AN EVALUATION OF THE IMPACT OF CENTRAL BANK OF NIGERIA MONETARY POLICY ON THE DEVELOPMENT OF THE NIGERIAN ECONOMY

BY

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DECLARATION

I hereby declare that this project is a product of my research effort and has to the best of my knowledge never been previously presented nor accepted in any submission for the award of higher degree. All materials used, works and articles consulted have been dully acknowledge in the bibliography.

NAME OF STUDENT	SIGNATURE	DATE

CERTIFICATION

This is to certify that this project titled "An Evaluation of the Impact of Central Bank of Nigeria Monetary Policy on the Development of the Nigeria Economy „ by ADAM. Muhammad Danladi meets the regulations governing the award of the Degree of Masters of Business Administration (MBA) of Ahmadu Bello University. Zaria and it is therefore approved for its contributions to knowledge, and literacy presentation.

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DEDICATION

This project is dedicated to my family for their endurance, encouragement, understanding and sacrifices.

ACKNOWLEDGEMENT

Firstly, all praises be to Allah the most high, the compassionate, the most merciful, nourisher and sustainer of the world for sparing my life to this time and making it possible for me to attain such an enviable level of academic pursuit. May the peace and blessings of Allah (SWT) be upon his last and noble Prophet Muhammad, his household, companions and all the righteous till the Day of Judgment.

In conduct of a research work of this nature, the researcher, inevitably, becomes indebted to a number of people. It is on this premise, that I wish to generally register my profound gratitude and sincere appreciation to all those who have in one way or the other contributed towards making this research effort a success.

However, I must single out my first Supervisor and Chairman of the Supervisory Committee for special recognition. A seasoned academician, and intellectual of high repute, a person no other than Mrs. M.S. Akanet for her contribution, able academic guidance and leadership, as well as her professional advice.

I must also not forget to specially acknowledge the support and contribution (both moral and financial) of my very close associates in person of Mallam Ibrahim Alheri. May Allah (SWT) reward him accordingly. To my other friends and close associates who stood by me during the difficult trying period, I say thank you and God bless. In this regard, I specifically have in mind Mallam Sirajo Alhaji Sabo, Mallam Ibrahim Musa, Alhaji Ibrahim (Tanimu) Aliyu, Alhaji Mamuda Sallau, Alhaji Awwalu Suleiman (Mtel Abuja), Mallam Umar Faruk Musa, Usman Shaibu Ahmad, to Jist but a few and many others too numerous to be mentioned all here.

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ABSTRACT

This study tries to assess the impact of Central Bank of Nigeria (CBN) monetary policy on the development of the Nigerian economy in the period of increased deregulation of economic activities. Activities of CBN as well as its role in the promotion of economic stability and development were examined. The study looked at areas such as the monetary policy tools, Nigerian economic development, problems and prospects of monetary policy implementation in Nigeria among others. The findings of the study revealed that the CBN monetary policy impacted moderately on the development of the Nigerian economy. Recommendations have been put forward on ways of addressing the challenges facing CBN in the implementation of monetary policies and also ways of consolidating on the successes recorded by it in achieving economic stability and development.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Economic development is the back born of development in any society. Countries of the world are classified as developed, developing and under-developed based on their level of economic development.

Governments formulate laws to regulate and control the conduct of economic activities of their countries in order to provide enabling environment for economic growth and development.

In Nigeria, governments formulate policies and guidelines with a view to achieve economic growth and development. Central Bank is charged with the task of implementing the monetary policies of the government. Since its establishment in 1958, the objectives of the Central Bank of Nigeria have remained broadly the same, but the strategies for achieving these objectives have changed in consonance with the varying legal, institutional and macroeconomic environments.

Over the years, the objective of monetary policy had been the attainment of internal and external economic balance. However, emphases on techniques/instruments to achieve those objectives have changed over the years. There have been two major phases in the pursuit of monetary policy, namely, before 1986 and since - 1986. The first phase placed emphasis on direct monetary controls, while the second relies on market mechanism.

The economic environment that guided monetary policy before

1986 was characterized by the dynamics of the oil sector, the expanding role of the public sector in the economy and over dependence on the external sector. In order to maintain price stability and healthy balance of payments position, monetary management depended on the use of direct monetary instruments such as credit ceilings, selective credit control, administered interest and exchange rates, as well as the prescription of cash reserve requirements and special deposits.

The monetary control framework, which relied heavily on credit ceilings and selective credit controls, increasingly failed to achieve the set monetary targets as their implementation became less effective with time.

As a result of drastic fall in oil market internationally, economic conditions in Nigeria worsen, and this informed the introduction of Structural Adjustment Programme (SAP). It was designed to achieve fiscal balance of payments viable by altering and restructuring the production and consumption patterns of the economy, eliminating Price distortions, reducing the heavy dependence on crude oil exports and consumer goods imports, enhancing the non - oil export base and achieving sustainable growth. The main strategies of the programme were deregulation of external trade and payment arrangements, the adoption of a market-determined exchange rate for Nigeria, substantial reduction on market forces as a major determinant of economic activity. The main instrument used is the Open Market Operations (OMO). OMO is the primary indirect monetary policy instrument for promoting non-inflationary economic growth and development and other policy goals. It is the buying and selling of Treasury

securities agency obligations and bankers acceptances by the Central Bank in the financial market in order to influence the volume of liquidity and level of interest rates which ultimately will affect money supply in the economy. The adoption of a market based framework such as OMO in an economy that had been under direct control for long, required substantial improvement in the macroeconomic, legal and regulatory environment.

In order to improve macroeconomic stability, efforts were directed at the management of excess liquidity; thus a number of measures were introduced to reduce liquidity in the system. These include the reduction in the maximum ceiling on credit growth allowed for banks, the recall of the special deposits requirements against outstanding external payment arrears to CBN from banks, abolition of the use of foreign grantee/currency deposits as collaterals for Naira loans and the withdrawal of public sector deposits from banks to the CBN. Also, cash reserve requirements were increased in 1989, 1990, 1996 and 1999. Capacity utilization in the Teal sector, poor performance of major infrastructural facilities, large budget deficits, rising level of unemployment and inflation. In addition, the economy bad grave problems of dependence, reliance on a single commodity (oil), weak industrial base, low level of agricultural production, a weak private sector, high external debt overhang, inefficient public utilities, low quality of social services and an unacceptable rate of unemployment are all the undesirable conditions in the Nigerian economy.

This study focused on measures taken by Central Bank of Nigeria to salvage our economic system. Pertinent questions included: what are the monetary policies adopted by Central Bank of

Nigeria? What actions have CBN taken to enhance development in the financial sector and real sector of the economy to foster economic growth and development in Nigeria?

Answers to these questions are provided as solutions through the efforts of this research study.

1.2 STATEMENT OF THE PROBLEM

The main thrust of this study is the evaluation of the impact of CBN monetary policy on the development of the Nigerian economy. The Nigerian economy is characterized by capacity utilization in the real sector, poor performance of major inftastructural facilities, large budget deficits, rising level of unemployment and inflation. In addition, the economy had grave problems of import dependence, reliance on a single commodity (OIL), weak industrial base, low level of agricultural production, a weak private sector, high external debt overhang, inefficient public utilities, low quality of social services and an unacceptable rate of unemployment are all the undesirable conditions in the Nigerian economy.

This study focused on measures taken by Central Bank of Nigeria to salvage our economic system pertinent questions include: what are the monetary policy adopted by Nigeria (CBN)? What are the impact of these policies to the development of Nigerian economy? What actions have CBN taken to enhance development in the financial sector and real sector of the economy to foster economic growth and development in Nigeria? Answers to these questions are provided as solution through the efforts of this research study.

1.3 **OBJECTIVES OF THE STUDY**

The objective of this study is to evaluate the impact of Central Bank of Nigeria's monetary policy to the development of the Nigerian economy. This study examined the soundness of these policy measures and their impact on the public sector.

It is intended to provide better understanding and appreciation of the monetary policies, the tools used towards the achievement of these policy measures and their impact on the development of the Nigerian economy as well as solutions to the problems of implementing these monetary policies.

To achieve the above objectives, the research examined;

1. The monetary policies used from 1999 to 2004.
2. To bring out their strengths and weaknesses.

To suggest measures that would enhance improvement in our future monetary policies in Nigeria.

1.4. **SCOPE OF THE STUDY**

The study is limited in scope to the monetary policies of CBN between 1999 to 2004 and their impact on the development of the Nigerian economy.

Here the study is limited in scope to the monetary policy objectives under the following:

I. Reduction in the level of inflation.

II. Maintenance of healthy balance of payment.

III. Sustenance of growth in the economy, and

IV. Economic stability.

1.5. METHODOLOGY OF THE STUDY

The research methodology used for this study is the historical research method. Textbooks, journals, CBN publications were used in collecting data for the study.

1.6. LIMITATION OF THE STUDY

The researcher encountered some constraints in the course of gathering data and conducting the research work. Among the major constraints are;

i. Difficulty in accessing Central Bank Officials to cooperate in releasing data.
b. Time for the study was too short and financial problems were also experienced by the researcher.

But with greater enthusiasm, all these constraints were overcome, and enough data colleted which assisted in conducting the research.

1.7. JUSTIFICATION OF THE STUDY

This is an area of interest not only to policy makers but students, academicians as well as the public sector. The study is intended to guide us understand and appreciate monetary policy, the tools used towards the achievement of the policy, and to evaluate its impact in the development of the Nigerian economy, and to proffer solutions to problems of implementing monetary policy.

The study is important to policy makers, students of finances, economics, academicians, and also a guide to the public sector generally in understanding monetary policies, their implementation and their impact on economic growth and development in Nigeria.

1.8. **DEFINITION OF TERMS**

LIQUIDITY; The ability of a bank to meet its current obligations when they are due, and is normally a short term debt measures.

RESERVE REQUIREMENT; This refers to the proportion of total deposit liabilities which the commercial and merchant banks are expected to keep as cash in vaults and deposits with the Central Bank of Nigeria.

QUANTITATIVE DIRECTIVES: These are directives from the Central Bank of Nigeria to the banks and other financial institutions under its control as to the total amount of money which they may lend.

NARROW MONEY (MI)*:* An "immediately spendable money". All changeable deposits, currency and travelers cheques in the hands of the public.

BROAD MONEY *(M2):* Ml plus non - chequeable savings deposits and money market mutual funds shares.

FINANCIAL SYSTEM: The channel or conduct through which the sayings of surplus sectors (the household) flow to the deficit sectors (business organizations).

MONETARY SYSTEM: A system whose main function is the provision of adequate stock of money or currencies i.e. notes and coins for the economy.

CAPITAL ADEQUACY: The regulations imposed on the banks both national and internationally that they should have sufficient capital to support the business and services that they offer in whatsoever currency such operations takes place.

MACROECONOMIC: The branch of economics that considers the relationships between the large-scale movements of

unemployment gross national products, savings and investments, etc

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

The essence of the review of literature on the existing research work or issues concerning the evaluation of the impact of central bank of Nigeria monetary policies in the development of the Nigeria economy, is to adopt the salient features already established, it is also the aim of this study to identify and treat any important issues which have not property been applied.

This chapter examined issues relating to the central bank of Nigerian (CBN), an overview of the Nigeria's economic development. The role of central bank of Nigeria in the Nigeria economy. Other issues include policy/monetary policy, CBN Monetary policies and their impact on the Nigerian economy.

2.2 THE CENTRAL BANK OF NIGERIA (CBN)

The central bank of Nigeria (CBN) was established by the Central Bank of Nigeria act of 1958. The bank commenced business on 1st July, 1959, Oladele, O. (1988:6).

The CBN is the apex of Nigeria financial system. At its inception, the organizational structures of the CBN were understandably simple, consisting of two departments, namely, the General Managers and the secretary's departments, with appropriate divisions of functions as then perceived. As the functions and activities of the bank increased, its organizational structure grew tremendously from two departments Makurdi Mina, Owerri, Port

Harcourt, Sokoto and Yola, and four Zonal offices in Bauchi, Kano, lbadan and Enugu.

2.2.1 **OBJECTIVES**

The major objectives of the CBN also called the core mandate of the CBN remained the same since its inception and include the fallowing:

(i). Issuance of legal tender currency notes and coins in Nigeria.

(ii). Maintenance of Nigeria's external reserves to safeguard the international value of the legal tender currency.

(iii) Promotion and maintenance of monetary stability and sound and efficient financial system in Nigerian,

(iv) Acting as a banker and financial adviser to the federal Government, and

(v) Acting as lender of the last resort to bank To achieve these objectives, particularly the promotion of monetary stability and a sound financial system, the CBN undertakes certain functions and activities, details of which are discussed below.

2.2.2 **FUNCTIONS AND ACTIVITIES**

A. Currency issue and Distribution

In Nigerian, economic transactions are~ to a large extent~ cash oriented. Consequently, the bank issue function which involves distribution, safe custody of stocks and management of orders constitutes a vital part of the day- to-day management of the economy. It started by issuing the Nigerian pound in 1959, which was in circulation until January 1973 when decimalized currency, the Naira, was introduced in four major denominations 50 N1 N5 and NIO, later N20, N50, Nl00, N200 where introduced over the years with the N1000 introduced in August, 2005 in response to

the growth in economic transactions.

B. Banker To Other Banks

The bank. promotes confidence in the system through its activities as a banker to other banks within and outside Nigeria and may seek the corporation of other banks in pursuit of this objectives (CBN Decree No. 24, section 31 and 38). The purpose is for the CBN to PI'OII10te and sustain reasonable banking services for the public and to ensure a high standard of conduct and professionalism in banking activities. The CBN~ as banker to other banks, issues directives on cash reserve and liquidity ratios, prudential requirements and on other activities of banks. In 1999 cash reserve requirement was 10.0 Percent" 11.5% in 2000; 12.5 percent in 2001; 9.5% in 2oo2~ 9.5% in 9.5% 2003; and 9.5% in 2004, while liquidity ratio required of banks by the CBN was 40% 1999-2004. As a banker to other banks, the CBN also engage in:

(i) Banking Supervision and Examination

The CBN, in seeking to promote a sound financial system, been supervising and monitoring the banks over the years. The mode of supervision and monitoring is contained in the monitory policy circulars issued by the CBN yearly. Methods applied for banking supervision included off-site (through the statutory returns submitted by the banks to the CBN), and on-site (through visitations keeping, and internal control system). The banks supervisory activities involve monitoring the performance of finance companies as well as commercial and merchant banks on periodic and ad hoc basis; CBN BRIEF Series No.98108 (1998:5).

(ii) Cheque Clearing

The CBN is mandated to facilitate the clearing of cheques and

credit instruments for banks in Nigeria. The clearing arrangement is quite useful in promoting banking habit, particularly the use of demand deposit as a means of exchange. cheques cleared daily increased from about 2,500 in 1961 valued at N2 million to about 13,997,898 valued at NI0,9960,O billion, in 2004.

(iii) **Leader of Last Resort**

The CBN is the lender of last resort to the banks and discount houses under the new system of open market operations. It accommodates commercial and merchant banks in temporary need of liquidity; CBN BRIEFS 1998 SERIES, June (1998).

(C) **Banker To The Government**

The CBN as banker to the Federal Government undertakes most of the Federal Government banking business within and outside Nigerian. The bank also provides banking services to the state and local government and it may act as banker to institutions, funds or corporations set up by the federal, state and local governments.· The CBN mobilizes foods for the federal government through the issuance of short and long-term government securities. The short-term securities are mainly treasuring Bills and certificates, while the long-term debt instruments are referred to as federal government development stocks Treasury bills (90 days) were first issued in April 1960 while treasury certificates (12-24 months) were first issued in 1968.

Treasuring bills by the CBN totaled N929,1232 Million in 2002, N789,158.0 million in 2003 and N811, 945.2 million in 2004 CBN annual repent and statement of account for the year ended 31st December, 2004.

(d). **Debt Management**

The CBN manages the federal government's Domestic and services external debt on the instruction of the federal ministry of finance. The CBN is empowered to issue debts instruments and manages federal government domestic debts on tenus and conditions agreed upon by the government and the bank. Federal Government domestic dept stood at N898,254.0 Million, Nl,016,974.0 million, Nl,166,000.7 million, Nl,329,680.0 million and Nl.370,325. Million for year 2000. 2001-2002-2003 and 2004 respectively, while external public debt outstanding was (US$ million) 3~097,383.8 3, 176,291.0, 932,884.8, 4478,329.3 and 4, 890,269.6 for the years 2000, 2001, 2002, 2003 and 2004 respectively. The external debts services payments were (US$ million) 1, 716.0, 2,128.2, 1~168.5~ 1~809.3 and 1~756.9 for 2000~ 2OO1~ 2002, 2003, and 2004 respectively CBN annual report (2004: 143-4).

(e). **Promotion of Monetary Stability**

The effectiveness of any central bank in executing its functions hinges crucially on its ability to promote monetary stability. Attainment of monetary stability rests and central banks ability to evolve effective monetary policy and to implement it efficiently. The monetary policy circulars drawn yearly. Standard tools of monetary management applied by CBN include open market operations (OMO), reserve requirement (cash liquid assets, and supplementary reserves) interest rate regulation, direct and selective credit control, variable discount rate and moral suasion. Specifically., liquidly management by the central bank involves the routine to minimize fluctuations in bank's reserve balances. Periodically the CBN

determines target growth rates of money supply-which are compatible with overall policy goals.

(f). **Foreign Exchange Management**

Foreign exchange management involves the acquisition and deployment of foreign exchange resources in order to reduce destabilizing the short-term capital flows. The CBN monitors the use of scare foreign exchange resources to ensure that foreign exchange disbursement and utilization are in line with economic priorities and within the foreign exchange budget. In 2004 for instance~ the maximum amount which bureau de change could sell was US$ 2,500.00 as stipulated in the monetary policy circular of 2004.

OTHER ACTIVITIES OF CBN

a. Developmental Programmes

CBN engaged in developmental programmes. In 2004, the following developmental and corporate social responsibility programmes were executed.

i. The agricultural credit guarantee scheme Funds (ACGs), established in 1977, took off in April 1978 under management of the CBN, while a board of directors was constituted for policy making. The scheme was designed to encourage banks to increase lending to agricultural sector by providing some form of guarantee against risks inherent in agricultural lending. In case of default, the lending bank is expected to exhaust all legal means of loan recovers~ inducing realization of any security pledged for loans, before the funds pays 75 per cent of guaranteed loans in default.

II. Revision/Monitoring of the utilization of credit to

beneficiaries under the ACGSF and SMEII.

III. The small and medium industries equity investments scheme (SMIEs) and.

IV. The discounting and refinancing facility (RRF) at concessionary interest rates to provide temporary financing to deposit money banks (DMBS) that had committed their resources by way of long-term credit to the productive sectors of the economy.

b. **CORPORATE SOCIAL RESPONSIBILITY.**

i. Grants to Nigerian universities and other agencies;

ii. Economic and financial data management and dissemination to interested stake holders,

iii. Library services,

iv. Research and technical services,

v. Sponsorship of sporting activities in the country; and

vi. Collaborative studies with relevant agencies;

CBN Annual Report (2004: 6)

2.3 OVER VIEW OF NIGERIANS ECONOMIC DEVELOPMENT

Economic development according to Tadaro (1986:83) means the capacity of a national economy, whose initial economic condition has been more or less static for a longtime, to generate and sustain an annual increase in its growth national product (GNP) at rates of perhaps 5-7 per cent or more.

Nigeria's national economic development according professor Ajakaye has remained that of altering the structure of production and consumption activities so as to diversify the economic base. The strategy is to reduce its dependence on oil and imports, in a

bid to put the economy back on a path of self-sustaining, inclusive and non inflationary growth, and thereby alleviate poverty. In considering the Nigerian economic development experience, therefore, it should be instructive to examine the growth and structural cheques in certain major aspects of the economy during the year 2000-2004. He focused attention on the following aspects of the economy: -

Structure and growth of output, i.e. gross domestic product (GDP)

- Structure and growth of gross domestic income, I.e. value-added
- Structure and growth of gross domestic expenditure
- Composition of investment expenditure, exports and imports;
- Import incentives of production, consumption and investment; and
- Relationships between savings and incentives.

After he analyzed the above, he came out with the following conclusions and recommendations;

I. That Nigeria's GDP growth rate had been low, resulting in creasing unemployment and rising poverty, and the primary sector (agriculture and mining) had dominated GDP. A significantly different pattern from the projected performance during the period.

ii. Negative growth in wage incomes and consumption expenditures in both public and private sectors characterized GDP.

iii. Gross capital formation was low and exports declined resulting in low investment, low growth and increased level of poverty.

The major constraints to growth in the Nigerian economy were identified as low savings and low investment. Therefore, a major challenge of the economy remained, namely how to make savings and investment grow faster than the reported rates. High interest and exchange rates were also identified as a major

factor inviting growth in the private sector.

Recommendations included:

i. Intensifying ongoing efforts aimed at rehabilitating and expanding economic and social infrastructure vigorously implementing reform of the budgetary process and intensifying measures to ensure value for money in public sector expenditures.

ii. Insisting on maximum local resource inputs in all public works in order to guarantee their multiplier effects

iv. Encouraging indigenous private sector operators to seek strategic allowance with their foreign partners m order to Participate more effectively in the economy;

The CBN and other agencies of government should take appropriate action to bring down the prevailing high interest rates;

v. Tightening the coordination and control of foreign exchange allocation.

Akpan H. Ekpo (2003) viewed the Nigerian economy as been characterized by the following features: structural bottlenecks and market structure, economic dualism and fragmentation, an inadequate tax system, high level corruption, a high degree of external dependence, a primitive *accumulative i1J5linct, and* a *large* informal sector. He further brought same findings as empirical evidence from the Nigerian economy. These included:

1. **Real Sector**

The growth of the agricultural sector remained at 5.8% between 1990 and 1993 but declined to 3.50/0 between 1997 and 1998 and further declined to 1.80/0 during the Period 1999 \O 200\. During \\\e ~!Idd 1999-2001 , agricultural GDP showed an average

growth rate of 2.6%. He urged that the growth of this sector is disturbing, given the fact that it employs about 70% of the nation's labour force and the availability of expansive and rich arable land all over the country. He suggested that incentive package to farmers be re-examined so as to increase productivity.

The performance of the industrial sector according to Akpan, was also unsatisfactory. Between 1990 and 1992, growth in the sector stood at 2.1 %. Between 1993 and 1995, the growth was 1.3%. However, between 1999 and 200 1 growth rose to 6.1 %. He urged that the slow growth in industrial production was mirrored in the sluggish growth in the key sub-sectors. For the period 1993 to 1995, the growth of manufacturing stood at 8.4%, mining at 3.2% and electricity at 3.1%. The mining sub-sector grew by 7.4% during the period 1999 and 2001, perhaps as a result of increased activity in the solid minerals sub-sector.

Akpan, further urged that the disappointing performance of manufacturing should be taken seriously especially as manufacturing supposed to be an "engine of growth" of the economy. Manufacturing capacity utilization, which averaged 75% in the mid-1980's declined sharply to below 50% from 1983 and by 1995 it had reached a low of about 29% 1999; capacity utilization in manufacturing was about 30%, rising to about 40% in 2001. This marginal improvement, however, was not enough to contribute to increase real output in the economy.

He blamed the problem of expansion of manufacturing in Nigeria on a series of factors, such as: low effective demand for local manufacturing goods, high cost of funds and increased tariffs on

basic utilities, and poor infrastructure.

Akpan, suggested that Nigerian small-and medium-scale business be encouraged. Evidence suggests that most of them are unable to access the credit facility created by the CBN due to the strict conditions specified by the banks. Since government has done well to intervene in the provision of credit to this sub-sector, it should complete the Process by ensuring that the funds are actually disturbed by the commercial banks.

The performance of the Nigerian economy improved generally in fiscal 2000. Economic activities showed further recovery with the real gross domestic product (GDP) growth rate rising to 3.8 per cent from 2.8 per cent in 1999. in 2001; however, the performance of the Nigeria economy was mixed. The real gross domestic product (GDP) grew by 3.9 per cent compared with the target of 5.0 percent and the growth of 3.8 percent recorded in 2000. The gross domestic product in 2002 recorded a modest growth the read GDP grew by 3.3. Percent, down from 4.2 percent in 2001. The growth reflected the improved performance of all the major sub-sectors except mining, which declined. Agricultural production was given a boost by a new pragmatic agricultural policy, which assigned only promotional and supporting roles to the government, leaving actual investments in read production to the private sector. The overall performances of the economy in 2003 was mixed. Real domestic product (GDP), measured at 1990, constant basic prices, grew by 10.2 percent in 2003, compared with the 3.5 percent growth recorded in the previous year; Joseph O. Sunusi (2003).

According to Prof. Charles C.S. (2004) domestic output, measured in 1990 Prices grew by 6.1 percent, compared with 10.2 per cent in 2003. The growth in 2004 was, however, driven by the non-oil sector compared with output growth in 2003 which was oil sector driven. All sectors contributed to the growth recorded in 2004, but agriculture, construction housing, the services and mining sub-sectors, were the major drivers of growth in 2004. The performance in the agricultural sector was enhanced by sustained government support and good weather conditions.

2.4 THE ROLE OF CENTRAL BANK OF NIGERIAN (CBN) IN THE NIGERIA ECONOMY

The principal role of CBN in the Nigeria economy was spelt out in the act establishing the bank. These roles also known as the core mandate include:-

1. Issuance of legal tender currency notes and coins in Nigeria.
2. Maintenance of Nigeria external reserves to safeguard the international value of the legal tender currency
3. Promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria
4. Acting as a banker and financial adviser to the federal government and
5. Acting as lender of last resort to bank.

In addition to the core mandate of ensuring macro-economic stability, the bank also perform other development functions by supporting banks in financing agricultural and industrial production. The bank also provides services to third party which assist in economic development.

The third role above is the major role played by the CBN in the Nigerian economy that is promotion and maintenance of monetary stability and a sound and efficient system in Nigeria. The federal government through the CBN carries out its monetary policy measures aimed at maintenance of monetary stability and economic growth and development. CBN on yearly basis issue monetary policy circulars to banks and other financial institutions. The circulars contained the monetary policy measures of the government and other policies for compliance. Policy measures may very from year to year but the aim remained the same that is to maintain macro-economic stability and economic growth.

In fiscal year 1999, the objectives of the CBN monitory and financial policies were:

1. Reduction of exercise liquidity in the banking system
ii. Achievement of single digit inflation
iii. Evaluation of a market based interest and exchange rate regime.
v. Promotion of non-inflationary gro~
v. Achievement of balance of payments viability~ and
vi. Maintenance of stability in the financial sector.

To achieve the above objectives the CBN carne up with monetary targets such as growth in broad money (M2) of 10%, narrow money (M1) of 4.% etc. and policy instrument such as liquidity management, interest rate policy, surveillance of banks, payments and clearing system~ external sector policies etc. Liquidity management for instance involves the operation of open market operations (OMO) conducted wholly in Nigerian treasury bills (NTBS) as the primary instrument of policy including repurchase agreements (Repost) supplemented by. Reserve requirement, liquidity ratio etc. These are used to control the

money circulation and maintain economic stability more treasury bills are sold if the government wants to reduce money in circulation, and less sold if it wants to pump more money into the economy. The government also issue treasury bills to acquire funds for development projects.

CBN also play an important role in influencing interest rate changes through its intervention at the discount window, especially through the minimum rediscount rate (MRR). Interest rate is vital for savings and investment in Nigeria and it is the role of the CBN to ensure that they are not too low to discourage depositors and not too high to discourage barrowers.

The role of CBN in surveillance activities is vital. The specific objectives of CBN surveillance over banks and non-bank financial institutions were to: -

1. Ensure sound management
2. Maintain healthy balance sheets, and
3. Avoid abuse of standards.

Joseph 0.8 (l999)

When the above objectives are achieved the financial sector of the economy can meet their obligation of provision of enabling environment for savers and borrowers and thus availability of funds for meaningful investments and the achievement of economic growth· and development in Nigerian. To this end the CBN in 2004 came up with N25 billion minimum capitalization with full compliance by 31st December, 2005.

Another role of the CBN is the issuance of notes and coins to this end it issued over the years notes and coins (Naira and

Kobo) as legal tender currency in Nigerian since it's inception to facilitate economic activities. The currency included 1 Kobo, I Kobo 2/2 Kobo, N50 N5, N1, N20, and N100 issued in 1999 other include N200, N500 and the N1,000 note issued in August, 2005. These legal tender are vital in promoting economic activities for growth and development·

2.5 POLICY/ MONETARY POLICY

Policy is a plan of action, statement of aims and ideals especially one
made by a government, political party, business company, etc.
Policies are general statement which serves as guidelines by which objectives are to be attained.

We shall be looking at government policies for the purpose of this study. Government policies include fiscal and monetary policy. The study is concerned with the later that is monetary policy.

Stephen R. Michael (1913:605) defined monetary policy as proffered course of action by the government in its role of regulating the currency, to vary the money supply and the rate of interest. He argued that monetary policy is designed to stimulate the economy when it is lagging and to constrain it when it appears to be getting out of hand, indicated for example by unacceptable levels of inflation.

According to G.F Stalake and SJ. Grant (1996:521) monetary policy refers to the attempts to manipulate either the rate of interest or the supply of money so as to bring about desired changes in the economy. They stated that aims of monetary policy are the same

as these of economic policy generally. They are the maintenances of full employment price stability, a satisfactory rate of economic growth, and balance of payments equilibrium.

Money supply is probably the most important instrument in a economy. Greater part of the money supply consists of bank deposits and that a large part of these deposits come into being as a result of bank lending. Total spending is very much influenced by the spender's ability to borrow from banks either directly through loans or overdrafts or indirectly through credits schemes. Any attempt to control the money supply therefore must be directed at controlling the bank's ability to lend or to borrow. They fw1her argue that the willingness and ability to spend does not depend solely on the availability of bank. credit-the price of that credit is also important. Even if the banks are willing and able to provide loans, some potential borrows may not be persuaded to take up the bank loans if the rate of interest is so high that prospective profit from the use of the loan, or the satisfactions from the use of the loan, or the satisfactions spending it on consumption, are scarcely higher than its cost.

According to Campbell R. Mc Connell (1969:317) that it will come as no great surprise that the objective of monetary policy is to assist the economy in achieving a full employment, non inflationary level of total output. To achieve this goads, the process is complicated, but essentially it boils down to the following: -

i. The monetary authorities by invoking certain control techniques can influence the size of reserves and therefore the excess reserves of the commercial bank.

ii. Because excess reserves are the basis upon which commercial banks can expand the money supply by lending, any manipulations of excess reserves through the control techniques of the monetary authorities will affect the supply of money, i.e. The amounts which commercial banks will be able and willing to lend at various possible rate.

iii. Given the demand for money changes in the supply of money will affect the cost and availability of money. That is changes in the supply of money. Changes in the supply of money will affect the interest rate and the amount of credit bankers are willing to make available to barrowers

iv. Changes in the cost and availability of bank credit will in turn have an impact upon the spending decisions of society~ particularly upon investment decisions, and therefore upon the levels of output, employment income and prices.

Layi AfoLabi (1993:223) deemed monetary policy as those measures taken by the monetary authorities to control the cost, quality and direction of credit to achieve national objectives."

2.6 CENTRAL BANK OF NIGERIA (CBN) MONETARY POLICY

One of the principle functions of the central bank of Nigeria (CBN) is to formulate and execute monetary policy to promote monetary stability and a sound financial system. The CBN carries out this responsibility on behalf of the federal government through a process outlined in the CBN decree 24, 1991 and bank and other financial institutions decree 25, as amended. In formulating and executing monetary policy, the government of the CBN is required to make proposals to the president of the federal republic of Nigeria who has the power to accept or amend such proposals. Thereafter, the CBN is obliged to implement the

monetary policy approved by the president.

The CBN is also empowered by the two enabling laws to direct the banks and other financial institutions to certain duties in pursuit of the approved of the monetary policy. Usually, the monetary policy to be pursued is detailed out in the form of guidelines to all banks and other financial institutions. The guidelines are generally operated within a fiscal year but the elements could be amended in the course of the year. Penalties are normally prescribed for non-compliance with specific provisions in the guidelines.
CBN briefs (2000 series).

The guidelines also caned monetary, credit, foreign trade and exchange policy guidelines or monetary policy circular contain the objectives and policy measures of the CBN. The main objectives of monetary policy over the years had been broadly to maintain internal and external balance as wall as contribute to the achievement of sustainable output growth and poverty reduction, reduction of liquidity in the locking system sustenance of a single digit inflation rate, maintenance of exchanges rate stability, sustenance of a market based interest rate regime, promotion of non-inflationary growth, achievement of balance of payments viability and maintenances of financial sector stability.

Pursuant to the above objectives the CBN applied the following policy instruments: -
The CBN liquidity management strategy is aimed at maintaining an optimum level of liquidity consistent with the achievement of non-inflation economic growth and development. Instruments applied

by CBN during the period 1999 -2004 to manage liquidity included: -

1. OPEN MARKET OPERATION (OMO)

Open Market Operation (OMO) involves the discretionary power of the CBN to purchase or sell securities in the financial markets in order to influence the volume of liquidity and levels of interest rates which ultimately will affect the money supply. When the CBN sells financial instruments, the liquidity (excess reserves) of the banking system reduces. These restrict the capacity of banks to external credit or induce monetary expansion. On the other hand, when the CBN purchases such instruments, it injects money into the system and banks ability to expand credit is enhanced.

ii. **RESERVE REQUIREMENTS**

Reserve requirements refers to the proportion of total deposit liabilities which the commercial banks are expected to keep as cash vaults and deposits with the CBN. The can control the money stock by varying the requirement as desirable. Usually, banks keep reserves over and above the legal requirement for safety. The cash ratio requires the deposit banks to keep a certain proportion of their total deposit liabilities in cash balances with the CBN, while the liquidity ratio stipulates the proportion of total deposits to be kept in specified liquid assets mainly to safeguard the ability of the banks to meet depositors' cash withdrawals and ensures confidence in the banking system. The CBN also has powers to call for special deposits from banks for the purpose of controlling liquidity.

CBN BREFS (1999 SERIES).

Cash reserves requirements in 1999 was 8.0 and increased to 10.0 per cent in April and further to 12.0 per cent in June, 1999, while minimum liquidity radio applicable to commercial and merchant banks was increased from 30.0 to 40 per cent in June, 1999. In the year 2000 cash reserve radio (maintained only by commercial banks) was 11.5 percent in April, and further adjusted to 10.0 in August, 2000. Liquidity ratio was 35 per cent in 2000. Cash Reserve Requirement was 12.5, 9.5, 9.5 and 9.5 for the years 2001, 2002, 2003 and 2004 respectively. While liquidity ratio for 2001 to 2004 stood at 40.0 per cent CBN Annual report (1999-2004).

iii. **DISCOUNT WINDOW OPERATIONS**

Discount window operations including repurchase agreements (Repose) permits banks and discount houses to access CBN for short-term financial accommodation.

iv. **INTEREST RATE POLICY**

In line with the adoption of the market based techniques of monetary management by CBN, interest rater policies for the periods 1999 to 2002 remained deregulated and responsive to changes in market conditions. The CBN continued to influence interest rate changes through its intervention at the discount window, especially, through the minimum rediscount rate (MRR). MRR was 13.5 per cent in December 1998 and rose to 20 per cent in April 1999 and lowered to 18.0 percent in November 1999. In April, 2000 it was reviewed downward to 170 percent in April and further 16 and 14 percent in august and November, 2000 respectively. In 2001 MRR was reviewed upwards progressively in January from 14.0 to 15.5 percent and further to 16.5, 18.5 and

20.5 percent in April, June and September, respectively. As part of interest rate management and to militate the high cost of borrowing by farmers under the agricultural credit Guarantee scheme (ACGS) without distorting market expectation and undermining financial intermediation the CBN introduced the interest Drawback programme (IDP) as part of its interest rate policy in Year 2002.

Under the programme, farmers were able to borrow from lending banks at market interest rate the programme was reserve distorting market expectation and undermining financial intermediation, the CBN introduced the Interest Drawback Programme (IDP) as part of its interest rate policy in 2002. Under the programme, farmers were able to borrow from lending banks at market interest rates. The programme was designed to provide an interest rebate of 40 percent to farmers who repaid their loans on schedule. MRR was reviewed downward from 16.0 to 15.0 percent in July, 2003 and remained unchanged till the end of the year, while in 2004 MRR of 15.0 percent was retained throughout. CBN annual reports (1999-2004).

The primary role of interest rates is to help in the mobilization of financial resources and to ensure the efficient utilization of such resources in the promotion of economic growth and development; CBN Breiys (June 1997 series). It is against the background that CBN interest rate policies discussed above were based. Interest rates affect the level of consumptions on the one hand and the level and pattern of investments on the other.

c. SURVEILLANCE ACTIVITIES

As part of the monetary policy instrument used be the CBN were

the surveillance activities. The specific objectives of CBN surveillance over banks and non-bank financial institutions were to: -

i. Ensure sound management
ii. Maintain healthy balance sheets, and
iii. Avoid abuse of standards

d. EXTERNAL SECTOR POLICIES

External sector policies in 1999-2004 were formulated against the background of high import dependency under reliance on oil as the major foreign exchange earner and the heavy external debt burden, all of which contributed to the vulnerability of the economy to external shocks. Thus, policies were intended to diversify the export base through appropriate incentives to ensures external sector competitiveness and strengthen the domestic economy.

The major objectives of external sector policy for the period 1999-2004 included the maintenance of a stable exchanges rate and the achievement of balance of payment viability and the stimulation of non-oil exports in· order to steer the economy away from undue dependence on oil exports. To achieve these objectives various policy measures were adopted between 1999 to 2004.

In order to boost the supply of foreign exchange to the CBN in 1999, Government directed pedestals agencies, and companies in which it had majority share holdings to continue to maintain their foreign currency domiciliary accounts with the CBN. In addition, oil exploration and producing companies as well as oil service companies were directed to sell their foreign exchange receipt meant for their local expenses to commercial and merchant banks at the prevailing AFEM rate. Autonomous foreign exchange

market (AFEM) was adopted as the unitary exchange market was further reformed in October 1999, when the AFEM was replaced with a daily. Inter -bank foreign exchange market (IFEM) In order to enhance transparency, deepen the market and reduce speculative dealings.

CBN Annual Report (1995).

All the policy measures of 1999 were retained in fiscal 2000 and in addition the following policy measure applied.

(i). Transactions involving the use of bills for collection and open accounts were allowed, while form 'M' remained the vital document required for imports.

(ii). The maximum amount which a bureau de change could sell was US $5, 000 (five thousand dollars only) per transaction.

The policy measures for the years 2001 to 2004 remained the same with that of year 2000.

2.7 THE IMPACT OF THE CBN MONETARY POUCIES ON THE NIGERIAN ECONOMY

The objectives of monetary and financial policies of the CBN are the reduction of excess liquidity in the banking system, achievement of a single digit inflation, promotion of non-inflationary growth, achievement of balance of payments viability and maintenance of balance of payment viability and maintenance of stability in the financial sector.

To achieve the above objectives targets are set yearly and instruments of monetary policy such as open market operations, cash reserve ratio, discount windows, foreign exchange policy,

interest rate policy etc. are used to achieve these targets.

The impact of the monetary policies on the Nigerian economy during the period on focus i.e. 1999 to 2004 were mixed in 1999, overall, the tight monetary policy as well as good harvest contributed rate of 6.6 per cent, while output growth was 2.7 per cent as against the minimum target of 3.0 per cent, interest and exchange rates were generally stable, contributing to the relative macroeconomic stability achieved during the year. CBN annual reports (1999).

In order to consolidate the gains of monetary and financial policies achieved in 1999 the objectives pursued in 1999 were still maintained in the year 2000. Overall the monetary policies adopted were ineffective and did not impacted positively in the year 2000. The financial system was rapidly marked by rapid expansion in monetary aggregates, particularly during the second half of the year, influenced by the monetization of enhanced oil receipts. Consequently, growth in monetary aggregates accelerated rapidly during the year, exceeding the policy targets by wide margins. The growth in broad money (M2) during the period was entirely influenced by the sharp rise in foreign assets (net) of the banking system. M2 targeted was 14.6% while actual was 48.10% narrow money targeted was 9.8% while actual was 622%. Also growth in GDP for 2000 was targeted at 3.0 while actual was 3.8. Inflation was at the rate of 9.0% while actual was 6.90;'0. Overall, the impact of monetary policies in 2000 was mixed, with increase in the monetary aggregates in one hand and the increase in the growth of GDP above the targeted and also the fall in inflation in the other.

In 2001, monetary policy objectives remained the same with the previous year i.e. achievement of sustainable output growth and poverty reduction. The specific objectives included: reduction of excess liquidity in the banking system, sustenance of a single digit inflation rate, promotion of non-inflationary growth and achievement of balance of payments viability. The impact of monetary policy in year 2001 was negative.

The policies failed to achieve the desired results as the targeted figure were not net. Broad money (M2) targeted was 12.2% while actual was 27.0 representing expansion in money supply and that affected the rate of inflation and economic growth.

Growth in GDP targeted at 5.0% was not achieved the actual growth in GDP stood at 3.90;/0 inflation rate stood at *18.90/0* in 2001 against targeted figure of 7.0%.

The impact of monetary policy on the economy in the years 2002 was moderate: The economy recorded a mixed performance in 2002. The gross domestic product (GDP) increased by 3.3 percent relative to 4.2 percent in the previous year. Inflation decline from 18.9% in 2001 to 12.9% at the end of year 2002. CBN annual report (2002).

The impact of monetary policy in the year 2003 was negative, as the growth in monetary aggregates exceeded targets by substantial margins. The problem of persistent excess liquidity accentuated the demand pressure in the foreign exchanges

market, which led to the depreciation of the naira exchanges rate. Growth in monetary aggregates was excessive relative to the prescribed target for 2003, due largely to the impact of the expansionary fiscal operations of the federal and state governments. While the growth in broad money supply (M2) was 24.1 per cent representing 9.1 per cent points above the programmed target of 15.0 per cent. Narrow Money (M1) grew by 15.7 per cent points above the prescribed target of 13.8 per cent the growth in broad money was due largely to an increase in aggregate banking system credit to domestic economic to an increase in aggregate banking system credit to domestic economy, e3specially net credit to government and foreign assets (net) of the banking system.

The impact of monetary policy on the economy in 2004 was positive. For the first time in more than a decade, the growth rates of major monetary aggregates were below the prescribed targets. This was due largely to the effectiveness of monetary policy, complemented by the fiscal discipline of the federal government. The broad measures of money supply (M2) grew 14. per cent representing 1.0 Per cent point below the prescribed target of 10. per cent. Similarly narrow money (M1) grew by 8.6 Percent which was 2.2 percent points below the percent prescribed target of 10.8 percent.

CBN annual report (2004).

2.8 **SUMMARY**

In this chapter, the write-ups by different authors relating to CBN and monetary policy and its impacts on the development of the economy were highlighted. Areas discussed include CBN historical

beginning, its objectives and functions, overview of Nigeria's economic development, the role of central bank of Nigeria in the Nigeria economy others include central bank of Nigeria monetary policies and instruments used to achieve these policies such as open market operations (OMO) cash reserve requirements, discount windows operations, interest rate policy and so on. Also examined is the impact of the CBN monetary policies on the Nigeria economy.

CHAPTER THREE

3.0 HISTORICAL BACKGROUND OF CENTRAL BANK OF NIGERIA

3.1. INTRODUCTION

At the apex of any financial system is the Central Bank. It derives and regulates the system on behalf of the government. This chapter tries to look at the historical background of CBN. Discussions focused on among other things, historical beginning of CBN, and monetary policies of CBN in the Nigerian economy, the prospect of CBN monetary policies in the Nigerian economy and the summary of the chapter.

3.2. HISTORICAL BEGINNING OF CBN

Nigeria was one of the newly independent countries in Africa where the wave of Central Bank formulation following prospects of independent political status occurred in the 1950s. Before the establishment of the Central Bank of Nigeria in 1958, the country had banked for six years without a Central Bank. The Bank of British West Africa, now First Bank of Nigeria PIc, performed some Central Banking functions such as importation of British silver coins and their distribution in the British colonial territories.

In November 1952, the colonial administration invited J .L. Fisher, Adviser to the Bank of England to report on the desirability and practicability of establishing a Central Bank in Nigeria as an instrument for promoting the economic development of the country. His report and recommendation were published in October, 1953. In his report, Fisher discussed the principles of Central Banking as developed in England and revived the Nigerian monetary system. He concluded that it would be inadvisable to

contemplate the establishment of a Central Bank at that moment.

Fisher, therefore, recommend against the establishment of a Central Bank at that time because he believed that it would be difficult to establish a Central Bank which could operate satisfactory in such a narrow field and furthermore because he could not see how a Central Bank could function as an instrument to promote the economic development of the country. Alternatively, he recommends a three - tier system of development that involve;

i. The transfer of the West African Currency Board 1Jom London to West Africa.
ii. The establishment of a Nigerian Currency Board.
iii. The establishment of a Bank of Issue which would gradually develop into a full-fledged Central Bank.

The Report of Fisher also neglected any mention of the rapid changes in the political environment towards independence of the country and assumed what absolute dependence on London money and capital markets would continue.

Two years after the publication of Fisher's Report, the International Bank for Reconstruction and Development recognized the increasingly rapid strides toward self-government in Nigeria and argued against the unduly cautions timing suggested by Fisher. The Bank's mission therefore proposed the establishment of a State Bank of Nigeria. The mission unlike the Fisher appreciated the important role which a Central Bank could play in the organization of a developing economy in channeling available resources and in assisting to ensure economic utilization

of the country's financial resources. The mission also recommended that before the establishment of the Bank, the Nigerian authorities should seek the expert assistance of the United Kingdom Monetary Fund. Following the mission's report, Sir James Robertson, the Governor General of the Federation of Nigeria invited Sir J .B. Loynes in 1957 to advise on among others, the establishment of a federal institution to perform appropriate Central Banking functions.

In his Report, Loynes advised federal Government on various aspects of the powers of the Central Bank with special emphasis on its powers over the issue of national currency, its role as the banker to government and other banks and its responsibility to promote monetary stability. He also recommended that the Central Bank must have appropriate capital structure and sound financial position. Its assets must be first class and liquid and must include ample starting resources. It must allowed to operate independently but should be wholly owned by the federal government. Its management must be entrusted to men of experience and the other directors should be appointed in the national rather than sectional interest.

On the basis of Loyne's Report, the Central Bank of Nigeria was established after the enactment of the Central Bank of Nigeria Act 1958. The main objectives of the Bank is to issue legal tender currency in Nigeria, to maintain external reserves, to safeguard the international value of the currency, to promote monetary stability and sound financial structure in Nigeria, to act as banker and financial adviser to the federal government. The CBN initial authorized capital was N3.0million. It commenced business on 1st

July 1959. Uzoaga, Okefie W. (1981).

The objective of CBN still remains the same but the Act was amended in 1962, 1967, 1991, 1994, 1998, etc to adequately take care of the changing economic environment.

At its inception the CBN consisted of two departments, namely the General Manager's and the Secretary's Departments with appropriate divisions of labour as then perceived its organizational structure has grown tremendously from the two departments to twenty three as at the end of 2003, though reduced to seventeen following structural reform for greater efficiency and effectiveness. The head office of the Bank formerly in Lagos is now in Abuja the Federal Capital. To facilitate efficient execution of the Bank's function over Nigeria vast territory, some central banking activities are decentralized and operated through four zones - Bauchi, Enugu, Kano and Ibadan. In addition to the Zonal Offices, the CBN has. a branch network numbering twenty and also two Currency Centres in Katsina and Uyo. Not only has the CBN expanded its structure but also its operations. Apart from the objectives outlined in the 1958 Act, which are called the core mandate, the CBN had also established its mission and vision. The vision is "to be one of the world's most efficient and effective central banks in promoting and sustaining economic development"; while the mission is "to be proactive in providing a stable framework for the economic development of Nigeria through transparent implementation of monetary policy and achievement of price stability for a sound management of the financial system". Joseph O. Sunusi (1999).

To achieve the above mission and vision, CBN apart from its core

mandates, engaged in other activities which included;

i. Surveillance Activities: The design and implementation of surveillance activities of CBN over banks and non - bank financial institutions focused on ensuring sound management; maintenance of healthy balance sheets by this financial institutions and avoiding abuse of standards.

ii. Development functions through agriculture credit guarantee scheme.

iv. Services to third parties such as provision of economic and financial data, research and technical assistance, grants to Nigeria universities and other agencies, library services, collaborative studies with relevant agencies and other activities.

3.3. **OBJECTIVES OF CBN**

Section 4 of the 1958 Ordinance spelt out the principal objectives of CBN to include;

i. To issue legal tender currency in Nigeria;

ii. To maintain external reserves in order to safeguard the international value of the currency;

iii. iii. To promote monetary stability and a sound financial structure in Nigeria;

iv. To act as banker and financial adviser to the federal government; and

v. To act as banker to commercial banks; and lender of the last resort.

FUNCTIONS:

To achieve the above objectives, CBN under takes the following functions as stated in the Act. The basic functions performed by

CBN can be broadly categorized into three; namely:

i. Traditional functions
ii. Regulatory functions, and
iii. Developmental functions

TRADITIONAL FUNCTIONS:

a. It issues the legal tender (currencies) - Naira and Kobo;
b. It acts as the Bank and financial adviser to the federal government.
c. CBN act as the banker to other banks and finance institution.
   - Cheque clearing
   - Lender of last resort
d. It manages the accounts and debts of the country.
e. It acts in banking supervision and examination.

REGULATORY FUNCTIONS:

The regulatory functions of the CBN are mainly directed at the objective of promoting and maintaining the monetary and price stability in the economy. To perform this regulatory function, CBN formulates policies to control other banks and major players in the financial market, control rates of bank credits and therefore the supply of money in the economy. The instruments used by CBN to achieve these functions are:

- Open Market Operations (OMO)
- Bank Rate
- Rediscount Rate
- Direct Control of Bank Credit
- Direct Control of Bank's Liquidity
- Special Deposits
- Moral Suasion
- Minimum Cash Ratio

DEVELOPMENT FUNCTIONS:

The establishment of CBN in 1959 was premised on the need to promote and accelerate the much needed economic growth and development in Nigeria which would invariably promote the growth of the financial market. This financial market comprises of the money and capital markets, assistance to development banks and institutions of government economic policies.

The money market is the market for mobilizing short-term funds with instruments such as treasury bills, treasury certificates, commercial papers, certificate of deposit (CDS), eligible development stocks (EDS) and bankers acceptances.

The CBN plays a major role in the capital market, which deals with long - term funds by fostering its growth through the annual subvention granted to them.

The CBN also helps to promote and assist the development banks and institutions. Some of these institutions include the former Nigeria Industrial Development Bank (NIDB) for the Nigerian Bank for Commerce and Industry (NBCI), Nigerian Agricultural and Cooperative Bank (NACB). As a result of reforms and restructuring of the Development Finance Institutions (DFIS) which took place recently to enhance their effectiveness and efficiency in making the objectives for which efficiency in meeting the objectives for which they were established, NIDB, NBCI and Nigeria Economic Reconstruction Fund (NERFUND) were merged and this resulted in the establishment of Bank of Industry (BOI). In the same vein, the NACB, family Economic Advancement Programme and the Peoples Bank were merged to form the Nigerian Agricultural and

Rural Development Bank (NARDB). Aderibigbe, J.O. (2004).

Other institutions include the Nigeria Deposit Insurance Corporation (NDIC), the Nigerian Export - Import Bank (NEXIM) and the Securities and Exchange Commission (SEC).

In addition, the CBN is involved in the formulation and execution of viable economic policies and measures of the government. Also since 1970, the bank has been instrumental in the promotion of wholly owned Nigerian enterprises. Thus, the recent directive to banks to set aside 10% of their profits before tax to finance small and medium scale enterprises can be viewed in this context.

3.4. **ORGANISATIONAL STRUCTURE OF CBN**

When CBN was formed the organizational structure was understandably simple, consisting of two departments, namely, the General Manager's Department and the Secretary's Department with appropriate division of labour as then perceived. As the functions and activities of the CBN increased, it organizational structure has grown tremendously from the two departments to twenty three and one autonomous unit as at the end of2003. In the year 2004, the CBN was restructured for greater efficiency and effectiveness. In that regard, the number of departments in the CBN was reduced from 23 to 17 in 2004.

A Board of Directors whose Chairman is the Governor is responsible for the affairs and business of the Bank. The Board formulates monetary, exchange rate and other economic policy proposals for approval by the presidency. The top management of the Bank consists of the committee of Governors (The Governor

and five Deputy Governors), which undertakes the day to management of the Bank.

The Head of Departments (Directors), their deputies and assistants and other officers assist the top management. They advise the management on various aspects of central banking as well as administrative matters.

The head office of the Bank formerly in Lagos is now in Abuja the Federal Capital Territory. However, the Bank continues to maintain significant presence in Lagos, the centre of the nation's economic and commercial activities to facilitate efficient executions of the banks function over Nigeria's vast territory. Some central banking activities are decentralized and operated through four zones Bauchi, Enugu, Kano, and Ibadan. In addition to the zonal offices, there is a branch network whereby 19 states capital and Federal Capital Abuja have a CBN branch, and two state capitals Uyo and Katsina have Currency Centres.

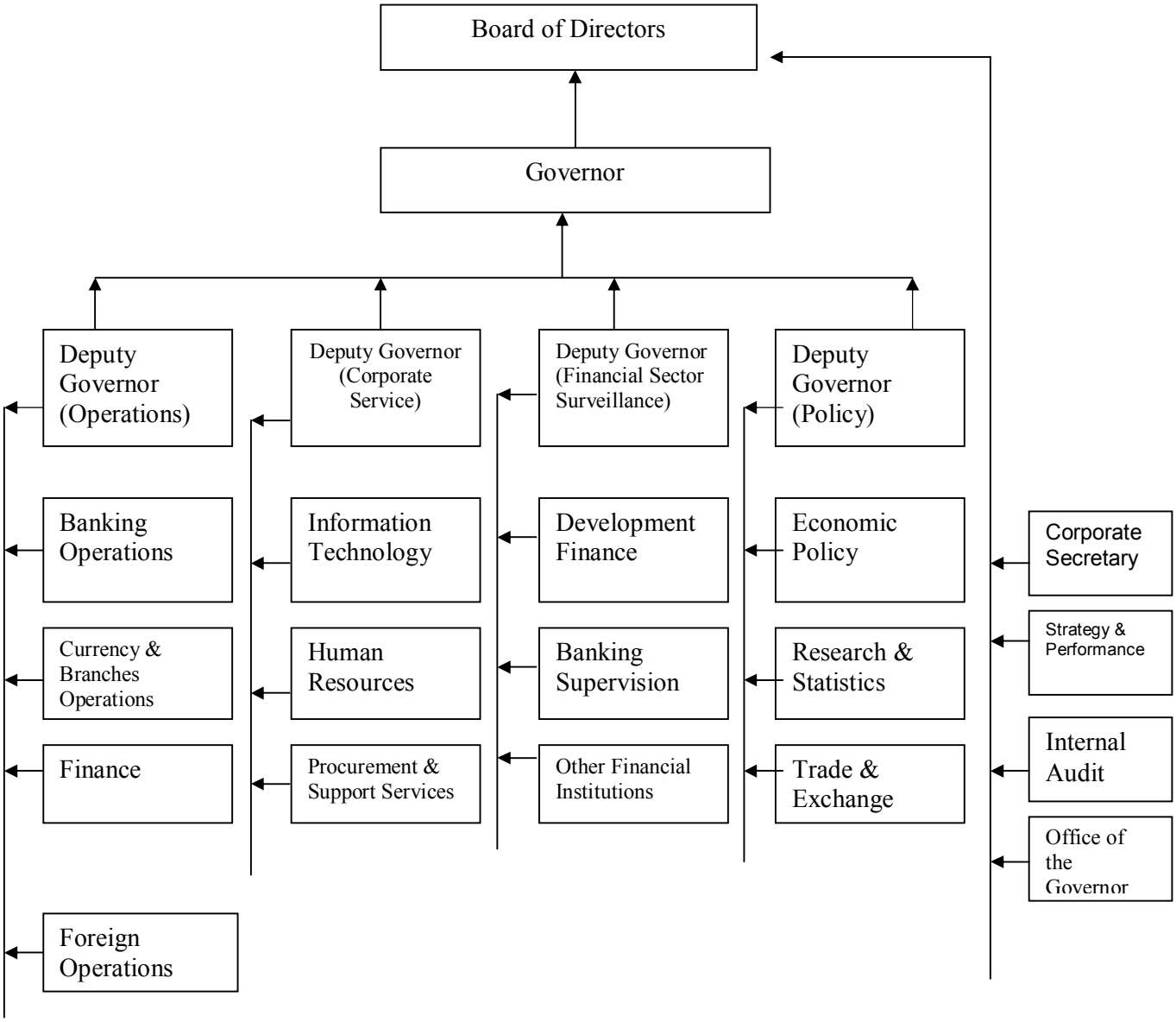
The respective head of each zone, branch and currency center is the zonal controller, branch controller and currency officer. The CBN Amendment Decree No. 3 of 1997 was repealed and replaced with CBN Amendment Decree No. 37 of 1998. Decree No. 37 of 1998 provided the flowing compensation for the CBN Board.

_ The Governor as chairman
_ The Deputy Governors and
_ The Permanent Secretary, Federal Ministry of Finance
_ 5 part - time Directors.

The CBN under Decree No. 37 is no longer answerable to the

Federal Ministry of Finance but to the President or the Head of State, and it is this structure that is still in place. Section 8(2) of Decree 37 provides that "the President may in writing, direct the CBN as to monetary and banking policy pursued and the directive shall be binding on the Board which shall forth with take all steps necessary or expedient to give effect thereto".

ORGANISATIONAL STRUCTURE OF THE CBN IN 2004



The operational activities of the departments of CBN are as follows:

i. ***BOARD OF DIRECTORS:*** The Board of Directors comprises of the Head of State and Commander - In - Chief of the Federal Republic of Nigeria, the Governor of the Bank and other Directors in the organization. They are in charge of the broad policies of the organization. Broad policies and objectives of CBN are set by the Board.

ii. ***GOVERNOR****:* The Governor of the Central Bank of Nigeria is always appointed by the President. Such appointment that has expiry date. The Governor is in charge of the whole activities in the organization, that is, the overall head of the Central Bank of Nigeria (CBN).

iii. ***D*EPUTY GOVERNOR OPERATIONS:** The Deputy Governor operations according to the chart is in charge of banking operations, finance, currency and branches operations, and foreign operations department. The activities of these departments are under the control of the Deputy Governor Operations, and the Directors of these departments work under his instructions. They also report to the Deputy Governor, and advise him on matters that affect their departments.

iv. **DEPUTY GOVERNOR CORPORATE SERVICES***:* The Deputy Governor Corporate Services according to the chart is in charge of human resource, information technology and procurement and services department. The human resource needs of CBN are determined and provided by the Human Resource Department under the control of the Deputy Governor Corporate Services. The Information Technology Department

provided the CBN with the latest technology needed for it to operate effectively and efficiently in the conduct of its activities. The activity of this department is also controlled by the Deputy Governor Corporate Services.

v. **DEPUTY GOVERNOR FINANCIAL SECTOR SURVEILLANCE***:* According to the chart, banking supervision, development finance and other financial institution departments are under the control of the Deputy Governor Financial Sector Surveillance. All activities that involve banks supervision and other related operation of the departments are directly monitored by him. The Directors advise him on matters that relate their departments for necessary action.

3.5. **OPERATIONAL ACTIVITIES OF CBN**

The operational activities of the Central Bank of Nigeria are as follows, and it is in a broader perspectives.

i. The Traditional Operation
ii. The Development Operation
iii. The Techniques of Monetary Control

The technical operation of CBN can be sub divided into three main headings:

a. The inside operation
b. The outside operation
c. The monetary policy

The first category covers the major traditional operation which a Central Bank performs outside the commercial banking system, while the outside operation covers the traditional operation within the commercial banking sector. Monetary operations are the operation which CBN performs as the chief executants in the

monetary field of the current economic policy of the government.

The classification is merely formally fiscal convenience. The Central Bank as the apex of the financial system, affects every parts of the economy. One cannot, therefore, draw any rigid line of demarcation between the banks role within and outside the banking system nor indeed between the traditional and the developmental operations.

Ia. **INSIDE OPERATIONS**: Relates to these operations which the CBN performs specifically for commercial banks. As with the outside role, these inside operation can be classified into regulatory, promotional, financial and directive operations.

Ib. **OUTSIDE OPERATIONS**: There are five aspects of the outside operations. These are banking, advisory, agency, financial and promotional operations. As a banking institution the CBN discharges its actual operations like any Central bank worldwide undertakes. It is banker to commercial banks, for which its acts as a lender of the last resort as stipulated in CBN Decree No. 24 of 1991, Section 37 and 38 does not engage in commercial banking. It is an agent of the federal government, for instance, in foreign exchange control and regulations, management of national debt and execution of monetary policy. Another important statutory operation of CBN is in acting as a financial adviser to the federal government.

Ic. **MONETARY POLICY OPERATIONS**: Although the statute charges the CBN with the responsibility of formulating and executing monetary and banking policy, those is no single

document which stipulates what may be called the CBN's monetary policy. Whatever policy there may be gleaned from the various budget speeches of the federal government, particularly those of the late Chief Festus Okotie EOOb, the late Federal Commissioner of Finance, from successive development plans, and from CBN's annual reports.

II. **DEVELOPMENT OPERATIONS:** The development operations were necessitated by the rudimentary nature of the financial system especially after independence. As the second National Development Plan put it, the absence of commercial banking system, predominantly indigenous, which would ensure an adequate and flexible capital market, dictates that the central bank cannot remain aloof in the task of expanding capital formation as demanded by the new plan.

3.6. **MONETARY POLICIES OF CBN**

Monetary policy refers to the combination of measures designed to regulate the value, supply and cost of the money in our economy, in consonance with the level of economic activities. Excess liquidity will result in excess demand for goods and services which will cause rising prices and or a deterioration of the balance of payment position, while inadequate money supply can induce stagnation in the economy and thereby retard growth and development. As such must keep money supply growing at an appropriate rate to ensure sustainable economic growth and to maintain internal and external stability. The discretionary control of money stock by the central monetary authority involves the expansion or contraction of money, influencing interest rates to make money cheaper or more expensive depending on the

economic conditions and the channeling of money to priority sectors.

AIMS OF MONETARY POLICY

i. To control inflation.
ii. Maintain a healthy balance of payments position for the country.
iii. Safeguard the external value of the national currency.
iv. Promote adequate and sustainable level of economic growth and development.

INSTRUMENTS OF MONETARY POLICY

The techniques by which the monetary authorities try to achieve the above objectives of monetary policy can be classified broadly into two categories namely the direct control and the indirect or market approach.

i. **THE DIRECT CONTROL:** The Direct Control instruments place restrictions on a particular group of institutions (especially deposit banks) by limiting their freedom to acquire assets and liabilities. Under this system, the monetary authorities use some criteria to determine monetary, credit and interest rates targets that would achieve the ultimate objectives of monetary policy. The CBN used the direct control right from its inception up to 1986 when the market-based control was introduced. Instruments used under the direct control by the CBN included quantitative ceiling on bank credit, selective credit controls and administered interest and exchange rate.
ii. **INDIRECT OR MARKET BASED CONTROL**: In a regime of indirect monetary control, only the operating variables (which

are related to the path of the intermediate variables in a predictable way) are controlled. The operating variables, particularly the monetary based or its components are managed, while the market is left to determine interest rate and credit allocation. CBN use the indirect or market based control from 1986 to date. The instruments of indirect control used by CBN included:

a. **Open Market Operations (OMO)**: OMO involve the discretionary power of the CBN to purchase or sell securities in the financial markets in order to influence the volume of liquidity and levels of interest rates which ultimately will affect the money supply. When the CBN sells financial instruments, the liquidity (excess reserves) of the banking system reduces. This restricts the capacity of banks to extend credit or induce monetary expansion. On the other hand, when the CBN purchases such instruments, it injects money into the system and banks' ability to expand credit is enhanced.
b. **Reserve Requirements**: This refers to the proportion of total deposit liabilities which the commercial banks and other financial institutions are expected to keep as cash in vaults and deposits with the CBN. The CBN can control the money stock by varying the requirement as desirable. Usually, banks keep reserves over and above the legal requirement for safety. The cash ratio requires the deposit banks to keep a certain proportion of their total deposit liabilities in cash balances with the CBN, while the liquidity ratio stipulates the proportion of total deposits to be kept in specified liquid assets mainly to safeguard the ability of the banks to meet depositors' cash withdrawals and ensure confidence in the banking system. The CBN also has powers to call for special deposits from banks for the purpose of controlling liquidity. Details of the above measures are contained in the yearly

monetary policy circulars issued by the CBN.

c. **Interest Rate Policy**: The interest rate policy adopted by the CBN during the period under study is the flexible interest rate policy which was anchored on proactive adjustment of the Minimum Rediscount Rate (MRR). The aim was to allow the market forces to determine the rate of interest that will not discourage savings or investment.

d. **Foreign Exchange System**: This is the means of payment for international transactions. It is made up of convertible currencies that are accepted for the settlement of international trade and other internal obligations. The CBN's external sector policy contained in the yearly monetary policy guidelines detailed the foreign exchange system to be adopted with the aim of stimulating non-oil exports in order to steer the economy away from undue dependence on oil exports and ensure a viable balance of payments position as well as the stability of the Naira. The operation of the Inter - Bank Foreign Exchange Market (IFEM) was introduced in October 1999 to achieve the above objectives. In addition to IFEM, Dutch Auction System (DAS) foreign exchange management was reintroduced in July, 2002 through 2003 and 2004.

3.7. MONETARY PROBLEMS OF CBN IN THE NIGERIAN ECONOMY

The problems and challenges of monetary management in the Nigerian economy cannot be over emphasized. According to Chief (Dr) J.O. Sanusi (2002), the underlying factors that militated against the effectiveness of achieving the set targets of monetary policy over time included the following:

I. **Weak Data Base for Monetary Management:** One of the

major challenges to the successful implementation of monetary management is the ability to predict with some degree of accuracy, aggregate level of money supply and likely response of economic agents to policy stimulus. This requires he argued, the use of a model capable of mirroring the relationship between the overall objectives, instruments and operating procedures and accurate data for its evaluation. The experience in Nigeria so far shows that the data base for guiding monetary management over the years has been very weak in terms of accuracy, timeliness, consistency and reliability. The attitude of economics agents, including governments, to record keeping, undermines policy design and implementation. He urged that, this is a major challenge to all stakeholders in the economy, if the economy is to be moved forward.

II. **Poor Response of the Financial System to Monetary Policy Control Measures:** According to Chief (Dr) J.O. Sanusi, the experience in Nigeria was that the control of bank reserves either through interest rates or reserve operating procedures poorly met the expectations in recent times for there major reasons. The first is associated with the structure of base money, which is the basic instrument of the CBN targets. The money multiplier theory posits that banks do expand money in multiple of reserves available to them and as such Central Bank's ability to influence these reserves can cause contraction or expansion in money supply. This is premised on the belief that reserves with deposit money banks formed a significant proportion of the monetary base. However, in Nigeria currency outside banks forms a significant proportion of base money, which suggests that actions based on the data tended to over state the money creation ability of deposit money banks. The

higher the rate at which such money finds itself outside the control of the banking system, the less effective it would imply for monetary control.

III. **The Coordination of Monetary Control Measures with Actions of the Fiscal Authorities:** CBN autonomy according to Sanusi relates to the level of freedom it enjoys in determining the course of actions for attaining the primary objectives of maintaining price stability. Prior to 1998 when instrument autonomy was granted to the CBN, monetary policy actions were often undermined by the actions of fiscal authorities. Until recently, there was excessive reliance on monetary financing of large fiscal deficits through ways and means advances from CBN, which far exceeded the statutory limit of 12.5% of expected revenue. Moreover, such loans were simply rolled over and not liquidated at the end of the fiscal year, as provided in the CBN Act. The effect of such action compromised CBN effort to contain the growth in money supply at a level consistent with the absorptive capacity of the economy. The large injections of liquidity into the economy through expansionary fiscal operations, thus, resulted in monetary growth that was substantially out of line with money demand, with adverse implications for domestic price and exchange rate stability. He added that from the inception of the present administration in 1999, the federal government has pursued prudent fiscal stance and has also had a listening ear to the CBN. However, problem still remains with the other tiers of government because of the unusual situation arising from the excess crude accounts.

IV. Domestic Monetary Implications of External Shocks or windfall Gains: Monetary management effort is often

hampered, in a rapid monetization of foreign exchange earnings through increased spending in a bid to improve public welfare. This, he argued, has the potential of causing rapid monetary expansion for above the absorptive capacity of the domestic economy, thereby leading to macroeconomic instability, and this in fact is the major problem facing monetary management in Nigeria today.

V. **Weak Domestic Economic Structure:** The Nigerian financial market, the key channel for the implementation of monetary policy, is characterized by structural dualism - the existence of a formal financial system operating side by side with relatively informal, unorganized and fragmented curb financial market. The curb financial market usually caters for the needs of the informal sector, reputed for their preference for informal credit as well as cash transactions. The larger the size of this sector, the more likely that efforts at monetary control would be less effective. Also related to the above, is the poor state of infrastructure that imposes heavy transaction costs on patrons of urban financial markets.

3.8. PROSPECTS OF CBN MONETARY POLICIES IN NIGERIAN ECONOMY

The prospect of CBN monetary policies in Nigerian economy depends on the monetary authorities' ability to address the problems and challenges discussed above and also to bring out measures to improve the effectiveness of monetary policy implementation. In order to strengthen monetary management towards stimulating economic development; the CBN is currently addressing the quality and timely data problem through the on

going restructuring exercise that involves the provision of a complete IT solution to central banking operations. This wiH go a long way to improving the implementation of monetary policies in Nigeria, thus, improving stability of prices and non-inflationary growth in future.

CBN has mounted aggressive campaigns for savings habits and promotion of the use of cheques and other near monies for transactions. This would encourage more savings, thus providing more money for investment in the private sector and thus enhance further economic growth and development. The monetary authorities would be in better position to implement the monetary policy more effectively.

The CBN sought the cooperation of the fiscal authorities to ensure continued coordination and consistency in monetary and fiscal policy pursuits. This has yielded results so far as the federal government had maintained fiscal discipline in the year 2003 and 2004. If continued the prospect of CBN monetary policies in Nigerian economy would be bright. Policy measures would be effective and thus, achieve the desired objectives.

3.9. **SUMMARY** In this chapter, the historical background of CBN was examined. The CBN Act of 1958 established the CBN, stating its objectives which include: to issue legal tender currency in Nigeria, to maintain external reserves in order to safeguard the international value of the currency, and to promote monetary stability and sound financial structure in Nigeria. The functions of CBN were also highlighted. They include the traditional functions, regulatory and development functions. The organizational structure

and the operational activities of CBN were examined. Also discussed, were the monetary policies of CBN, the problems and finally the prospects of CBN monetary policies in the Nigerian economy which the study considered to be bright given the measures taken by CBN for restructuring the organization and the provision of IT solution to central banking operations.

CHAPTER FOUR

4.0. INTRODUCTION

This chapter discussed the method of data collection techniques, it further outlined and explained the method and procedures of data collection selected and employed for this research work. It is designed in a way that the study problem is exhaustively addressed. Crucial areas such as sources of data i.e. method of data collection procedures and method of data analysis used were explained.

4.1 METHOD OF DATA COLLECTION

The method of data collection used for the purpose of this study is descriptive in nature by which secondary sources were used for generating the desired secondary. Sources for data included: textbooks, articles written in journals and magazines, and published empirical and statistical data from both government and the organized private sector.

4.2. DATA COLLECTION PROCEDURES

Data collection procedures included all the necessary step of actions that enhanced the collection of data using the method of sources stated earlier. The use of questionnaires proved difficult as the persons and organization contacted refused out rightly, arguing that information required could be conveniently sourced from publications which are readily provided. Therefore, questionnaires were not administered for the purpose of this research work.

4.3. METHOD OF DATA ANALYSIS

According to Thirkelte (1991), the analysis and interpretation of the raw data of an investigation are the means by which information as findings are generated to solving th~ research problems.

Data analysis method used in this research work is narrative description.

A narrative description is often a convenient method of including fact or data. Narrative can be used for example to describe the structure of an organization, application of department or sections carrying out a processing test, to give a picture of the forms and record used to detail the processing steps carried out.

4.4. SUMMARY OF THE CHAPTER

The chapter explains the research methodology used for the collection of data and for the purpose of analyzing the data gathered. Method of data collection was descriptive in nature by which secondary sources were used for generating the desired data. The secondary sources used included books, articles written in journals and magazines, published empirical and statistical data from government and the organized private sectors, etc. Questionnaire method was not used for the purpose of this research; only data collected from secondary sources were used. Method of data analysis used in this research is narrative descriptive.

CHAPTER FIVE

5.0. DATA PRESENTATION, ANALYSIS AND THE RESEARCH FINDINGS

5.1. INTRODUCTION

The aim of this chapter is the presentation of all the data collected in the course of this research work for analysis. The data collected was quantitative in nature through the process of complete census that is, documents, textbooks, journals, etc.

The focus of this research is the examination of the monetary policies of the Central Bank of Nigeria from 1999-2004.

5.2. CENTRAL BANK OF NIGERIA MONETARY POLICY, 1999

In 1999, the major objectives of monetary policy were stated in the Bank's Monetary Policy Circular No. 33 as follows:

- Sustenance of price and exchange rate stability;
- Stimulation of output and employment growth; and
- Strengthening of external sector viability.

Within this framework, targets were set for growth in monetary aggregates as detailed out in Table 1.1

1.1. MONETARY AND FINANCIAL POLICY STANCE

The objectives of the Bank's monetary and financial policies in 1999 were:

- Reduction of excess liquidity in the banking system;
- Achievement of a single digit inflation;
- Evolution of a market based interest and exchange rate regimes;
- Promotion of non-inflationary growth;
- Achievement of balance of payment viability; and
- Maintenance of stability in the financial sector.

Consistent with the above objectives, the monetary, credit, inflation and growth targets including the policy instruments adopted are highlighted as follows:

TABLE 1.1. **KEY POLICY TARGETS (PER CENT)**

		1998	**1999**
i	Growth in broad money (M2)	15.6	10.0
ii	Growth in narrow money (MI)	10.2	4.1
iii	Growth in aggregate bank credit	24.5	18.3
iv	Growth in bank credit (net) to government	0.0	10.2
v	Growth in bank credit to the private sector	33.9	19.9
vi	Inflation rate	9.0	9.0
vii	Growth in GDP	4.0	3.0

1.1. LIQUIDITY MANAGEMENT

The CBN liquidity management strategy was directed at maintaining an optimum level of liquidity consistent with the achievement of non-inflationary growth. Instrument applied by the Bank during the year to manage liquidity included:

- Open Market Operations (OMO) conducted wholly in Nigerian Treasury Bills (NTBs) as the primary instrument of policy, including repurchase agreements (Repos) supplemented by:
- Reserve Requirements of which;

I. Cash Reserve Requirement (maintained only by commercial banks) was increased from 8.0 to 10.0 per cent in April and further to 12.0 per cent in June, 1999;

II. Minimum Liquidity Ratio applicable to commercial and merchant banks was increased from 30.0 to 40.0 per cent in June, 1999;

- Discount Window Operations;

- Mandatory Sale of Special Treasury Bills (STBs) to banks; and
- Requirement of 200.0 per cent Treasury Bills cover for bank's foreign exchange demand at the Autonomous Foreign Exchange Market (AFEM)

1.1.2. **INTEREST RATE POLICY**

In line with the adoption of the market based technique of monetary management, interest rate policy in fiscal 1999 remained deregulated and responsive to changes in market conditions. The CBN continued to influence in interest rate changes through its intervention at the discount window, especially through then Minimum Rediscount Rate (MRR) which was raised from 13.5 per cent in December, 1998 to 20.0 per cent in April, 1999 and lowered to 18.0 per cent in November, 1999.

1.1.3 **SURVEILLANCE ACTIVITIES**

The specific objectives of CBN surveillance over bank And non - bank financial institution were to sure sound management

- Maintain healthy balance sheets; and
- Avoid abuse of standard.

1.1.4 **PAYMENT AND CLEARING SYSTEM**

The policy thrust was to enhance the efficiency and safety of the payments system. In order to achieve this objective in 1999, the bank adopted the following strategies:

(a) Issued a higher denomination currency note i.e. NIOO note,
(b) Encouraged greater use of currency sorting machine by commercial banks.
(c) Routine withdrawal of dirty notes and re issuance of new ones
(d) Supported the automation of the clearing system. And

(e) Encouraged the introduction of credit cards; smart; cards; etc.

1.2 EXTERNAL SECTOR POLICIES

External sector policies in 1999 were formulated against the background of high import dependence, undue reliance on oil as the major foreign exchange earner and the heavy external debt burden, all of which contributed to the venerability of the economy to external shocks. Thus, policies were intended to diversify the export base through appropriate incentives to ensure external sector competitiveness and strengthen the domestic economy. In order to boost the supply of foreign exchange to the CBN, government directed parastatals, agencies and companies in which it had majority share holdings to continue to maintain their foreign currency domiciliary accounts with the CBN. In addition, oil exploration and producing companies as well as oil service companies were directed to sell their foreign exchange receipts meant for their local expenses to commercial and merchant bank at the prevailing AFEM rate. In the drive to simplify import procedures and foreign exchange transactions, and reduce destabilizing speculation, the mandatory verification of documents in respect of invisible trade and bills for collection transaction by the CBN before funds could be released was continued. Also the destination inspection scheme on September 1st 1999, owing to perceived lapses in its operations.

To ameliorate supply shortages in AFEM through improved non-oil exports and consequently enhance external sector competitiveness, existing export incentives were replace with a negotiable duty credit certificate NDCC scheme as an alternative to the payment of cash and incentive to promote non-oil exports.

The NDCC could be used to settle import duty payment due to government by the beneficiary of the certificate. Furthermore, the foreign exchange embargo hitherto placed on exporters who failed to repatriate their export proceeds was replaced with a fine of 25.0 per cent of the Free On Board (FOB) valued of the transactions.

In order to stabilize the exchange rate through orderly development of the foreign exchange market, bureau de changes were granted concession to buy and sell traveler's cheques against their previous status as authorized buyers only. In addition, the official exchange rate which was subsidized and which encouraged round tripping of foreign exchange to the parallel market with the attendant speculative bubble's, was abolished and the AFEM rate adopted as the unitary exchange rate. The foreign exchange market was further reformed in October 1999, when the AFEM was replaced with a daily inter bank foreign exchange market (IFEM) in order to enhance transparency, deepen the market and reduce speculative dealings.

1.3 OTHER DEVELOPMENTAL FUNCTIONS

The bank performed several development functions the objective of which was to ensure the accessibility and availability of credit to the small and medium scale enterprises, as well as various categories of farmers. The policy strategy included:

- Credit guarantee on agricultural loans; and
- Monitoring the utilization of credit facility under both schemes.

1.4 SERVICES TO THIRD PARTICES

In addition to its core mandate, the CBN, as in the past rendered

other services to third parties. The services included, inter alia;

- Economic and financial data management and dissemination,
- Research and technical assistance;
- Grants to universities and government agencies;
- Library services and
- Collaborative studies with relevant agencies.

5.3 CENTRAL BANK OF NIGERIA MONETARY POLICY 2000

The major objectives of monetary policy during the year were outlined in the bank's monitory policy circular No. 34. Specifically, the monetary and credit policy measures in 2000 were aimed at maintaining internal and external balance, including the sustenance of a single-digit inflation rate. Consistent with these objectives targets for key monetary and credit aggregates were set for the fiscal year as shown in table 1.2. Also, consistent with its support for growth and development, the bank provided guarantees for agricultural loans under the agricultural credit guarantee scheme (ACGS); supervised the administration of the small and medium enterprises loan scheme (SMEll); engaged in the collaborative research in economic and financial matter, as well as collected, complied and published monetary and financial statistics. The items in the monetary circular included the following:

1.1. MONETARY AND FINANCIAL POLICY STANCE

In order to consolidate the gains of monetary and financial policies achieved in 1999, the following objectives were pursued in 2000.

(a) Maintenance of low inflation at single digit;

KEY POLICY TARGETS

TABLE 1.2. **KEY POLICY TARGETS (PER CENT)**

		1999	**2000**
i	Growth in broad money (M2)	10.0	14.6
ii	Growth in narrow money (MI)	4.1	9.8
iii	Growth in aggregate bank credit	18.3	27.8
iv	Growth in bank credit (net) to government	10.2	37.8
v	Growth in bank credit to the private sector	19.9	21.9
vi	Inflation rate	9.0	9.0
vii	Growth in GDP	3.0	3.0

(b) Achievement of a stable exchange rate regime;

(c) Promotion of non - inflationary growth;

(d) Achievement of balance of payment viability; and

(f) Maintenance of financial sector stability.

The policy measures applied to achieve these objectives are highlighted as follows;

1.1.1 LIQUIDITY MANAGEMENT

The liquidity management measures adopted by the CBN in 2000 were aimed at containing aggregate demand at a level consistent with non-inflationary growth. The instruments applied included:

(i) Open market operations (OMO), conducted solely in Nigeria Treasury Bills (NTBs), which remained the primary instrument of monetary management during the year. This was complimented by:

(ii) Cash reserve requirement (maintained only by commercial banks) which was adjusted down ward to 11.5 per cent in April

and further to 10.0 per cent in August 2000, in order to reduce the cost of funds to banks and influence down ward revision of interest rates;

(iii) Minimum liquidity ratio, applicable to both commercial and merchant banks, was reduced from 40 to 35 per cent in April 2000 in order to ease the flow of credit to the private sector, and

(iv) Discount window operations including repurchase agreements (Repos) which permit banks and discount houses to access CBN for short term financial accommodation.

1.1.2 **INTEREST RATE POLICY**

The bank maintained flexible interest rate policy stance during the year, which was anchored on proactive adjustments of the minimum rediscount rate (MRR). Consequently, the MRR, as the nominal anchor of the bank's interest rate policy, was reviewed downward from 18 to 17 per cent in April and further to 16 and 14 per cent in August and November 2000, respectively.

1.1.3 SURVEILLANCE ACTIVITIES

The surveillance activities over banks and non-bank and non-bank financial institutions continued to focus on:

(i) Ensuring sound management

(ii) Maintaining healthy balance sheet, and

(iii) Preventing abuse of standard.

1.1.4 **PAYMENT AND CLEARING SYSTEM**

The policy thrust in regard was aimed at enhancing the efficiency of the payments system. The strategies adopted in 2000 were as follows:

(i) Issuance of a higher denomination currency, i.e. N200

note, in November 2000;

(ii) Encouragement of greater use of currency sorting madness by commercial banks;

(iii) Maintenance of clean notes policy by routine withdrawal of dirty notes and re- issue of new ones;

(iv) Support for the automation of the clearing system; and

(v) Encouragement of the introduction of electronic money (e-money)

1.2 EXTERNAL SECTOR POLICY

The major objectives of external sector policy in 2000 were to stimulate non- oil exports in order to steer the economy away to from undue-dependence on oil exports and ensure a viable balance of payments position as well as the stability of the naira. **Some** of the **specific measures adopted were as follows:**

i. (IFEM) introduced in October 1999 was further streamlined. **Oil and oil service companies were allowed to set their foreign exchange earmarked for their domestic expenses to** any bank of their choice, including the CBN at the prevailing **IFEM rate.**

ii All application for foreign exchange would be approved by banks subject to stipulated documentation requirements.

iii. Transactions involving the use of bills for collection and open allows were allowed, will form 'M' remained the vital documents required for all imports. However, these transactions were executed on private initiative and carried on government guarantee or obligations.

iv. The maximum amount which bureau de change could set remained at US$ 5,000 (Five Thousand Dollar Sonly) per **transaction.**

v. The pre-shipment inspection of goods scheme was retained in 2000. Foreign exchange purchased from the CBN at IFEM continued to be used for eligible transaction and was customer-based, effective February 2000. However, on December. 8, 2000 the transferability of IFEM funds between banks was restored to further enhance the operation of the foreign exchange market.

vi. ALL government-owned parastatals, agencies and companies were expected to maintain their foreign exchange domiciliary account with commercial banks. Also, travelers entering and leaving Nigeria were required to disclose any amount in excess ofN10,000 (Ten Thousand Naira Only) in their possession at the point of arrival or departure using forms 'TE' respectively. With effect form may 29, 2000, banks' current accounts with the CBN were debited with the sum of naira cover for foreign exchange from the CBN. Thus; authorized dealers were advised to appropriately fund their accounts with CBN. Where such accounts were to funded with NTBs; such bills should be discounted before the value date.

1.2 DEVELOPMENTAL FUNCTIONS

The CBN continued to undertake developmental functions, which were aimed at ensuring the accessibility and provision of credit to farmers, as well as small and medium scale enterprises. This was achieved through:

(i) Agricultural credit guarantee under the agricultural credit guarantee scheme fund (ACGSF);

(ii) Monitoring and utilization of credit guarantee and small and medium scale enterprises (SMEll) scheme, and

(iii) Introduction of the small-scale industry (SSI) scheme.

5.4 CENTRAL BANK OF NIGERIA MONETARY POLICY 2001 MONETARY AND FINANCIAL POLICY STANCE

The major objectives of monetary policy of CBN in 2001 were designed to maintain internal and external balance as well as contribute to the achievement of sustainable output growth and poverty reduction. The special objectives were:

(i) Reduction of excess liquidity in the banking system.
(ii) Sustenance of a single digit inflation rate
(iii) Maintenance of exchange rate stability.
(iv) Sustenance of market-based interest rate regime
(v) Promotion of non-inflationary growth
(vi) Achievement of balance of payments viability; and
(vii) Maintenance of financial sector stability.

Consistence with these objectives quantitative targets for key macroeconomic, monetary and credit aggregates for key were set for the year as follows:

Table 3

KEY MONETARY POLICY	**2000**	**2001**
Growth in broad money (M2)	14.6	12.2
Growth in narrow money (M1)	9.8	4.3
Growth in aggregate bank credit	27.8	15.8
Growth in bank credit (net) to government	37.8	2.9
Growth in bank credit to the private sector	21.9	22.8
Inflation rate	9.0	7.0

Growth in GDP	3.0	5.0

The policy measures applied to achieve the above objectives are outlined below:

1.1.1 **LIQUIDITY MANAGEMENT**

The liquidity management strategy in 2001 was geared towards maintaining an optimum level of liquidity, consistent with non-inflationary growth through the use of market-based techniques. Open Market Operation (OMO) conducted solely in Nigerian Treasury Bills (NTBS) remained the primary instrument of monetary management during the year. This was complemented by (i) a cash reserve requirement, which was reviewed upwards by 250 basis points to 12.5 per cent between February 2001; (ii) Minimum liquidity ratio, which was reviewed upwards from 35.0 to 40.0 per cent I April 2001; (Hi) Discount window operations including repurchase agreements (Repos); which allowed banks and discounts houses to access the CBN window for short term financial accommodation. The CBN certificate was issued in two tranches of 180 and 360 days tenor from February 2001 to complement the traditional instruments in addressing the persistent problem of excess liquidity in the banking system. In addition, the bank worked assiduously with the federal government to ensure that the National Savings Certificate (NSC) came on stream in 2001. However, the issuance of the NSC, a medium to long-term instrument that would promote financial savings and address the problem of excess liquidity on a more permanent basis, did not materialized during the year.

1.1.2 **INTEREST RATE POLICY**

The bank maintained a flexible interest rate policy through its

proactive adjustment of the minimum rediscounts rate (MRR) to influence the direction of interest rate changes during the year, thus, the MRR was reviewed upwards progressively in January from 14.0 to 15.5 per cent and further to 16.5, 18.5 and 20.5 per cent in April, June and September respectively.

1.1.3 SURVEILLANCE ACTIVITIES

The design and implementation of surveillance activities of the CBN over banks and non-bank financial institutions focused on:

(i) Ensuring sound management
(ii) Maintaining healthy balance sheets; and
(iii) Avoiding abuse of standards

1.1.4 PAYMENTS AND CLEARING SYSTEM

The policy thrust of the bank to enhance the efficiency of the payments system was strengthened in 2001 with the issuance of N500 bank note in April 2001 and the encouragement of wider use currency sorting machines by deposit money banks.

The efforts at maintaining clean notes by routine withdrawal of dirty notes and resistance of new ones was intensified in 2001 also, the automation of the clearing system received strong support while the use of electronic (e-money) was encourage.

1.2 EXTERNAL SECTOR POLICY GUIDELINES

The major objectives of external sector policy in 2001 were the maintenance of a stable exchange rate and the achievement of balance of payments viability. Some of the measures adapted to achieve these objectives were as follows;

(i) The Inter-Banks Foreign Exchange Market (IFEM) introduced in October 1999 was retained in 2001. The oil and oil service companies were permitted to sell the foreign

exchange meant for the domestic expenses to any bank of their choice, including the CBN.

(ii) Payments in foreign exchange for services rendered by a Nigeria company to another Nigeria company were not allowed in the IFEM. However, where the payer accepted to pay in foreign exchange, the funds were sourced from domiciliary accounts or offshore sources.

(iii) Authorized dealers were required until September 2001 to sell/purchase foreign exchange from autonomous sources, subject to margin of plus or minus 0.5 per cent of the central IFEM rate.

(iv) All payments on the basis of bills for collection were to be made within the tenor of the bills and not exceeding 180 days from the date of receipt of goods.

(v) Transactions involving the use of bills for collection and open accounts were allowed while form 'M' continued to be the main instrument for all import transaction, regardless of whether or not the item of import was exempted from inspection.

(vi) The maximum account of foreign exchange which bureau de change could sell was retained at US$5,0000 per transaction.

(vii) All goods imported in to the country, except personal effects, used motor vehicle and perishables were subject to per shipment inspection in the country of origin and issuance of an appropriation clean report inspection (CRI)

(viii) Foreign nationals were allowed to remit 100 per cent of their net income as Personal Home Remittance (PHR), subject to the usual documentation requirements.

(ix) Repatriated non-oil proceeds and other inflow were to be held in domiciliary accounts maintained with authorized dealers.

Banks were required to maintained two types of domiciliary accounts namely, export and ordinary allowed easy access to the funds subject to the existing guidelines.

(x) Exporters and other foreign exchange earners were permitted to sell their exports proceeds and other foreign currency to Authorized Dealers at the prevailing market rates. Similarly, exporters were allowed to sell their export proceeds to banks other than those in which they maintained export Domiciliary Accounts.

(xi) Payments for exports from Nigeria continued to be by means of letters of credit (LICs) or any other approved international mode to be repatriated within 90 days of the date of shipment of the goods to a stated export domiciliary account.

(xii) Efforts at enhancing non-oil receipts using incentives schemes, such as manufacture in-bond and negotiated duty credit certificates, were retained.

(xiii) Travelers entering and leaving Nigeria were required to declare any amount above NI0,000 (Ten Thousand Naira Only) in their possession at the time of arrival or departure from the country.

(xiv) All contracts entered into Nigeria were to be denominated in Naira only.

1.3 DEVELOPMENTAL FUNCTIONS

The bank supported economic growth and development by fostering accessibility and availability of credit to farmers as well as small and medium scale enterprises through:

(i) Agricultural credit guarantees under the agricultural credit guarantee scheme fund (ACGSF)

(ii) Supervision of the utilization of credit facilities under the ACGSF and loan recovery under the SMEII; and

(iii) The facilitation of the small and medium industries equity investment scheme (SMIEIS).

5.5 CENTRAL BANK OF NIGERIA: MONETARY POLICY, 2002&2003

In 2002, the CBN adopted a medium term perspectives monetary policy framework, covering 2002 - 2003, in recognition of the fact that monetary policy actions affect the ultimate objectives of policy with a substantial lag. The shift was to minimize the problem of time inconsistency and over-reaction due to temporary shocks.

5.5.1 CENTRAL BANK OF NIGERIA: MONETARY POLICY, 2002

The Central Bank of Nigeria (CBN) in 2002 pursued its principal objectives of maintaining price and exchange rate stability, in line with a stable macroeconomic environment. In addition, the bank performed developmental functions, including adoption of programme for the development of small and medium enterprises, and promotion of food security through facilitation of the financing of agriculture. It also rendered services to third parties as part of its corporate social responsibility and undertook collaborative research studies with other agencies.

1.1 MONETARY AND FINANCIAL POLICY STANCE

The primary aim of monetary policy in 2002 was to achieve price and exchange rate stability.

In pursuit of these objectives, various policy measures were

outlined in the CBN monetary policy circular No. 36 for fiscal 200212003. Specifically, the policy measures were designed to maintained internal and external balance and contribute to the achievement of real GDP growth of 5.0 per cent. The main policy thrust were: the reduction of excess liquidity in the banking system, achievement of single digit inflation, maintenance of exchange rate stability, sustenance of a market -based interest rate regime, promotion of non-inflationary growth, achievement of balance of payments viability, and maintenance of financial sector stability. In line with these objectives, targets for key monetary and credit aggregates were set for the year as shown in table 4, compared with 2001, measures were applied to achieve the specific objectives and policy targets as describe below.

Table 4

KEY MONETARY POLICY	**2001**	**2002**
Growth in broad money (M2)	12.2	15.3
Growth in narrow money (M1)	4.3	12.4
Growth in aggregate bank credit	15.8	57.9
Growth in bank credit (net) to government	2.6	96.6
Growth in bank credit to the private sector	22.8	34.9
Inflation rate	7.0	9.3
Growth in GDP	5.0	5.0

The monetary policy measures applied in 2002 to achieve these objectives and targets included:

1.1.1 **LIQUIDITY MANAGEMENT**

In line with the specific objectives of maintaining monetary stability, the banks strategy for liquidity management in 2002 continued to focus on the use of market-based techniques. Thus, open market operations (OMO), conducted mainly in Nigeria treasury bills (NTB), remained the primary instrument of monetary management during the year. This was complemented by cash reserve requirement (CRR) and discount window operations. The specified CRR was adjusted down words from 12.5 to 9.5 per cent in July for banks whose credit allocation to the real sector of the economy increased by 20.0 per cent over the level at end-June 2002. The minimum liquidity ratio was, however, maintained at 40.0 per cent. In addition, the bank continued to collaborate with the federal government towards the issuance of a medium, to long-term security and national savings certificate (NSC), designed to promote financial savings and address the problem of excess liquidity in the banking system on a more permanent basis. During the year, the outstanding certificates issued in 2001 were repaid as they matured.

1.1.2 INTEREST RATE POLICY

The bank maintained a market-based interest rate regime in 2002 whereby it productively adjusted the minimum rediscounts rate (MRR) to influence the direction of interest rate movement in line with monetary conditions. Specifically, the MRR was adjusted downwards twice during the year in response to favorable macroeconomic development, especially the downward movement in domestic price level, as well as the need to boost private sector investment and overall output growth. As part of interest rate management and to mitigate the high cost of borrowing by farmers under the ACGS, without distorting market expectations and undermining financial intermediation, the introduced the interest drawback programme (IDP) as post of its interest rate policy in year 2002. Under the programme, farmers were able to borrow from lending banks at market interest rates. The programme was designed to provide an interest rebate of 40 per cent to farmers who repaid their loans on schedule. The sum of N2.0 billion was approved as seed fund for the programme.

1.1.3 FINANCIAL SECTOR SURVEILLANCE

In line with the objectives of maintaining financial sector soundness, corporate the banks surveillance activities focused on ensuring sound corporate governance, maintaining healthy balances sheets; and avoiding abuse of standards. In furtherance· of these objectives the bank designed a number of policy actions to addresses some of the lapses observed in the operations of the deposit money banks, including the suspension of foreign exchange dealership license, the introduction of a contingency plan for distress resolution, and the initiation of a private sector

funded "lifeboat" inter-bank lending scheme.

1.14 PAYMENTS AND CLEARING SYSTEM POLICY

The banks sustained its policy thrust of enhancing the efficiency of the national policy on payments system articulated satisfactorily during the year. The banks commitment to maintaining a clean notes policy also received a boost with the commissioning of the Nigerian security printing and mining company (NSPMC) factory in Abuja, and as the intefication of the production of mint notes, as well as the acquisition of bank notes sorting and destruction machines of enhance capacity for currency processing.

1.2 EXTERNAL SECTOR POLICY

The major objective of external sector policy in 2002 were the maintenance of stable exchange rate and the achievement of balance of payments viability, in this regard, the inter-bank foreign exchange market (IFEM) was further deregulated in 2002 to give bureau de change operation access to IFEM funds. In addition, the Dutch Auction System (DAS) of foreign exchange management was re- introduced in July 2002. Some other measures adopted to achieve these objectives were as follows: -

(i) Holders of ordinary domiciliary accounts continued to have unfitted access to funds in the non-oil export domiciliary accounts were permitted for eligible transactions. Furthermore, inward money transfers become repayable in the currency of remittance.

(ii) All oil and oil service companies were allowed to continue to sell their foreign exchange brought into the country to meet their local expenses to any bank of their choice, including the CBN.

(iii) Current account transactions involving the use of bills for allocation remained permissible provided relevant documents were passed through authorized dealers. Transactions executed on private sector initiative were to carry no government guarantee or obligations.

(iv) The maximum amount of foreign exchange which bureau de change could sell was retained at US $ 5,000 per transaction.

(v) Procurement of foreign exchange for business travel allowance (BTA) and personal travel allowance (PTA) remained the maximum of US$2,500 per quarter for BT A and US$2,000 twice a year for PT A for beneficiaries above 12 years old. For travels to countries in the ECOW AS sub region, BTA and PTA were issued in ECOWAS traveler's cheque.

(vi) The maximum life span of an approved form 'M' for importation of machinery, plant and equipment was retained at 540 days.

1.3 OTHER POLICY OBJECTIVES

Consistent with the policy of promoting non-inflationary growth in 2002, the bank supported schemes designed to enhance accessibility and availability of credit to farmers, as well as small and medium scale enterprises, through the:

(i) Agricultural credit guarantee under the agricultural credit guarantee scheme fund (ACGSF);

(ii) Supervision of the utilization of credit facilities under the ACGS and SMEll;

(iii) Promotion of the small and medium industries equity investment scheme (SMIEIS); and

(iv) The rediscounting and refinancing facility (RRF) at a concessionary interest rate.

5.5.2 CENTRAL OF NIGERIA MONETARY POLICY IN 2003

As earlier stated above, the CBN adopted a medium perspective monetary policy framework. The programmes were designed for two-year period, January 2002 to December 2003. The policy measures outlined in the monetary policy circular No. 36 for fiscal 200212003 are discussed in 5.5.1 above. These policies applied in 2003, and the targets set to achieve the objectives of the policies are contained in table 5 below.

Table 5

KEY MONETARY POLICY	**2002**	**2003**
Growth in broad money (M2)	15.3	15.0
Growth in narrow money (M1)	12.4	13.8
Growth in aggregate bank credit	57.9	25.7
Growth in bank credit (net) to government	96.6	150.3
Growth in bank credit to the private sector	34.9	32.3
Inflation rate	9.3	9.0
Growth in GDP	5.0	5.0

5.6 CENTRAL BANK OF NIGERIA~ MONETARY POLICY, 2004

The central bank of Nigeria (CBN) in 2004 pursued its primary objective of maintaining price and macroeconomic stability, which is consistent with the broad targets under the national economic empowerment and development strategy (NEEDS). Consistent with these objectives, monetary policy was anchored on monetary targeting and the mopping up of excess liquidity, aimed at ensuring a non-inflationary macro-economic environment.

1.1 MONETARY AND FINANCIAL POLICY STANCE

The focus of CBN monetary policy remained unchanged in 2004. The targeting of monetary aggregates and retail Dutch Auction System (DAS) were sustained as in previous years. The CBN, as a member of the economic management team of the federal government, participated in the drafting of the national economic empowerment and development strategy (NEEDS) document in 2004. The document sets out the medium-term macro economic framework of the Nigerian economy. Under NEEDS programme, monetary and growth targets, which were consistent with the objective of price stability and sustainable growth, were stipulated (Table 6) sustainable effort was made at the micro level to compliment the core mandate of the CBN which was aimed at growing the economy and reducing poverty. In this regard the CBN encouraged the promotion of the small and medium scale enterprises, through the instrumentality of small and medium industries equity investment scheme (SMIEIS) and the agricultural credit guarantee scheme (ACGS).

Specifically, the framework which would allow the participation of community banks (CBS) in addition to the deposit money banks (DMBs) in the ACGS, was completed, while a baseline study which would provide a comprehensive data base for small and medium industries (SMIs), investors and financiers, also reached the completion stage.

Table 6

KEY MONETARY POLICY	**2003**	**2004**
Growth in broad money (M2)	15.0	15.0
Growth in narrow money (M1)	13.8	10.8
Growth in aggregate bank credit	25.7	24.5
Growth in bank credit (net) to government	150.3	29.9
Growth in bank credit to the private sector	32.3	30.0
Inflation rate	9.0	10.0
Growth in GDP	5.0	5.0

1.1.1 LIQUIDITY MANAGEMENT

Consistent with its monetary targeting framework, the CBN focused on liquidity management to achieve the objective of maintaining price and macroeconomic stability. The primary instrument for liquidity management was the open market operations (OMO), which was conducted daily using short-term government securities varying tenors. The OMO was complemented by cash-reserve requirements (CRR) and discount window operations, including repurchase agreements (Repos), with discount houses playing the role of principal dealers in the

market. Also, the subsisting minimum liquidity ration of 40.0 per cent for all banks was retained.

The CBN reviewed and fine-turned the framework for the issuance of the national savings certificate (NSC). The certificate is intended to promote and encourage a savings culture, especially among the low-income groups and, ultimately, to help address the problem of liquidity surfeit in the banking system on a more sustainable basis.

1.1.2 INTEREST RATE POLICY

The minimum rediscount rate (MRR), represents the nominal anchor rate in the money market, and was retained at 15.0 per cent in 2004. Overall, the objective was to maintain an interest rate regime which was positive in real terms, as well as reduce the spread between deposit and lending rates. The interest draw back proramme (IDP) which was introduced in 2002 to mitigate the high cost of borrowing by farmers under the ACGS without undermining financial intermediation, was sustained in 2004.

1.1.3 FINANCIAL SECTOR SURVEILLANCE

To address the perennial problem of systematic distress in the banking industry, the required minimum capital adequacy ratio for banks was raised from 8.0 per cent to 10.0 percent with effect from January 2004. However, the ratio of 6.0 percent was retained for discount houses. Similarly, the CBN rolled out a 13-point reform agenda, which is aimed at recapitalizing and consolidating the banking industry for efficient service delivery. The 13-point reform agenda included: -

1. Requirement that the minimum capitalization for banks should be

N25 billion with full compliance by December 31, 2005.

2. The phased withdrawal of public funds sector from banks, started in July 2004.
3. The consolidation of bank institution through mergers and acquisitions.
4. The adoption of a risk-focused, and rule-based regulatory framework.
5. The adoption of zero tolerance in the regulatory framework especially in the area of data information rendition/reporting.
6. The automation process for the rendition of returns by banks and other financial institutions through the enhanced financial analysis and surveillance system (e-FASS);
7. The establishment of a hotline, confidential internet address (govemor@cenbank.org) for all those wishing to share any confidential information with the governor of the central bank on of any bank or financial system.
8. The strict enforcement of the contingency planning framework for systematic banking distress.
9. The establishment of an assets management company as an important element of distress resolution.
10. The promotion of the enforcement of dormant laws, especially those relating to the issuance of dud cheques, and the low relating to the vicarious of the board members of banks in case of failing by the bank.
11. The revision and updating of relevant laws, and the drafting of new ones relating to the effective operations of the banking system..
12. Closer collaboration with the economic and financial crimes commission (EFCC), in the establishment of the financial intelligence unit (FIU) and the enforcement of the anti-money

laundering and other economic crime measure, and.

13. The rehabilitation and effective management of the Nigerian security printing and mining (NSPM) Plc to meet the security printing needs of Nigeria, including the banking system which constitutes over 90 per cent of the NSPM's business.

Furthermore, the policy of a dual cash reserve requirement (CRR), meant to act as an incentives for banks to lend to the real sector, was abolished while a single rate of 9.5 per cent was adopted for all banks. This was aimed at ensuring sound and healthy balance sheets for banks.

1.1.4 **PAYMENTS AND CLEARING SYSTEM**

Policy in recognition of its pivotal rate in the financial system, the architecture of the payments system was further strengthened in 2004. To this end, a new clearing and settlement arrangement, comprising seven settlement banks, became operational in April 2004. Also, the CBN embarked on a policy of cheque standardization during the year.

Consequently, the magnetic ink character recognition (MICR) technical committee initiated action towards the implementation of a cheque printing accreditation scheme the development of the real time gross settlement (RTGS) system and the GLOBUS banking application progressed.

The major objectives of external sector policy in 2004 were the maintenance of a stable exchange rate regime and the achievement of balance of payments viability. Following the relative stability achieved in the foreign exchange market in 2003, the retail

Dutch auction system (DAS) was retained as the main mechanism for foreign exchange management and exchange rate determination in 2004. Some other measures adopted to facilitate international trade transactions included:

(i) The bill of lading/Airway bill/waybill required for imports to Nigerians was classified as either "shipped on board or "clean on board to be issued by the master of the carrying vessel or his agent, or the carrier or his agent.

(ii) Authorized dealers were required to ensure that documentation on transactions, including documents forwarded to the CBN for approvals -in-principle, were authenticated and certified as genuine.

(iii) Authorized dealers were permitted to deal in autonomous funds in their own right, subject to compliance with the advised open position limits. However, they were not allowed to purchase autonomous funds including inter-bank funds, in the market on behalf of a customer without a duly documented underlying transaction from the customer; and

(iv) The maximum amount which bureau de-change could sell was US$ 2,500.

5.7 NIGERIAN ECONOMIC POLICY OF 1999 – 2004

The Nigerian economic policy, 1999 - 2004 aimed at solving the problems of the Nigerian economy which included declining capacity utilization. In the real sector, poor performance of major infrastructura facilities, large budget deficit rising level of unemployment and inflation. In addition, the economy had grave problems of import dependence, reliance in a single commodity (OIL), weak industrial base, low level of agricultural production, a weak private sector, high external debt

overhang, efficient public utilities, low quality of social services and an unacceptable rate of unemployment.

OBJECTIVES

The objectives of the Nigerian economic policy 1999-2004 included:

(I) Revive and grow Nigerians comatose economy
(II) Significantly raise the standard of living of the people
(III) Put Nigerians back to gainful work and create employment opportunities.
(IV) Re-position the economy to participate beneficially in the global economy.
(V) Make Nigeria the bulb of the African economy.

INSTRUMENTS

To achieve the above objectives, the government used the following instruments:

(I) Stabilized market - responsive exchange rate (within narrow band and with sufficient predictability).
(II) Reduced interest rate
(III) Reduced total tax burden to a maximum 30 per cent of corporate and personal incomes.
(IV) Low customs tariff; especially for production inputs.
(V) Shift in government expenditure structure in power of productive, economic ad social sector.
(VI) Ensuring steady and adequate fuel supply
(VII) Rehabilitation and reconstruction of infrastructure, such as electricity, roads, water supply, and so forth.
(VIII) Enhanced incomes for workers, particularly in the public sector.
(IX) Significant poverty reduction

(X) Special focus education and human capital development

(XI) High priority to agriculture, manufacturing, small/medium enterprises and the informal sector.

(XII) Institutional rationalization of government.

(XIII) Privatization

(XIV) Cooperation with the National Assembly

(XV) Generous incentives for local and foreign direct investment.

(XVI) Reduction of Nigeria's external debt burden through negotiation.

(XVII) Promotion of the deepening and increased efficiency of the financial system; and

(XVIII) Operation of cooperative federation to ensure inter-tier policy consistency and effectiveness.

SUMMARY OF TARGETS

With vigorous implementation of the policies and programmes which have been described, it was expected that by the following targets would have been achieved at the end of 2004 compared with the year 1999 position.

	Targets 2004	1999 position
GDP Growth Rate	100/0	2.4%
Inflation	Single digit	13%
Gainfully employed labour force (both formal and informal)	70%	50%
Population access to safe	60%	40%

water		
Household access to electricity	60%	34%
Functional telephone lines per 1000 persons	30%	4%
Population of school age children in school	90%	50%
Population literacy level	80%	57%
Nutrition level (daily Calorie)	2500	2120
Other basic human needs (level of satisfaction)	Medium/high	Low/medium
Reduction in child malnutrition	20% of total population of children	46% of total population of children
Infant mortality	50 per 100 births	78 per 100 births
Maternal mortality	400 per 100,000 births	800 per 100,000 births
Promotion of women's	Recognition and	Invisible
Participation informal sector and food processing and subsistence agriculture	inclusion in the national accounting system of the economy	

MACRO-ECONOMIC POLICIES

Pursuant to the above objectives and targets, the government pursued a regime of macro-economic and sartorial policies as follows: -

(i) Monetary policy that focused on price and exchange rate stability, and healthy balance of payments.

(ii) Government pursued a low interest rate regime aimed at supporting the real sector of the economy.

(Hi) Government pursued policies aimed at bringing the rate of inflation to a single digit in the medium term.

(iv) The exchange rate of the Naira were stabilized and made market responsive through the Inter-Bank Foreign Exchange Market (IFEM).

(v) Fiscal policy was designed to increase the level of government revenues and to promote overall economic development. In this regard, priority sectors like oil and Gas, solid minerals and agriculture received increased fiscal incentives. However, government curtailed borrowing through CBN's ways and means. Advances to a maximum of 12.5% of estimated current revenue, while additional loans were to be sourced through the financial market without crowding out the private sector.

(vi) Government relied basically on good faith collective bargaining for the determination of incomes in both the public and private sectors.

POVERTY EDUCATION PROGRAMME

The strategy employed was to empower Nigerians in both rural and urban areas to become more economically productive, with a view to improving their quality of life. To avoid the mistakes of the past, projects and measures implemented were people-oriented. The people concerned, as stakeholders, were fully involved in the projects. The programme was aimed at the improvement of infrastructure in urban and rural areas, with government taking the leadership in mobilizing the necessary resources. The programme aimed at improving in the supply of water, energy, basic educational facilities (both under the Universal Basic Education)

(UBE) scheme and Mass Adult Literacy Programmes). Basic health facilities roads and transportation projects were embarked upon on a nationwide basis. Poverty reduction fund was also established.

In view of the foregoing a number of federal ministries institutions were entrusted with the mandate for the primary effort to eradicate poverty in Nigeria.

These are:

(i) Federal ministry of education took charge of universal basic education (UBE).

(ii) Federal ministry of health charged with the primary health care programmes.

(iii) Other ministries and relevant agencies were in charge of employment generation, development of rural infrastructure and economic empowerment.

Five-year target was set as follows: -

(i) Populations literacy rate in the country to increase from 1999 level of 570% to 80% at the end of year 2004.

(ii) Access to primary health care to increase from 1999 level of 40% to 70% in the year 2004.

(iii) Immunization of children was to increase from 40% in 1999 to 60% by the year 2004.

(iv) Access input and maternal mortality was to be reduced by 50% by 2004.

(v) Access to electricity in rural areas to increase from 34% in 1999 to 60% by the year 2004.

(vi) Training and settlement of at least 50% of tertiary graduates

estimated at about 130,000 per annum.

(vii) Improved rural transportation through construction of more rural feeder roads, stock routes and jetters.

(viii) Development and nation-wide distribution of simple process and machines for agriculture and small scale industries; and

(ix) Development and provision of soft funds and management services for small and medium scale industries to enhance employment and value added to economy.

SECTORAL POLICIES

Government implemented Sectoral and structural policy measures geared towards attaining short, medium and long-term goals of improved economic growth, complementarily, external sector competitiveness and poverty reduction. Emphasis was given to the following areas: -

AGRICULTURE

Agriculture was given the highest priority both for poverty reduction in the rural areas, and for the improvement of the economy generally, government embarked on massive expansion of agricultural extension services and tried to ensure better and easier delivery of credits to farmers. The government also embarked on a massive campaign, with appropriate policies designed to achieve self-sufficiency and extended export volumes in crops such as rice, maize, sorghum, ginger, groundnuts, cocoa, coffee etc. as well as self-sufficiency in industrial crops such as Soya beans, palm produce, rubber and cotton. Government also encouraged the involvement of non-governmental organizations in all these measures.

HEALTH

The policy in the health sector was to reduce by more than half of mortality and maternal mortality rates, and increase in general life expectancy of Nigerians by the provision of high quality health care services which are accessible and affordable to all. Priority was given to rehabilitation of facilities in the existing hospitals and secondary health care delivery programme, completion of on-going university teaching hospital project, provision of counterpart funding for donor funded projects/programmes which were at one time or the other fluided through external loans; establishment of federal medical centers in the new states; and the continued phased prosecution of the development of the permanent sites of the five hospitals on stream.

SCIENCE AND TECHNOLOGY

Emphasis was placed on achieving break through with regards to some key projects such as on-going research and development supports for health care, and for honey husbandry, up grading traditional technology to small-scale level and patenting such technologies for adoption in the informal sectors and subsistence and wealth generation. Other areas of emphasis included acquisition and commercialization of research and development results; research into enhance agricultural productivity. The federal ministries of science and technology (FMST) and defense collaborated in war gaming to enhance the status of the national war collage.

EMPLOYMENT

To promote the goal of full employment and address the critical concern of youth employment, government continued to support

the activities of the national directorate of employment (NDE) and micro credit institutions, while concerted effort were made to encourage and promote self employment.

EDUCATION AND HUMAN CAPITAL DEVELOPMENT

Government aimed at providing affordable quality education for all Nigerians. The UBE and mass adult literacy programmes was pursued in earnest. Government also encouraged private provision of educational facilities at all levels. Considerable resources were committed to rehabilitating and improving secondary and tertiary educational institutions. Government pursued other areas of human capital development through increased emphasis on industrial apprenticeship schemes and entrepreneurship training. Government also developed a database of Nigerian human capital stock, which included skilled non-resident Nigerians, especially those in Europe and North America.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

It was the policy of government to create incentives to expand access to information and communications technology which were to facilitate leap-frogging in order to short- circuit the longer span of development government encouraged local production of ICT equipment and materials (computers, telephones, TV s, etc.). Government also encouraged the development of payment systems which facilitated the growth of electronic commerce.

INFRASTRUCTURE

The government made available resources for the refurbishment and improvement of the facilities and management of Nigeria telecommunications PLC (NITEL), mobile telecommunications

PLC and national electric power authority (NEPA). Government pursed the privatization of these government enterprises. The privatization exercise was intended to be accomplished within the period of the plan, but uptill now it is still on. The privatization was intended to foster the achievement of greater effectiveness and efficiency. The government planned to encourage competition these sectors by creating the enabling environment to attract massive private investments in order to meet projected additional requirements of a rapidly expanding economy.

TRANSPORT

Government encouraged private investments in roads railways and air transportation. Government intended to sustain the deregulation in domestic air services. Furthermore, government planned to encourage private sector participation in the construction and management of highways, railways and seaports.

OIL AND GAS

Government planned to ensure adequate budget provision to cover its share of costs of agreed production quotes. Government intended to take every measure to improve the workings of the joint venture technical committees to ensure that there is equity in the apportionment of contributions between the two sides government introduced policies and incentives to ensure that local content of oil and gas activities reaches 40% by the year 2004. Government also introduced policies, created conductive environment to make the communities in the oil producing areas effective and more involved stakeholders in the exploitation of oil and gas resources.

MANUFACTURING

Government policy an manufacturing was to move the country away from export of primary commodities to the export of processed and manufactured products. All necessary incentives and encouragement was given for the development of agro-allied industries. Government also promoted the establishment of new manufacturing industries to export plastic household goods and toys, textiles and garments, furniture etc. government also reviewed existing tariffs and took measures to encourage infant industries, exploiting fully the delays allowed in applying the new world trade organization (WTO) regulations in developing countries. Government also reviewed uncompleted important projects in the capital sector, e.g. iron and steel plants, pulp and paper plants, the aluminum smelter, the purpose being to complete them where viable, and expand them where designable.

SOLID MINERALS

Government policy on solid minerals included: the creation of a regime of internationally competitive incentives to attract private capital for the accelerated development of the country's vast endowments in solid minerals. It provided the resources necessary to enable the national mining corporation carry out proving studies to establish the commerciality of many important deposits of solid minerals.

ATTRACTING FINANCIAL RESOURCES FOR DEVELOPMENT

In view of the envisaged accelerated growth and development of the economy, government policy was the creation of the necessary enabling environment to attract large annual in flaws of f()reign direct investment. In this regard, government policy included the

ensuring of:

i. Policy consistency and stability
ii. Removal of all bureaucratic bottlenecks
iii. Improvement in security of persons and property
iv. The conclusion of bilateral and multi-lateral agreements on protection of investments and intellectual property.
v. Sanctity of contracts
vi. Re-orientation of the bureaucracy into a friendly welcoming facilitator of investments and business.

5.8 THE IMPACT OF THE MONETARY POLICIES ON THE NIGERIAN ECONOMY FROM 1999 - 2004

The impact of the monetary policy implementation went off track during the period on focus largely because of the unexpected large fiscal deficit of the federal government arising from its determination to prosecute successfully the political transitions. This and the rapid implementation of the policy transfer public sector deposit with the CBN to the banks resulted in excessive growth of domestic liquidity and corresponding pressures in the economy. The CBN had, once again resorted to the use of direct monetary policy instrument, notably, the monetary issuance of special treasury bill (STBS) to banks and the requirement that banks should provide 200 percent treasury bills cover for their foreign exchange demand at the autonomous foreign exchange market (AFEM), in addition to providing the initial cash banking increase in the minimum rediscount rate, cash reserve ratio and minimum liquidity ratio were effected, but were not adequate to stem the growth of domestic liquidity. The graded increase in the world price of crude oil coupled with visible discipline in the fiscal operations to the federal government helped to maintain macro

economic stability, not withstanding the list of the direct monetary policy instruments by the central bank of Nigeria.

Overall, economic performance was mixed in 1999 to 2004. The pressure in the domestic economy, induced by excessive government spending during the year 2003, cased considerably owing to the implementation of complementary fiscal monetary policy. The introduction of a new capital base for each banks of N25 billion Naira or banks that could not make up the required amount should merge with the other banks in order to remain in the financial sector, as a monetary policy measure makes banks to scout for funds from the capital market. The aim of this policy is to improve in developing the economic sector and it will be vibrant, that is, the economy. Already many banks have merged, and also some of these banks have met the requirement. This monetary policy measure would go a long way to improving the financial sector, thus, encourage savings and investment. Banks would be able to meet the borrowing needs of productive sector and this would bring about economic growth and development.

The inflation rate moderated persistently to a single digit by end of December 2001, but industrial production continues to be constrained by inftastructural adequacies and capital. Power supply was epileptic (i.e. not constant) and this resulted in the closure of many industries in Nigeria particularly in the northern part of the country. Overall the impact of the monetary policies on the minimum liquidity ratio were effected, but were not adequate to stem the growth of domestic liquidity. The graded increase in the world price of crude oil coupled with visible discipline in the fiscal

operations to the federal government helped to maintain macro economic stability, not withstanding the list of the direct monetary policy instruments by the central bank of Nigeria.

Nigerian economy was moderate, despite the monetary policy measures taken during the period on focus, excess domestic liquidity still persisted resulting to high level of inflation which affects economy growth and development.

5.9 THE FINDING OF THE STUDY

The findings presented here are direct evidence gathered from CBN annual reports and other publications.

OUTCOMES OF MONETARY, FINANCIAL AND OTHER TARGETS FOR THE year 1999 (percent)

	Target	Actual
M2	10.0	31.4
MI	4.1	19.9
Aggregate bank credit	18.3	35.5
Credit (net) to federal government	10.2	57.1
Credit to private sector	19.9	27.1
Inflation rate	9.0	6.6
Growth in GDP	3.0	2.7
Accrued to external reserves (US. million)	500.0	-1650.0
N/US $ Exchange rate (end-period)	-	98.20

Source: CBN: Annual report & statement of accounts, 1999

CREDIT DEVELOPMENT, 1999 (N MILLION)

Aggregate credit	658,926.6
Credit (net) to federal government of which	210,347.9

Central bank	48,868.1
Commercial banks	148,154.5
Merchant banks	13,325.3
Credit to private sector of which	448,578.7
Central bank	46,650.0
Commercial banks	352,670.2
Merchant banks	49,257.7

Source: CBN: Annual report & statement of accounts, 1999

OUTCOMES OF MONETARY, FINANCIAL AND OTHER TARGETS In the year 2000 (per cent)

	Target	Actual
M2	14.6	48.1
Ml	9.8	62.2
Aggregate bank credit	27.8	-23.1
Credit (net) to federal government	37.8	-162.3
Credit to private sector	21.9	30.9
Inflation rate	9.0	6.9
Growth in GDP	3.0	3.
Accrued to external reserves (US. million)	500.0	4,460.4
N/& exchange rate (end-period)	-	110.05

Source: CBN: Annual report & statement of accounts, 31st Dec.2000

CREDIT DEVELOPMENT, 2000 (N MILLION)

Aggregate credit	485,798.7
Credit (net) to federal government of which	(110.202.8)
Central bank	(329,216.2)
Commercial banks	204,302.3
Merchant banks	14,711.1

Credit to private sector of which	596,00 1.5
Central bank	8,001.6
Commercial banks	527,948.5
Merchant banks	60,051.4

Source: CBN: Annual Report and statement of accounts for the year ended 31st December 2000.

OUTCOMES OF MONETARY, FINANCIAL AND OTHER TARGETS, 2001 (in per cent unless otherwise stated)

	Target	Actual
M2	12.2	27.0
MI	4.3	28.1
Aggregate bank credit	15.8	75.8
Credit (net) to federal government	2.6	79.7
Credit to private sector	22.8	43.5
Inflation rate	7.0	18.9
Growth in GDP	5.0	3.9
Accrued to external reserves (US$ million)	5000.0	545.4
NIS exchange rate (end-period)	-	113.5

Source: CBN: Annual report & statement of accounts for the year ended 31st December, 2001.

CREDIT DEVELOPMENT, 2001 (N MILLION)

Aggregate credit	829,790.9
Credit (net) to federal government of which	(25,208.5)
Central bank	(178,982.3)
DMBs	153,773.8
Credit to private sector of which	854,999.4
Central bank	10,513.4
DMBs	844,486.2

Source: CBN: Annual report & statement of accounts for the year ended 31st December 2001.

OUTCOMES OF MONETARY, FINANCIAL AND OTHER TARGETS, 2002 (in per cent unless otherwise stated)

	Target	Actual
M2	15.3	21.5
Ml	12.4	15.9
Aggregate bank credit	7.9	56.6
Credit (net) to federal government	96.6	6320.6
Credit to private sector	34.9	11.8
Inflation rate	9.3	12.9
Growth in GDP	5.0	3.3
Accretion to external reserves (USS million)	300	(2,428.9)
Exchange Rate W$ (end-period)	-	126.9

Source: CBN: Annual Report and statement of accounts for the year ended 31st December 2002.

CREDIT DEVELOPMENT, 2002 (N MILLION)

Aggregate credit	1,329,401.3
Credit (net) to federal government of which	373,639.2

Central bank	(-41,246.8)
DMBs	414,886.0
Credit to private sector of which	955,762.1
Central bank	7,298.0
DMBs	948,464.1

Source: CBN: Annual Report and statement of accounts for the year ended 31st December 2002.

OUTCOMES OF MONETARY, FINANCIAL AND OTHER TARGETS, 2003 (In per cent unless otherwise stated)

	Target	**Actual**
M2	15.0	24.1
MI	13.8	29.5
Aggregate bank credit	25.7	32.7
Credit (net) to federal government	-150.3	47.9
Credit to private sector	32.3	27.1
Inflation rate	9.0	14.1
Growth in GDP *11*	5.0	10.2
Accretion to external reserves (US$ million) 2/	-300	213.3
Exchange rate W$ (end-period)	-	137.0

1/ Revised

2/ (+) Sign indicates depletion

Source: CBN: Annual report & statement of accounts for the year ended at 31st December 2003.

CREDIT DEVELOPMENT, 2003 (N MILLION)

Aggregate credit	1,854.1
Credit (net) to federal government of which	552.6

Central bank	254.1
DMBs	298.4
Credit to private sector of which	1,301.6
Central bank.	8.8
DMBs	1,292.8

Source: CBN: Annual Report and statement of accounts for the year ended 31st December 2003.

OUTCOMES OF MONETARY, FINANCIAL AND OTHER TARGETS, 2004 (In percent unless otherwise stated)

	Target	Actual
M2	15.0	14.0
Ml	10.8	8.6
Aggregate bank credit	24.5	12.0
Credit (net) to federal government	29.9	-17.9
Credit to private sector	30.0	26.6
Inflation rate (Dec-over-Dec)	10.0	10.0
Inflation rate (12 MMA)	10.0	15.0
Growth in GDP 1/	5.0	6.1
Accretion/Depletion of external (US $ Billion)	-5000.0	-9,487.2
Stock of external reserve (US $	7.69	16.96
Exchange rate N/$ (end-period) 3/	-	132.9

1/ Revised

2/ (+) Sign indicates depletion

(-) indicates incretion to reserves.

3/ Target exchange rate is market determined

Source: CBN: Annual report & statement of accounts for the year ended 31st December 2004.

CREDIT DEVELOPMENT, (N MILLION) 2004

Aggregate credit (net)	2,020.2
Credit (net) to federal government of which	485.7
Central bank	-6.1
DMBs	491.8
Credit to private sector of which	1,534.4
Central bank	15.2
DBMs	1,519.2

Source: CBN: Annual Report and statement of accounts for the year ended 31st December, 2004.

PEN MARKET OPERATION (OMO)

A total of *S5* weekly sessions of open market sales were conducted in 1999 compared with SO in 1998. Banks' patronage of the intervention securities improved significantly as aggregate bid sales rose sharply in 1999 compared with the preceding year. The CBN holdings of the securities including primary issues, declined significantly from N121.9 billion or 50.0 per cent of the total outstanding in December, 1998 to N79.9 billion or 22.1 per cent of the total outstanding in December, 1999. Holidays by commercial and merchant banks, on the other hand, increased sharply from N47.2 and N8.9 billion at-end December 1998 to N186.1 and W127. Billion in December 1999. This development was due mainly to the improved liquidity conditions that pervaded the market during the year, as well as the attractive yield on the instrument.

Forty-seven (47) sessions of weekly actions of OMO were held during the year 2000, compared with fifty-three (53) in 1999. Owing to the liquidity surfeit in the banking system as well as the

relative attractiveness of the intervention securities, banks patronage at sales rose sharply compared with the level in the preceding year.

In 2001, fifty-two (52) OMO sessions were held, compared with forty-seven (41) in the preceding year. Although total dibs fell below the preceding year's level, owing to demand pressure at the Inter-bank Foreign Exchange Market (IFEM), higher sales of the intervention securities were recorded than in the preceding year, reflecting largely the liquidity surfeit in the banking system.

CBN conducted forty-nine (49) OMO sessions in 2002, compared with 52 in the preceding year. Total bids and sales substantially above their respective levels in 2001, reflecting largely the liquidity surfeit in the banking system and an enhanced yield on the intervention securities.

The CBN conducted one hundred and three (103) OMO sessions in 2003, compared with forty-nine (49) in the preceding year. The substantial increase in the number of OMO sessions was due to the introduction of daily OMO, which commenced on November 26, 2003. Total bids and sales rose substantially above their levels in the preceding year. This reflected the persistent excess liquidity in the banking system, and the increased number of sessions held by the CBN.

Two hundred and forty-five (245) OMO actions were conducted in 2004, compared with one hundred and three (103) in the preceding year. The commencement of daily OMO auctions on

November 26, 2003 contributed to the huge increase. Total bids and sales rose by 22.9 and 38.9 per cent in 2004 to N 1,136.3 billion and N1, 099.6 billion, respectively, from N924.6 billion and N194.5 billion in 2003.

The increased demand reflected partly the persistence of excess liquidity in the banking system.

INTEREST RATE DEVELOPMENTS

Reported bank deposit and lending rates generally showed increases in 1999. The upward trend was induced largely by the increased cost of funds occasioned partly by the upward review of the liquidity and cash reserve ratios, movements in the minimum rediscount rate (MRR) mandatory sales of Special Treasury Bills (STBs) to banks and the equipment of treasury bins cover for foreign exchange purchase at the AFEM. Available data indicated that the rate on commercial banks' savings deposits average 5.1 per cent during the year, while the maximum lending rates averaged 26.6 per cent. Movements in merchant banks rates were similar to those of commercial banks. Rates on 1-day deposits averaged 10.8 per cent compared with 8.9 per cent in the preceding year, while the maximum lending rates averaged 29.5 per cent, compared with 23.8 per cent in 1998.

Bank deposit and lending rates declined generally during the year, 2000 reflecting the impact of liquidity, overhang in the banking system and the relatively low level of inflation that prevailed for most of the year as well as the downward revision of MRR. Most rates were positive in real terms as the inflation rate remained at a single digit through out the year.

Available data indicate that commercial banks average saving deposit rate, which stood at 5.4 per cent in January 2000 declined to 4.9 per cent at the end of the year. The average on time deposits of various maturities declined from the range of 8.7- 14.6 per cent in January to 6.8-11.3 per cent in December 2000. The average prime-lending rate, however, remained at the end-December 1999 level of 21.3 per cent, while the average maximum lending rate fell from 27.2 per cent to 26.4 per cent. Consequently, the spread between commercial banks saving deposit and maximum lending rates at end-December, 2000, remained wide at 21.5 per cent points although marginally lower than the 21.9 percentage points observed in December, 1999. Movements in merchant banks average deposit and lending rates followed similar pattern. The rate on I-day deposits averaged 8.9 per cent in December, 2000 compared with 10.6 per cent in the preceding year, while the average prime and maximum lending rates fall substantially to 20.6 and 25.2 per cent, respectively, from 25.8 and 30.0 per cent in 1999. Thus, the spread between merchant banks *i-day* deposit and maximum lending rates declined from 19.4 to 16.3 percentage points at the end of the review year. The average inter-bank call rate, which stood at 18.7 per cent in January, declined to 1.6 per cent in July but rose thereafter to 15.1 per cent in November before moderating to 13.5 per cent at the end of December, 2000. The movements in the call rate were influenced largely by the activities in the IFEM, as well as the liquidity situation in the banking system. At the primary market, the NTB issue rate declined from 17.0 per cent in January to 13.0 per cent in December, following the downward review in MRR from 18.0 to 14.0 per cent between April and November, 2000 bank

deposit and lending rates generally showed increases in 200 1, reflecting the effect of monetary policy actions taken by CBN to stem liquidity expansion in the economy, and influence of the relative uncompetitiveness and oligopolistic structure of the banking sector. Available data indicated that banks average savings deposit rate, which was 4.9 per cent at the end-December 2000, fluctuated upwards to 5.2 per cent in June, but fell to 5.0 per cent in August and remained at that level for the rest of the year. The average rates on time deposits of various maturities maintained an upward movement from a range of 7.9 to 12.8 per cent in December 2000 to 12.0 to 18.4 per ~.4W\. all at the end - December, 2001. Banks average lending rates exhibited a similar pattern during the year. The prime and maximum lending rates rosed respectively from 21.0 and 25.8 per cent in December 2000 to 23.5 and 28.4 per cent in June 2001 and further to 26.0 and 31.2 per cent in December 2001. Thus, the spread between banks weighted average deposit and maximum lending rates stood at 14. 1 percentage points in December, 200 1, while the margin between the average savings deposit and maximum lending rate was 26.2 per cent points with the inflation rate at 18.9 per cent in December 2001, all deposit rates were negative in real terms. The average Inter-bank call rate also increased sharply from 15.4 per cent in January to 31.6 per cent in December 2001. The CBN raised its minimum rediscount rate (MRR) from 14.0 per cent in January to 20.5 per cent in September, while the NTB issue rate rose progressively from 13.0 per cent in December 2000 to 20.5 per cent in December 2001. Deposit money banks average deposit and lending rates declined generally in 2002. This was attributable to the downward review of the CBNs MRR and the moral suasion employed by the CBN to encourage banks to bring

down their lending rates in order to boost investment. Available data indicated that banks average savings deposit rate, which stood at 5.0 per cent in December 2001, fell to average rates on time deposits of various maturities declined consistently from a range of 12.0-18.4 per cent in December 2001 to 8.8-14.4 per cent at end-December 2002. Similarly, the average prime and maximum lending rates declined from 26.0 and 31.2 per cent in 2001 to 20.6 and 25.7 per cent in 2002, respectively.

Banks deposit rates rose marginally, while lending rates declined during the year 2003. Available data indicated that the average savings deposit rate, which stood at 3.1 per cent in December 2002, fell t 3.6 per cent in June 2003 and fell further to 3.2 per cent at the end of the year. However, the average rate on the time deposits of various maturities, which declined from a range of 8.8 - 14.4 per cent in December 2002 to 1.812.1 per cent in the first half of the year, rose to a range of 8.8-14.8 per cent at end December 2003. Reflecting the downward review of the MRR by 150 basis points in July, the average prime and maximum lending rates declined from 20.6 and 25.1 per cent respectively in December 2002 to 19.6 and 21.6 per cent respectively at end-December 2003. Consequently, the spread between the weighted average deposit and maximum lending rates narrowed to 10.8 per cent points at end December 2003 from 12.9 per cent points at the of 2002. Similarly, the margin between the average savings and maximum lending rates contracted to 18.4 percentage points as against 22.0 percentage points at end - December, 2002. The average inter - bank call rate, which stood at 12.10 per cent in December 2002, fluctuated upwards in 2003 and packed at 21.11 per cent in December 2003.

The average NTB issue rate, which stood at 13.8 per cent at end December 2002, rose steadily during the first half of the year to 15.9 per cent in June 2003. However, following the downward review of the MRR at end June, the NTB issue rate dropped in the second half; averaging 14.5 per cent in December 2003.

Available data indicated that banks' deposit and lending rates, with the exception of the savings deposit rate, trended downward in 2004. The decline in the rates was attributable to the low demand for bank credit by the public sector following the enhanced revenue profile of government during the year. Banks weighted average saving deposit rate, which stood at 3.2 per cent in December 2003, however, rose slightly to 3.3 per cent in June and further to 4.4 per cent by the end of the year. The weighted average rates on time deposit of various maturities declined from a range of 8.8-14.8 per cent in December 2003 to *7.S-12.2* per cent in the first half of the year, and further to 7.0-12.8 per cent at end-December, 2004. The weighted average prime and maximum lending rates also declined from 19.6 and 21.6 per cent in December 2003 to 18.9 and 20.4 per cent respectively, at end December 2004. Consequently, the spread between the average deposit and maximum lending rate rose slightly to 10.9 percentage points in 2004, from 10.8 percentage points in 2003.

The average Nigeria Treasury bill (NTB) issue rate, which stood at 14.5 per cent at end- December 2003, fell to 14.0 per cent in March 2004, but stabilized at about 14.4 per cent in the second half of the year. The relative stability in the rate was attributed to the Minimum Rediscount Rate (MRR) which had remained unchanged during the year.

5.10 DISCUSSION ON THE FINDINGS

Generally, the outcome of monetary, financial and other targets show that the growth in monetary aggregates had been excessive and grossly out of line with the prescribed targets. Broad money supply (M2) was targeted at 10.0, 14.6, 12.2, 15.3, 15.0 and 15.0 per cent for the year 1999, 2000, 2001, 2002, 2003, and 2004 respectively, while the actual growth for these periods were 31.4, 48.1, 27.0, 21.5, 24.1 and 14.0 per cent respectively. Similarly, the growth in narrow money (M1) during the period 1999-2004 were not in line with the targeted, except in 2004 where the actual was 14.0 per cent below the 15.0 per cent targeted. Credit to the domestic economy for the period 1999-2004 is also presented in the outcome of the monetary, financial and other targets. Aggregate bank credit were targeted at 18.3, 27.8, 15.8, 7.9, 25.7 and 24.5 pre cent for the year 1999, 2000, 2001, 2002, 2003 and 2004 respectively while the actual were 31.6, 23.1, 75.8 percent for the year 1999, 2000 and 2001. While actual for 2002, 2003 and 2004 were 56.6, 32.7 and 12.0 per cent respectively. These shows a general increase in the growth in (M1) for the periods 1999-2003 and a decrease in 2004 from the targeted figure of 24.3 per cent to the actual figure of 12.0 per cent.

Increased credit to the private sector is encouraging, but it seems that the increase was caused by persistent demand pressure in the foreign exchange market. Normally, increased credit to the private sector ought to influence investment with positive results in real output of the economy. The targeted growth of credit to the private sector for the period 1999-2004

were 19.9,21.9,22.8,34.927.3 and 30.0 per cent respectively. However, the actual outcome was mixed during the period. In 1999 the actual figure was 29.2 per cent against the targeted figure of 19.9 per cent, but in the year 2004 the actual growth of 26.6 per cent fall below the targeted figure of 30.0 per cent.

In 1999, the tight monetary policy was as well as good harvest contributed to the achievement of a single digit inflation rate of 6.6 per cent, while output growth was 2.7 per cent as against the minimum target of 3.0 per cent. Interest and exchange rates were generally stable, contributing to the relative macroeconomic stability achieved during the year.

The growth in real Gross Domestic Product (GDP) in 2000 stood at 3.8 per cent, compared with the 2.8 per cent growth achieved in 1999. The inflation rate rose rapidly from the trough of 0.9 per cent in June to 6.9 per cent at the end of the year 2000. There was significant improvement in the performance of the external sector owing to favourable developments in the international- oil market, although the surge in foreign exchange demand threatened exchange rate stability.

The external sector experienced renewed pressure in 2001, resulting in a reduced balance of payments surplus relative to the position in 2000. The growth in real Gross Domestic Product (GDP) stood at 3.9 per cent in 2001, compared with 3.8 pre cent growth in 2000, inflation rate, which was 6.9 per cent in December 2000 rose sharply to 18.9 per cent at the end of 2001, owing largely to excessive monetary growth and high costs of domestic production.

The economy recorded a mixed performance in 2002. The real Gross Domestic Product (GDP) increased by 3.3 per cent relative to 4.2 per cent in the preceding year. Inflation declined from 18.9 per cent to 12.9 per cent at the end of the year, owing largely to proactive monetary management by the CBN and a good harvest. However, the fiscal operations of the federal government resulted in an overall deficits of N301.4 billion or 5.1 per cent of GSP. The demand pressure in the foreign exchange market also persisted resulting in the depreciation of the naira exchange rate in all segments of the foreign exchange market. The levels of external-reserves declined to US$7.99 billion.

The performance of the economy improved substantially in 2003. Available data revealed that real output (GDP) increased by 10.2 per cent, compared with 3.5 per cent in 2002. Inflationary pressure persisted, as the inflation rate rose to 14.0 per cent at end-December from 12.9 per cent in the preceding year. Banks' lending rates trended downwards while deposit rates recorded a marginal increase. The fiscal operations of the federal government resulted ii overall deficit of N202.7 billion or 2.8 per cent of GDP. The external sector experienced moderate pressure in a draw down of the external reserves and a balance of payments deficit of N162.8 billion (2.3 per cent of GDP). Consequently, the naira exchange rate depreciated in all the segments of the foreign exchange market. The level of external reserves at US $ 7.47 billion could finance 6.5 months of imports compared with 7.8 months in the

preceding year.

For the first time in more than a decade, the growth rates of major monetary aggregates were below the prescribed targets in 2004. This was due largely to the effectiveness of monetary policy, complemented by the fiscal discipline of the federal government. The broad major of money supply (M2) grew by 14.0 per cent, the representing 1.0 per cent point below the prescribed target. Similarly, narrow money (M_1) grew by 8.6 per cent, which was 2.2 per cent points below the prescribed target of 10.8 per cent. The moderate growth in broad money was due largely to the modest increase in aggregate banking system credit (net) to the domestic economy, especially the contractionary effects of the fall in net credit to government and, other assets (net) of the banking system. The economy achieved a commendable growth rate in 2004. Real output increased by 6.1 per cent and surpassed the target of 5.0 per cent. The growth in 2004 was driven substantially by the non-oil sector, unlike 2003 when GDP was oil sector driven. Inflationary pressure moderated as the year-on year inflation rate dropped to 10.0 per cent from 23.8 per cent in 2003. The fiscal operations of the federal government resulted in an overall deficit of N142.0 billion or 1.7 per cent of GDP. The pressure on the external sector eased significantly, resulting in large accretion to external reserves and on overall balance of payments surplus of Nl,128.38 billion (13.7 per cent of GDP). Consequently, the naira exchange rate appreciated in nominal terms by 3.1 per cent and was

relatively stable during the year. The level of external reserves at U.S $16.96 could finance 18.4 months of imports, compared with 8.5 months in the preceding year. Despite the increase in Nigeria's external reserves, servicing her external debt remained unsustainable, given the financial resources needed to meet the Millennium Development Goals (MDGs).

5.10 SUMMARY

In this chapter, data collected were presented and analyzed and the research findings were discussed. Central Bank of Nigeria monetary policies for the period 1999-2004 were presented and discussed. The objectives of these policies included, maintenance of low inflation at single digit, achievement of a stable exchange rate regime, promotion of non-inflationary growth, achievement of balance of payments viability, and maintenance of financial sector stability. The outcomes of the monetary, financial and other targets were discussed. The outcome had been mixed. Monetary aggregates expanded with wide margin from the targeted for most of the periods. Year 2004 recorded success as actual outcomes were below the targeted and the economy recorded moderate growth and stability. The Nigerian economic policies for the period 1999-2004 were also highlighted in this chapter.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS/SUGGESTION

6.0 This chapter attempt to summarize, recommend and make suggestion on the central bank monetary policies from 1999-2004. This chapter is the last chapter of the research thesis.

6.1 SUMMARY

In chapter one of these research thesis, the researcher was able to introduced the subject matter" An evaluation of the impact of central bank monetary policy on the development of the Nigerian economy. The background of the study, statement of the problem, objective of the study, scope of the study, methodology of the study, limitation of the study, justification of the study and lastly the definition of terms were all lightened in order to give focus of what the research thesis is all about.

In chapter two, which contained the literature review from different authorities, where the brief history of the central bank was highlighted, overview of Nigerian Economic Development, the role of Central Bank of Nigeria (CBN) in the Nigerian economy, policy/monetary policies, monetary problems in the Nigerian economy and the summary of what was gathered in the literature of project.

In chapter three of the thesis, the organizational structure of CBN, operational activities of CBN, monetary problems of CBN in the Nigerian economy were highlighted.

Chapter four of the thesis discussed on the research methodology, method of data collection, data collection process, method of data analysis and summary of what transpired in the chapter.

In chapter five of the project, the research highlighted on different monetary policies of central bank of Nigeria ftom 1999-2004, the Nigerian economic policy 1999-2004 and the impact of the monetary policies on the Nigerian economy from 1999-2004.

Lastly, chapter six contained the summary, conclusion, recommendations/suggest of the research thesis.

6.2 CONCLUSION

It is evident in the light of this research that the monetary policies adopted by central Bank of Nigeria CBN' have to create a conducive environment for Open Market Operation (OMO). Monetary policy instruments used impacted positively on the development of the economy, and in the promotion of economic stability. Although it impacted positively, there is need for the introduction of medium and long-term security to eliminate the persistent problem of excess liquidity in the economy. The outcomes of financial, monetary and other targets were favourable and thus, suggest a sound monetary management by the CBN.

The CBN should have to be proactive and programme in its interest rate management for a more responsive interest rate policy. The CBN have to pursue the goals of making the financial sector sound and stable for effective transmission of the monetary and fiscal policies.

CBN financing of government fiscal deficit should be curtailed, which will make the use of direct monetary control instruments unnecessary. The elimination of distress in the financial sector are further steps of promoting of financial sector (economic) stability.

Other economic policies should complement the monetary and fiscal (financial) programme, especially in the areas of maintaining macroeconomic stability, growth, external sector competitiveness and poverty alleviation.

6.3 RECOMMENDATION/SUGGESTIONS

Based on the above findings, the following recommendations and suggestion are proposed.

I. For OMO to be effective, the money market must be further developed through the increase in the number of instruments and operators in the market.

II. Timely data are required under a regime of indirect monetary control so that CBN can intervene to stabilize the financial market as desirable.

iii. Interest rate policy should be fine-tuned to encourage financial savings without discouraging investment.

iv. There is the need to introduce interest free banking in Nigeria, with the financial sector fine tuned to accommodate its functioning.

v. Foreign exchange market should not be left entirely to market forces only both with due guidance and supervision by the monetary authorities, that is CBN.

vi. The government should increase funding of the IFEM.

vii. There is the need for greater harmonization of fiscal and monetary policies.

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APPENDIX 1

SELECTED MACROECONOMIC AND SOCIAL INDICATORS

Indicator	1999	2000	2001	2002	2003 1/	2004 2/
Domestic Output & Prices						
Real GDP Growth (Growth Rate %)	0.9	5.4	4.6	3.5	10.2	6.1
Manufacturing capacity utilization (%)	35.9	36.1	39.6	44.3	43.6	45.0
011 Sector	-7.5	11.3	5.2	-5. 7	23.9	3.3
Non-oil Sector	4.4	2.9	4.3	7.9	4.5	7.5
Gross National Saving (% GDP)	21.6	36.1	11.3	15.6	13.6	15.3
Inflation Rate (%) (Dee-over Dee)	6.6	14.5	16.5	12.2	23.8	10.0
Inflation Rate (%) (12 MMA)	0.2	6.9	18.9	12.9	14.0	15.0
Federal Gov. Finance (% of GDP)						
Overall Fiscal Balance		-8.9	-2.3	-4.3	-5.5	-2.8 - 1.7
total Expenditure		29.7	15.4	19.6	J8.6	16.7 J6.7
Domestic Debt Stock		24.8	19.8	19.6	21.3	18.1 16.7
External Debt Stock		80.5	68.1	61.2	72.0	61.1 59.2
Money and Credit (Growth Rate %)						
Net Domestic Credit	30.0	-25.3	79.9	64.6	29.1	12.0
Net Credit to Government	32.0	-170.	19S.2	6,320.6	58.4	- 17.9
Credit to Private Sector	29.2	30.9	43.5	19.7	18.4	26.6
Narrow Money (M1)		18.0	62.2	18.1	I5.9	29.5 8.6
Broad Money (M_2)	31.7	48.]	27.0	21.6	24.1	14.0
External Sector						

Overall balance (% of GDP)	·]0.2	6.90.5	·]0.5	-2.3	]3.7	
Current A/C Bal. (% of GDP)	1.4	I5.7	5.2	1.3	15.2	16.6
Capital & Fin A/C Bal (% of GDP)		-11.5	-8.6	-4.5		-11.6
]7.4	-2.8					
End of Period AFEM/DAS Rate (N/$1.00)	98.20		JUU		113.5	126.9
137.0 132.9						
Social indicators						
GDP at current Mrk Prices (N billion)		u			4.547,1	5,187.9
5,465.3 1,191.1 8,.~9.3						
GDP at current Mrk Prices (N billion)		D	44.7	46.4	45.2	55.6
64.]						
GOP per Capita (N) 3t- --	1075.9	j9.85U		~O ~ jl7..$	57,991.3	
67.137.2						
GDP per capital ($) 3]-- -	D -- -		388.]	390.3		369.0
440.7 493.2						
Population N (million) -- -	x x -- -	115.2	118.8			In.4
126.2 129.9						
Population growth rate (%)	2.8	2.8	2.8			2.8
2.8	2.8					
Life expectancy at birth (years)	xxx	54.0	54.0	54.0	54.0	S4.O
Adult literacy rate ($)	xxx	57.0	57.0	57.0	57.0	57.0
incidence of poverty		xxx	16.0			sn

nx .ux ~4

1/ Revised; 2/ Provisional; 3/ Revised; using GDP at current prices as against 1984 purchasers value; and 41 the incidence of poverty in Nigeria was project to increase from 65.6 per unit in 1000. However, the result of a Nigerian living standard survey of 2003/ 04 by FOS, showed that the incidence of poverty had declined to 54.4 per cent in 2004.

Source: CBN: Annual Reports and statement of Accounts, various, issues.

APPENDIX 2

Domestic Public Debt of the Federal Government (End-Period)

rNaira Miltioa)

Item	2000	2001	2002	2003 1/	2004/2
1. Composition of debt					
i. Treasury Bills	465,535.8	584,535.8	733,763.5	825,050.0	871,577.0
ili. Treasury Bonds	430,608.2	430,608.2	430,608.2	430,608.2	424,938.2
iii. Treasury Certificate	0.0	0.0	0.0	0.0	
iv. Development Stocks	2,110.0	1,830.0	1,630.0	1,470.0	1,250.0
v. FGN Bonds	0.0	0.0	0.0	72,560.0	72,560.0
1. HOLDERS					
i. Banking System	781,471.7	9.9,285.8	980.888.3	1,114,2220.0	1,027,531,90
a. Central Bank	494,258.8	719.,944.3	519,770.8	613,790.0	403,461.7
b. Commercial Banks	275,773.6	199,261.5	460,22.5	500,430.00	669,070.20
C. Merchant Bank	12,439.3	0.0	0.0	0.0	
Ii. Non- bank Public	115,782.3	97,768.2	186,111.4	215,560.8	297,793
3. Total Debt Outstanding	891,254.0	1,016,974.8	1,166,000.7	1,329'-.8	1,J71.315.1

APPENDIX 3

External Public Debt Outstanding

(USS M"lJJion)

	(USS M"lJJion)				
Holder	2000	2001	2002	2003	2004 II
1. Multilateral	3,460.0	2,797.9	2,960.6	3,042.1	2,824.3
2. Paris Club	21,180.0	22,092.9	25,380.8	27,459.9	30,847.8
3. London Club	2,043.2	~043.2	1,441.8	1,441.8	1,441.8
4. Promissory Notes	1,446.7	1,291.8	1,153.2	911.4	783.2
5. Others	143.8	121.2	55.6	51.6	47.5
Total Debt 0tlistudilta	28~73. 7	28,347.0	30,992.0	32,916.8	35,944.6
Total Debt Outstanding	28~73.7	28,347.0	30,992.0	32,916.8	35,944.6

External Public Debt Outstanding

	(-N- Million)				
Holder	2000	2001	2002	2003	2004 1/
1. Multilateral	379,043.0	313,504.7	375,700.1	423,877.7	384,248.7
2. Paris Club	2,320,269.0	2,475,509.4	3,220,323.5	3,737,279.9	4,196,844.6
3. London Club	223,132.6	228,950.2	132,964.4	196,156~9	196,155.5
4. Promissory Notes	158,486.0	144,746.2	146,341.1	123,994.6	106,55.4
5. Others	15,753.3	13,580.5	7,055.6	7,020.2	6,462.4
Total Debt	3,097,383.8	3,176~1.0	3,932,814.8	4,478,329.3	4,890~69.6

APPENDIX 4
EXTERNAL DEPT SERVICE PAYMENT

Holder	2000	2001	2002	2003/1	2004/2
Londo Club	129.1	134.1	26U	90.1	9U
Paris Club	812.7	1,273.6	161.6	1,821.1	994.4
Multilateral	623.1	491.5	*472.1*	509.2	487.3
(I)LB.R.D	-	-	-	.'	264.8
(it) E. L B.		..	..	-	11.4
(HI) A. D. B. & others		-	.'	.'	111.1
Promissory Notes	149.5	19$.2	192.1	176.4	171.1
Others	1.5	33.8	7S-9	13.3	13.8
Total	1,716.1	2,121.1	1,168.5	1,889.3	1,156.9

APPENDIX 5

Gross Domestic at 1990 Constant Basic Prices

Activity Sector	2000	2001	2002	2003	2004
1.	11 7.95	122.52	127.72	135.9	144.84
(a) Crop Production	98.39	102.13	106.37	113.8	121.22
(b} Livestock	liAS	11.79	12.36	12.88	13.72
(c FV1~,," y	2.56	2.61	2.62	2.66	2.84
(d) Fishing	5.55	5.99	6.37	6.63	7.06
2. Industry	121.76	128042	123.55	149.8	156.08
(a) Crode Petroleum	106.83	112.42	} 06.00	}	135.67
(b) Mining &	0.97	1.07	1.11	1.17	1.30
(c) •. .	13.96	14.93	16.44	17.37	19.11
3. Building Construction	6.43	7.21	7.52	8.18	8.99
4. Wholesale & Retail Trade	43.16	44.24	47.11	49.82	54.66
5. Services	39.87	41.92	50.38	48.89	52.15
(a)T	7.50	7.86	9.22	9.33	9.89
(b) Communication	0.37	0.45	0.69	0.33	9.89
(c) Utilities	1.45	1.60	1.94	2.04	2.26
(d) Hotel & Restaurant	0.68	0.72	0.76	0.80	0.89
(e) Finance Insurance	17.13	17.91	23.17	20.96	21.53
(t) Real Estate Business Services	6.25	6.56	6.78	6.99	7.75
(h) Producers of Gov't Services	4.10	4.19	4.81	4.88	5.41
(i) Comm., Social &, Pers.	2.39	2.63	3.01	3.06	3.39
Total (GDP)	329.17	344.31	356.28	392.7	416.72
NON-OIL (GDp)	222.34	231.89	250.28	261.4	281.05
TOTAL GDP OROWTHRATE (%)	5.40	4.60	3048	10.24	6.10

1/ Provisional

Sources: Federal Office of Statistics (FOS) & National Planning Commission