BoE expanded their respective monetary bases by purchasing bonds.

In reality, although the four central banks announced outright asset purchases their approaches differed:

- The Fed and BoE targeted large amounts of assets to purchase;
- The ECB and BoJ chose to ease their monetary policy stance primarily by supplying amount of loans to banks, as they required;
- The ECB and BoJ outright asset purchases were generally small and targeted specific assets.

A summary of the QE programmes of the Fed, ECB, BoE, and BoJ are contained in the tables below culled from Fawley and Neely (2013).

The abbreviations used in the tables include:

- Federal Open Market Committee (FOMC)
- Mortgage-backed security (MBS)
- The Covered Bonds Purchase Programme (CBPP)
- Securities Market Programme (SMP),
- Outright Monetary Transactions (OMT)
- Long-term refinancing Operation (LTRO)
- Fixed rate full allotment (FRFA)
- Growth-Supporting Funding Facility (GSFF)
- Fixed-rate Operations (FROs)
- Exchange-traded funds (ETFs)
- Japanese real estate investment trusts (J-REITs)
- Japanese government bonds (JGBs)
- Corporate finance instruments (CFI)

Table 1A

Important Announcements by the Federal Reserve

Date	Program	Event	Brief description	Interest rate news
11/25/2008	QE1	FOMC statement	LSAPs announced: Fed will purchase $100 billion in GSE debt and $500 billion in MBS.	
12/1/2008	QE1	Bernanke speech	First suggestion of extending QE to Treasuries.	
12/16/2008	QE1	FOMC statement	First suggestion of extending QE to Treasuries by FOMC.	The Fed cuts the federal funds rate from 1% to 0.00-0.25%; expects low rates "for some time."
1/28/2009	QE1	FOMC statement	Fed stands ready to expand QE and buy Treasuries.	
3/18/2009	QE1	FOMC statement	LSAPs expanded: Fed will purchase $300 billion in long-term Treasuries and an additional $750 and $100 billion in MBS and GSE debt, respectively.	Fed expects low rates for "an extended period."
8/12/2009	QE1	FOMC statement	LSAPs slowed: All purchases will finish by the end of October, not mid-September.	
9/23/2009	QE1	FOMC statement	LSAPs slowed: Agency debt and MBS purchases will finish at the end of 2010:Q1.	
11/4/2009	QE1	FOMC statement	LSAPs downsized: Agency debt purchases will finish at $175 billion.	
8/10/2010	QE1	FOMC statement	Balance sheet maintained: The Fed will reinvest principal payments from LSAPs in Treasuries.	
8/27/2010	QE2	Bernanke speech	Bernanke suggests role for additional QE "should further action prove necessary."	
9/21/2010	QE2	FOMC statement	FOMC emphasizes low inflation, which "is likely to remain subdued for some time before rising to levels the Committee considers consistent with its mandate."	
10/12/2010	QE2	FOMC minutes released	FOMC members' "sense" is that "[additional] accommodation may be appropriate before long."	
10/15/2010	QE2	Bernanke speech	Bernanke reiterates that Fed stands ready to further ease policy.	
11/3/2010	QE2	FOMC statement	QE2 announced: Fed will purchase $600 billion in Treasuries.	
6/22/2011	QE2	FOMC statement	QE2 finishes: Treasury purchases will wrap up at the end of month, as scheduled; principal payments will continue to be reinvested.	
9/21/2011	Maturity Extension Program	FOMC statement	Maturity Extension Program ("Operation Twist") announced: The Fed will purchase $400 billion of Treasuries with remaining maturities of 6 to 30 years and sell an equal amount with remaining maturities of 3 years or less; MBS and agency debt principal payments will no longer be reinvested in Treasuries, but instead in MBS.	
6/20/2012	Maturity Extension Program	FOMC statement	Maturity Extension Program extended: The Fed will continue to purchase long-term securities and sell short-term securities through the end of 2012. Purchases/sales will continue at the current pace, about $45 billion/month.	
8/22/2012	QE3	FOMC minutes released	FOMC members "judged that additional monetary accommodation would likely be warranted fairly soon..."	
9/13/2012	QE3	FOMC statement	QE3 announced: The Fed will purchase $40 billion of MBS per month as long as "the outlook for the labor market does not improve substantially...in the context of price stability."	Fed expects low rates "at least through mid-2015."
12/12/2012	QE3	FOMC statement	QE3 expanded: The Fed will continue to purchase $45 billion of long-term Treasuries per month but will no longer sterilize purchases through the sale of short-term Treasuries.	The Fed expects low rates to be appropriate while unemployment is above 6.5 percent and inflation is forecasted below 2.5 percent.

NOTE: The appendix provides URLs for the official policy statements included in Tables 1A-1D and those discussed in the text.

Table 1B

Important Announcements by the European Central Bank

Date	Program	Event	Brief description	Interest rate news
3/28/2008	LTRO	Governing Council press release	LTRO expanded: 6-month LTROs are announced.	
10/15/2008	FRFA	Governing Council press release	Refinancing operations expanded: All refinancing operations will be conducted with fixed-rate tenders and full allotment; the list of assets eligible as collateral in credit operations with the Bank is expanded to included lower-rated (with the exception of asset-backed securities) and non-euro-denominated assets.	
5/7/2009	CBPP/LTRO	Governing Council press release	CBPP announced/LTRO expanded: The ECB will purchase €60 billion in euro-denominated covered bonds; 12-month LTROs are announced.	ECB lowers the main refinancing rate by 0.25% to 1% and the rate on the marginal lending facility by 0.50% to 1.75%.
5/10/2010	SMP	Governing Council press release	SMP announced: The ECB will conduct interventions in the euro area public and private debt securities markets; purchases will be sterilized.	
6/30/2010	CBPP	Governing Council press release	CBPP finished: Purchases finish on schedule; bonds purchased will be held through maturity.	
10/6/2011	CBPP2	Governing Council press release	CBPP2 announced: The ECB will purchase €40 billion in euro-denominated covered bonds.	
12/8/2011	LTRO	Governing Council press release	LTRO expanded: 36-month LTROs are announced; eligible collateral is expanded.	ECB lowers the main refinancing rate by 0.25% to 1%, and the rate on the marginal lending facility by 0.25% to 1.75%.
8/2/2012	OMT	ECB press conference	ECB President Mario Draghi indicates that the ECB will expand sovereign debt purchases. He proclaims that "the euro is irreversible."	
9/6/2012	OMT	Governing Council press release	OMTs announced: Countries that apply to the European Stabilization Mechanism (ESM) for aid and abide by the ESM's terms and conditions will be eligible to have their debt purchased in unlimited amounts on the secondary market by the ECB.	

Table 1C

Important Announcements by the Bank of England

Date	Program	Event	Brief description	Interest rate news
1/19/2009	APF	HM Treasury statement	APF established: The BOE will purchase up to £50 billion of "high quality private sector assets" financed by Treasury issuance.	
2/11/2009	APF	BOE Inflation Report released	The BOE views a slight downside risk to meeting the inflation target, reiterates APF as a potential policy instrument.	
3/5/2009	APF	MPC statement	QE announced: The BOE will purchase up to £75 billion in assets, now financed by reserve issuance; medium- and long-term gilts will comprise the "majority" of new purchases.	The BOE cuts policy rate from 1% to 0.5%; the ECB cuts policy rate from 2% to 1.5%.
5/7/2009	APF	MPC statement	QE expanded: The BOE will purchase up to £125 billion in assets.	
8/6/2009	APF	MPC statement	QE expanded: The BOE will purchase up to £175 billion in assets; to accommodate the increased size, the BOE will expand purchases into gilts with remaining maturity of 3 years or more.	
11/5/2009	APF	MPC statement	QE expanded: The BOE will purchase up to £200 billion in assets.	
2/4/2010	APF	MPC statement	QE maintained: The BOE maintains the stock of asset purchases financed by the issuance of reserves at £200 billion; new purchases of private assets will be financed by Treasury issuance.	
10/6/2011	APF	MPC statement	QE expanded: The BOE will purchase up to £275 billion in assets financed by reserve issuance; the ceiling on private assets held remains £50 billion.	
11/29/2011	APF	HM Treasury decision	Maximum private asset purchases reduced: HM Treasury lowers the ceiling on APF private asset holdings from £50 billion to £10 billion.	
2/9/2012	APF	MPC statement	QE expanded: The BOE will purchase up to £325 billion in assets.	
7/5/2012	APF	MPC statement	QE expanded: The BOE will purchase up to £375 billion in assets.	

NOTE: MPC, Monetary Policy Committee.

Table 1D

Important Announcements by the Bank of Japan

Date	Program	Event	Brief description	Interest rate news
12/2/2008	SFSOs	Unscheduled monetary policy meeting	The BOJ will operate a facility through the end of April to lend an unlimited amount to banks at the uncollateralized overnight call rate and collateralized by corporate debt.	
12/19/2008	Outright JGB/CFI purchases	Statement on monetary policy	Outright purchases expanded: The BOJ increases monthly JGB purchases (last increased October 2002) from ¥1.2 trillion to ¥1.4 trillion; they will also look into purchasing commercial paper.	The BOJ lowers the target for the uncollateralized overnight call rate from 0.3% to 0.1%.
1/22/2009	Outright CFI purchases	Statement on monetary policy	Outright purchases announced: The BOJ will purchase up to ¥3 trillion in commercial paper and ABCP and is investigating outright purchases of corporate bonds.	
2/19/2009	Outright CFI purchases	Statement on monetary policy	Outright purchases expanded: The BOJ will extend commercial paper purchases and the SFSOs through the end of September (previously end of March) and will purchase up to ¥1 trillion in corporate bonds.	
3/18/2009	Outright JGB purchases	Statement on monetary policy	Outright purchases expanded: The BOJ increases monthly JGB purchases from ¥1.4 trillion to ¥1.8 trillion.	
7/15/2009	Outright CFI purchases/SFSOs	Statement on monetary policy	Programs extended: The BOJ extends the SFSOs and outright purchases of corporate paper and bonds through the end of the year.	
10/30/2009	Outright CFI purchases/SFSOs	Statement on monetary policy	Status of programs: Outright purchases of corporate finance instruments will expire at the end of 2009 as expected, but the SFSOs will be extended through 2010:Q1; ample liquidity provision past 2010:Q1 will occur through funds-supplying operations against pooled collateral, which will accept a larger range of collateral.	
12/1/2009	FROs	Statement on monetary policy	Facility announcement: The BOJ will offer ¥10 trillion in 3-month loans against the full menu of eligible collateral at the uncollateralized overnight call rate.	
3/17/2010	FROs	Statement on monetary policy	Facility expansion: The BOJ expands the size of the FROs to ¥20 trillion.	
5/21/2010	GSFF	Statement on monetary policy	GSFF announcement: The BOJ will offer ¥3 trillion in 1-year loans to private financial institutions with project proposals for "strengthening the foundations for economic growth."	
8/30/2010	FROs	Unscheduled monetary policy meeting	Facility expansion: The BOJ adds ¥10 trillion in 6-month loans to the FROs.	
10/5/2010	CME	Statement on monetary policy	APP established: The BOJ will purchase ¥5 trillion in assets (¥3.5 trillion in JGBs and Treasury discount bills, ¥1 trillion in commercial paper and corporate bonds, and ¥0.5 trillion in ETFs and J-REITs).	The BOJ sets the target for the uncollateralized overnight call rate at around 0 to 0.1%.

Table 1D, cont'd

Important Announcements by the Bank of Japan

Date	Program	Event	Brief description	Interest rate news
3/14/2011	CME	Statement on monetary policy	APP expanded: The BOJ will purchase an additional ¥5 trillion in assets (¥0.5 trillion in JGBs, ¥1 trillion in Treasury discount bills, ¥1.5 trillion in commercial paper, ¥1.5 trillion in corporate bonds, ¥0.45 trillion in ETFs, and ¥0.05 trillion in J-REITs).	
6/14/2011	GSFF	Statement on monetary policy	GSFF expanded: The BOJ makes available another ¥0.5 trillion in loans to private financial institutions for the purpose of investing in equity and extending asset-based loans.	
8/4/2011	CME	Statement on monetary policy	APP/FROs expanded: The BOJ will purchase an additional ¥5 trillion in assets (¥2 trillion in JGBs, ¥1.5 trillion in Treasury discount bills, ¥0.1 trillion in commercial paper, ¥0.9 trillion in corporate bonds, ¥0.5 trillion in ETFs, and ¥0.01 trillion in J-REITs); 6-month collateralized loans through the FROs are expanded by ¥5 trillion.	
10/27/2011	CME	Statement on monetary policy	APP expanded: The BOJ will purchase an additional ¥5 trillion in JGBs.	
2/14/2012	CME	Statement on monetary policy	APP expanded: The BOJ will purchase an additional ¥10 trillion in JGBs.	
3/13/2012	GSFF	Statement on monetary policy	GSFF expanded: The BOJ makes available another ¥2 trillion in loans to private financial institutions, including ¥1 trillion in U.S.-dollar-denominated loans and ¥0.5 trillion in smaller-sized (¥1 million-¥10 million) loans.	
4/27/2012	CME	Statement on monetary policy	APP expanded/FROs reduced: The BOJ will purchase an additional ¥10 trillion in JGBs, ¥0.2 trillion in ETFs, and ¥0.01 in J-REITs. The BoJ also reduces the availability of 6-month FRO loans by ¥5 trillion.	
7/12/2012	CME	Statement on monetary policy	APP expanded/FROs reduced: The BOJ will purchase an additional ¥5 trillion in Treasury discount bills and reduces the availability of FRO loans by ¥5 trillion.	
9/19/2012	CME	Statement on monetary policy	APP expanded: The BOJ will purchase an additional ¥5 trillion in JGBs and ¥5 trillion in Treasury discount bills.	
10/30/2012	CME/SBLF	Statement on monetary policy	APP expanded/SBLF announced: The BOJ will purchase an additional ¥5 trillion in JGBs, ¥5 trillion in Treasury discount bills, ¥0.1 trillion in commercial paper, ¥0.3 trillion in corporate bonds, ¥0.5 trillion in ETFs, and ¥0.01 trillion in J-REITs. Through the SBLF it will fund up to 100 percent of depository institutions' net increase in lending to the nonfinancial sector.	
12/20/2012	CME	Statement on monetary policy	APP expanded: The BOJ will purchase an additional ¥5 trillion JGBs and ¥5 trillion in Treasury discount bills.	

NOTE: CFI, corporate finance instruments (corporate bonds plus commercial paper); CME, comprehensive monetary easing.

III.2 Developing Economies

In the case of **Bank Negara Malaysia (BNM)**, bin Ibrahim (2010) stated that pre-emptive and precautionary measures were taken in response to the crises to preserve the stability of the financial system; and ensure the continuity of credit flows.

Table 2

Ensuring continued access to SME financing

Facility	Amount (USD)	Established	Objective	Remarks
SME Assistance Facility	200m	Aug 2008	To assist viable SMEs facing financial difficulties to manage temporary cash flow problems due to rising costs	Fully utilised
SME Modernisation Facility	142m	Aug 2008	To provide financing to SMEs to modernise their operations, in particular to purchase or upgrade machinery and equipment, as well as for energy-saving equipment	Fully utilised
Micro Enterprise Fund	57m	Nov 2008	To enhance access to microfinancing for micro enterprises with viable businesses	Partly utilised
SME Assistance Guarantee Scheme	600m	Jan 2009	To assist viable SMEs adversely impacted by the economic slowdown to continue obtaining access to adequate financing	Replacement of the SME Assistance and Modernisation Facilities
Working Capital Guarantee Scheme	1.4bn	Apr 2009	To assist viable companies with shareholder equity of below RM 20 million to gain access to financing in order to maintain their operations amid the challenging economic environment	Government guarantees 80% of working capital funding from banking institutions, which were fully utilised
Industry Restructuring Loan Guarantee Scheme	1.4bn	Apr 2009	To promote investments: • that increase productivity; • in high-value-added activities (such as research and development, and downstream agriculture activities); and to promote the greater application of green technology	Government guarantees 50–80% of funding of long-term investments obtained from banking institutions, depending on the size of shareholders' equity

Source: Bank Negara Malaysia.

This included specific and targeted measures to preserve confidence and address the highly vulnerable segments and potential areas of stress:

- Extending a blanket guarantee on all ringgit and foreign currency deposits with commercial, Islamic and investment banks and deposit-taking development financial institutions regulated by the BNM through the Malaysia Deposit Insurance Corporation;
- Extending access to the BNM's liquidity facility to insurance companies and operators regulated and supervised by the BNM;
- Ensuring banks' accessibility to USD liquidity for trade financing purposes; and

- Intensifying engagement with industry players, businesses and large corporate as well as trade bodies.
- In addition, efforts were mainly targeted towards ensuring that businesses and households continued to have adequate and uninterrupted access to financing, which measures encompass improving and broadening access to financing through:
  - Support to small- and medium-sized enterprises (SMEs)—see Table 2 below;
  - Deepening capital market activity;
  - Addressing potential borrower distress; and
  - Accommodative monetary policy.

The measures taken by the **CBN**, in response to the crises were broadly identical in nature to those taken by the selected central banks, but differed only in the case of the QE in term of the transmission vehicle through which the QE was implemented. While the other central banks actually provided liquidity/credit directly to the banks or other financial institutions—apparently to "repair" their balance sheets, the CBN on its part provided credit to specific sectors of the economy that were deemed to have the potential to enhance productivity and economic growth.

The CBN initially utilised a mixture of policies including:

- Stoppage of aggressive liquidity mop-up;
- Progressive reduction of monetary policy rate (MPR);
- Progressive reduction in the cash reserve requirement;
- Reduction of liquidity ratio requirement;
- introduction of expanded discount window (EDW) to increase DMB's access to facilities from the CBN; this was later replaced with the CBN guarantee of interbank money market transactions;
- Guarantee of letters of credit and/or foreign counterparties creditors to the DMBs;
- Limit on deposit money banks' (DMBs) foreign exchange net open positions;
- Rollover of margin loans that were extended to equity investors, amongst others; and
- Injection of ₦620 billion as tier 2 capital in 8 troubled banks.

The QE segment of the CBN intervention came later, in 2010, when the Bank by virtue of its developmental function, as contained in Section 31 of the CBN Act, 2007, decided to establish a ₦500 billion facility for investment in debenture stock of the Bank of Industry for long-term (10 – 15 years) lending to Deposit Money Banks (DMBs);

The facility was targeted to specific sectors of the economy, namely: The sum of ₦300bn was for financing of power projects and the refinancing of airlines' existing facilities with the DMBs; and ₦200bn was for the refinancing and restructuring of SME/manufacturing sector existing loan portfolio, and where necessary, to provide working capital.

The facility was at a concessionary interest rate of 1.0 per cent to the DMBs for on-lending to their clients at a single-digit of 7.0 per cent. In the light of the foregoing review of how central banks responded to the 2007-2009 financial and economic crises, it is perhaps safe to draw the following conclusions:

- The crises did not materially alter the traditional role(s) of central banks particularly with regard to their stabilisation role;
- If anything it actually reinforced that role;
- The crises underscored the need for central banks not to be too rigid with respect to pursuing the price stability objective when economic slump occurs;
- Central banks should begin to pay greater attention to financial stability since price stability and financial stability are not mutually exclusive objectives;
- Central banks will need adequate direct powers as well as increase their capacity to undertake macro-prudential analyses; and
- Strengthening of governance structures, as more powers are given to central banks.

In addition, in spite of the massive injection of liquidity during the crises, the preponderance of evidence reveals the following downsides:

- Credit extension has not resumed as expected;
- Economic growth has remained sluggish;
- How to roll-back some of the measures in the face of substantial liquidity overhang;

However, there are some positives:

- Inflation has remained subdued in many countries;
- Interest rates have remained low, and in some cases near zero-bound;
- Stability has somewhat been restored in the financial system; and
- Macro-prudential environment has improved somewhat.

IV. Lessons of Experience and Options for Financing Government Programmes in Nigeria

Central banks, particularly in developing countries intervened in the real economy in order to enhance the transmission mechanism of monetary policy actions and facilitated the development of the financial markets and created easy access to credit for investment and production. This is predicated on the existence of significant gaps between the demand for investment and the availability of domestic resources. Indeed, the philosophy behind central banks' interventions in the real economy is to indirectly influence cost of production for firms and affect prices positively.

In the UK, the Bank of England has a unit that administers its small and medium enterprises financing. In the United States, the Federal Reserve Bank identifies and addresses a broad spectrum of challenges confronting low and moderate income communities by developing their capacity through its Community Affairs Department, which is responsible for supporting economic growth at the lower end of the market. In Asia, central banks play vital intermediation roles. For example, Bank Indonesia is involved in promoting priority sector lending primarily in favour of MSMEs, micro-credit project for the poor and self-help group linkage to banks.

The Philippines Central Bank, promotes appropriate financial market policies, implements specialised microfinance schemes, capacity building and other initiatives (rediscounting facility, Credit Bureau, rating agencies). The State Bank of Pakistan's Agricultural Credit and Microfinance Department is responsible for meeting the credit needs of the agricultural sector, a major foreign exchange earner. The Central Bank of Bangladesh is entrusted with the responsibilities of formulating and implementing national agricultural credit policy. It maintains two Departments, namely: Agricultural Credit and Financial Institutions Department and SME and Special Programmes Department to perform these roles.

Similarly, in Africa, the Central Bank of Mauritius sponsors credit scheme for sugarcane farmers who are the major foreign exchange earners in the country; the Bank of Uganda manages various lines of development programmes in the form of credit and term loans in collabouration with accredited financial development institutions; the Central Bank of The Gambia operates a microfinance supervisory department to take care of the peculiarities of its rural credit market; the National Bank of Ethiopia undertakes development finance activities by providing technical assistance and investment in micro financing businesses; the Bank of Ghana has been involved in rural credit support through its rural/community banking system; the Bank of Sierra Leone's Development Finance Division supervises the rural banking and rural export credit guarantee scheme of the country; and the Bank of Liberia actively participates in rural financing, manages a credit guarantee scheme and performs other developmental functions.

Central Bank of Nigeria

The legal basis for the CBN intervention in certain sectors of the economy is contained in Section 31 of the CBN Act, 2007 captioned "Developmental Function". The section provides that the Bank, under its developmental function, may subscribe to, hold and sell shares of any corporation or company or debentures thereof set up with the approval of or under the authority of the Federal Government for the purposes of promoting the development of money and capital markets in Nigeria or of stimulating financial or economic development.

The CBN intervention in financing government programmes in Nigerian has a long history. The Bank has, since its early years, been actively involved in the critical areas of the economy including Agricultural financing - the flagship and most visible of CBN's involvement in financing government programmes; establishment of Development Finance Institutions (DFIs); development of banking culture and networks; promotion of access to finance for small and medium-scale enterprises; and entrepreneurship development.

Table 3 below provides a list of the various CBN interventions in the real economy/government programmes in Nigeria.

Table 3: List of various CBN Interventions in the Real Economy

S/N	Intervention program	Year Established
1	Agricultural Credit Guarantee Scheme (ACGS)	1977/78
2	Trust Fund Model (TFM)	2001
3	Agricultural Credit Support Scheme (ACSS)	2003
4	Entrepreneurship Development Centres (EDC)	2008
5	Commercial Agriculture Credit Scheme (CACS)	2009
6	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)	2010
7	SME Restructuring/Refinancing Fund (RRF)	2010
8	Small and Medium Enterprise Credit Guarantee Scheme (SMECGS)	2010
9	Power and Airline Intervention Fund (PAIF)	2010
10	Micro Small and Medium Enterprises (MSME) Development Fund	2014
11	Nigeria Electricity Market Stabilisation Facility (NEMSF)	2014

Although, a comprehensive assessment of the impact of the various interventions are yet to be undertaken, but judging the state of the Nigerian economy today and the continued heavy reliance on oil, one can safely infer that the achievement is only modest.

In this regard, therefore, a fundamental question arises, as to whether there is still scope for continued intervention/financing of government programmes in Nigeria by the CBN, particularly during economic downturn. While a direct answer may not be readily given, one can make the following suggestions for the future:

- The Bank should as a matter of priority undertake a comprehensive evaluation of the various financing programmes with a view to determining their effectiveness in delivering on the set torget(s);
- Following from this evaluation exercise, the Bank should determine whether it has reached the limit of its financing, as set out in Section 31 of the CBN Act 2007;
- A new framework for future intervention in the real economy or financing government programmes should be established.

Such a framework should detail the modalities/conditions precedent for intervention or financing, so that the Bank is not distracted from its traditional stabilisation role. The framework should identify specific sectors with very high potential of steering the economy in the desired direction and/or out of recession; this will obviate the current ad-hoc interventions that depend on the mood of the political authorities. The new framework should be backed by law and made publicly available and easily accessible to ensure that the Bank is held accountable;

Direct disbursement of funds to government should be avoided given our past experience with the huge leakages associated with the finances of government. Funds should be channelled through the financial system using guarantees and on-lending rather direct credit, conditional on putting in place a robust framework for monitoring to ensure that funds are not diverted and/or that the funds get to the intended beneficiaries or sectors. Within the confines of the enabling law, appropriate limits should be set for CBN financing of government programmes to check the potential for abuse and protect the credibility of the Bank.

Furthermore, future interventions in the real economy and/or financing of government programmes should take into considerotion the initial economic conditions before the downturn such as liquidity condition; quantum of credit/rote of growth of credit; level of inflation; absorptive capacity of the economy; rate of growth and level of unemployment; level of investment and productivity in the economy; level of slack capacity in the economy; state/health of the financial system; etc.

V. Concluding Remarks

In conclusion, the following observations are necessary:

- Experience has shown that there are no compelling reasons for the CBN to abandon its traditional role of continuing to stabilise the economy during economic downturn;
- There is need for a comprehensive evaluation of its previous interventions/financing of government programmes with a view to refocusing such roles in future and avoid the current ad-hoc nature associated with the subsisting interventions; and
- Understanding of economic conditions precedent do matter for the CBN financing of government programmes during economic downturn to avoid any missteps capable of further exacerbating the already adverse environment.

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