CENTRAL BANK'S MONETARY POLICIES UNDER STRUCTURAL ADJUSTMENT PROGRAMME IN NIGERIA: AN ASSESSMENT OF THE IMPACT ON COMMERCIAL BANKING

BY

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DECLARATION

I hereby declare that this project is original and a product of my research findings. All materials used have been acknowledged accordingly in the references.

Signed: ______________________
GARBA MOHAMMED IBRAHIM

Date: 6/3/2020

DEDICATION

I dedicate this project to my father, Mallam Ibrahim and my mother, Hajiya Halimatu and to all peace loving people around the world.

CERTIFICATION

This project report "CENTRAL BANK'S MONETARY POLICIES UNDER THE STRUCTURAL ADJUSTMENT: AN ASSESSMENT OF THE IMPACT ON COMMERCIAL BANKING IN NIGERIA" By Garba Mohammed Ibrahim meets the regulation governing the award of the degree of MASTERS IN BUSINESS ADMINISTRATION of the Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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ABSTRACT

The introduction of the Structural Adjustment Programme in late 1986 with its underlying principles of liberalisation and deregulations has brought about a proliferation of banks and non-banking financial institutions. Competition has intensified, there has been increased innovation and sophistication in product design and delivery. Some of the policies introduced under the new reforms as they affect the commercial banking sub-sector include among others:-

- an open door policy on the licensing of new banks;
- market determined-exchange rate for the naira in the foreign exchange market (FEM);
- deregulation of interest rates;
- deregulation of the financial sector;
- establishment of the Nigerian Deposit Insurance Corporation (NDIC);
- privatisation of government shares in banks and other companies.

While the new changes have enhanced the business opportunities and profits in the banking sector, they have also engendered challenges and problems. Intense competition and severe comprehension on operating margin has put the future of many banks in question, even as new ones are springing up to the advantages of new deregulated environments.

This calls for more policy action and fine-tuning of the existing ones. In response to these developments, the monetary authorities have given increased emphasis to prudential requirements aimed at enhancing the safety of individual banks and the stability efficiency of the banking system as a whole.

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CHAPTER ONE

INTRODUCTION

1.0 AN OVERVIEW

The Nigerian financial system did not gain prominence in the Nigerian economic system much until the early 1960s with the establishment of the Central Bank of Nigeria [CBN]. This laid the solid foundation of the development of the banking system in the country.

The first few foreign and indigenous banks that operate in the country had a free atmosphere to operate within. The crash of most banks in the early 1950s particularly the indigenous bank led to the establishment of the Central Bank of Nigeria [CBN] whose functions, among others are:-

- Issuing legal tender currency;
- Acting as banker and financial adviser to the federal government;
- Promoting monetary stability and sound financial structure in the country;
- maintaining external reserve in order to safeguard the international value of the currency.

These functions of the Central Bank help to regulate the bank and other financial activities in the country within the laws of the land. The functions also help in preventing the commercial banks from bankruptcy. If the objectives of the Central Bank were to be achieved, then regulating the banking sector of economy was necessary.

The era starting the Structural Adjustment Programme [SAP] ushered in the deregulation process of the Nigerian economy and financial sector in particular. This has led to the proliferation of many banks and non-bank financial institutions taking the advantage of the liberalised environment. Not much success was recorded during the regulatory period in respect of regulation of monetary system; hence government has to regulate to evolve a sound financial system.

For instance, one of the deregulating policies is to allow for more indigenous banks to be established. This has to some extent check the huge profits and monopoly of the older banks. The new banks now share the market with the older ones. Other policies of the deregulation under the Structural Adjustment Programme inter-alia are:-

- floating of interest rates;
- market determination of the exchange value of Nigeria
- prohibition of foreign deposits as collateral for domestic loans;
- withdrawal of parastatal deposits from commercial banks;
- new prudential guidelines;
- increasing the capital base of commercial banks;
- payments of interest on current accounts;
- establishment of the Nigerian Deposit Insurance Corporation [NDIC] to ensure customer deposits.

The impact of these and many more other monetary policies on the commercial banking forms the subject matter of this project. This study takes critical look at the input of the Central Bank monetary and banking policies under the structural adjustment programme on commercial banking operation in Nigeria. The project is organised into five chapters.

The first chapter, which is introduction, receives the Nigerian financing system. Special emphasis is placed on the evaluation and functions of the Central Bank and Commercial Banking in Nigeria.

The literature is contained in chapter two. It centres on the Central Bank, instrument of monetary policy and techniques of monetary control. The Structural Adjustment Programme [SAP] as well as the monetary and banking policies pursued before and under the programme are equally discussed.

The method of data collection are discussed in the third chapter, while the analysis and interpretation of data makes the fourth chapter. The project is summarised in the fifth chapter and appropriate recommendations were also made.

1.0.1 THE NIGERIAN FINANCIAL SYSTEM

In Nigeria, the financial system plays a significant role in the process of economic growth and development of the country. As the economy grows, the financial system becomes increasingly deep and broad and its structure becomes increasingly sophisticated. In the process, the system offers a wide range of portfolio options and issuable instruments for investor - a function often referred to as financial intermediary.

In the intermediary process, the financial intermediaries engage primarily in matching tenders and borrowing. They bring savers and borrowers together by selling debts instrument or securities and deposits to savers for money and lending that money to borrowers. The financial intermediaries or institutions use their own liabilities to create additional assets; help mobilise funds, garner small sums together to reap economies of scale, and minimise the risk of investors.

The financial system faces a wide array of banking and non-bank financial institutions. The banking sub-sector of the system comprise of commercial banks and Central bank as the apex institution.

The non-bank financial sub-sector includes a wide range of institutions operating as regulations, facilitators and investors; they include the Securities and Exchange Commission [SEC], Stock Insurance Companies, Pension and Provident funds and Investment companies. To this list could be added finance companies engaged in fund management investment counselling and equipment leasing.

1.0.2 ESTABLISHMENT OF THE CENTRAL BANK OF NIGERIA

The banking failure of the early 1950s led to the power of control of the banking system being vested on the then financial Secretary (Ministry of Finance). This development riggered off two opposing camps: the nationalist, who were of the view that a Central Bank was needed to perform this and other central banking functions, and the colonialist, who believe that it was premature to establish a Central Bank in a country where there was no financial system.

To resolve these opposing views, a total of three (3) studies were commissioned. These studies were:- J.I. Fisher's Report, 1953, World Bank mission report, 1955; and J.B. Loyne's Report, 1957.

Fisher based his study on orthodox banking principles and reported that it was not feasible to establish a Central Bank on the ground that the financial environment did not exist and that it would be impossible to find the local staff to maintain it. He also contended that the then West African Currency Board [WACB] was equal to the task of promoting savings and capital formation.

As an alternative, Fisher recommended:-

(i) the formation of development corporation by government

(ii) the issue of treasury bills;

(iii) the establishment of an institution by the government to lend to the co-operative societies;

(iv) the use of post office savings for development purpose.

He further recommended a three steps programme leading to the development of Central Bank

(i) transfer of the then West African Currency Board [WACB] to Africa so that its management would be eventually indigenised after the local people must have acquired the necessary experience;

(ii) establishment of a Nigerian Currency Board and a Nigerian separate currency to take over the Nigerian share of the West African Currency Board [WACB];

(iii) establishment of Bank of Issue as an embroy of a future Central Bank

Fisher's recommendations were supported in 1955 by the World Bank Mission Reports. However, the World Bank Mission recommended a state bank of Nigeria to take over the banking, control function of the then financial secretary. Contrary to the above two reports, J.B. Loynes in 1957 favoured the establishment of a Central Bank in Nigeria and by 17th March, 1958, the Central Bank of Nigeria [CBN] Ordinance was promulgated. It became fully operational on the 1st of July 1959.

The main provisions of the act so far as the Central Bank of Nigeria was concerned were:-

(i) issuance of currency in Nigeria;

(ii) maintenance of external reserves in order to safeguard the internal value of the currency

(iii) promotion of monetary stability and sound financial structures;

(iv) Banker to other banks.

The main function of the Central Bank is discussed in the next section of the chapter.

1.0.3 THE FUNCTION OF CENTRAL BANK OF NIGERIA

The main function of the Central Bank can be broadly categorised into three. These are the banking functions, the monetary functions and the development function.

THE BANKING FUNCTION

The main banking function of the Central Bank include:-

(i) issuance of currency

(ii) banker and adviser to federal government, and

(iii) banker to and supervisor of commercial/merchant banks and other financial institutions.

These functions are performed by specialised department of the Central Bank.

MONETARY FUNCTIONS

The Central Bank of Nigeria has a primary responsibility for formulating monetary policies. The Central Bank monetary policy proposals after they have been reviewed and accepted by the federal government, are normally incorporated into the federal government budget each year. A few days after the budgets has been released, the Central Bank of Nigeria issues a circular, monetary policy circular, which spells out the revised monetary regulations in detail.

THE DEVELOPMENT FUNCTION

To promote economic development, the Central Bank of Nigeria has contributed immensely to the creation and development of financial markets to mobilise and channel savings for economic growth. To aid the development of money market, CBN introduced instruments such as the treasury bills, treasury certificate, certificate of deposits, banker unit fund, and the call money fund. The bank also established clearing houses in Lagos and other urban centres to facilitate inter-bank settlements and enhance the effectiveness of market transactions.

The Central Bank has been directly involved in the creation and development of capital market institutions such as the Nigeria Stock Exchange and the Securities and Exchange Commission. The bank has also played an active role in the promotion of development-oriented banks such as the Nigerian Industrial Development Bank [NIDB], Nigerian Agriculture and Co-operative Bank [NACB], Federal Mortgage Bank [FMB] and the Nigerian Bank for Commerce and Industry [NBCI]. Other development functions of the Central Bank worthy of mentioning here include its role in national economic policy formulation, maintaining external reserves and exchange control.

1.0.4 THE EVOLUTION OF COMMERCIAL BANKS IN NIGERIA

In 1982, the first bank in the country, the African Banking Corporation was established. Sixty years later, in 1952, the first ever banking legislation was enacted. In 1948, there were two expatriate banks and two indigenous banks with a total of forty branches operating in the country. In 1976, there were eighteen (18) commercial banks with a total of 465 branches in the country. As at December 1990, the number of commercial banks operating in the country have increased to 56 with a total of 1,159 urban branches, 765 branches and 5 overseas branches.

The period 1890 to 1952 could be correctly described as a free banking era because of the absence of any banking legislation. Anybody can set up a banking company provided he registers under the Companies Ordinance. The Ordinance provided that any person or any group of persons, could register under the Ordinance to do banking business, provided the membership did not exceed ten. If the membership exceeds ten, all they could do to commence banking business is to be registered as a company under the Act. It was during this free banking era that the three biggest foreign banks and two indigenous banks were established. The three foreign banks were the Bank of British West Africa [BBWA] - now First Bank, the Barclays Bank - now Union Bank and the British and French Bank - now United Bank for Africa [UBA], the two indigenous banks were the National Bank of Nigeria and the African Continental Bank [ACB].

In 1952, the government enacted the first ever banking legislation in the Banking Ordinance of 1952. The Ordinance defined a bank as "any company carrying on banking business or using bank or banking as part of the title under which it carries on business". It also defined banking business as "the business of receiving from the public, on current account, money which is to be repayable on demand by cheque and of making advances to the customer". It further states that no banking business shall be transacted in Nigeria unless by a company which must take off license from the then Financial Secretary after paying a cash of £25,000 out of an authorised capital of £50,000 for indigenous banks and £200,000 for foreign banks.

The enactment and coming onto effect of the 1952 Banking Ordinance was therefore the first characteristic feature of commercial banking development in Nigeria. This period witnessed a collapse of the indigenous banking boom. By the time the Ordinance become fully operational for all banks in 1955, all the mushroom banks established since 1945 had collapsed expect three. These were the African Continental Bank, the Agbonmagbe Bank and the Merchant Bank. Added to National Bank of Nigeria which was incorporated earlier in 1933, there were the only four indigenous banks to survive the banking boom of the late 1940s and early 1950s.

The development of commercial banking in the country was accelerated with the establishment of the Central Bank of Nigeria [CBN] in 1959. Indeed, 1959 can be regarded as a watershed in the annals of banking history in Nigeria. Not only was the Central Bank established that year but also the foundation of Nigerian money and capital markets were laid in that year. In addition, apart from the abortive banking boom crash of the late 1940s and early 1950s, 1959 saw the biggest number of commercial banks established in the country. For instance, of all the eight commercial banks established in the country between 1959 and 1967, four were established in 1959 alone.

With the banking Ordinance of 1952 and 1958 laying the legislative background and foundation, the amendments of 1961 and 1962 plugging the observed loopholes and deficiencies in the system, and the 1969 Banking Decree consolidating and improving on previous legislation, commercial banking in Nigeria was poised to take off in the 1970s. During this period, commercial banking witnessed two major developments. The first is the partial indigenisation of banking system through the Nigerian Enterprises Promotion Decree of 1972. The second is the establishment of many states-owned commercial banks. This development has led to an unprecedented increase in the number of commercial banks operating in the country.

Finally, with the introduction of Structural Adjustment Programme [SAP] in the late 1980s, the Nigerian Banking environment was deregulated in line with the spirit of the new reforms. This has led to a substantial increase in the number of commercial banks operating in the country to take advantage of the liberalised environment. As at December 1998, there were 68 commercial banks operating in the country (see Appendix I).

<u>THE BANKING ENVIRONMENT IN 1970S</u>

Banking in Nigeria in the 1970s was characterised by the following developments:-

- The indiginisation Decree of 1972 and 1977 which changed the equity, structure of the foreign banks in favour of local participation. Banking business was placed under Schedule 2 of the Nigerian Enterprise

Promotion Decree. The equity structure is in the ratio of minimum 60% indigenous and maximum 40% foreign.

- A change in the name of two of the three biggest banks, namely, Standard Chartered Bank to First Bank of Nigeria, and Barclays Bank to Union Bank of Nigeria was intended to reflect the indigenous structure of these banks.
- The post-war reconstruction effort, the oil boom of the early 70s, the capital needs of the new states and the expanding export sector made an unprecedented demand in the establishment of more banks. This led to rapid and compulsory expansion in banks. Decentralisation of bank's services and administrative machinery became imperative. This resulted in the establishment of area officer in major commercial and industrial centres across the country to improve efficiency and services delivery.

THE BANKING ENVIRONMENT IN 1980S

The Nigerian banking system has continued its evolution in the 1980s, and this process has been given ample impetus by several factors which emerged at the turn of the decade. The followings are some of the important ones:-

- There has been a continued growth of the existing banks and an increasing of application to float new ones. This development rise from the general profitability of the banking sector and its stability in relation to other sectors of the economy.

- Most banks have invested enormous funds in the construction of magnificent high rise office complex to provide suitable working environment and enhance corporate image.
- To further improve the quality of banking service, computer technology has been introduced in some of the banks but the rate of the utilisation of computers still remains low.
- The relatively new and smaller sized banks have become more efficient which in some cases the larger banks services are deteriorating.
- Development banks like the Nigerian Industrial Development Bank [NIDB], Nigerian Bank for Commerce and Industry [NBCI and the Nigerian Agricultural and Co-operative Bank [NACB] have had their activities enhanced by a policy that favoured small scale business enterprises. Industrial and Agricultural Promotion by institutions like the commercial banks has been very low because of their conservative lending procedure.
- Government has granted permission for banks to hold equities in non-banking business activities particularly in small and medium enterprises. However, a bank's participation in a given company's equity should not exceed 10% of the bank's paid up capital plus reserves, while a bank's overall equity participation in all enterprises should not exceed 33% of its paid-up capital plus reserves.

- Perhaps, the greatest impetus to banking in Nigeria is the ongoing deregulation of the economy under the new reforms of the Structural Adjustment Programme [SAP]. It is through the banking industry that most of these policies are being pursued. The deregulation of the economy therefore ushered in new challenging era to banking in the country.

BANKING ENVIRONMENT IN THE 1990S

- This era witnessed a substantial increase in the number of commercial and merchant banks operating in the country.
- The Banking Act of 1968 has been revised and a new decree, Banks and other Financial Institutions Decree of 1990, was promulgated. This development led to the establishment of many non-banking financial institutions.
- Another decree, the Central Bank of Nigeria Decree of 1991, has been promulgated. This Decree gives the Central Bank of Nigeria its autonomy and removes it from the close supervision of the federal ministry of finance and the presidency. The decree also mandated the Central Bank to issue license and overlook the activities of other non-banking financial institutions which was hitherto performed by federal ministry of finance. The minimum equity capitalisation for both commercial and merchant banks has been increased in 1990 from thirty million naira (N30m) to fifty million naira (N50m)

for commercial banks and from twenty million naira (N20m) to thirty million (N30m) for merchant banks.

- With the introduction of new housing policy, many mortgage banks are springing up in the country since the beginning of 1992.

1.1 STATEMENT OF THE PROBLEM

The introduction of the Structural Adjustment Programme [SAP] ushered in a new era of challenges to the Nigerian banking sector. The new reforms brought with it new policies that have serious repercussions on the operations of the Nigerian banks. These effect were both positive and negative.

There has been a proliferation of new banks, competition has intensified, there has been an increase in innovation and sophistication in product and service delivery. Even as the new changes creates new business opportunities, it has also engendered challenges and problems.

This write-up is aimed at studying the impact of these policies on commercial banking operation in the country.

1.2 THE OBJECTIVE OF THE STUDY

It has become increasingly necessary for the Central Bank of Nigeria to deregulate the financial sector particularly the commercial banking subsector prior to the deregulation era. The four big banks control more than 70% of the banking operation in Nigeria. The major banks involved are First Bank of

Nigeria, United Bank for Africa, Union Bank of Nigeria and International Bank for West Africa - Afri Bank.

The 1976 indigenisation decree which gave majority equity participation to Nigerians did not eliminate the problems posed by the dominance of these banks. These problems among others include discrimination in the granting of loans and advance to foreign enterprises and starving the indigenous investors of funds, repatriation of huge profit, gross inefficiency in service delivery etc. This clearly indicate that majority shareholding does not mean controlling the operation of these banks. The control were still in the hands of foreign owners. Furthermore, there was the problem of high interest rates which many indigenous entrepreneurs cannot afford.

In order to correct these abnormalities, it is the objective of this study to look at what government has done through the Central Bank in order to deregulate the banking industry as part of the overall deregulation of the economy in line with the Structural Adjustment Programme [SAP] since the 1986. This meant allowing the forces of the market to determine the value of the naira, interest rates and allowing for more banks to be established to compete with the older ones. These measures have to some extent reduce the profitability of the older banks and improve the efficiency of the banking industry.

1.3 LIMITATION AND SCOPE OF THE STUDY

One of the major limitations of this study is getting the public officers to talk on the issue. At the Central Bank, the officers refuse to grant interviews or fill any questionnaire. Their defence was, as public officers, they cannot talk to anybody except with the permission of the chief Executive of the establishment. In this situation, the person to give such is the Governor of the Central Bank.

Instead of interview, the officer gave out the CBN Quarterly financial and Economic Reviews, the CBN Credit Policy Guidelines, the CBN Monthly Reports, the CBN Annual Reports and Statements of Accounts, and the Bullion Magazine.

Interviews that were arranged with the commercial banks were also not very fruitful. Out of the three leading banks, First Bank, United Bank for Africa and Union Bank, only UBA co-operated and granted the interview. Others gave only the Annual Reports and Statements of Accounts which contain the financial data of their operations. Some of the newly established banks contacted either granted the interview nor gave out any financial statement on the ground that it was not available.

This project will study how the old and the new banks are affected by these deregulation policies under the Structural Adjustment Programme. Attempt will also be made to review in broad outline, the commercial banking sector and highlight the deregulation policies in an attempt to evolve more acceptable financial system. The study will also analyse the impact of the deregulation policies on the total deposits loan and advances, profitability, liquidity and cash ratios and other performance indicators generally under the Structural Adjustment Programme [SAP]. The period of the study is from 1987 to 1998.

CHAPTER TWO

LITERATURE REVIEW

1.4 MONETARY POLICIES IN NIGERIA

Monetary policy deals with the discretionary control of money supply by the monetary authorities in order to achieve stated or desired economic goals. Monetary policy, therefore, comprises those government actions which are design to influence the behaviour in general. The policies are design in an attempt to change the trend of some monetary variables in a particular function so as to induce the desired behavioural change in the monetary sector.

The ultimate objectives of monetary policies, how ever are not the Monetary aggregates themselves. But usually the aggregates in the real sector of the economy, such as the level of output, employment, prices the rate of economic growth, and the Balance of payment. Monetary policies are used to influenced these ultimate objectives because of the relationship between these variables and the Monetary variables. Therefore Monetary policies can be more effective in an economy where there is a well developed Money and capital markets.

The Major objective of Monetary policies in Nigeria since the establishment of central bank include, among others.

[1] The Maintenance of relative stability, in domestic prices.

[ii] The Maintenance of a health balance of payment.

[iii] The stabilization of the value of naira vis-vis the value of other foreign currencies.

[iv] The acceleration of the pace of economic growth and development.

In fostering the development of the financial sector and achieving the desired objectives of the monetary policy in Nigeria, the central bank introduced treasury Bills in 1960, produce Bills in 1962, treasury certificates in 1968, all of which is stood ready to Rediscount. It also introduced a call money scheme in 1962.

The excess liquidity in economy in the Mid 1970s, associated with the relatively large government Revenue from petroleum exports and the dealth of money market instruments in relation to the excess liquidity in the financial system, dictator the need for additional instruments. Consequently, certificate of reposits and Bankers units fund were introduced in 1975 and stabilization securities were introduced in 1976. The sectoral allocation of credit and the phased Rural banking scheme were also introduced in June 1977.

With the deregulation of the banking system in line with the spirits of the structural Adjustment programme [SAP] additional policies were introduced by the government thorough the central Bank . These policies include, among others introduction of a floating exchange rate mechanism to determine the value of naira though the free market forces of demand and supply in 1986, the deregulation of the interest rates in 1987 and the introduction of new accounting system, or the prudential guidelines as it is popularly known, in 1990.

The focus of this piece of work is to appraise these policies and analyse their impact on commercial banking activities in the country.

1.5 TECHNIQUES OF MONETARY CONTROL;

There are two major techniques of monetary control usually employed by the central bank. There quantitative and selective.

1.5-1 QUANTITATIVE TECHNIQUES;

The quantitative tools available to central bank are open market operation [Omo] variable reserve and liquidity ratio, special deposits and stabilization security.

Open market operations are used as a deliberate policy and at initiating of the central bank. The primary objectives is to influence the cash base and lending power of the commercial banks.

1.5-2 SELECTIVE TECHNIQUES;

While the quantitative techniques works on the volume of money available for credit, the selective technique used the interest rate to determine the cost and price of loanable fund changes in the interest rate have a direct impact on the economy, due largely to the effects of changes in interest on saving and investment..

1.6 THE CENTRAL BANK INSTRUMENTS OF MONETARY POLICY;

The central bank of Nigeria has a primary responsibility of formulating monetary policies. At present, there are five Major instruments of Monetary policy employed by the Central Bank in achieving governments monetary and fiscal objectives.

There are;

A. Open market operations [Omo],

B. Discount Rate system [DRS],

C. Reserve Requirement;

D. Moral suasion, and

E. Direct control and other measures.

1.6-1 **OPEN MARKET OPERATORS;**

Open market operations means the buying and selling of short and long term government securities in form of treasury Bills treasury certificate and government stock by the central bank in order to increase or reduce liquidity in economy. Consequently, this will have a positive or negative effect on bank's lending ability.

When the central bank sells securities, payment are made by commercial banks or on behalf of their Respective Customer to the Central Bank, thus reducing the deposits base of these Banks, which will compiled them to reduce their lending. In the other hand, when the Central Bank buys . Securities on the markets, payments are made to banks, individuals and corporate institutions from whom they have been purchased. When the cheques issued by the central bank are credited to the sellers accounts in various commercial bank, additional deposits are made in the banking system and the banks are in a position to create more money by increasing their lending.

Open market operations are used in mopping up excess liquidity in the economy or when the government need Money to finance its budgets deficits. Such Mop-ups Results in transfer of deposits from the commercial banks to the central bank.

1.6-2 **DISCOUNT RATE SYSTEM;**

As a lender of last Resort, the central bank lend to commercial banks by granting them short term direct advances or by Rediscounting eligible bills presented by them. The discount rate determines the cost at which the commercial banks can borrow from the central bank and it is dependent upon the purchasing economic policy at the time. At the beginning of each financial year the Central Bank fixes a minimum Rediscount rate.

Unlike the open market operation, and reserve requirements, the discount rate does not affect directly the reserve of commercial banks; its direct impact is on cost of credit the central bank control the volume of credit which maker available to commercial banks through its discount window by fixing the price at which such credit are made available.

The price is expressed in an interest, which is referred to as discount rate.

Changes in the discount rate will increase or reduce Central Banks credit to commercial banks changes in the discount rate would equally have direct effect on the interest rate charged by commercial banks. This is because an increase

The deposit creation process is shown in the table below:-

	Deposits N	Reserves (10%) N	Loans Extended (90%) N
Original deposits	10,000	1,000	9,000
Re-deposits 1st	9,000	900	8100
2nd	8100	810	7290
3rd	7290	729	6561
4th	6561	656	5905
5th	5905	590	5314
"	"	"	"
"	"	"	"
"	"	"	"
"	"	"	"
"	"	"	"
Maximum possible deposits	100,000	10,000	90,000

The importance of the reserve ratio is to be noted here. For instance, in the above example, if the statutory reserve ratio is raised to 30%, then the condition will change drastically.

Inland Bank would keep 30% of the initial deposits as reserve (3000) and give out 70% (N7000) as loan to MBA Enterprises. When MBA writes cheque in favour of ABU & Sons which they lodged into their account offshore keep 30% as reserve and proceed to lend the 70% of the deposit (n4900) to their customer

Abdul. Thus the process goes in the same manner resulting in a total deposits of N33,330 or 3.3 times of initial deposits. The multiplier is thus calculated as follows:-

$$\frac{\text{Total amount of new deposit created}}{\text{Amount of original deposits}} = \frac{33,330}{10,000}$$

$$= 3.3$$

The deposit creation process is shown in the table below:-

	Deposit N	Reserve (30%) N	Loan Extended (90%) N
Original deposit	10,000	3,000	7,000
Re-deposits: 1st	7000	2100	4900
2nd	4900	1029	2401
"	"	"	"
"	"	"	"
"	"	"	"
Max possible deposits	33,330	10,000	23,330

Thus, in the first illustration a cash deposit of N10,000 leads to the banking system being able to create a N100,000 maximum deposits and to lend N90,000 with 10% statutory reserve while in the second illustration, the banking systems ability to create deposits was reduced to maximum of N33,330 because of a higher statutory reserve of 30%.

The above deposit creation process can also be calculated using a simple mathematical model as follows:-

(a) **10% Reserve requirement**

$$10{,}000 + 10{,}000\frac{(9)}{10} + 10{,}000\frac{(9)^2}{10} + 10{,}000\ \frac{(9)^3}{10}\ +\ \frac{(9)^n}{10}$$

$$= \quad 10{,}000 \quad [1 + \frac{(9)}{10} + \frac{(9)^1}{10} + \frac{(9)^3}{10} + \ldots\ldots \frac{(9)^n}{10}$$

$$= \quad 10{,}000 \quad \frac{[1]}{1 - \frac{9}{10}}$$

= N100,000

(b) **30% reserve requirement**

$$10{,}000 + 10{,}000 \quad \frac{(7)}{10} + 10{,}000\frac{(7)^2}{10} + 10{,}000\frac{(7)^3}{10} \text{ ---- } 10{,}000\frac{(7)^n}{10}$$

$$= \quad 10{,}000 \quad [1 + \frac{(7)}{10} + \frac{(7)^2}{10} + \frac{(7)^3}{10} \text{ ------- } \frac{(7)^n}{10}$$

$$10{,}000 \quad \frac{[1]}{1 - \frac{7}{10}}$$

= N33,333

1.6.4 **MORAL SUASION**

Here, the Central Bank in a friendly manner, tries to persuade banks to reduce their lending activities when there is need for such restrain. Bank generally co-operate realising the fact that the Central Bank has a wide statutory power to regulate the banking system.

1.6.5 DIRECT CONTROL AND OTHER MONETARY POLICIES

These policies are contained in the Central Bank's credit policy guidelines and are issued in form of a circular at the beginning of each fiscal year soon after the presentation of the budget by Mr. President. The circular is normally addressed to all banks and provide details of the monetary policies to be pursued by the government in the new fiscal year.

The circular normally covers the distribution of loans and advances by commercial and merchant banks, the ratio of the loans that must be distributed to indigenous borrowers, loan to rural areas (under the rural banking scheme), reserve requirement, interest rate structure, several prudential ratios and regulations to international trade and foreign exchange. Quantitative ceilings on the several and/or sectoral distribution of credits are also usually imposed. See appendix II for a copy of Central Bank's monetary and credit policy guidelines for the 199 8 fiscal year.

1.7 THE STRUCTURAL ADJUSTMENT PROGRAMME [SAP]

The Structural Adjustment Programme introduced by the federal government in July 1986 for an initial two year period had the overall aim of restructuring the production and consumption pattern of the economy as well as eliminating price distortions and the over-dependence on the export of crude oil and imports of luxury goods.

The specific objectives were to:-

a) restructure and diversify the productive base of the economy in order to reduce reliance on crude oil exports for foreign exchange and to encourage the export of other commodities;
b) achieve fiscal and balance of payment viability;
c) lay the basis for sustainable non-inflationary growth; and
d) lessen the dominance of unproductive public sector expenditure, improve its efficiency and expand the growth potential of the private sector.

The basic philosophy behind the programme was the reliance on the free interplay of the market forces of demand and supply for resources allocation. To achieve the above-mentioned objectives, the following policy instrument were employed among others:-

a) introduction of second-tier foreign exchange market (SFEM) to find a more realistic exchange rate for the naira through the interplay of the free market forces of demand and supply;
b) liberalisation of the external trade and payment system;
c) rationalisation and restructuring of public expenditure and customs tariff;
d) commercialisation and/or privatisation of some public parastatals;
e) adoptation of relevant pricing policies in all sectors with greater reliance on market forces and consequent reduction in complex

administrative bottlenecks. This include the abolishing of the then price control board (PCB) and other commodity boards; and

f) interest rates deregulation.

Monetary policy measures under the Structural Adjustment Programme (SAP) were designed to establish the economy and induce the emergence of a market oriented financial system for effective mobilisation of financial savings and efficient resource allocation. The above set objectives were to be achieved through the deregulation of financial system as a measure of the new reforms. This will be discussed in the next section of the chapter.

1.8 DEREGULATION IN THE NIGERIAN BANKING INDUSTRY

The banking by the nature of its activities is among the most heavily regulated sectors of the Nigerian economy. As financial intermediaries, bank assist in channelling funds from surplus economic units (saver and depositors) to deficit ones (investors) to facilitate business transactions and economic development generally. Since these funds are owned by third parties prudence demands that such funds should be efficiently managed to sustain the confidence of the depositors on the banking system, ensure the continued soundness of the system itself and thereby minimise the risk of bank failures.

Similarly, the existence of market imperfections and externalities in financial markets in Nigeria has often induced official intervention, not only to boost investment, but to redirect credit to economic sector with high social but low commercial rates of return.

However, experience has shown that government intervention in the working of the market may not often achieve the intended objective efficiently. Indeed such intervention often results in new economic distortion leading to sub-optimal resource distortions, policy makers have often resorted to economic deregulation. The process of economic deregulation in Nigeria started in 1986 with the introduction of the Structural Adjustment Programme (SAP) by the federal military government.

1.8.1 CONCEPTUAL AND THEORETICAL BACKGROUND

Economic regulation embraces all types of controls which government imposes on economic and business activities. In a free market economic system, which the Nigerian economy is aspiring to be, government regulatory role was traditionally most active in the area of public utilities. At the peak of regulation government actually participate in some non-traditional public sector activities in efforts aimed at fostering competition and improving economic efficiency. Economic deregulation in the present context can be defined as the deliberate and systematic removal of regulatory controls structures and operational guidelines in the administration and pricing system in the economy.

The underlying philosophy for the deregulation of an economy or its component segments is the belief that factors of production, goods and services are optimally priced and allocated when their prices are freely determined by the free market forces of demand and supply. The symptom that often necessitates the need for deregulations is the prevalence of supply and demand gaps in both the product and factors market. In the financial market, the gap manifest itself in the: saving/investment imbalance; the prolong existence of which is not conducive for long-term economic growth and development. The deregulation of the financial market by eliminating distortions such as those emanating from subsidised interest rates and credits rationing will therefore, improve economic efficiency and the productivity of investment.

1.8.2 MEASURES OF THE DEREGULATION

The era of deregulation of the Nigerian Banking System came with SAP which has assigned a pivotal role to market factors in the pricing and allocation of resources for development. The measures of deregulation so far implemented in the banking system covers such areas as interest rate, licensing of new banks, sectoral allocation of credit, foreign exchange market withdrawal of public sector deposits and the use of an auction method in issuing of treasury securities.

1.9 THE FOREIGN EXCHANGE MARKET

Effort to resolve the international debts crisis of the 80s reveal that economies of most developing countries, Nigeria inclusive, had problems emanating from over-valued exchange rates. As a result, the out of these economies continue to deliver as imports were cheaper. This was exactly the case in Nigeria when the Structural Adjustment Programme was introduced in 1986.

It was not surprising, therefore, that one of the first moves under the reforms was to correct the exchange rate distortion. The second-tier foreign exchange market was quickly introduced to operate concurrently with the then official first-tier market which accommodate only payment for public sector debts and obligations to international organisations. Under the second-tier foreign exchange market (SPEM), a floating exchange rate mechanism through the forces of demand and supply was adopted. In 1987, the market determined rate was unified with the first-tiers and the foreign exchange market (FEM) as it is known today, was born.

Guideline for operating the foreign exchange market (FEM) signalled the first major step in deregulating the banking system. Banks were, for the first time, allowed to be involved in the disbursement and management of the country's foreign exchange, a function hitherto preserved exclusively for Central Bank.

Market determined foreign exchange rates have had a far-reaching effect on the banking industry in particular and the economy in general. The value of the naira vis-a-vis the US Dollar had edged downwards from an average of N1 = US $1 in 1992. This has affected general price level and $1 in 1986 to about N20 purchasing power in the economy.

In the long run, this effect would have the desired advantage of enhancing operational efficiency and productivity. In the short run, it has visited hardships on business whose working capital requirement exploded by about 20 times in the period of six years. As a consequence there was, on one hand, an increased demand for credit from the banking system and, on the other hand, an unprecedented in the number of non-performing loans in banks loan portfolio.

2.0 INTEREST RATES DEREGULATION

In the spirit of the Structural Adjustment Programme (SAP), interest rates deregulation was brought on stream in 1987 by the Central Bank to allow a free market situation in the demand for credit and encourage savings generally in the economy and to stabilise the value of naira in the foreign exchange market.

The objectives of the deregulation of interest rate were specifically identified and designed to: encourage the mobilisation of financial savings and encourage more efficient utilisation of financial resources.

Mobilisation of financial saving is imperative particularly because of development in the international policies and economic scene. As an aftermath of the debt crisis of the 1980s, international funding is greatly depressed and increasing the pointer for developing countries, Nigeria inclusive, to finance investments from domestic mobilisation of savings. The problems of dwindling inflow of foreign funding would be further aggravated in the 90s by the opening up of Eastern Europe and the Soviet Union. This will put additional pressure on resources like the World Bank and the International Monetary Fund (IMF). Our emphasis on mobilising domestic saving is therefore imperative and has the potential of preparing us for much-talked about self-reliance, the principle objective of the Structural Adjustment Programme (SAP).

The high interest rate structure that emerged from the deregulation exercise has the positive effect of encouraging more efficient utilisation of financing resources. Experience has shown that low interest rates encourage excessive and conspicuous as well as unproductive of the meagre financial resources. Low interest rates also undermine savings.

This is because inflation make low interest negative in the real terms. Subsequently, however, and informed by the experience gathered so far, the policy was received in 1990 and lending rates were pegged at a maximum of 21% per annum. This was aimed at easing the high inflationary pressure and thus cool off the overheating of the economy. The new restriction proved both counter-productive and in conflict with the overall spirit of deregulation in all facets of the economy. It was therefore withdrawn in January 1992. The banking sector in response thus used the interest rate as tool in enhancing its competitiveness in operations. An era of price wars via interest rates thus sets in there are ample evidences that the deregulation of interest rates has engendered very keen competition in the banking industry, resulting in adoption of new strategies by bank to attract deposits and encourage savings.

2.1 THE PRUDENTIAL GUIDELINES

In November 1990, the Central Bank issued a circular entitled 'Prudential Guidelines for licensed Banks. The circular imposed new and far-ranging requirements in the classification of risk assets and provision for those considered to be doubtful of recovery. The Guidelines are based on nominally accepted standards prevailing in the banking industry worldwide and seek to establish this criteria as a sound and uniform system among Nigerian banks.

Hitherto, the classification of loan portfolio was primarily on the laid-down procedures of each bank by the commercial judgement of the credit control officer of the bank. The resultant provisions for doubtful debts were therefore tailored in this regard which was highly subjective. Little wonder that most advances turned bad after sometime and recoverability becomes difficult if not impossible. The provisions for bad and doubtful debts were abysmally low resulting in banks declaring what is known to be paper profits in the Nigerian banking industry.

In order to introduce some sanity to bank lending, in view of the ever-increasing bad debts provisions, the Central Bank of Nigeria directed that henceforth provisions for doubtful debts should be in compliance with the provision of the prudential guidelines. These guidelines are aimed at further strengthening the never relaxed loan monitoring and supervision by most banks.

The advent of the prudential guidelines therefore introduced a mechanical approach to the classification of loan into two broad categories:-

i. performing, and

ii. non-performing.

A credit facility is deemed to be "performing" if payments of both principal and interest are up to-date and in accordance with the agreed terms. On the other hand, a credit facility is deemed to be "non-performing" when any of the following conditions exists:-

i. interest and principal rates are due and unpaid for 90 days or more;

ii. interest payments equal to 90 days interest or more have been capitalised, rescheduled or rolled over into a new loan except for renewal, rescheduling and roll-over of non-performing credit facility without regard to payment capacity of the borrower.

A non-performing credit can be subdivided into three categories and adequate provision be made accordingly.

(a) sub-standard credit 90 days post due principal or interest and attracts 10% provision of the outstanding loan;

(b) doubtful credit (between 180-360 days principal and interest) which require a provision of 50% of the outstanding loan;

(c) lost credit (above 360 days past due principal or interest which 100% the outstanding should be provided for.

Furthermore, the circular stipulates that the practice where credit facilities are merely renewed, rescheduled or rolled-over for non-performing loans without taking into consideration repayment capacity of the borrower is wholly unacceptable.

In making provisions, the circular states, it is prudent to take cognisance of perfect tangible realisable security. Consequently, collateral values should be recognised on the following basis:-

- where principal payments has been in arrears for more than six months, the outstanding provided principal should not exceed 50% of the estimated net realisable value of the security;

- where principal payments has been in arrears for more than one year, there should be no outstanding unprovided portion irrespective of the net realisable value of the security;
- where credit facilities are secured with floating charge or by unperfected or unequitable charge, they should be treated as unserved credit and no account should be taken of the net realisable value of the security held.

The circular further cautioned the banks of the inherent risk of other risk assets, it is therefore prudent, according to the circular to make a provision of 1% for all risk assets not specifically provided for. This is regarded as general provision. Other risk assets are those assets not shown separately in the balance sheet of a bank and they include among others, suspense accounts, such as fraud and cashier shortages, uncleared effects and inter-branch items etc.

2.2 OTHER MEASURES

Other policy measures under the Structural Adjustment programme (SAP) as they affect commercial banking in the country are:-

- increasing the capital base of the commercial banks from the minimum of N30 Million to a new minimum of N50 M;
- withdrawal of government parastatal's deposits from commercial bank to the Central Bank;
- payments of interest on current accounts;

- establishment of the Nigerian Deposit Insurance Corporation (NDIC) to insure customers' deposits;
- population of foreign deposits as collateral for domestic loans.

CONCLUSION

To achieve the noble economic objectives of government, the nation need a sound monetary policy. In this respect, the two techniques of monetary control - quantitative and selective were discussed and some of the instruments of the Central Bank monetary policies such as the open market operation, discount rate system and reserve requirements are equally analysed.

The chapter also looked into some aspects of the Structural Adjustment Programme and some of the monetary policies pursued so far in the programme as they affect commercial banking in the country. The cornerstone of the Structural Adjustment Programme in this respect is the liberalisation and deregulation of the Nigerian financial system so as to make it more responsive in meeting the challenges ahead.

CHAPTER THREE

2.3 METHODOLOGY OF THE STUDY

Research methodology as the name implies described the ways and means by which a person conducting a research work can acquire the necessary data to enable him anticipate a given problem and to also offer the necessary solutions. There are many method that can be used to acquire these information. The choices of which method to use for investigating a given problem is an important consideration that any investigation must make before attempting to research into the problem.

To enable the researcher make a choice of primary, research method that is appropriate to his problem requires a thorough knowledge of the basic method of research that are generally used. Time is very important in research and so it is being used in classifying research method as follows.

2.3.1 HISTORICAL RESEARCH METHOD:

. This is conscious attempt to study past trend of events in order to state them the represent happenings for better appreciation and Maximizing the benefits thereof.

It is the interpretation of past trends of attitude, events and facts. Sources of historical research include document and relies. Documents are written information of the past while relies are generally archaeological or geological remaining such as tools and utensils.

2.3-2 **DESCRIPTIVE RESEARCH METHOD;**

It is an attempt to describe a given phenomena. It specifies the nature of the events being researched into It also gives pictures of a situation or population. Any study of a phenomena generally begins with full Understanding [description] of the phenomena. Accurate descriptions are imperative for making a wide Range of policy decisions.

Descriptive research deals with factual and accurate data relating to actual situations or events and it gives exactly how the situation is at the time of study. Because it is descriptive in mature, it uses every method of data collection.

2.3-3 **SURVEY RESEARCH METHOD**

This deals with the studies of both large and small sample of a selected population.

The aims might be o discover the relative distribution, inter relations e.t.c Swivey techniques include personal interview telephone, mail questionnaire and the panel.

[d] 2.3-4 **EXPERIMENTAL RESEARCH METHOD**

This is a method mainly to establish a relationship among variables. It is used to identifying the conditions under which such relationship exist. It is a process that provide a systematic and logical procedures for identifying and evaluating the relationships between variables that create a particular state of affairs under controlled conditions. The first thing a researcher must do toward deciding on which method of research to choose for the problem at hand is to find out area of the problem in view of the above and the topic under study which is entitled "Central Bank's Monetary Policies under the Structural Adjustment programme: An Assessment of the Impact Commercial Banking". A combination of historical descriptive methods were used in acquiring the relevant information. It is my conviction that the only way desired objective, in any organisation can be achieved is through the determination, commitment and dedication to duty.

2.4 DATA COLLECTION

To facilitate the accomplishment of this study information (both statistical and otherwise) were collected mainly from the secondary sources. The main sources were data obtained from relevant authors to serve chapter II (i.e review of literature). The authors used were accordingly acknowledged and references properly documented and also data were obtained form the following:-

(1) Central Bank's Annual report and Statement of Accounts (1990 - 1995);

(2) Central Bank's Economic and Financial review (various issues);

(3) Central bank's monthly report (various months);

(4) Bullion: A quarterly publication of Central Bank of Nigeria (Various issues);

(5) Annual reports and Statement of Account for various commercial banks 1994 - 1998;

(6) Nigerian Deposit Insurance Corporation (NDIC) Annual Reports and Statement of Accounts 1995 and 1996;

(7) NDIC Quarterly: A quarterly publications of the Nigerian Deposit Insurance Corporation (1990 and 1991 issues).

I am limited to the secondary source because of the problem I encountered in an effort to secure data through the primary source. At the Central Bank, no interview was granted and nobdoy was willing to fill any questionnaire for security reasons. The Officers said that they are holding public offices as such they cannot grant any interview without the consent of their chief executive, the Governor who is hard to reach. However, various issues of the CBN Economic and financial reviews and other relevant documents were made available for pursual.

Interview arranged with some selected commercial banks were equally not fruitful but some copies of their annual reports and statement of accounts were obtained. Tables and charts in the next pages shows a summary of the information obtained from these sources.

Growth in commercial banks and bank branches from 1991 – 1995

TABLE I:

End of year	Number of banks	Number of branches
1991	33	N.A
1992	42	1655
1993	48	1844
1994	59	1921
1995	65	2070

Source: NDIC Quarterly publication of the Nigerian Deposit Insurance Corporation, Lagos, April 1996.

Table I shows the pattern of the establishment of new commercial banks from 1991 – 1995, the number increased from 1991 to 65 in 1995 representing about 97% increase. The number of bank branches also increased from 1665 in 1992 to 2070 in 1995.

TABLE 2: COMMERCIAL BANKS STASTEMENT OF ASSETS AND LIABITIES ASSETS N MILLION

Year	1991	1992	1993	1994	1995
Cash 1	466.0	2152.0	2740.6	2976.0	11000.7
Bal. With other Bank 2	2193.2	72737	8319.1	10058.9	15172.8
Loan & Advances	17531.9	19852.3	22276.3	27453.9	41350.2
Investment 3	8714.7	10310.0	12623.7	14257.8	20554.2
Other assets	16724.6	19638.2	27564.0	27157.8	39447.2
	49828.4	**592226.2**	**65523.7**	**81904.5**	**117523.8**

Source: Central Bank of Nigeria: Economic and Financial Review December, 1996.

(1) Include vault cash and balance with Central Bank

(2) Other banks in Nigeria, offices and branches abroad, and foreign banks.

(3) Include treasury certificate, treasury bills, money at call and investment abroad.

Table 2 shows about 130% increase of loan and advances by commercial bank from 1991 to 1995.

TABLE 3: COMMERCIAL BANKS STATEMENT OF ASSETS AND LIABILITIES (N MILLION)

Year	1991	1992	1993	1994	1995
Capital account	1545.1	1932.4	2692.3	2672.3	3644.2
Bal. For other Banks I	1418.6	895.5	1129.0	1238.4	3345.8
Money at call from banks	412.6	513.1	969.5	709.6	973.1
Loans and advances	252.0	205.8	1105.6	284.6	594.4
Deposit 3	230867	29065.1	22181.3	40194.5	544516
Certificate of deposits	101.8	72.1	192.3	99.7	240.1
Other liabilities	23011.6	26542.1	32251.7	36705.4	54274.5
Total liability	49828.4	59226.1	65523.7	81904.5	117523.8

Source: Central Bank of Nigeria Economic and financial Review December 1995

(1) Include banks in Nigeria, offices and branches abroad and other banks abroad.

(2) Includes loans from Central Bank, other banks in and outside Nigeria.

(3) Includes savings demand and time deposits.

The table 3 shows that the total deposit in the commercial banking sub-sectors rose by about 136% from 1991 to 1995. This development is attributed to the highest interest rates structure that emerged from the deregulation of interest rates.

TABLE 4: RATIO OF LOANS AND ADVANCES TO DEPOSITS

	1991	1992	1993	1994	1995
January	85.9	70.5	67.2	84.4	N.A
February	85.8	69.4	68.1	82.7	"
March	88.1	70.3	65.3	82.0	"
April	86.6	70.0	64.9	79.8	"
May	86.7	67.1	65.1	80.0	"
June	87.7	67.1	75.6	80.0	"
July	88.5	69.0	81.3	N.A	"
August	86.1	70.1	82.6	"	"
September	83.2	69.4	82.6	"	"
October	81.6	71.2	82.6	"	"
November	80.9	71.2	82.6	"	"
December	75.9	66.9	81.8	"	"

Source: Central Bank of Nigeria, Economic and financial Review, December, 1995.

Table four shows that the percentage ratio of loans and advances to deposits has been at an average of 76.5% throughout the period under review.

TABLE 5: LIQUIDITY RATIOS OF COMMERCIAL BANKS (IN PERCENT)

	1991	1992	1993	1994	1995
January	31.7	54.1	64.6	62.2	58.4
February	45.4	57.5	66.6	67.5	58.9
March	39.4	53.0	65.9	60.5	57.5
April	78.6	49.7	64.1	60.5	57.7
May	58.1	51.4	64.1	59.1	54.6
June	59.3	55.9	65.4	57.8	54.6
July	53.7	50.9	54.2	57.8	54.2
August	47.4	50.9	56.4	57.8	50.0
September	47.8	47.1	52.0	57.8	59.4
October	50.8	58.7	57.2	57.8	64.2
November	55.4	94.9	56.0	57.8	64.2
December	52.1	83.5	57.2	57.8	59.3

Source: Central Bank of Nigeria, Economic and Financial Review

The liquidity ratio of commercial banks in 1993 was 64.6 and there was a decrease of the ratio in 1995 to 58.4. Also in 1992, the ratio was 83.5 and thereby 1995 the ratio was 59.3 by December. This shows 25% decrease. This was as a result of proliferation of new banks and low interest rates.

TABLE 6: SELECTED PREDOMINANT INTEREST RATES (PER CENT PER ANNUM)

	1991	1992	1993	1994	1995
Savinbgs	14.,0	12.1	12.0	17.4	14.2
Current	-	-	-	-	-
Time deposits 3 months	14.9	13.0	16.5	19.6	15.9
3-6 months	15.3	13.6	17.09	20.6	16.5
6-12 months	15.1	14.0	17.75	21.4	16.8
Over 12 months	15.8	14.3	20.0	21.4	N.A
Lending rates					
First class advances	17.4	16.6	22.0	25.6	20.1
Produce advances	19.0	17.3	20.0	25.3	20.1
Other advances	19.0	17.4	22.0	25.9	22.3

Source: Central Bank of Nigeria, Economic and financial review, December, 1995.

Table 6 shows the savings in 1994 is higher than in 1995 and also first class advances goes down from 1994 to 20.1 in 1995. This was due to the increase in the interest rate charged by the commercial banks because of deregulation.

TABLE 7: UNION BANK OF NIGERIA PLC: FIVE YEAR FINANCIAL SUMMARY

	1994 (N000)	1995 (N000)	1996 (N000)	1997 (N000)	1998 (N000)
Total Assets	8747581	9335767	10986068	10241569	13161432
Deposits	6349859	5876544	6782832	7379730	10739954
Loans and advacnes	2872215	3228879	3380226	3650211	2736617
Gross earning	711276	873728	1059418	1420778	1824177
Profit b/f tax	93513	124333	152409	127249	14437
Profit after tax	86153	80359	94800	976999	7938
Dividends	10160	12701	15876	15876	6747
Earnings per share	18k	22k	30k	31k	3k
Dividend per share	3.2k	4k	5k	5k	2k

Source: Union Bank of Nigeria Annual Report and Account 1998

Table 7 shows that Union Bank recorded a decrease in profit from 94 million in 1996 to 7 million in 1998 representing about 1243% of decrease. Consequently, earning per share dropped from 1996 to 3k in 1998 representing about 900% decrease. This developments can be attributed to the keen competition arising from the proliferation of new banks.

TABLE 8: SAVANNAH BANK OF NIGERIA PLC: FIVE YEAR FINANCIAL SUMMARY

	1994 N000	1995 N000	1996 N000	1997 N000	1998 N000
Net assets	3411816	12617295	3061295	2925299	2834881
Deposits	2331191	2522975	2913147	2761650	2671332
Loans and advances	059921	738713	804352	899073	638521
Gross earnings	117606	210465	299322	345166	567916
Profit before tax	46185	39322	38219	29185	5240
Profit after tax	28523	30679	21153	19265	3492
Dividends	6523	7984	7984	7984	4492
Earning per share	36.5k	36.6k	30.2k	26.7k	5.0k
Dividend per share	10.0k	11.0k	11.0k	10.0k	5.0k

Source: Savannah Bank, 1994/98 annual report and statement of accounts

Table 8 shows that during the period under review, Savannah Bank recorded a 383% increase in gross earning from 1994 to 1998. The increase may be as a result of the increased commercial activities in the country which demanded for more banking services and revenue accruing from exchange dealings.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

2.5 INTRODUCTION

In this chapter, attempt will be made to examine the extent of various impact of the policies on some performance indicators under the Structural Adjustment Programme (SAP). The aim is to make a comparison analysis of what is obtained before (SAP). To achieve the noble economic objectives of government, the nation needs a sound monetary policy. In this respect some of the performances indicators on commercial bank such as gross earning, profitability and earning per share, deposits, loans and advances should be analysed. By analysing the above, the impact of the monetary policies under the structural adjustment programme on the performance of commercial banks in the country from 1987 to 1998 will be understood and the analysis should be based on the data collected.

The stance of monetary policy has remained generally tight since the adoptation of (SAP) in a bid to restrict aggregate demand and curtail inflationary pressures. Despite this, there has been a conscious move toward ensuring a more market oriented banking system. The process of deregulation, therefore, culminate the adoption of indirect techniques of monetary and credit control.

The full impact of deregulation on the commercial banking sub-sector can hardly be sufficiently evaluated since most of the expected effects can only be fully apparent in the medium to long term. In a more rigorous impact analysis, some important elements such as the level and structure of interest rates, growth of the banking sector, competitiveness and efficiency of the system. The quality of banks loan portfolios and the system is integrated with the international banking system would be made. In the period under review, some position development can be observed in the industry which may be directly or indirectly attributed to the policies taken so far.

2.6 ANALYSIS OF THE IMPACT OF THE POLICIES ON SOME PERFORMANCE

2.6.1 GROWTH IN THE NUMBER OF COMMERCIAL BANK

Table One shows the pattern of the establishment of the new commercial banks from 1991 - 1995. The number increased from 33 in 1991 to 65 in 1995 representing about 97% increase the number of bank branches also increased from 1655 in 1991 to 2070 in 1995. This developments can be attributed to the open door policy of the Central Bank in the new banking licence. It is important to note that relative increase in the number of commercial banks is more than the increase in the number of bank branches. The period 1991 to 1995, for instance, records a 55% increase in the number of new banks established and a corresponding 25% increase in the number of bank branches. This is indicative of the concentration of new bank in one area which will not auger well for even development. Therefore by considering these, we can understand definitely with introduction of 'SAP' in Nigeria, it has culminated the development of a sound economic atmosphere toward improving the Nigerians' standard of living.

2.6.2 GROSS EARNING

Gross earnings in the industry records a tremendous increase during the period under review. Savannah Bank, for instance, recorded a 383% increase in gross earning from 1994 to 1998. The increase may be as a result of the increase in commercial activities in the country which demands for more banking services and revenues accruing from the foreign exchange dealings. Also the total deposit increase with about 100% may be due to high interest rate which discourage borrowing. The reason why structural adjustment programme was introduced was to have more diversified ways of income and to correct all evil of the then economic crisis.

2.6.3 PROFITABILITY AND RETURN ON INVESTMENT

Most banks record high profits at the beginning of the reforms which could not be sustained as the journey progresses. The worst hit are the older banks. Union Bank, for example, records a decrease in profits from 94 million in 1996 to 7 million in 1998 representing about 1243% decrease. Consequently, earning per share dropped in 1996 to 3k in 1998 representing about 900% decrease. This development can be attributed to the keen competition arising from the proliferation of new banks with more responsive and continuous services and the increasing provision for bad doubtful debts under the requirements of prudential guidelines. The old banks were more affected by the guidelines while the hardest hit were the commercial banks that are 10 years old or more.

2.6.4 DEPOSITS

Total deposits in the commercial banking sub-sector rose by about 136% from 1991 to 1995 in table three. This development may be attributed to the high interest rates structure that emerged from the deregulation of interest rates. The proposition of the total deposits (demand savings sequently and time) to the total liabilities is on the decrease, however, it fell from 49.1% in 1994 to 46.3% in the 1995. The reduction could be attributed to inflation which led depositors to seek other investment outlets to protect their purchasing power.

2.6.5 LOANS AND ADVANCES

Table two shows about 130% increase of loans and advances by commercial banks from 1991 to 1995. The percentage ratio of loans and advances to deposits as shown in table four has been at an average of 76.5% throughout the period under review.

2.7 CONCLUSION

The foregoing chapter analysed the impact of the monetary policies under the Structural Adjustment Programme on the performance of commercial bank in the country from 1991 to 1995. The analysis were based on the data collected in the third chapter and the policies were those reviewed in the second chapter.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

2.8 SUMMARY

The Nigerian economic crisis of the early 1980s led the federal government to introduce the structural adjustment programme (SAP) since late 1986 as a corrective measure.

The basic objective of the programme was self-reliance and sustained non-inflationary growth and maintenance of fiscal and balances of payments viability. To achieve these noble objectives, the federal government have introduced a number of policies, both fiscal and monetary. This project studied the impact of these policies on commercial banking in the country.

In the first chapter of the project, the introduction, the Nigerian financial system was briefly reviewed. The purpose and scope of the study examined, the activities of the four big foreign banks (First Bank, Union Bank, United Bank for Africa and Afribank) vis-a-vis the indigenous banks. The establishment and functions of the Central Bank and commercial banking activities in the country were equally reviewed in the first chapter.

Central Bank monetary policies both before and during the structural adjustment programme were considered in the second chapter. The techniques used in either cases are the quantitative and selective techniques and the instruments used ranges from open market operations, liquidity and reserve ratios discount rate system, exchange rate control and moral suasion, among others.

The operations of the banking activities were considered under three periods:-

1) pre-Central Bank (free banking era);
2) the establishment of Central Bank to 1998 (the legislative era); and
3) the deregulatory era (the period under the structural adjustment programme).

The deregulatory era saw the proliferation of many banks and non-bank financial institutions. The analysis shows that the number of banks that came into operation from 1980 - 1996 are more than those that existed in the past century (1894 - 1980). However, the deregulation policies are not without their negative effects on commercial banking operation in the country.

2.9 CONCLUSION AND RECOMMENDATIONS

In the final part of this presentation, I wish to outline a number of leading issues and draw some conclusion arising from lessons of experience in the design and conduct of monetary and banking policies in Nigeria in the past three decades.

The basic object(s) of monetary policies has essential the same, namely:-

- domestic price and balance of payments stability;
- fostering the growth, viability and stability of the financial sector; and

- promoting economic growth and development and enhancement of the standard of living.

However, the priorities, strategies and means have changed from time to time, depending on the economic circumstance of the country at a particular time. In this connection, it can be stated that broadly speaking we have moved from regime of liasse fair for most of the 1960s to regulation in the 1970s up to the mid-80s and deregulation since 1986 under the famous structural adjustment programme (SAP). In terms of the thrust of policy objectives, we have alternated between phases of monetary ease to those of monetary restrain and stringency.

The impact of these policies on commercial banking in the country were analysed in the fourth chapter of the project. It is however worthwhile to note some of the responses of the commercial banks to these policy measures. In this respect, the commercial banks appeared to be engaged in a "psychological war" with the monetary authorities with the banks devising indigenous way to avoid, weaken or eliminate regulatory restrain on their activities.

In particular, commercial banks tend to over-state the adverse impact of demand management measures on loanable funds and interest rate. For instance, some banks, for example have taken the Central Bank to task for stipulating a minimum liquidity ratio of 30% on one hand, and prevailing for maintaining higher actual liquidity ratio, on the other hand. To resolve this paradox, it should be explained that the 30% liquidity ratio is a prudential requirement while the stabilisation and other measures are monetary control devices intended to counteract the destabilising effect of excess liquidity pressure on the domestic price level exchange rate of the naira and other economic indicators.

It is equally imperative to state some of the problems restraining the effectiveness of the monetary policies in Nigeria as a tool of achieving objectives. The efficiency of monetary policy in Nigeria is constrained by a number of factors.

(a) absence of a well-developed money and capital markets necessary to implement the policies;

(b) policy dilemmas and conflicts in objectives and measures; and

(c) problems of predictability and control which is manifested in two important dimensions, namely;

i. quantum, that is, size of effect of policy measures and

ii. timing dimension which is characterised by lags.

Given the problems of conflicts in policy objectives and of achieving the optimal quantum size as well as the lag structure of monetary policies, how can the policies be administered so that it has the desired impact at the right time?

Briefly, the above situations calls for the prioritisation of the delicate trade-offs developing and effective tracking system and more timely and responsive measures to avoid or minimise the destabilising effects. It also calls for both moral suasion and proper use of discretion, sound judgement and pragmatism. Above all, it requires supportive and compatible fiscal policies and measures.

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APPENDIX I

LICENSED COMMERCIAL BANKS OPERATIONS IN NIGERIA AS AT DECEMBER, 1998

1. Access Bank Plc
2. African Continental Bank (ACB) Plc
3. Afribank Limited
4. African International Bank (AIB) Ltd.
5. Allied Bank of Nigeria Plc
6. All States Trust Bank Ltd.
7. Amicable Bank Ltd.
8. Bank of the North Ltd
9. Broad Bank Ltd.
10. Co-operation Bank Ltd.,
11. Co-operation Development Bank Plc
12. Co-operation and Commercial Bank (CCB) Plc
13. Chartered Bank Ltd.,
14. Commerce Bank Plc
15. Commercial Bank (Credit Lyonnaise) Ltd
16. Commercial Bank of Africa Ltd
17. Commercial Trust Bank Ltd
18. Citizens International Bank Ltd.,
19. Credit Bank (Nig) Ltd.,
20. Crystal Bank Ltd

21. Diamond Bank Ltd
22. Ecobank of Nigeria Plc
23. Eko International Bank Plc
24. Equitorial Trust Bank Ltd
25. First African Trust Bank Ltd
26. First Bank of Nigeria Plc
27. FSB International Bank Ltd
28. Gamji Bank Ltd
29. Gateway Bank ltd
30. Guaranty Trust Bank ltd
31. Gúlf Bank of Nigeria Ltd
32. Habib Nigeria Bank Ltd
33. Hallmark Band Ltd
34. Highland Bank of Nigeria Plc
35. Inland Bank Ltd
36. Intercity Bank Ltd
37. Lion Bank of Nigeria Plc
38. Lobi Bank Ltd
39. Mercantile Bank Ltd.,
40. Meridian Equity Bank
41. National Bank of Nigeria Ltd.,
42. New Nigeria Bank Plc
43. Nigeria-Arab Bank Ltd.,
44. Nigeria International Bank Ltd.,
45. Nigeria Universal Bank Ltd.,
46. North-South Bank Ltd.,

47. Oceanic Bank International Ltd
48. Orient Bank of Nigeria Ltd.,
49. Owena Bank of Nigeria Ltd.,
50. Pan African Bank Ltd.,
51. Premier Commercial Bank
52. Progress Bank of Nigeria Plc
53. Pinacle Commercial Bank
54. Republic Bank Ltd.
55. Savannah Bank of Nig. Plc
56. Societic General Bank (Nig) Ltd
57. Trade Bank for Nigeria Plc
58. Trans-International Bank Plc
59. Tropical Commercial Bank Ltd
60. Union Bank of Nigeria Plc
61. United Bank for Africa (UBA) Plc
62. United Commercial Bank Ltd
63. Universal Trust Bank Ltd
64. WEMA Bank Plc
65. Zenith International
66. Standard Trust Bank Ltd.

APPENDIX II

PROVISIONS OF THE 1998 MONETARY AND CREDIT POLICY GUIDELINES

1. OBJECTIVES OF POLICY

The following main objectives were contained in the policy guidelines released early in the year:-

i. further moderation of inflation rate, and

ii. further reduction of pressure on balance of payments and a maintenance of a stable exchange rate for the naira.

The stance of the policy remained relatively restrictive but supportive of government efforts of solving the problems of low productive capacity and output.

2. SHIFT IN POLICY

The apex financial institution, the CBN, indicated in the guidelines that there would be a shift from direct control of credit growth to the use of market oriented tools later in 1996 the change was intended to eliminate distortions and inefficiency associated with the use of credits ceilings. More importantly, the new policy will be in consonance with the general tools of deregulation. In the implementation of the indirect control policy, greater emphasis would be put on the use of instruments such as cash reserve requirements, liquidity ratio and open market operations (OMO). It was expected that necessary legislative and institutional changes, among others, would be effected before the introduction of the indirect monetary tools.

3. **CREDIT GUIDELINES**

(a) **AGGREGATE CREDIT CEILINGS**

The ceilings on commercial and merchant banks aggregate credit growth to the private sector was realised to 13.2% from 12.2% fixed for 1997. The permissible rate of credit expansion was fixed for each quarter as per the table below:-

Quarters of 1998	Non-cumulative quarterly ceiling (percent)	Cumulative quarterly ceiling (percent)
First	3.1	3.1
Second	2.2	5.3
Third	2.9	8.2
Fourth	5.0	13.2

Source: CBN, Monetary and Credit Policy Guidelines, 1998.

The above tables shows that the quarterly increase ranged from 2.2% in the second quarter to 5.0% in the fourth quarter. Small banks with total credit not exceeding N50 million as at the December 1997 (the base period) were however, allowed to attain a credit level of N50 million before any ceiling on growth was applied to them. Banks with less than N100 million (but greater than N50 million) total credit as at the base year period could expand by the stipulated growth rate or expand by 20% of their total deposit liabilities as at the base period whichever was higher. It should be noted that aggregate credit was expected to comprise bank's loans and advance, investment (including lease assets) and net inter-bank floats such as call money and certificates of deposits.

(B) **MATURITY STRUCTURE OF MERCHANT BANK'S ASSETS**

The minimum share of merchant banks credit of medium and long term tenure with maturity of not less than three years was reduced from 40% to 20%. The share of their short-term credit (maturity within 12 months) continued to be fixed at a minimum of 20% for 1998.

(C) **EQUIPMENT LEASING**

The stipulation that a maximum of 15% of total assets shall be in equipment leasing for both commercial and merchant banks was revoked for the year. Equipment leasing was to form part of the aggregate credit to the private sector as earlier indicated.

4) **RESERVE REQUIREMENTS**

(a) Cash reserve requirements (CRR) for 1998, the base for calculating cash ratio of 3% was to be maintained by both commercial and merchant banks at the end of every month.

(b) liquidity ratio: A minimum liquidity ratio of 30% was fixed for both commercial and merchant banks. All compulsory deposits in whatever form with the CBN and cash deposits to meet CRR would not be included in the calculation of the ratio.

(5) **INTEREST RATE POLICY**

According to a separate policy guideline issued by the CBN, the minimum lending rates for all banks will be fixed at 21% per annum as from January 1998. Accordingly, the minimum rate for saving deposits was fixed at 13.5%, while the minimum rediscount rate was fixed at 15.5%. It was expected that the new lending rate would apply to all new and outstanding loans while contractual rates in respect of time/term deposit were to be honoured by banks.

Other features of the interest rate policy were:-

i. interest payment on current account deposits was expected to be subject to negotiation between bank and its customers;
ii. the reducing balance method would continue to be used in calculating interest charges on loans payable in agreed instalments; and
iii. banks were to make available to the CBN the components of their cost of funds (including the direct cost) and source of such funds.

(6) **CAPITAL FUNDS ADVOCACY**

In keeping with international standards on capital advocacy as recommended by the Basle committee, the CBN no longer relate a bank's capital to total credit but to risk weighted assets. Accordingly, for 1998, banks were expected to maintain not less than 7.5% of their risk assets as capital and at least 50% of the bank's capital for the purpose should comprise paid-up capital and reserves.

(7) OTHER CREDIT POLICY GUIDELINES

i. Banks were expected to comply strictly with the new prudential guidelines issued in November 1997.

ii. the yearly sectoral allocation of bank's credit were to be maintained with a minimum of 50% for priority sectors (agriculture and manufacturing and a maximum of 50% for other sector;

iii. loans to rural branch customers were to remain at a minimum of 50% of deposits mobilised from such areas;

iv. commercial and merchant bank's loans to small-scale enterprises were to remain at a minimum of 20% of total credit outstanding and shall strictly before activities in the industrial sector;

v. the existing grace period for agricultural loans were to remain the same, ranging from one to seven years for various crops;

vi. the issuance of stabilisation securities would continue in 1998.

vii. all banks and non-banks financial institutions would continue to abide by the monetary policy circular No.23, Amendment no. 3 1992 which forbid the use of foreign guarantees/currency deposits as a collateral for naira loans;

viii. bank willing to take-up equity holding in companies were required to apply to the CBN pending relevant amendment to the banking decree of 1969;

ix. it was made mandatory for all banks to report on the activities of their subsidiaries offering financial services returns on this were supposed to come along with the first and second schedule returns of banks to CBN.