BANKING AND FINANCIAL DEREGULATION IN A DEVELOPING ECONOMY. A STUDY OF THE CENTRAL BANK OF NIGERIA (C.B.N.).

BY

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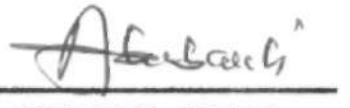
DECLARATION

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



ABUBAKAR IDRIS

C E R T I F I C A T I O N

This project entitled "BANKING AND FINANCIAL DEREGULATION IN A DEVELOPING ECONOMY. (A STUDY OF THE CENTRAL BANK OF NIGERIA)" by ABUBAKAR IDRIS meets the requirements of the regulations governing the award of the degree of Masters of Business Administration (MBA) of Ahmadu Bello University and is approved for its contribution to knowledge and literature presentation.

SUPERVISOR	20/10/2002 DATE
HEAD OF DEPARTMENT	7-11-2002 DATE
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D E D I C A T I O N

This project is dedicated to

My Mother: ZAITUNAT IDRIS

My Father: IDRIS ABUBAKAR

MY Wife: HINDATU ABUBAKAR

A C K N O W L E D G E M E N T

I sincerely thank Almighty Allah for enabling me to complete this project.

Also my profound gratitude goes to my Supervisor, Dr. Sheikh Ahmed Abdullah for his guidance to the study.

Furthermore, I would like to acknowledge the efforts made by all members of my family, friends and colleagues for their moral support and cooperation during my MBA programme. They include Haruna Umar, Sumaila Wamba, Ahmed Waziri, Kabir B. Tukur, Dahiru Umar and Alhaji M. M. Mashina.

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A B S T R A C T

The Financial Institution in general and banking syetew in particular have always been Important in any economy. Banks generally serve as intermediary between the savers and investors in channelling fund, In order to facilitate business transactions and economic development. The Government directs and regulates the activities of the banks since the establishment of the Central Bank of Nigeria (CBN) in 1959.

The regulations becomes necessary to ensure the continued soundness of the system and thereby minimising the risk of bank failures. Also to ensure that banks products are available to various sectors of the economy and to minimise misuse or fraud that could have serious impact on the public confidence and hence on the economy.

Inspite of the excessive regulations and control the Nigerian Economy still depressed. To the extent that people begin to wonder if the excessive regulations and control could revive a depressed economy, this could have happened in the period preceeding SAP.

In order to remove or minimise these distortions policy makers often resorted to economic deregulation.

Deregulating the Nigeria banking system began in July 1986, when the Federal Government adopted SAP with economic deregulation as one of its cardinal objectives.

The period of SAP represents the period in which far-reaching monetary policies were Introduced according to the CBN credit guidelines. The policies were basically the moderation of inflation rate reduction of resource on balance of payments establisation of the exchange rate and increse in financial saving investment employment and growth.

This research examined the impact of deregulation of the banking system on the Nigerian economy, the CBN regulation policies on the banking Industry prior to adoption of SAP and the number of policy measures adopted by the CBN on the banking industry during the SAP era.

The study found that financial deregulations has brought in its wake monumental chances, upheavals and challenges particularly impact on customer services proliferation of banks encouragement of domestic saving and efficiency of the banking system increased others include rate /volatilit, little investment in productive sector low foreign investment, fraud forgeries labour turnover

and shortage of long term capital like the Nigerian banking environment.

The study suggested that "banks have to accept that the business environment has changed and will continue to change and only the institutions that are able and willing to make the tough decisions and sacrifices necessary to become flexible, efficient and productive will survive

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CHAPTER ONE

1.1 I N T R O D U C T I O N.

The world ever, banking system, by nature of its activities, is among the most heavily regulated sector in both developed and developing economies with or without Government participation. Banks generally assist in channelling funds from the surplus spending unit (savers) to the deficit spending units (investors) to facilitate business transactions and economic development. The funds are owned by the third parties, the Central Bank of Nigeria (CBN) directs and regulates on behalf of the government that such funds should be efficiently managed to sustain the confidence of depositors in banking system. Also to ensure the continued soundness of the system itself and thereby minimising the risk of bank failures.

In addition to the above, the authorities may want to intervene in the operations of the banking system to ensure that banks products are available to various sectors of the economy and at reasonable prices. For example interest rates charged by banks may be regulated to encourage savings mobilization and ensure adequate investments for rapid economic growth.

It is evidenced that the decade of 80s witnessed rapid and sweeping changes in the political economy of most developed and developing countries. In the economic sphere, these changes were characterised by economic reform programmes whose fundamental objective is the reationalisation and liveralisation of national economies for the achievement of greater efficiency and effectiveness in resource allocation. And the experience has shown that the continue government intervention in the working of any market may not often achieve the intended objectives efficiently. Indeed, such intervention often results in new economic distortious leading to a sub-optimal resources utilization. In order to remove or minimise these distortions, policy makers often resorted to economic deregulation.

Deregulating the Nigerian banking system began in July 1986, when the Federal Government adopted the Structure Adjustment Programme (SAP) with economic deregulation as one of its cardinal objectives. Deregulating the Nigerian economy is no doubt a reflection of the importance attack to deregulation as one of the central pre-occupations in the world finance markets today.

The adoption of financial deregulation has not been peculiar to Nigeria. It seems, infact like a trend across third world countries embarking upon an adjustment programme. Such programmes go by different names: 'prestroika' in the former USSR and or 'dui moi' in Vietnam. Although the programmes go by different names, they share a few common features. The phenomenon is most apparent in the United States where it formed a corner-stone of the Reagan administration's supply side strategy. President Reagan amplified the logic of deregulation when he addressed the opening session of the 1986 annual meeting of the Boards of Governors of the International Monetary Fund and the World Bank in Washington D.C., stressing that excessive regulations make people less able to experience and innovate, and therefore restrain economic growth.

Some reasons for deregulating the Banking System include: Achievement of adequate spread of banking services nation; the desire to stimulate competition among Banks for new deposits, through efficient rendering of services to customers and by extending to move further to the rural areas thereby encouraging

the Banking habit to contract money supplies, effectively reduce liquidity, thereby curbing inflationary tendencies.

The measures of deregulation so far implemented in the banking system cover such areas as interest rates, licensing of new banks, sectoral allocation of credit, withdrawal of public sector deposits and the use of an auction method in the issuing of treasury securities. The measures has been taken to reduce excessive control of the Central Bank of Nigeria (CBN) and in the level of direct reporting to the Bank. The Central Bank of Nigeria (CBN) was charged with the responsibility for managing the new measures. For example, inorder to safe-guard the interest of public and the credibility of the banking system against possible risks that the explosion in the number of Banks might entail the Central Bank of Nigeria (CBN) establish the Nigerian Deposit Insurance Company (NDIC).

The deregulation of banking systems started with introduction of Structural Adjustment Programme (SAP) in 1986. It has been a period that witnessed structural changes, which have aided and sharpen the

activities in industry. The sector has witnessed tremendous growth in products innovations and volume of businesses. New products and repackaging of old ones, information technology, effective human resources, planning and development are all products of SAP. The number of commercial and merchant banks have increased tremendously.

It is against this background that the issue of financial deregulation and banking system i.e. a developing economy (A study of Central Bank of Nigeria) is examined.

1.2 STATEMENT OF THE PROBLEM.

A developing economy like that of Nigeria is characterised by-stagnant growth, rising inflation, unemployment, food shortages and mounting external debt, the importances of economic reform became paramount. People begin to wonder if the excessive regulations and control could revine a depressed economy, this could have happened in the period preceding SAP. The policy makers therefore, began to recognise more visibily, the adverse effects of exclusive reliance on the set of policy instruments being enforced through cumbersome administrative control and regulations.

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Considering the negative growth rates posted by the economy and the realisation of the fact that inflow of external capital to cover current account deficits would not materialise, made the government to adopt SAP for the following reasons.

First, it was realised that a robust financial environment is required for mobilisation of domestic resources for sustainable economic growth and development.

(ii) Achievement of adequate spread of banking services nationwide.

(iii) promotion of service driven competition in the industry and improvement in the quality and sophistication of banking services in the economy.

(iv) Increased focus on development of rural and community-based banking culture and services through the establishment of both the people bank and community banks.

(v) Mobilisation of the finance houses to play more active role in the industry providing needed products and service otherwise considered too

risky and unconventional for banking institutions.

(vi) Introduction of foreign currency accounts as a step towards directing the banks to seek for more non-oil non government sources of foreign exchange; and positioning the banks to take more active interest in export promotion.

(vii) The need to remove the distortions which economic - type regulations, such as interest rate controls and directed credit programmes had brought on the environment.

(viii) The need to restrusture distressed financial institutions and ensure financial stability has also been a compelling reason for the reform of the financial sector.

During the period of deregulation, the proliferation of banks has in return increased competition that has led to improved services delivery and innovation. Bankers now accept the supremacy of the customers and are prepared to go the extra mile to ensure customer satisfaction. The situation of

the banking system was worsened by the various restrictive policy measures introduced by the Central Bank of Nigeria (CBN). The measures are for fighting inflation, led to the undesirable effect of eroding confidence in the banking system and detering new foreign and local investment and growth. These measures include:-

-Withdrawal of Government funds (including parastatals and agencies from Banks).

-Increase in the minimum rediscount rate, abolition of the use of the foreign guarantees and domiciliary account balances as collateral for loans.

-Increase in the minimum capital adequacy ratio of banks from 1:12 to 1:10 of their loans and advances.

1.3 OBJECTIVE OF THE STUDY.

The objective of this study is:-

(1) To identify the impact of deregulation of the banking system on the Nigerian economy.

(2) To examine the CBN regulation policies on the banking industry prior to adoption of SAP.

(3) To examine the number of policy measures adopted by CBN on the banking industry during the SAP era.

1.4 JUSTIFICATION OF STUDY:

The era of deregulation of the Nigerian banking system came with SAP which was adopted in 1986 by the Babangida regime. The measures of deregulation so far implemented in the banking system covers such areas as interest rates, exchange rates, licensing of new banks sectorial allocation of credit, withdrawal of public sector deposits, the use of an auction method in the issuing of treasury securities, use of stabilisation securities to mop-up excess liqudity, prudential guidelines etc. And these policy measures and other measures before SAP were being directed on banks by Central Bank of Nigeria.

Now that the present military regime has abandoned SAP and specifically peg interest and foreign exchange as follows:-

(a) Savings/deposit rate is now fixed at between 12 - 15 per cent.

(b) Lending rate is fixed at 21 per cent, inclusive of all charges.

(c) While exchange rate fixed at ₦22 per US dollar.

This action generated alot of oppositions to the extent that some bankers managing directors had criticised regulation as being impediment to economic growth. In place of regulation, the bankers implored the monetary authorities to introduce policies that would induce (not force) economy actors to take actions desirable to the economy and the government. They further argued that the market is strong enough to protect itself and therefore did not require any government faith to survive and progress.

In view of these, there is the need to appraise the performance of banking industry in the era of deregulation and see the gains so far made. This study would be of great help to bankers, government, students and prospective investors in the banking industry.

1.5 SCOPE AND LIMITATIONS.

This study will concentrate on some CBN regulatory policy before the period of deregulation. It will also look into the banking in a deregulated economy; the objectives of deregulation in the Nigerian banking system; anticipated benefits of deregulation; problems prospects and challenges of banking in a deregulated economy. The study will also cover such area as efforts made by the CBN at combating the negative impacts of deregulation.

In view of these, there is the need to review and appraise the effect of financial deregulation on the banking industry since the adoption of SAP in 1986. The study would be of great help to bankers, students government and prospective investors in the banking industry.

1.6 RESEARCH METHODOLOGY.

The main sources of data and information used in this study are secondary i.e. public documents. A large portion of tables are drawn from the Federal Office of Statistics, Annual Report of the Central

Bank of Nigeria and NDIC Annual Reports and Statement of Accounts. Part of the study that are largely theoretical are drawn from the work of prominent scholars, authors, journals, newspapers and magazines. References are made to acknowledge these sources.

Analyses and interpretation of the data were done through comparison of simple percentages and ratios. As such no statistical method was used.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 I N T R O D U C T I O N.

Inorder to fully appreciate the significance of the banking and financial deregulation (A Case Study of the Central Bank of Nigeria). It would be expedient to review the origin of the banking system, Central Bank of Nigeria (CBN) and Banking Industry inaderegulated developing economy and Central Bank of Nigeria (CBN) and Banking in a regulated developing economy.

This chapter examines the background to the establishment of the Central Bank of Nigeria, its major functions, various regulations and control of the Central Bank of Nigeria in the pre-SAP era and after the adoption of SAP.

The project also explore in this chapter the state of the Nigerian economy which consequently necessitated the introduction of Structural Adjustment Programme in 1986.

2.2 THE ORIGIN OF THE NIGERIAN BANKING SYSTEM

The origin of the Nigerian Banking System date back to the colonial period. It was evolved to support the trading activities along the Nigerian Coast in the late Nineteenth Century. For many years, cash payments had been replacing the old barter system and the British Silver Currency was increasingly used in trading transactions. There was therefore the need for an institution that would take over the importation of these coins, distributed them and absorb any surplus.

In 1891, the Chairman of the Elder Dempster and Co., the Shipping firm which ran the regular steamship service between Liverpool and the West African Coast approached the African Banking Corporation based in South Africa to open a branch in Lagos. The branch opened in January 1892 but within a year, Lagos was hit by a trade recession that put the bank in serious distress. Elder Dempster and Company took it over in March 1892 and ran it as a private bank, until December 1893 when, at the request of the Crown Agents, a new public company was registered in England under the title of Bank of West Africa, with an authorised share

capital of Stg. 100,000 pounds of which 30,000 pounds was paid up. The new bank opened its first branch office in Lagos in January 1894.

In 1899, some foreign trading firms in Eastern Nigeria under the leadership of the Royal Niger Company set up a bank of their own called the Bank of Nigeria. For 13 years, this bank competed with the Bank of British West Africa Limited, before it was absorbed by the latter. As a result of this merger, the Bank of British West Africa Limited became the only banking institution in Nigeria and with the establishment of the West African Currency Board in 1912, it was made the sole agent of the Currency Board for the custody and distribution of currency.

In 1916 a new competitor appeared. That is, the Colonial Bank which hitherto had operated only in the West Indies. It opened an office in Lagos and within four years had fifteen branches in West Africa. In 1925, it was taken over by Barclays Bank to form together with Ango-Egyptian Bank and the National Bank of South Africa, the new Barclays Bank (DC & Co.).

Indigenous merchants realised quite early that the existing banks could not give them the financial assistance they required to promote their trades.

Accordingly between 1920 and 1952, 25 indigeneous banks were established, 21 of them during the immediate post Second World War years between 1945 and 1952. The last of these indigenous banks established by the Local Merchants class was the industrial and commercial bank established in 1929, went into liquidation in 1930. This was followed by the establishment of the Nigerian Merchantile Bank opened in 1931 but which also went into voluntary liquidation in 1936.

The third indigenous banking venture - the National Bank of Nigeria Limited incorporated in 1933 has survived this day. What is important is the story of successful indigenous banking of Nigeria began with the survival of the National Bank of Nigeria, which was followed in 1948 with the establishment of the similar durable African Continental Bank Limited. These first indigenous banking institutions were established as protest institutions to liberalise credit to Nigerian businessmen, in reaction against discriminatory practices by the foreign banks. This also explains why everything must be done to ensure their survival, symbols of indigenous enterpreneurship.

It is quite evident that the founder of the early indigenous banks were inexperienced in banking, accounting or management. The banks themselves had

poor capital base. The failure of many of these banks between 1945 and 1952 created sufficient anxiety for the Colonial Government that finally in 1952, Mr. G.D. Paton was sent down from London to enquire into the operations of the banking system in Nigeria. His report led to the first legislation, the Banking Ordinance 1952, aimed at regulating the business of banking in Nigeria. The ordinance, like its successor in 1958 embodied important features for the regulation of the banking industry such as system of licensing, minimum capitalisation, liquidity ratio maintenance of Reserves and Bank Supervision.

To the indigenous banks that had operated so far without strict control, the package of requirements expected of them under the 1952 ordinance was most unexpected and in their circumstances, unattainable. By the time the provisions of the ordinance started to have effect in 1954, 21 of the 25 indigenous banks had collaped and the expatriate banking sector tightened its grip on the banking industry in Nigeria.

The determination to localise the control of credit and to ensure the safety and soundness of the banking system inspired the establishment, in 1958, of the Central Bank of Nigeria, wholly owned by the

Federal Government, to perform traditional central banking functions and serve as the pivotal national financial institution. Mr. G. D. Paton became the First Governor of the Central Bank of Nigeria. Unlike the Bank of England which evolved from the British banking system, the Central Bank of Nigeria was superimposed on the existing financial institutions to direct the banking industry towards the achievement of defined national economic objectives.

The establishment of the CBN offered the indigenous banks the opportunity of operating under a set of well defined body of regulations geared towards their safety and the protection of depositors. Expatriate banks, on the other hand, were being constantly required to adapt their operations to local needs and seek out and use local investment outlets for their resources. However, the banks were both in law and in fact merely overseas branches of their metropolitan parent companies. They fulfilled their responsibilities to their headquarters by operating within the targets set world wide for all overseas branches. One of the first major steps taken to bring these banks within the ambit of the Nigerian law was the enactment of the companies decree 1968 which obliged all companies

operating in Nigeria to register as Nigerian Company Law. Along with other companies, the banks were thus obliged to take out local incorporation.

In order to provide banking services to a wider sector of the population and to provide banking facilities to the rural areas, many of the new states created in 1967 established their own banks. These considerations inspired the creation of the New Nigerian Bank Limited, the Pan African Bank Limited, and the Mercantile Bank of Nigeria Limited. They developed along-side the existing state owned banks the National Bank of Nigeria Limited, the African Continental Bank Limited and the Bank of the North Limited which was established in 1959. With the exception of the latter all others are now classified as distressed and have been taken over by the NDIC.

In 1973, the Federal Government announced its decision to intervene more directly in commercial banking activities by acquiring 40 per cent of equity capital of the three largest expatriate banks: Barclays Bank of Nigerian Limited, Standard Bank Nigeria Limited and United Bank for Africa Limited. In his broadcast on the 1973/94 Budget, the Head of Federal Military Government, declared the objectives of Federal

Government's participation in Commercial Banking as follows:-

> "The aim of this participation is for the Government to get intimately involved in commercial banking activities so as to guide them to operate to the maximum benefit of the economy. This is as much in their own interest as it is in the interest of the country."

Furthermore, in 1977, following the reclassification of banking as a Schedule II business in the Nigerian Enterprises promotion Decree 1977, the Federal Government required additional 20 per cent in the said three banks and 60 per cent share holding in the remaining right foreign banks. In order to ensure that banks operate in sympathy with the national development aspirations, the Federal Government on the recommendation of Okigo Commission on the Financial System to define the objectives of the banking system in the following terms:-

(a) To facilitate effective management of the national economy.

(b) To provide non-inflationary support for the economy.

(c) To achieve greater mobilisation of savings and its efficient and effective channelling.

(d) To ensure that no viable project is frustrated simply for lack fund.

(e) To insulate the economy as much as possible from the vicissitudes of the international economic sense.

(f) To assist in achieving significant transformation of the rural sector.

(g) To assist in achieving greater intergration and linkages in agriculture, industry and commerce.

The banking system in Nigeria is made up of the Central Bank of Nigeria, the Commercial and Merchant banks; the development banks (the Nigerian Industrial Development Bank (NIDB); the Federal Mortgage Bank of Nigeria (FMBN); the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural and Co-operative Bank (NACB); a Federal Savings Bank - FSB International Limited, the Urban Development Bank,

and special banks such as People's Bank of Nigeria (set out to provide easy access to credit for business requiring low working capital) and Community Banks (established to bring financial and banking services to those at the grassroot level).

Today, the Nigerian Banking System has over 130 banking institutions with over 3,000 branches (excluding branches of the Peoples Bank and Community Banks) nation wide with assets worth well over 120 billion Naira. However, the most important banks are those in which the Federal Government invested in 1973 and 1977 and these account for about 80 per cent of the assets of the Commercial Banks and 45 per cent of the assets of the Merchant Banks. See the tables 1 and 2 showing assets and liabilities of the apex Bank.

2.3 BACKGROUND TO THE ESTABLISHMENT OF THE CENTRAL BANK OF NIGERIA.

Prior to the establishment of the Central Bank of Nigeria, the Western African Currency Board (WACB) which was established in 1912, had the responsibility for issuing legal tender currency. The West African Currency Board was set up to promote the financing of the export trade. Specifically, it was charged with

the issue of a West African Currency, the exchange of existing currencies and the investment of reserves. There was a fixed parity of the local currency with the British pound, while the currency had 100 per cent sterling coverage. The reserves were invested in Britain and this in a way facilitated Nigeria's International payments. However, because the West African Currency Board (WACB) was linked automatically to the British System, it could not engage in monetary management, neither were Nigerian's trained in the art of monetary management. In order to eliminate this deficiency and thereby promote the growth of the domestic money and capital markets.

2.4 ESTABLISHMENT OF THE CENTRAL BANK OF NIGERIA.

The Central Bank of Nigeria creation was necessitated because of the inadequacies of the West African Currency Board (WACB) in the creation, circulation, and supervision of currencies and monetary transactions in the then British West African Colonies.

The Central Bank of Nigeria was established in 1959 under the Central Bank Act 1958 which conferred on it a number of functions and powers to control the operations of commercial banks. The Bank's regulatory

and supervisory powers over the operations of banks which included the regular examination of their books and affairs were intended to improve compliance with banking regulations and the general standard of practice of banking. The Banking Ordinance 1959 replaced that of 1952 largely to give effect to powers of the newly established CBN.

The Central Bank Act of 1958 which gave legal backing to the establishment of Central Bank of Nigeria was amended in 1968. It was amended under Decree No.50, otherwise known as Central Bank of Nigeria Act (Amendment Decree) of 18th September, 1968, among other things, gave the CBN new regulatory powers as well as new instruments of monetary and credit control.

In 1991, the CBN Decree No.24 and BOFI Decree repealed the earlier Central Bank of Nigeria Act, 1958 (as amended) and the Banking Decree, 1969 (as amended). The new Central Bank Decree considerably strengthens the powers of the Central Bank as an agency of Government with responsibility for maintaining monetary stability and a sound financial system in the country. It contains various provisions to facilitate the use of market-based instruments for

monetary control. Furthermore, the Bank's power to obtain information from economic agents and issue directives to financial institutions are strengthened and expanded to include other major financial institutions in the economy.

2.5 THE ROLE OF THE CENTRAL BANK OF NIGERIA.

The Central Bank of Nigeria performs all the functions which Central Banks normally perform. The functions are set out in the bank's statutes and can be classified under two main headings:-

A. The traditional functions and

B. The development functions.

The traditional functions of the CBN are briefly discussed below:-

(i) Banker to other banks:

The CBN promotes confidence in the system through its activities as banker to other banks. In its supervisory activities, the Bank monitors monthly and quarterly performance of the commercial and merchant banks and undertakes adhoc and on-the-spot

examination of the statement of accounts of the banks. This facilitates effective monitory to assess quality of loans, loans adequancy ratios, the existance or extent of fraud in the banks, compliance with monetary policy guidelines and the pursuit of prudent banking practices.

The CBN monitors the cheque clearing system to ensure operational efficiency within the banking system. The bank accommodates commercial and Merchant Banks in temporary need of liquidity, The CBN, through the NDIC extend facilities to Commercial and Merchant.

(ii) Currency Issue and Distribution:-

The Bank's currency 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, given the enormous reliance by Nigerians on cash transactions. Without the regular supply of currency economic activities would at best, grind to a habit. (See table 3 showing currency in circulation.)

(iii) Promotion of Monetary Stability:

One of the principal function of the Central Bank of Nigeria (CBN) is to formulate and execute monetary policy to promote monetary stability and sound financial system in Nigeria. The measure is designed to regulate the value, supply and cost of money in an economy, in consonance with the level of economic activity. An excess supply of money which will result in an excess demand for goods and services will cause rising prices and/or a deterioration of the balance of payments position. On the other hand, an inadequate supply of money could induce stagnation in the economy and thereby retard growth and development. It is therefore the duty of the CBN or the Central Monetary Authority to keep the money supply growing at an appropriate rate to ensure sustainable economic growth and to maintain internal and external stability. (See table 4 for money supply). The discretionary control of the money stock by the Central Monetary Authority thus involves the expansion or contraction of money, influencing interest rates to make money cheaper or more expensive depending on the prevailing economic

conditions, and the channeling of money to priority sectors.

The major instruments for influencing the monetary base are open market operations, reverse requirements, and discount rate.

Open Market Operations (OMO) is the primary indirect monetary policy. Instrument for promoting non-inflationary economic growth and other policy goals. Omo in their classical form are carried out in the secondary market for government securities where government debt instruments are brought and sold. Omo involves the buying and selling of government securities by a central bank. Through these activities, the Central Bank directly changes the levels of banks' cash reserves and directly induces changes in the level of interest rates, thereby leading to changes in the terms and availability of credit and ultimately, money supply. When the Central Bank buys securities in the market, the transactions lead initially to a contraction in the reserves that banks have available to meet their cash reserve requirements. The contraction in reserves lead in turn to increase

in interest rates and a contraction in bank credit and money supply. Conversely, when the Central Bank buys securities in the market, bank reserves increase and the ability to expand credit and money supply is enhanced.

Reserve requirement 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 CBN. These are primarily to protect depositors against unforeseen developments in their operations. The CBN can control the money stock by varying the requirements 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 specifies the proportion of total deposits to be kept in specified liquid assets mainly to safeguard the ability of the banks to meet the 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. The

current issue of stablisation securities by the CBN is a form of special deposits which are sterilized and non-negotiable.

(iv) Direct Control of Credits:-

The imposition of credit ceilings has been used by the CBN as a major policy tool to promote economic stability. Direct control of credit ensures that the growth in money supply is restricted to the amount perceived to be needed to support a reasonable growth rate without over extending the economy.

In the 1991 guidelines to banks, the ceiling on commercial and merchant bank's aggregate credit expansion to the private sectors is increased from 12.5 per cent in 1990 to 13.2 per cent in 1991. The policy of stimulating growth in the non-oil sectors is in line with the objectives of the Structural Adjustment Programme (SAP), the CBN directs that the Commercial and Merchant Banks accord priority to the agricultural and industrial sectors as indicated below in Table 5.

TABLE 5

Sectoral Allocation of Credit (Per cent)

Sector	Commercial Banks	Merchant Banks
A. High Priority Sector	50	50
(i) Agricultural Production	(15)	(10)
(ii) Manufacturing Enterprises	(35)	(40)
B. Others	50	50
Total (A+B)	100.0	100.0

SOURCE: CBN 1992 Annual Reports.

(v) Interest Rate Policy:

The level and structure of interest rates were administratively determined by the Central Bank of Nigeria. In the pre-SAP era both deposit and lending rates were fixed by the Bank based on policy decisions. At that time, the major reason for administering interest rates were the desire to obtain the social optimum in resources allocation, promote orderly growth of the financial market, combat inflation and lessen the burden of internal debt.

With the introduction of SAP in 1986 by the Federal Government to enhance competition and allocation of resources, the CBN introduced a market based interest rate policy in 1987. The policy decision was not without controversy. While it was generally agreed that low interest rate and did not encourage savings, it was feared that high interest rates, which were likely to accompany deregulation, might shift investment. The deregulating interest rates which took place in August 1987 gave banks a free hand in determining their deposit and lending rates according to market conditions through negotiations with their customers.

The behaviour of interest rates in the period of deregulation shows that the performance has been mixed. First, the enhanced yields on savings instruments stimulated a sharp rise in the public's investment in financial assets. But the high interest rates have tended to discourage new investment spending on real assets - plants and equipment particularly in the small and medium enterprises.

(vi) Moral Suasion:

From time to time, the CBN has found it expedient to influence the banks, through moral suasion, to broaden their branch network, grant credit for development purposes, narrow the spread between the prime and maximum lending rates, minimise unbridled bidding at Foreign Exchange Market auctions and in general at tune them to the overall economic goals.

B. SOME DEVELOPMENT FUNCTIONS OF THE CENTRAL BANK OF NIGERIA. (CBN)

Apart from the traditonal functions discussed above, the Central Bank of Nigeria has been very influential in other areas of economic development. These include promotion of agricultural activities, through agriculrural finances, industrial development, promotion of the development of financial market, rural banking, export finance promotion of small and medium scale enterprises, carrying research and data-gathering, management of external reserves external debt consolidation of public sector accounts, involvement in bank licensing as well as other development functions. However, a few will be treated in the subsequent paragraphs to highlight the unique role of the CBN in the management of the economy.

(i) Promotion of Small and Medium-Scale Enterprises

The Central Bank of Nigeria since 1970 has been instrumental of wholly owned Nigerian Enterprises particularly in the small-scale sector. In its policy guidelines to the CBN directed that with effect from April 30 1970, credit to indigenous borrowers was to be at least 35 per cent of the banks total loans and advances. Even though the CBN raised the proportion of loans to be advanced to indigenous borrowers, the banks concentrated on large scale business and granted loans on a marginal basis to SMCs, because perceived high risks involved. In the fiscal year 1979/80, the CBN directed that at least 10 percent of the loans advanced to indigenous borrowers should be allocated to small scale industries. This percentage has been reviewed over the years and with effect from January 1990 a minimum of 20 per cent of the total loans and advances is to be allocated to SMEs, a non-compliance attracts stiff penalties.

(ii) Debt Management:

The servicing of Nigeria's huge debt overhang is one of the developmental function of CBNs. The CBN, and the Federal Ministry of Finance have

however made a far-reaching progress in reducing the debt burden through a rescheduling of the long term debt and debt conversion programmes.

On the domestic scene the CBN funds the Federal Government through ways and means of Advances and issurance of Treasury Bills and Certificates, and long term development stock see table below.

TABLE 6

WAYS AND MEANS ADVANCES OUTSTANDING (₦million)

MONTH	1988	1989	1990	1991	1992
January	3,115.6	54613	2159.2	6620.6	0.0
February	3,930.1	214.4	19445.4	7292.9	3014.3
March	2,482.1	0.0	14228.4	8483.0	8669.3
April	5,074.9	29464	14470.6	12851.3	16292.5
May	5,389.4	4415.1	12871.3	13270.7	12848.9
June	5,562.7	6161.1	10687.8	13131.7	15659.9
July	7,374.3	7841.6	16491.7	24325.2	22652.2
August	7,623.3	9734.9	14296.8	23797.2	22657.7
September	7,451.4	9757.0	16039.6	24025.0	24546.3
October	7,025.7	13316.6	17756 .7	23972.6	32840.0
November	8,306.7	14598.9	18605.2	23583.1	41543.9
December	0.0	0.0	0.0	0.0	0.8
Total	633361.2	69532.3	157052.7	182399.3	2005228.4
Monthly	5278.0	5794.3	13087.7	15199.9	16710.7

SOURCE: CBN ANNUAL REPORT.

(iii) Export Promotion:-

The CBN also promotes non-oil exports through the Foreign Input Facility (FIF) scheme which is designed to give exporters unrestricted access to foreign exchange. The promotion is done through reserving a revolving loan which involves the CBN include identification of export credit risks and other risks to enable the CBN and other government agencies to determine the range of facilities to be provided.

(iv) Foreign Exchange Monitoring

With the introduction of a market-determined exchange rate in 1986, the Bank has encouraged the naira exchange rate to respond to market forces. It however monitors the rates as well as the utilization of scarce foreign exchange resources to ensure that manipulation of customers by authorised dealers are minimised. The CBN also carries out ad-hoc examinations to ensure that Funds are repatriated and that interest due on domiciliary accounts are properly credited to customers' accounts. The banks which were found to sell at rates higher than permissible were furnished.

(v) Promotion of a Sound Financial System.

In order to promote a sound financial system the CBN initiates and implements measures. With the introduction of the Structural Adjustment Programme (SAP) in 1986 and the consequent deregulation in some areas of the financial system, the number of banks and other financial institutions grew sharply. To ensure that the expanded financial system is sound and to curtail the incidence of illiquidity and capital erosion in banks; the risk - weighted approach to capital adequacy was introduced 1990.

2.6 BANKING REGULATIONS IN NIGERIA.

As financial intermediaries, banks assist in channeling funds from surplus economic units to deficit ones to facilitate business transactions and economic development generally. And these funds are owned by third parties, prudence demands that such funds should be efficiently managed to sustain the confidence of depositors in banking system, ensure the continued soundness of the system itself and thereby minimise the risk of bank failures. Other reasons for regulations

include the complex nature of banking business in relation to this products of the business, the fact that competition among banks could be deterimental to the business; the need to ensure availability of the products to various aectors of the economy at reasonable prices; the magnitude of funds involved and the tremendous impact that misue or fraud could have on the public's confidence in the system.

The enactment, of the Nigerian Banking Ordinance in 1952 introduced some form of regulations into the Nigerian banking scene. The ordinance laid down the standard and procedure for the conduct of banking business by prescribing the mandatory minimum capital requirement for banks and introduced regulations to check bank failures. And the bank failures of this era were largely attributed to the monopolistic structure of the banking industry which allowed the foreign banks to enjoy exclusive patronage from the British firms.

Following the establishment of the CBN in 1959 the, banking industry has witnessed quite a number of regulation and control from the apex institution - Central Bank of Nigeria (CBN) and the Federal Ministry of Finance. The period 1958-1986, may be described

as the regime of intensive banking regulation. This act empowered the CBN to promote and integrate the Nigerian Financial System. Two other sources of banking regulations were the Banking Act 1969 and the Exchange Control Act of 1962. The Banking Act 1969, which has been subjected to several amendments also provides for regulation and control of the monetary and Financial System. Specifically, it made provisions for the granting of licenses to banks while imposing restrictions on the activities of licensed banks. The Exchange Control Act of 1962 was not aimed at banks directly, but since foreign exchange transactions are mostly carried out through the banking system, the existing foreign exchange regulations would necessarily restrict the actions of the bank. This act ensure that the scarce foreign exchange resources was allocated to the priority sectors of the economy.

In addition to the statutory regulations, the CBN is empowered to make other rules which are to foster monetary stability and sound financial structure. These extra rules are usually reflected in the regular CBN guidelines to banks. In the period before SAP, the important regulatory instruments were:-

(a) prescription of various minimum reserve requirement cash servers, specified liquid assets, special deposits in CBN and stablization securities, the purpose among others being the maintenance of monetary stability.

(b) specifies the minimum ratio of total advances, discounts e.t.c., that must be granted to indigenous persons by each bank; and empowers CBN to minipulate bank credit to the economy generally.

(c) the loan requests exceeding 33.3 percent of total paid up capital and resources of banks must acquire the prior approval of CBN before they can be considered for approval by the bank.

(d) state conditions for licensing as well as for opening and closing of branches.

(e) stipulate capital/deposit and capital/loan ratios.

(f) state proportion of profits to be transferred to reserves.

(g) list activities that banks cannot participate in.

2.7 SELECTED REGULATORY POLICIES UNDER SAP.

The gradual movement to indirect monetary control and deregulated banking system since 1986 has been motivated by two major factors. The first is to encourage competition and efficiency in the allocation of financial resources, while the second is to complement the overall economic policy which relies on market forces in the allocation of resources.

In other to achieve the broad objectives outlined above, a number of policy measures were adopted. These measures include:-

(i) Reforms in monetary and credit management

(ii) Foreign Exchange Management.

(iii) The promulgation of CBN Decree (No.24), and Bori Decree No.25 1991.

(iv) The Prudential Guideline.

(i) REFORMS IN MONETARY AND CREDIT MANAGEMENT:-

From the inception of the SAP, the need to curb excessive bank credit expansion to the economy was recognised inorder to maintain an appropriate monetary growth which would ensure stability in both the domestic and external sectors of the economy and in particular to promote a smooth operation of the foreign exchange market. To this end, the [illegible] rate of interest on commercial and merchant bank's loan and advances was generally reduced over the years. One notable exception was in 1992 when the need to stimulate growth and reduce mounting unemployment prompted an increase in the permissible credit expansion of banks. See table 7.

In addition to direct credit control through variation in credit control through variation in credit ceiling, a series of indirect measures to control the ability of banks in extending new credit were also applied. These measures include:-

-the recall of naira counterpart of outstanding external payment appears to the CBN in 1986 and 1989.

- mopping of excess liquidity through issurance of stabilization securities since, October, 1990.

- Increase in commercial banks' cash ratio requirement in 1989, 1990 and 1992.

- Introduction of cash ratio requirement for merchant banks in 1990.

- expansion from 1990 of the base for calculating the cash ratio requirement to include all deposits instead of restricting it to demand deposits as was the case prior to 1990.

- Raising the liquidity ratio for commercial banks from 25 to 30 per cent.

- Varying the liquidity ratio for merchant banks from 30 per cent of deposits and call money in January 1988 to 20 per cent of total deposit liabilities currently.

- transfer of public sector accounts from the commercial and merchant banks to the CBN in May - June 1989.

- Prohibiting commercial and merchant banks from accepting foreign guarantees and/or foreign currency deposits as collaterals for domestic loans denominated

In direct methods of credit and monetary control received a boost with the selective lifting of credit ceiling for healthy banks. Apart from the stated measures, other measures to re-direct credit to particular sectors include the prescribed allocation, since 1987, of 16 and 35 percent of commercial banks total credit to agriculture and manufacturing. Merchant bank minimum credit targets to these sectors have remained at 10 and 40 percent since 1987. The prescribed minimum ratio of commercial bank deposit mobilised in rural areas to be granted as loans to finance activities in such areas as increased from 45 to 50 percent, while the minimum of banks' loans to small-scale wholly-owned Nigerian enterprises as a percentage of total loans was raised from 16 to 20 per cent.

(iii) INTEREST RATE DEGREGULATION.

Interest which consitutes the principal source of income for licensed banks were fully deregulated in 1992. Initially the CBN prescribed a ceiling of 21 percent per annum, but this was subsequently changed to give banks a free hand in determining their deposit and

lending rates according to market conditions. However, the CBN continued to fix the minimum rediscount rate (MRR) which was raised to 15 per cent in August 1987. But the rate was reduced to 12.75 per cent in December 1987 inorder to stimulate investment and growth in the economy. This was raised to 13.25 per cent in 1989 in line with the perceived need to moderate monetary expansion. Subsequently, in abid to remove distortions in the interest rate structure, CBN reached an accord with the banks on certain margins between their deposit and lending rates late in 1989. Following that understanding, the spread between the savings deposit and prime lending rates for each bank was fixed at 7 percent points. These prescriptions on interest rates were later removed in January 1992 but banks have been required to observe a maximum spread of 5 percent points between their average cost of funds and their maximum lending rates more as a performance than mandatory target.

It is not surprising therefore that lending rates differ between banks. This is a reflection of the banks sources of funds, individual managemet policies at the enterprise level and the type of target customers. For example commercial banks

who enjoy relatively cheap funds in current account balances of their customers have an advantage over Merchant Banks who have to buy their funds on their interbank market. The banks benefited from the incidence of high interest rates the borrowing public suffered the burden of high cost of borrowing.

As a result an artificial scarcity of funds was created and the economy suffered. Small and medium scale enterprises were the worst hit by high cost of borrowing. Even the larger productive enterprises were starved of funds because of their inability to recover such high costs in the pricing of their products due to consumer resistance. The only beneficiaries of a regime of high interest rates are traders who operate on cash and carry basis. See Table 8 for selected interest rates.

(iii) FOREIGN EXCHANGE MANAGEMENT UNDER SAP.

Economic deregulation in contrast to economic control was the philosophy behind SAP which attempted to build on the 1986 budget. Adopted in July 1986, SAP's main element was the adoption

of appropriate pricing policies in all sectors of the economy with greater reliance on market forces and reduction in complex administrative controls with a view to rationalising the use of scarce resources, promoting economic diversification and stimulating domestic production.

With the promulgation of the Second-Tier Foreign Exchange Market (SFEM) Decree in 1986 aimed at finding a realistic exchange value for the hitherto over valued Naira and thus ensure financial discipline in the system which led to the floating of the ccuntry's exchange rate to the US Dollar, the financial system found itself saddled with a new and exciting responsibility of allocating foreign exchange (FX) to productive users within the economy.

The SFEM was the main institution at the inception of SAP for the achievement of foreign exchange management policy objectives. The first-tier market also operated alongside the SFEM operations and was designed to accomodate payments for public sector debt service payments

and obligations to international organisations and Embasies. However, in July 1987, the market determination of the naira exchange rate was reinforced when a single FEM emerged from the merger of the first-tier. The first-tier rate applied to debt serving, payments to international bodies, settlement of transitional imports for which letters of credit were opened before the commencement of SFEM, and disbursement in respect of public sector letters of credit.

In the Second-Tier Foreign Exchange Market, little or no restriction was placed on the functioning of the market. To ensure equity in the allocation of foreign exchange, banks were initially classified into two, namely big and small banks. Each successful big bank could purchase a maximum of 10 per cent and the small one a maximum of 7 percent of total foreign exchange allocation. Given this classification, it was clear that not all the authorised dealers would be successful at each bidding session. Consequently, each dealer tried to outbid the other by quoting high rates and, given the limited resources in the market and the resultant high

level of excess demand and the aggressive posture of the banks, the naira depreciated at the first and second bidding sessions when the average of successful bids was used to determine the naira exchange rate. After the second bidding, the marginal rate system was introduced to enable all successive bids to be settled at the rate of quoted by the last successful bank.

The second-tier rate continued to depreciate during the first three months of 1987. Consequentl; in April 1987, the Dutch Auction System (DAS) was introduced, under the system, bids where settled at bid rates in order to check unrealistic bids which had no bearing with actual demand. Under the DAS, there was as many rates as there were successful bidders. However, one worrisome development was that the rates diverged seriously from one another implying some distortion in the allocation of resources.

With effect from January 1989, the autonomous market and the official foreign exchange market were merged to form Interbank Foreign Exchange Market (IFEM) inorder to establish a single naira exchange rate. Under IFEM, no distinction is

made between funds obtained from the Central Bank and autonomous sources. The exchange rate is determined by the CBN.

Another method by which the government has been trying to improve the allocative efficiency of the foreign exchange market has been through the establishment of bureaux de change. The aims of the policy here have been to allow small dealers in foreign exchange more freedom of action and to enlarge the size of offically recognised market and so improve macro-economic management.

Inadequate funding, perhaps is the greatest source of anxiety for the foreign exchange market. Since the incpetion of the auction system, aggregate demand for foreign exchange has continued to surge ahead of supply. Inspite of the above experience, the commercial and merchant banks experienced relative boom in their operations and attracted the attention of all other economic units in the system. One basic implication of the foreign exchange market on the banking sector is the increase in speculative activities and the swelling of their gross earnings.

(iv) PRUDENTIAL GUIDELINES.

The prudential guidelines for licensed banks was issued by the Central Bank of Nigeria on 7th November, 1990. All licensed banks were directed to adhere to the prudential guidelines for reviewing and reporting their performance, particularly in the areas of credit portfolio disclosure requirements, interest accrual, classification of other assets, and off balance sheet engagements. Both the guidelines and the accounting standard spelt out the criteria to be employed by Banks for classifying non-performing loans. A good number of Banks that published their annual reports for the period ended December 1990, in accordance with the guidelines recorded either outright losses or diminished profit in comparison with previous years. This is because of the fact that both the guidelines and accounting standards compelled Banks to make adequate provisions for bad and doubtful debts accumulated over the years.

The impact of these guidelines measures has been so pronounced on Banks that the CBN to come to their rescue by allowing them

spread the provisions for their bad debts over a maximum of four years.

(v) CBN DECREE NO.24 AND BOFI DECREE NO.25 OF 1991

The promulgation of Central Bank of Nigeria (CBN) Decree No.24 and the Banks and other financial institutions (BOFI) Decree No.25 in 1991 was an important milestone in the deregulation of the financial industry and was also the most significant banking legislative development since independence in 1960. The two Decrees conferred vast powers on the Central Bank of Nigeria for the control and supervision of the Banking Finance Industry.

Prior to the promulgation of decree No.24 and 25 of 1991, one of the problems plaguing the Nigerian Banking System was lack of adequate legal framework for effective regulation and supervision of the banking system as well as the non-bank financial institutions. The repealed CBN Act of 1958 and the 1969 Banking Act, were not only inadequate but were riddled with ambiguities.

The introduction of the Structural Adjustment Programme (SAP) which required a sound financial

sector facilitated the promulgation of these decrees.

One other factor that also informed the promulgation of the decree was the resolve to address the present problem of some technically insolvent banks in the banking system. Hitherto, the regulatory authorities were deficient in their administrative enforcement powers and operational autonomy. Thus, the promulgation of the decrees not only granted the CBN greater operational autonomy, but it also vested it with more powers in respect of monetary and Banking policies. The major provisions of the two decrees are highlighted in the following sub-sections:-

CENTRAL BANK OF NIGERIA DECREE NO.24

The significant powers conferred on the CBN by this Decree are as follows:-

The governor of the CBN shall keep the President informed of the monetary and banking policies pursued or intended to be pursued by the Bank. Section 8 of the decree thus gives the bank the much needed operational autonomy in respect of these matters; without having to go through the Minister of Finance as was the case before.

The exchange rate of the Naira shall be determined from time to time by a suitable mechanism devised by the Bank for the purpose.

The Bank shall have power to perform functions relating to the management of the external debts of the Federal Government as may be directed by the President.

The Bank shall have power to compile and circulate to all banks in Nigeria, a list of bank debtors whose debts to any bank had been classified by the bank examiner.

BANKS AND OTHER FINANCIAL INSTITUTIONS DECREE (BOFID) NO. 25 OF 1991.

The significant changes introduced by this legislation included, amongst others the following:-

The Decree vests the CBN with the sole responsibility for granting banking licence and licensing of non-bank financial institutions.

Minimum capital requirements are given in Section 13, 14, and 15. These new provisions are to guarantee the continued solvency of the banks in the system.

Section 19(2) prohibits any person from being a Director in more than one bank without the approval of the Central Bank of Nigeria.

In particular, Section 32 and 33 now vest the CBN with the powers to deal with any ailing bank and failed bank. Under these provisions, the Decree vests the CBN with the powers to issue, cease and d esist orders - holding actions - on a failed bank. Furthermore, with the approval of the President, the Bank can assume control and management of a failing bank (S.34) and apply to a court either to purchase a failing bank for norminal value for the purpose of restructuring it or liquidating it (S.36). This will further enhance the existing mechanism for resolving insulvent banks in the system, thus complementing the provisions of the NDIC Decree No.22 of 1988; and Section 44(1) empowers the CBN to vest all nominations of persons to serve as directors of banks.

To enhance the Bank's newly granted administrative enforcement powers the Decree is replete with provisions imposing high monetary penalties ranging from ₦500 to ₦1000,000 as well as imprisonment terms ranging from one year to ten years on individual officers, employees and directors of banks as a deterrent. The provision relating to these penalties are intended to address the issue of recurrent violations of relevant banking laws and regulations. The decree in its provisions

has addressed the issues of the implementation, compliance and enforcement of some banking regulations recently introduced by the supervisory authorities, in 1989 and 1990, for example prudential guidelines, capital adequacy requirements and the Accounting Standards for Banks.

In the light of the foregoing, the Decree has gone along way to lay down clear guidelines for sound, safe and efficient banking system that will be responsive to innovation, competition and changing socio-economic needs of the nation.

CHAPTER THREE

3.1 I N T R O D U C T I O N:

This chapter tends to examine the effects of CBN Regulations on the banking industry before the era of SAP.

Attempts will also be made to look into the Banking environment in a deregulated economy: objectives of deregulation in the Nigerian banking system; and anticipated benefits of deregulated.

More importantly we shall look into the Gains, problems, future prospects and challenges of banking in a deregulated economy.

3.2 EFFECTS OF REGULATION:

Following the establishment of CBN in 1959 the Apex institution in the Financial system. The banking industry has witnessed quite a number of regulation and control from the apex institution- Central Bank of Nigeria (CBN) and the Federal Ministry of Finance.

The Banking Act 1969, which has been subjected to several amendments also provides for regulation and control of the monetary and financial system. It makes provisions for granting of licences to banks and imposes restriction on certain activities of licensed banks and specifies the minimum capital requirements for banks. These requirement have been changed several times.

One thing is clear, however, that Government take regulatory action when they believe that: Competition within an industry is either impossible or contrary to public interest or will lead to serious inefficiency in the use of resources or in the delivery of the goods and services of the particular industry; the aim being to ensure stability in the system.

With respect to banking, there are various reasons why the system is regulated. These include, the seriousness of the consequences of Banks becoming insolvent, the fact that the nature of banking business is complex in relation to the products of the business, the fact that competition among Banks could be detrimental to the business, especially in developing countries and the need to ensure that products are available to various sectors of the economy and at reasonable prices. In addition, the magnitude of funds involved, and the tremendous impact that misuse or fraud could have on the public confidence in the system and hence, on the economy, make regulation of the operation of Banks necessary.

The effects of banking regulations in Nigeria prior to SAP could be described as mixed. While some of the effects were salutary, others could be considered counter productive. Banking regulations

whether statutorily or discretionarily administered by the regulatory authorities - had some salutary effects on the banks and their customers. For example the country witnessed constant bank failures during the laissex-fair banking practices of the 1940's and 1950's. Between 1951 and 1952, for example, about 17 new indigenous banks were established, but only one of them survived beyond two years. The free-for-all banking practices of the period, especially before the Banking Ordinance of 1952, no doubt, encouraged the factors which led to bank failures. The factors included inadequate capital and staff, structural handicap and poor management. Following the ordinance and subsequent banking laws- the Central Bank Act, bank failures gradually disappeared from the Nigerian scene. This will tend to corroborate the view that the protection of banks has been the central aim of the regulations. Banking regulations, by promoting the viability of banks, encouraged increased investment in the banking industry and consequent growth in banks and the services they rendered.

Regulations are essentially for the attainment of a balanced growth and development of the economy and the protection of the interest of depositors and

determined by credit ceilings and administratively fixed interest rates. Efficiency of the system was reduced as banks were allowed the same proportional expansion in credit irrespective of the level of their efficiency.

Also the rapid increase in the number of banks since 1970's increased the burden of monitoring individual banks and therefore made enforcement or regulations more difficult. The banks exploited this loophole by circumventing the controls, through window dressing and the use of balance sheet items to hide relevant information about their operations, thereby increasing the difficulty of the regulatory authorities in getting appropriate information about their operations, thereby increasing the difficulty of the regulatory authorities in getting appropriate information for enforcing the regulatory authorities diverted more of its resources to the enforcement of compliance with credit ceilings and related direct controls. Above all, regulations gave too much room to fraudulent and corrupt practices within the system.

3.3 BANKING IN A DEREGULATED ECONOMY:

The banking system has witnessed a drastic changes from the mid 1986 to the end of 1983 as a result of shift from the essentially fiscalist approach adopted by the Babangida Administration to revamp the persistently depressed economy, to a monestrist approach. The shift was in the realisation of the fact that the fiscal measures adopted have not fully solved the problems of the economy and have led to the over-regulation of the Banking and economic system. The Structural Adjustment Programme (SAP) was put in place to correct the disarticulations in the economy.

The Structural Adjustment Programme was introduced to achieve these objectives:-

i) To restructure and diversify the productive base of the economy in order to reduce dependences on the oil sector and imports.

ii) To achieve fiscal and balance of payment viability over the period.

iii) To lay the basis for sustainable non-inflationary or minimal inflationary growth.

iv) To lessen the dominance of unproductive investment in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector.

The practical application of the gradual deregulation policy has been focussed on.

Institutional deregulation, price, trade deregulation and Bank privatisation.

a) Bank Privatisation in Nigeria:- The decision of the Federal Government to privatise its shareholding in 12 Commercial and Merchant banks is one of the measures taken to deregulate the Banking System. Although these twelve banks represent less than 10 percent of the number of banks operating in Nigeria today they account for 80 percent of the assets of Commercial banks 85 percent of the branch network and 45 percent of the assets of Merchant Banks in Nigeria. The government intervened in commercial and merchant banking in order to set standards of patriotic corporate behaviours and to align banks operating policies to the developmental aspirations of the nation as reflected in various development plans.

b) De-regulation of the interest rate structure: The CBN in 1987 introduced a flexible interest rate policy with a view to promoting a more competitive banking system and encouraging the

mobilisation of both foreign and local financial resources. The CBN adopted the policy of fixing only its minimum rediscount rate (MRR) to influence interest rate charges from 1987. This partial de-regulation of interest rate continue until August 1988 when a full or total deregulation was adopted.

c) Equity participation in other companies by banks with a view to encouraging wholesale banking. Equity participation in non-banking enterprises, subject to a limit, of 10 per cent of each bank paid up capital plus reserves per enterprise, and a maximum aggregate equity share participation of 33⅓ per cent of the paid up capital plus reserves of the banks in all such enterprises.

d) De-regulation in registration of new banks with a view to increasing competition among them.

e) De-regulation in sectorial allocation of credit. This involves the categorisation of the economy into sectors for bank lending from 4 to 2 i.e. high priority sectors (Agriculture and Manufacturing Enterprises) and other sector (Government Import and Domestic Trade, Credit and Financial Institutions, personal and

professional, Transportation and Communication e.t.c.).

f) Creation of the security of Bank deposit through establishment of the Nigerian Deposit Insurance Corporation (NDIC) which was set up in 1988 to protect depositors in the event of bank failures. The corporation jointly owned by Federal Government and CBN has an authorised capital of ₦100 million. The scheme known as Deposit Insurance Scheme requires that all Banks, Commercial and Merchant, pay an annual premium representing 15/16 of one percent of their deposit liabilities each year to the NDIC.

g) Relaxation in the licensing of new banks.
Perhaps the most profound and visible manifestation of banking deregulation in Nigeria was the relaxation in entry controls during the period 1990. The period witnessed a phenominal increase in the number of licensed banks from 43 in 1786 to well over 120 in 1990. With minimal overheads and high volume transaction, many of the new banks began to declare profits which inturn attracted new entrants by demonstration effect. This rapid increase in the number of banks has greatly watered down service, standards, increase depositors risk as well as the incidence of bank frauds. There is also the

capability of the CBN to supervise such a large number of banks given the fact that even with a smaller number it was proving difficult for the bank to undertake the statutory bank examinations within twelve months as required by the law.

3.4 OBJECTIVES OF DEREGULATION IN THE NIGERIAN BANKING SYSTEM:

The general objective of the Structural Adjustment Programme whether it is undertaken is the search for greater economic efficiency and better resource allocation through less government intervention. The current effect at deregulation of the banking system is an integral part of the Structural Adjustment Programme aimed at:-

- Achievement of adequate spread of banking services nationwide.
- Promotion of service driven competition in the industry and improvement in the quality and sophistication of banking services in the economy.
- Increased focus on the development of rural and community - based banking culture and services through the establishment of both the peoples banks and community banks.

- Mobilisation of the Finance houses (or Non-bank finance institutions) to play more active role in the industry providing needed products and services otherwise considered too risky and unconventional for the banking institutions.
- Introduction of foreign currency accounts as a step towards directing the banks to seek for more non-oil non-government sources of foreign exchange; and positioning the banks to take more active interest in export promotion.
- Authorising Banks to take equity positions in non-bank industrial enterprises thereby strengthening their commitment to the post-loan performance of these enterprises.

3.5 ANTICIPATED BENEFITS OF DEREGULATION:

Some of the anticipated benefits of deregulation of the Nigerian banking system to the National economy are considered below:-

- Increased number of banks and branches per capital; with consequential benefits on job creation and manpower development.
- Increased lending to the productive sectors of our economy and thereby increasing capacity utilisation.

- Increased commitment to enterprises post lending, resulting from the direct equity participation of banks.
- Ehhancing competition particularly between the older and newer banks thus inducing higher efficiency in the service delivery and better pricing of such services.
- Increased Aggregate Deposit Mobilisation from surplus generating units.
- Export promotion of the non-oil goods and services to supplement and strengthen foreign exchange earnings.
- Increased diversification and specialisation in the services rendered by banks to meet the diversified and specialised needs of the various segments of the economy.

3.6 GAINS, PROBLEMS, PROSPECTS AND CHALLENGES OF BANKING IN A DEREGULATED ECONOMY:

Deregulation of the economy consisting of the dismantiling of complex administrative controls and reliance on market forces, is one of the main elements of the Structural Adjustment Programme(SAP). It has brought in its wake monumental changes, upheavals and challenges as we have tried to highlights.

The prospects of the banking industry in a deregulated economy could be seen in the light of the following:-

1. Perhaps the biggest prospect of financial de-regulation on banking is its impact on Customer services. We can already see this trend from many new products being put together by Banks. Example of such products include:-

   - Menagement and Technical services meant to provide operational foundation for newly established banks.
   - Insurance Agency meant for the bank's staff and customers.
   - Automatic Teller Machine (ATM) and plastic and products.
   - Joint liability sbheme-small-scale farmers credit scheme. Facilities made available to organised group of between 5 to 15 around reliable leaders in the community.
   - Floating rate of interest to protect long term depositors.

- The credit scheme for Rural Women Abuja Residential Housing Loan Scheme meant to provide financial assistance to Nigerians desiring to build houses of their own in Abuja.
- Civil Servants Loan Scheme introduced for the working class to have easy access to agricultural loans.
- Hajj Savings Scheme introduced so that intending pilgrims will have enough saving for their Hajj and customers will earn interest on the amount.

ii. Some Banks now formed holding companies inorder to take advantage of the synergy this arrangement could offer. These holdings operate commercial banks, Merchant Banks and in some cases insurance brokerages, stock brokerages and Financial Companies. Example here is First Bank gave birth to FBN (Merchant Bankers) Limited, Devcom Merchant Bank gave birth to Equitorial Trust Bank. While Afribank operates International (Merchant Bankers).

iii. The proliferation of banks has in return increased competition that has led to improved service delivery and innovation. Banks accept the supremacy of the customers and are prepared to go the extra mile to ensure customers satisfaction. Between 1986 when SAP was introduced) and 1992, banking witnessed an unprecedented boom.

iv. The deregulation of interest rates has engendered very keen competition in the banking industry resulting in the adoption of new strategies by banks to attract deposits and encourage savings. As a result, total financial savings have risen from ₦11.5 billion in 1986 to ₦27.9 billion at the end of 1990.

v. Financial Liberalization has brought about unprecedented growth in the number of banks operating in Nigeria; from about 46 banks in the country before the introduction of SAP in 1986 to about 120 as at the end of 1992. See table 9

TABLE 9

END OF YEAR	COMMERCIAL NO. OF BANKS	NO OF OFFICE	MERCHANT NO OF BANKS	NO OF OFFICES
1982	22	984	8	19
1983	25	1101	10	24
1984	27	1242	11	25
1985	28	1290	12	26
1986	29	1360	12	27
1987	34	1476	16	33
1988	42	1652	24	46
1989	47	1849	34	56
1990	58	1850	49	74
1991	65	1930	54	84
1992	65	1950	54	84

iv. Also, in the area of credit policy and portfolio selection, a new sense of rationality has emerged following the gradual deregulation of the policy of sectoral allocation. Ease of access to credit has been widely observed, even though a few banks in lending to the preferred sectors.

vii. To encourage domestic savings and increase the efficiency of the banking system; interest rate was deregulated. See the table 10

viii. To eliminate the corruption and distortions associated with the import licencing scheme and to increase access to foreign exchange, government abolished the import licencing scheme and replaced it with foreign exchange aution system. See Table 11 for foreign exchange flow through Central Bank.

ix. To improve operating efficiency of government enterprises, government embarked upon an ambitious programme of commercialisation and privatisation of government enterprises; the restructuring of the defunt Federal Savings Bank into a wholesales commercial bank - FSB International Bank Plc - was carried out under this programme.

Inspite of the improvements highlighted above, the banking sector was still having some problems associated with adoption of financial deregulation. Some of these problems could be highlighted below:-

i. Rate Valatility:
Interest and exchange rates have become very volatile since they were deregulated. In the absence of risk management vehicles such as swaps and options, high volatility could be extremely destructive. One could imagine what could be the furture of a company with huge foreign exchange denominated liabilities prior to the March 1992 Foreign Exchange Market reform Volatility makes planning difficult and generates speculative activities.

Since the withdrawal of parastatal funds and the abolition of foreign exchange denominated liabilities prior to March 1992 foreign market reform.

ii. Little Investment in Productive Section:

Although a few areas have been transformed, Nigerian ingenuity has been unleashed only on distributive and service industries. Despite all efforts, extractive agriculture, manufacturing and construction industries are yet to enjoy necessary investment. High inflation rate, negative real and highly volatile interest rates, etc., encourage consumption and reward short term ventures.

iii. Low Foreign Investment:

Nigeria is yet to become a dreamland for foreign investors despite efforts at deregulating the economy and making the country attractive to foreign investors. The over valuation of Naira until March 1992, poor infrastructures; the level of documentation and approval requirements for approved status and the procedure for repatriation of dividend and capital made Nigeria a less attractive place to foreign investors than many other countries.

iv) The implication of the prudential guidelines:

The prudential guidelines are meant to eliminate the wide-spread practice in which Banks were declaring paper profit. The implication of the guidelines is the timely recognition and provision for deliquent credit facilities. The guidelines provides modalities for recognition of income, losses, and classification of bad and doubtful debts. This ensure that profit are not recorded in respect of debts which are infact irrecoverable.

The full implementation of the provisions of the guidelines had drastically curtail the income earning capacity proportion of non-performing accounts in the banks loan portfolio. This is because the risk assets classification system hitherto adopted by these banks is at great variance with that stipulated in the guidelines.

v. Most Banks Experienced High Labour Turnover:

The geometric grouth of Banking industry in Nigeria is mostly attributed to the dynamic and systematic deregulation of our economy, however,

this alarming rate of Banks proliferation with its accompanying complexity and sophistication could not be matched by an equivalent increase in the supply of skilled personnel. Banks especially the newly licenced ones, now scout and lobby for the few available skilled personnel who they usually offer fantastic pays and fringe benefits to induce them to leave their present employers. This scarcity of skilled bankers is badly effecting the older and more conservative banks due to the massive exodus of most their professionals to the more dynamic and glamorous new Banks.

vi. Frauds and Forgeries:

Large scale frauds in the system also derive from the predominance of banking documents most of which could easily be forged. There are many cases of fraud and forgery prevalent in Commercial Banks than in Merchant Banks. Only one Merchant Bank was among the first 10 banks with the highest fraud cases as presented in table 12 below.

TABLE 12

FIRST TEN BANKS WITH THE HIGHEST FRAUD CASES

GROUP	AMOUNT INVOLVED(₦)	ACTUAL EXPECTED LOSS (₦)	PERCENTAGE OF ACTUAL EXPECT LOSS TO AMOUNT INVOLVED %
TOTAL FOR THE FIRST 10 BANKS	98812787.35	13,145,163.40	13.3
GRAND TOTAL	104967744.1	15,341,114.43	14.6

SOURCE: NDIC ANNUAL REPORTS.

vii. The inability of the CBN to bring under its control the finance houses despite the awesome power given to it under BOFID has serious implications for the economy. It implies that monetary policy will be rendered ineffective as long as banks remain its target, while finance houses whose activities are similar in scope and operations to banks are outside the target of monetary authorities.

viii. Next is the issue of shortage of long-term capital in the Nigerian Banking environment which sound also be serious concern. The supply of long-term capital is vital to resumption of sustainable

growth and development. The building of new institutions such as unit trusts, and the growth in the number of merchant banks have not really assisted in the supply of long-term capital due primarily to the instability in the environment.

ix. Continuoes use of stabilisation has led to speculative activities at the foreign exchange market to the extent that the interest rate and other prices in the economy are now tied to whatever happen in the market. For instance, when there was acute liquidity crises in the banking industry during the last quarter of 1992, inter-bank rate went up as high as over 90 per cent because banks were ready to take money at any rate to purchase foreign exchange. (See Table 13 below showing liquidity ratio).

xi. Other problems include poor management, inadequate infrastructure, illiquidity and sacarcity of professional staff.

CHALLENGES BEFORE BANKING INSTITUTIONS IN A DEREGULATED ECONOMY:

To plan for survival therefore, banks have to accept that the business environment has changed and will continue to change and only the institutions that are able and willing to make the tough decisions and sacrifices necessary to become flexible, efficient and productive will survive. Some areas in which I think banking institutions should focus given the realities of the change facing them are:-

- Continued growth in the industry will be benefial to the consumer who would enjoy increasing luxury of choice both among banks and in the scope of services offered. It may likely that the one shop bank may gradually give way to specialist banks especially among the better capitalised banks who can afford the risk and absorb the cost of new product development.

- Whilst the well-focused banks have shigh chance of survival one cannot make the same prediction regarding the various banks owned and controlled by state government. These are more susceptible to capital inadequacy and less oriented to prompt and timely management and policy shifts that are required under a competitive regime.

- There is also no doubt that merger and acquisitions will at a stage assist in pruning down the number of banks.

- As the market gets more enlightened and sophisticated and customer needs diversity, speed and efficiency in responding to these changes and needs would be some of the key attributes of the successful banks.

- There is need for banks to focus a great deal more one their organisation, branch networks and manning levels to ensure that their structure would be appropriate and effective to support the new trust. Response time will have to be shortened substantially and this can come about largely through greater computerisation of operations.

- The need for product innovativeness and product differentiation as took for achieving competitive edge and corporate differentiation. It must be admitted that increasingly, there is sprited aggressiveness and innovation going on especially among the new breed banks.

- It seems banking institutions would have to return to an important aspect of how they conducted business in the past, nemely the development of a core of very reliable customers. With easy profits from foreign exchange experienced in the past, banks tended to neglect their core customers. This process will now need to be strengthened through a well targeted relationship management strategy.

- The need to review the charges banks place on facilities granted to their customers. The complaint is growing lound and strong the charges are too many; in total they amount to substantial sums. A simple request for a facility attracts charges such as flat processing fee, spread, discount spread, Administrative and commitment fee etc. By the time the charges are computed the cost of the facility has shot up to a maximum of 40 per cent.

- The process of restructuring institutions due for privatisation and commercialisation sould prove a real challenge to the newly deregulated financial institutions. Perhaps the chanllenge of privatisation will bring out the investment bankers in our community to help with the restructuring of the many enterprises in dire need of such services.

3.7 EFFORTS AT COMBATING THE NEGATIVE IMPACTS OF DEREGULATION:

In recognition of the negative trends in the banking system arising from the deregulation the monetary authorities have reacted positively in several ways to contain and reverse the trend. Highlights of such reactions include:-

- The establishment of the NDIC in 1988 as an insurance agency against potential bank failures and to ensure sounder and safer banks through effective monitoring and supervision of the banks in collaboration with the CBN. Given the fear being expressed about the proliferation of banks and the possibility of bank failure as the system has become more competitive.

- Another notable action which has placed the banks at a greater alert in a period of deregulation was the withdrawal of public sector deposits from the banking system which has had the effect of separating banks from such public sector funds which had been known to discourage healthy competition in savings mobilisation.
- Another was the introduction of the use of an aution based system for the issuing of treasury securities whose principal objectives are the promotion of greater reliance on market forces in the determination of yields on government debt instruments through market-determined interest rates and efficient management of public debt.
- The introduction of prudential guidelines in 1990 covering credit portfolio classification and provisioning; treatment of accruable interest; disclosure requirements and treatment of off-balance sheet items.
- Several modifications in the Foreign Exchange Market to shore up the rate of devaluation of the Naira.

- As a consequence of frequent excess liquidity in the economy, the CBN decided on August 2, 1990 and continued thereafter to issue stabilisation securities on behalf of banks with excess liquidity.
- Introduction in October 1990 of a new Nigerian Accounting standards for Banks and non-Banks financial institutions, to standardise accounting policies and the reporting practices of banks which made public comprehension and comparison of results much easier and increased confidence in the interpretation of the annual reports of banks.
- Suspension of licensing new banks since 1991.
- Introduction of the indirect monetary management system known as the Open Market Operation (OMO) in 1993.
- Export promotion of the non-oil goods and services to supplement and strengthen foreign exchange earnings.
- Setting up of the NEXIM bank in 1991 to carry out specialised support for export financing and promotion inorder to broaden the export bound agricultural and manufacturing base of the economy.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF DATA:

4.1 I N T R O D U C T I O N:

Deregulatory policy of the banking system started with the inception of SAP in 1986, for years bank found themselves in priveledged and advantageous position not just among financial circles but among all classes of commercial activities. In return for performing the twin functions of turning saver deposits into investment funds and of providing the mechanism through which payments could flow to sustain economic growth, Central Bank as a government agent is empowered to maintain monetary stability and sound financial system in the country. Banks were not allowed to be seen to collapse as the government introduced various indirect instruments of monetary and credit control such as cash reserve, liquidity ratios, open market operations and the establishment of Nigeria Deposit Insurance Corporation (NDIC). The banks continue to exploit the advantage as primary intermediary between savers and borrowers to make oligopolistic profits, virtually irrespective of how good or bad their performance were.

The relaxation in the licensing of new banks give way to the increase in number of licensed banks which inturn increased competition that has led to improved service delivery and innovation. Banks accept the supremacy of the customers and are prepared to go extra mile to ensure customer satisfaction. In the face of these competitions, banks feel constrained by the use of various indirect measure employed by Central Bank of Nigeria (CBN). Bank wish the economy to be fully deregulated.

Prior to the introduction of SAP Nigerian Banks have been somewhat slow in responding to the challenges of the growing economy. However, during the period of SAP banking industry had been seen as the fastest growing sector in the economy. In this chapter, there are various variables that will be considered to measure the impact of financial deregulation and the banking in a developing economy like ours with particular reference to Central Bank of Nigeria.

This chapter deals with analysis and presentation of data. The data collected is presented in tabular forms and expressed in percentage. It is worth northing here that this study is not in any way

representing an export views, but rather it has borrowed from the knowledge of some scholars to support the argument.

4.2 PRESENTATION AND ANALYSIS OF RESULTS:

Table I shows Deposit liabilities of the Central Bank amounted to ₦213528.7 million at the end of June, 1992, representing an increase of ₦197801.1 or 1257.67% over that of 1985 before the deregulation started. The currency liabilities of the Central Bank rose sharply by ₦22360 million or 416% from end of 1985 to the end of June 1992. The rise has been induced largely by the high and rising rate of inflation and massive exchange rate depreciation. While "other liabilities" of the bank also rose sharply such deposits increased by ₦97149.5 or 2041.64% from the end of December 1985 to the end of June 1992. The rise was partly accounted for by increases in outstanding stabilisation securities and various other liabilities classified under the miscellaneous category. The bank's paid up-capital also rose to cope with increase in the activities of the CBN. The total paid-up-capital of the Central Bank amounted to ₦1992.9 million at the end of June, 1992, representing an increase of ₦1793.9 million or 901.46% over that of 1985 between the introduction of

SAP.

In Table 2, the Central Banks' total assets grew by ₦186874.5 or 701.16% since the introduction of SAP in 1986 to the end of June, 1992. The domestic assets of the bank, mainly investments in government securities grew by ₦404 million or an increase of 111.48% at the end of June 1992 since the inception of SAP in 1986. The increase in investments is due to substantial payments to institutions in which the Bank has equity interest. These included Nigerian Industrial Development Bank, Nigeria Deposit Insurance Corporation, Nigerian Export. Import Bank and Nigerian Security Printing and Miniting Company.

The re-discount also increased sharply by ₦3309.5 million or 938.33% from the end of 1985 to the end of June, 1992. On the other hand total external assets of the Bank recorded a significant increase of ₦62737.2 million or 3894.06% from end of 1985 to the end of June, 1992. Direct advances to the sector, however fell by ₦953.4 million or 37.05% from 1989 to the end of June, 1992.

See Table 3.

CURRENCY IN CIRCULATION:

One of the major activities of the CBN is the currency issue and distribution. The value of currency in circulation at the end of June, 1992 was ₦27735 million. This shows an increase of ₦23006.2 or 486.51% from 1982 to the end of June, 1992. The bulk of the increase was accounted for by vault-cash which rose by ₦1566.5 or 309.34 while cash outside banks increased by ₦21439.7 million or 507.76 during the same period under review.

The bulk of the currency in circulation was in notes, amounting to ₦27535.4 million while coins at ₦199.6 in the same period under review. The progressive increase in the amount of currency notes and coins in circulation since 1982 could be explained by the rapid inflationary trend which induced increasing nominal money balances for current transactions.

See Table 4.

MONEY SUPPLY:

From the table above, Quasi-money rose by ₦36876.8 million or 538.71% from end of 1982 to the end of June, 1992. The increase during the period was traceable to commercial and Merchant banks demand deposits

which increased by ₦33777.5 million or 579.75% at the end of June, 1992.

See Table 5.

WAYS AND MEANS ADVANCES OUTSTANDING:

The table above shows the sources through which the Central Bank of Nigeria funds the Federal Government on domestic scene. The domestic debt incurred through these sources in 1992 was ₦200528.4 million compared with ₦63336.2 million in 1988, this shows an increase of ₦137192.2 million or 216.61%. The Bank therefore was the largest lender to the Federal Government during the period as in the past.

At a monthly average of ₦16710.7 million, ways and means Advances outstanding to the Federal Government increased by 9.9 percent above the level in 1991. Between 1988 and 1992, ways and means Advances rose steadily, at an average of 40.4 percent. The rate of increase in the advances reached a peak of 125.9 percent in 1990. Thereafter, it grew by 16.1 and 9.9 percent in 1991 and 1992 respectively.

See Table 7.

AGGREGATE CREDIT TO THE ECONOMY 1985 - 1992.

Aggregate Bank credit to the domestic economy rose sharply from ₦35301.8 in 1985 to 106542.6 in 1992, this represent an increase of ₦71240.8 million or 201.81 percent. The increases were largely on account of the jump in credit (net) to the Government sector which rose by ₦35429.9 or 180 percent at the end of 1992.

Net bank claims on the Government increased sustartially by 180% or ₦35429.9 million during the period under review. The increase in net credit to Government was largely traceable to ways and means advances. Underlying the surge in credit to Government was the relatively high level of expenditure as reflected in the gross borrowing. The effect of this factor had, however, been masked by the growth of the balances on the stabilisation accounts of the government. Commercial and Merchant Banks claims on the Government showed significant decrease, largely reflecting decrease holdings of treasury bills. Commercial bank claims decrease during the period under view by 37.7% or ₦3628.8 million while Merchant Bank claims decreased by ₦157.9 million or 13.53%.

Bank credit to the private sector rose by ₦35810.9 million or 228.41%. These sharp increases took the growth rate of private sector credit in contrast to the prescribed ceiling of 15.8 percent in fiscal 1990.

See Table 8.

The upward trend in the Bank deposit and lending rates intensified in the first half of 1993. This resulted largely from the banks' aggressive drive for new deposits which, coupled with high inflationary expectation, pushed interest rates to high level. The average inter-bank call rate reached an all time high of 106.0 percent in June, 1993 and stood at 92.0% at the end of December. Commercial and Merchant Banks deposit and lending rate rose and remained high though the rates were negative in real terms when related to the rate of inflation. Commercial bank savings deposit rate, which averaged 16.1% at the end of December 1992, rose to 16.90% in June, 1993. The average interest rate on deposit maturing in 1 Month and 3 months also increased from 20.10% and 20.80% respectively in 1993. However, the average prime lending rate declined from 29.80% in December 1992 to 29.00% in 1993 while the maximum lending rate declined from 31.20% to 30.80 percent. Consequently, the spread between the average

savings and prime lending rates fell from 13.70 percent in December 1992 to 12.1 percent in 1993. Merchant bank deposit rates also increased sharply from 14.50% in 1987 to 40.10% at the end of December, 1993. The bank's average prime and maximum lending rates, however, increased markedly from 16.50 to 55.20 percent from 1988 to 1993 and 17.60 to 61.70 percent respectively. The rates on government securities also recorded as issue rates on treasury bills rose from 8.50 in 1986 to 25 percent the end of 1993, while the Central Bank minimum Rediscount Rate (MMR) increased from 10.00% in 1986 to 26.00% in 1993.

See Table 9.

The number of Commercial and Merchant Banks have grown within a period of 10 years by 195.45% and 575% respectively while branch offices increased by 98.17% and 342.10% respectively. In 1987 there was establishment of 5 new Commercial Banks and the opening of 116 new bank branches, while in the same period 6 new Merchant Banks were established and same number of officers increased. This increase in number of banks and number of branches open still continues to May 1991 when there was an embargo placed on the issue of new commercial and Merchant Banks. In the table

9 it can be seen that there is twice percentage increase in numbers of banks than the number of banks than the number of branches. This indicate that there is more concentration in establishing new banks than expanding the existing old ones. The increase in both number of new banks and branches open is a well-come developments in a continued effort to provide adequate banking services to the people. However, there was cause concern because of the more new Merchant Banks than new Commercial Banks, as a result of the limited scope of Merchant Banks as a while city bankers without much branches network. For example in 1990 there was 15 new Merchant Banks against 11 new Commercial Banks established.

Financial savings rose during the year 1992 at a pace substantially above the trend in preceeding four-year period 1988-1991. The increase appeared to have been induced largely by the sharp rise in deposit rates at Commercial and Merchant banks which all recorded considerable jump in their deposit liabilities. This view is strengthened by the fact that time deposits which recorded the highest increase in interest rates also expanded the most.

At ₦50781.3 million, aggregate savings rose during the year by ₦15414.6 million or 30.35 percent over the previous year. The increase of ₦7880.2 million or 28.67% percent and the average growth rate of 53.46% in the preceding four-year period.

The time and savings deposits of Commercial and Merchant Banks increased by ₦15414.6 million or 43.6 percent to ₦50,781.3 million. Such deposits at Commercial banks increased by ₦12070.0 million or 39.8 percent to ₦42438.8 million while time deposits at Merchant Banks increased by ₦3335.5 million or 66.6 percent to ₦8342.5 million.

See Table 12.

FOREIGN EXCHANGE FLOW THROUGH THE CBN (£million)

The increase in demand for foreign exchange relative to supply and the higher incidence of speculation exerted further pressure on the exchange rate of Naira.

The total foreign exchange inflow through the CBN was £7666.6 million in 1990, representing an increase of 2147 million or 38.89 over the level in 1989. Compared to the level in 1988 and 1989, it

also showed increase of ₦1166 or 26.78%. While the total foreign exchange outflow through the CBN was ₦6213.5 in 1990, representing an increase of ₦1502 or 30.86% over the level in 1989.

See Table 13.

LIQUIDITY, CASH RESERVE AND LOAN-TO-DEPOSIT RATIONS OF COMMERCIAL AND MERCHANT BANKS.

Table 13 shows the liquidity ratio of commercial and Merchant Banks as from 1986 to second quarter of 1992. The liquidity ratio of the Commercial Banks increased by 7.9 percent from 1986 to the end of 1990. There is also an increase of 2.1 percent between the second quarter of 1991 to the second quarter of 1992. While the liquidity ratio of Merchant Bank increased to 18.2 percent from 1986 to end of 1990. There is also an increase of 4.3 percent from the second quarter of 1991 to the second quarter of 1992. But the liquidity ratio of both Merchant and Commercial Banks decreases between the first quarter of 1991 and first quarter of 1992. This has to do with the various policy measures of the Central Bank of Nigeria in order to reduce excess or to moping excess liquidity.

On the other hand, cash requirements in operation were retained throughout the period under review. The minimum cash reverse requirement of Commercial Banks

increased from 1.7 percent in 1986 to 2.9 percent in 1990. The minimum cash reverse that Commercial Banks maintain in the first quarter of 1991 was 3.0 percent but fall slightly to 2.5 percent in the first quarter of 1992. While cash reserve ratio of Merchant Banks increased from 5.1 percent in 1986 to 8.2 percent in 1990. The minimum cash reverse requirement of Merchant Banks falls sharply from 15.4 percent in the first quarter of 1991 to 3.2 percent in the first quarter of 1992. This has to do with serious liquidity squeeze of both banks.

Loan-to-deposit ratio is the ratio of total loans and advances to total deposit liabilities. The commercial banks average loan to deposit ratio fell to 66.5 percent in 1990 from 83.2 percent in 1986. It further felt from 64.2 percent in the first quarter of 1991 to 56.8 percent in the first quarter of 1992. The overall quarlity of the bank's loan as measured by the proportion of classified loans indicated further deterioration compared to the previous year. This has to do with the implementation of the prudential Guidelines for provisioning for non-performing credit. While the Merchant banks loan/deposit ratio averaged 140.0 percent, over the 118.4 percent in 1986. This

shows an increase of 11.6 percent in the first quarter of 1992 the loan/deposit ratio is down from 142.9 to 117.6 percents like Commercial Banks the quality to loan assets deteriorated during the year.

CHAPTER FIVE

SUMMARY, RECOMMENDATION AND CONCLUSION:

5.1 SUMMARY:

In this study effort has been made to review the origin of the banking system in general and that of Central Bank of Nigeria in particular. The role of the Central Bank of Nigeria both in the traditional and developmental aspect has been dealt with. Also various regulatory policy of the Central Bank of Nigeria before SAP were being reviewed and appraised.

Attempt were also made to review the various measures of deregulation introduced by the CBN in the Nigeria banking industry against the background of the excessive regulations which chracterised the industry in the last four decades. It was quite evident that banking regulations during the early evolution of the banking industry served some useful purpose, especially the seriousness of the consequences of Banks becoming insolvent. The negative effect of excessive regulations is that banks adopt various method to

circumvent the direct credit contrals by window-dressing statutory returns to the monetary authorities. This practice severely lowered the impact of the banking system while taxing the resources and efforts of the Central Bank in trying to monitor compliance with the various regulations.

The banking in a deregulated economy has been discussed in chapter three of this study. Also the objectives of deregulation in the Nigerian banking system and anticipated benefits of deregulation were considered. Problems, prospects and challenges of banking a deregulated economy were discussed in the last section of chapter III. And we have seen how the deregulation of the banking industry encouraged savings mobilisation and improved access to bank loans. Available evidence has shown that bnaking industry has imporved signficantly since deregulation started in 1986. Deregulation has also brought about a significant increase in the number of banks operating in Nigeria. There is consequently keener competition in the industry, resulting in the

emergence of a range of new products. Financial liberalisation has brought about unprecedented growth in the number of banks. The abolishing of import licensing scheme and replacing it with foreign exchange auction system has eliminate the corruption and distortions associated with import licencing. There are of course a number of problems which have emerged with introduction of SAP. Among these are high cost of lending which had consequent adverse impact on domestic investment and general business climate. Also low foreign investment and rate volatility were also identified as problems.

5.2 CONCLUSION:

From the foregoing it is evident that the financial deregulation adopted or practiced in a developed economy like America can be equally applied in a developing economy like Nigeria. But with some slight modification. As we are all aware the final stages in the process of deregulation of the banking system would involve the use of indirect instruments of monetary and credit control which relies on market based instruments

such as the cash reserve, liquidity ratio requirements and open market operations to regulate the money base and therefore the banks' money creation capability while the instruments involved do not interfere with competition among banks, at same time encourage efficiency in the use of funds.

Although the use of such instruments of monetary and credit control is incompatible with the existence of insolvent banks. Such banks must improve their performance in order to survive under the new control system. The banks should be aware that full banking deregulation would involve some regulations initially. The application of the regulations therefore, demand maximum cooperation between the banks and the monetary authorities.

The policy of deregulation pursued by the Federal Government during the past eight years has been both a blessing and acurse to the national economy. On the positive side:

The proliferation ofbanks has in return increased competition that has led to improved service delivery and innovation. Banks accept the supremacy of the customers and are prepared to go to the extra mile to ensure customer satisfaction.

The increase in physical growth in banks had definitely reduce the level of unemployment in the economy. The Nigerian Deposit Insurance Company in its first quarter for 1991 report that 74 Commercial and Merchant Banks have staff strenght of 70,684. The 43 Commercial Banks involved engaged 65,786 which gives and average of 1530 employees for bank while the 31 Merchant Banks employed 4898 which represents an average of 158 per bank.

Furthermore, with the increasing rate of office automation and physical growth in banks. It is expected that the existence of long quees or long waiting hours will be a **forgone** event. The existence of long queues and waiting hours are features of Nigeria being under banked.

The deregulation of interest rates has engengeudered very keen competion in the banking industry resulting in the adoption of new strategies by banks to attract deposits and encourage savings. As a result, total financial savings have risen sharply in 1990.

In the area of credit policy and portfolio selection, aggregate bank credit to the economy has increased following the gradual deregulation of the policy of sectorial allocation.

Currency in circulation has increased. The bulk of the increase was accounted for by both vault-cash and cash-outside-banks.

Indirect control of the banking industry by the apex bank is essential for the attainment of a balanced growth and development of the economy and the protection of the interest of depositors and other customers who are generally un-informed and unknowledged.

The presence of regulatory bodies like CBN and NDIC reduces the fear of bank failures as the failures of the early 1950s were attributed to the absence of regulatory bodies.

On the negative side, deregulation has increased the incidence of bank fraud both in their size and sophistication and reduced confidence in the system and developed manipulative practices to an act.

There was high cost of bank lending with its attendant adverse impact on domestic investments and the general business climate.

The licensing of more banks and persistent symptoms of liquidity problems and keener competition among banks, must led to failures of inefficient banks.

In conclusion, the banking industry has over the years undergone surgical operations and is still being treated for excesses. The Central Bank of Nigeria has introduced some drastic and panic-ridden monetary policies to ensure the stability of the nation, economic activities and regulate the high rate of inflation, no doubt the banking industry has been battered. It is with this that strategic corporate planning, efficient and effective material resources, vigilance, innovation, adequate training and concerted effort at product packaging that the industry will continue to survive the apex banks sledge hammer untill self reliance and economic stabilization is achieved.

5.3 RECOMMENDATIONS:

Banking is very sensitive and critical to the health and growth of an economy. It is therefore necessary to ensure that only financially strong and competently managed banks are licensed. The temptation to control the number. branch network and timing of entry of new banks should be avoided. Timing and number of licences should be left to the market. This will ensure that new players are injected into the system regularly to keep the industry vibrant. It is ensure that new investment in the industry relfect the risk adjusted return on capital.

The continued use of direct controls such as credit ceiling, sectorial allocation of credit, stabilisation securities escetera should be stopped. If resources must be forced to move into certain sectors of the economy, it would be more beneficial to adopt policies that will either reduce the financial risk of the sector or increase returns on investment in the sector rather than legislate resources into the sector.

The apex bank should look into ways of giving greater latitude to banks to operate and reduce or simplify documentation requirements. This should

go along away in enhancing the ability of the apex bank to provide effective supervision of the financial system.

The government should install a mechanism that identifies troubled banks early so that they can be forced to restructure before they pose any threat to depositors, the insurance fund or the system as a whole.

I recommend very strongly that government banks should be fully privatised. However, I believe the efficiency of the banks and banking in general will be enhanced if these institutions are privatised. First, frequent changes in the management and board of these institutions result in frequent changes to their thrusts and strategies. Secondly, appointments to the board and top management of government enterprises especially in a civilian administration are based on political patronage instead of competence. Most of the government owned banks are still groaning under the burden of bad loans granted during the political era.

There is no better alternative for a bank than acquiring competent and able hands to ensure that these innovations work. It is for these reasons that all banks are also investing immensely in staff

training and retraining, because even the best product and technological devices stand little chance of meaningful success unless they are presented and handled effectively in the market.

Banks must be able to position themselves so as to predict such frequent regulatory changes or be flexible enough to capitalise on some regulatory short-comings.

All tiers of government should intensify efforts to ensure a rapid growth in all the sectors of the economy. This is the main problem facing Nigeria if there is a rapid growth in the economy, all these policy decision will have little or no effect on the banks.

On the part of the Central Bank, it should try as much as possible to take steps to encourage the survival and growth of banks. The activities of banks should be closely supervised by the Central Bank of Nigeria to ensure that nothing detrimental to economic growth and development is done by the banks. In doing this some policy measures must be adopted.

The Federal Government should encourage public honesty and probility by introducing harsh measures on corrupt leaders and ensuring that cases of fraud and embezzlements become reduce in our Ministries.

All the harsh economic measures against banks by the Central Bank of Nigeria may not necessarily help the growth of a moderate banking in the economy. Therefore, both long and short run consequences of any economic measures that CBN wants to introduce should be taken into consideration before final implementation.

Banks on their part should embark on cost culting devices; at the same time should understand that retrenchment of their staff is definitely not the solution to cost cutting.

Banks should seriously embark on the debt recover effort to avoid accounts being classified according prudential guideline provisions.

Although some aspects of deregulation especially in the area of interest rate and foreign exchange aution system have been temptered with by the present administration. The Managing Director, Citizen International Bank Limited has this to say:

"For the economy to stabilise, it is necesary to close to opportunities for easy profit making created by unjustifiable foreign exchange subsidies in the fact of sewere supply shortage and budgetary constraint. Deregulation does not imply absence of intervention but such intervention should be made through the instrumentality of the market place and not by direct administrative means".

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CENTRAL BANK OF NIGERIA

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1992

	1992 N'000	1990 N'000
Gross Earnings	18,544,566	13,150,631
Operating Expenses	(7,006,006)	(3,597,382)
	11,538,560	9,553,249
Sundry Provisions	(4,572,466)	(3,253,395)
Surplus available for appropriation	6,966,094	6,299,854
APPROPRIATION ACCOUNT		
Transfer to General Reserve (Note 9)	1,161,015	1,049,976
Transfer to Capital Account	—	297,000
Surplus Available to Federal Government (in accordance with Part II Section 5(3) of the Central Bank of Nigeria Decree 24, 1991)	5,805,079	4,952,878
	6,966,094	6,299,854

Notes 1 to 18 form part of these accounts.

TABLE I

CENTRAL BANK OF NIGERIA : STATEMENT OF ASSETS AND LIABILITIES

Year/ Quarter	Paid-Up Capitals and Reserve	Currency in Circulation	Total Deposits	Other Liabilities	Total Liabilities
1985	199.0	5375	5395.2	4758.4	15727.6
1986	235.0	5696.3	6290.8	14431.5	26653.6
1987	273.0	6854.9	11671.8	14383.0	33182.7
1988	334.0	10210.5	10734.6	40243.3	61522.4
1989	334.0	10722.4	33007.7	41198.3	74540.0
1990	646.0	16212.5	46651.5	69838.8	133358.8
1991					
1st Quarter	646.0	16657.3	57913.5	72278.5	147495.3
2nd Quarter	646.0	17845.1	56028.2	85755.4	160274.7
3rd Quarter	646.0	19401.7	64789.7	74853.2	159690.6
4th Quarter	1993.0	25331.2	63139.3	92801.4	183264.9
1992					
1st Quarter	1992.9	24914.7	91374.2	116676.8	203767.5
2nd Quarter	1992.9	277350.0	116120.0	101907.9	213528.7

TABLE 2

CENTRAL BANK OF NIGERIA, STATEMENT OF ASSETS AND LIABILITIES - ASSETS

Year/ Quarter	Total External Reserves	Total Government Securities Rediscounts	Advances	Investments	Other Assets	Total Assets
1985	1611.1	356.7	-	360.7	2157.7	15727.6
1986	3589.3	3329.1	0.0	362.4	4901.0	26653.5
1987	4637.9	1117.5	0.0	542.6	8725.8	33182.7
1988	3272.7	563.2	0.0	643.7	29440.3	61522.4
1989	13434.3	4404.6	2573.3	644.9	42515.2	87650.3
1990	34953.2	1712.0	729.8	670.4	43125.3	133358.8
1991						
1st Quarter	41505.3	3436.0	9246.2	716.4	47042.0	147494.3
2nd Quarter	43960.9	1893.3	13821.6	716.4	47556.6	160274.7
3rd Quarter	39176.7	2300.5	24899.0	746.4	46901.0	159691.0
4th Quarter	44249.6	2504.0	1544.9	746.4	53621.9	183265.0
1992	168596.1	6804.6	1577.8	746.4	48192.5	203767.5
1st Quarter	168596.1	6804.6	1577.8	746.4	48192.5	203767.5
2nd "	64348.3	3662.2	1619.9	766.4	51007.1	213528.0

TABLE 3

CURRENCY IN CIRCULATION
(₦ = MILLION)

YEAR/ QUARTER	NOTES	COINS	TOTAL CURRENCY IN CIRCULATION	BY BANK IN VAULT	CURRENCY OUTSIDE BANKS
1982	4652.4	76.4	4728.8	506.4	4222.4
1983	5219.3	80.0	5299.3	456.5	4842.8
1984	5260.9	86.2	5347.1	463.6	4883.5
1985	[illegible]	[illegible]	[illegible]	465.1	4909.9
1986	5594.0	102.3	5696.3	514.3	5182.0
1887	6742.6	112.3	6854.9	556.3	6298.6
1988	10091.0	119.5	10210.5	798.2	9412.3
1989	12972.4	137.9	10722.5	965.9	11588.3
1 0	16065.2	147.3	16212.5	1271.9	14940.6
1991					
1st Quarter	16503.3	154.0	16657.3	1038.8	15618.5
2nd Quarter	17676.9	168.2	17845.1	1219.2	16625.9
3rd Quarter	19231.4	170.3	19401.7	1177.2	18224.5
4th Quarter	25122.2	209.0	25331.2	2223.0	23108
1992					
1st Quarter	24705.5	209.2	24914.7	1772.5	23142.1
2nd Quarter	27535.4	199.6	27735.0	2072.9	25662.1

SOURCE: C.B.N. ANNUAL REPORT.

NOTE:- (i) Currency in circulation is made up of notes and coins.
(ii) Currency outside banks is total currency in circulation, less banks' vault cash.

TABLE 4

MONEY SUPPLY (₦- Million)

Year/Qrt	Currency Outside Banks	Demand Deposits	Money Supply (M1)	Demand Deposits	Quasi Money	Money Supply (M2)
1982	4222.4	5826.2	10048.6	58.0	6845.4	16894.0
1983	4842.8	6439.6	11282.4	57.1	8086.5	19368.9
1984	4883.5	7320.6	12204.1	60.0	9396.4	21600.5
1985	4909.9	8357.9	13267.8	63.0	10550.8	23818.6
1986	5177.9	7927.1	13105.0	60.5	11487.7	24592.7
1987	6298.6	8607.3	14905.9	57.7	15088.7	29994.6
1988	9412.3	11736.3	21148.6	55.5	21631.7	42780.3
1989	11688.4	14009.2	25697.6	54.5	20525.3	46222.9
1990	14940.6	22293.1	37233.7	59.9	27699.0	64902.7
1991						
1 Quarter	15618.5	23745.6	39364.1	60.3	30368.1	69732.2
2nd "	16625.9	28423.5	45049.4	63.1	32847.9	77897.3
3rd "	18015.5	26906.5	44922.2	59.9	34827.6	79749.8
4th "	23108.2	26256.3	49364.5	53.2	36788.0	86152.5
1992						
1st "	23142.2	31122.8	54265.0	57.4	42136.2	96411.2
2nd "	25662.0	39603.7	65265.7	60.7	43722.2	108,987.9

TABLE 7

AGGREGATE CREDIT TO THE ECONOMY 1985 - 1992.

	1985	1986	1987	1988	1989	1990	1991	1992
TOTAL CREDIT OT THE ECONOMY (NET)	35301.8	39314.1	46926.4	57326.3	49239.1	[illegible]	70665.7	106542.5
[illegible]	19623.5	18907.3	21450.3	27552.7	18316.3	29380.1	29314.3	55053.4
CENTRAL BBANK OF NIGERIA	8841.8	14293.5	14293.5	21767.2	15189.8	22028.0	22382.1	48058.4
COMMERCIAL BANKS	9614.4	6868.3	6866.3	5728.9	3035.8	7036.6	6602.4	5985.6
MERCHANT BANKS	1167.3	290.5	290.5	56.6	90.7	315.5	329.8	1009.4
FED SAVINGS BANK	-	-	-	-	-	-	-	-
CREDIT TO THE PRIVATE SECTOR	15678.3	25476.1	25476.1	29773.6	30942.8	36631.0	41352.5	51489.2
CENTRAL BANK OF NIGERIA	1423.6	1917.3	1917.3	2418.5	1502.2	1400.1	1607.6	2439.7
MERCHANT BANKS	1978.1	5659.1	5659.1	6526.2	7114.8	8866.4	9729.3	11636.5
COMMERCIAL BANKS	12276.6	17899.7	17899.7	20828.9	22325.8	26364.5	30015.6	37415.1

SOURCE: CENTRAL BANK OF NIGERIA.

TABLE 8 : SELECTED INTEREST RATES (Percent, End of Period).

	1986	1987	1988	1989	1990	1991	1992	1992	1993
MINIMUM REDISCOUNT RATE	10.00	12.75	12.75	18.50	18.50	15.50	17.52	17.50	26.00
TREASURY BILLS ISSUE RATE	8.50	11.75	11.75	16.38	17.50	14.50	17.31	31.00	25.00
COMMERCIAL BANKS:									
Savings Dep. rate	9.50	11.00	12.40	16.50	17.50	14.00	15.50	16.10	16.90
Time Deposits Rate(3 months)	9.25	14.00	13.10	19.50	19.60	15.40	17.70	20.80	24.80
Prime lending rate	10.50	17.50	16.80.	25.50	25.60	20.00	24.10	29.80	29.00
Maximum lending rate	12.00	19.20	18.40	25.90	25.90	20.90	25.90	31.00	30.80
MERCHANT BANKS.									
Time Deposits rate (3 months)	n.a.	n.a.	14.50	25.20	22.20	17.30	27.20	38.80	40.10
Prime lending rate	na.	n.a.	16.50	29.80	28.60	20.30	35.00	44.00	55.20
Maximum lending	n.a.	n.a.	17.50	29.90	28.60	21.00	35.00	48.10	61.7
INTERBANK RATE	na.	n.a.	n.a.	n.a.	14.50	19.50	30.00	68.50	92.0

TABLE 10

SUMMARY OF FINANCIAL SAVINGS AT BANKS.

							PERCENTAGE CHANGE OVER PRECEEDING YEAR.				
	1987	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
Savings and Time Deposits											
(i) At Commercial Banks	15088.7	18397.2	17613.3	23137.1	30359.7	42438.8	21.9	-3.2	29.9	31.2	39.8
(ii) At Merchant Banks	2822.8	3982.8	3970.7	4349.4	5007.0	4342.5	41.1	-0.3	9.5	15.1	66.6
Total	17911.5	22380	21784	27486.5	35366.7	50781.3					

TABLE 11

FOREIGN EXCHANGE FLOWS THROUGH THE C.B.N. (₦ MILLION)

MONTHS	1988	1989	1990	1988	1989	1990	1988	1989	1990
JANUARY	422.5	538.5	681.8	395.0	329.0	674.6	+27.5	+209.5	+7.2
FEBRUARY	543.0	501.3	1033.3	549.3	404.0	678.1	-6.3	+97.3	+355.2
MARCH	501.4	472.9	959.5	576.2	349.1	626.1	-74.8	+123.8	+333.4
APRIL	445.2	497.8	658.2	626.2	583.7	630.9	-181.0	-85.9	+273
MAY	403.0	377.0	723.9	397.6	369.6	497.2	15.4	+7.4	+228.7
JUNE	497.5	716.4	720.8	531.2	596.7	501.3	-33.7	+119.7	+219.5
JULY	456.6	623.9	638.9	473.2	399.2	640.7	-16.1	+224.7	-1.8
AUGUST	352.2	473.6	623.4	456.6	660.9	610.0	-104.4	-187.3	+213.4
SEPTEMBER	401.7	585.7	873.2	395.3	408.8	560.9	+6.4	+176.9	+312.3
OCTOBER	330.5	732.5	751.6	466.5	610.5	993.7	-136.0	+122.0	-242.1
TOTAL	4353.6	6579.6	7666.6	4867.1	4711.5	6213.5	-513.5	+808.1	1453.1
AVERAGE	435.4	522.0	766.7	486.7	471.2	621.4	-51.3	80.8	145.3

TABLE 13

LIQUIDITY, CASH RESERVE AND LOAN - TO DEPOSIT RATIOS OF COMMERCIAL AND MERCHANT BANKS

COMMERCIAL MERCHANT (PERCENT)

YEAR/ QUARTER	LIQUIDITY RATIO	' CASH RESERVE	' LOAN-TO-DEPOSIT	' LIQUIDITY NATION	CASH RESERVE RATIO	LOAN - TO - DEPOSIT NATION
1986	36.4	1.7	83.2	14.6	5.1	118.4
1987	46.5	1.4	72.9	24.5	.7	123.1
1885	45.0	2.1	66.9	35.1	5.3	91.7
1989	40.3	2.9	80.4	23.6	4.8	190.6
1990	44.3	2.9	66.5	32.8	8.2	158.6
1991						
1st Quarter	38.1	3.0	64.2	34.0	15.4	142.9
2nd "	37.9	2.9	51.0	24.9	8.1	151.9
3rd "	41.5	2.9	61.3	28.0	13.2	128.1
4th "	38.6	2.9	57.8	31.1	10.8	140.0
1992						
1st Quarter	33.9	2.5	56.8	27.0	3.2	117.6
2nd "	40.0	3.7	60.0	29.2	4.3	109.1

OF NIGERIA

DECEMBER 1992

	1992 N'000	1991 N'000
ASSETS		
GOLD	19,009	19,009
IMF GOLD TRANCHE	1,730	832
SPECIAL DRAWING RIGHTS	318	24
CONVERTIBLE CURRENCIES		
Foreign Government Securities and Balances with Foreign Banks	13,971,456	44,229,735
TOTAL EXTERNAL RESERVES	13,992,513	44,249,600
FEDERAL GOVERNMENT SECURITIES	122,026,421	80,598,224
OTHER SECURITIES	2,696,424	746,424
REDISCOUNTS AND ADVANCES	2,604,660	4,031,498
OTHER ASSETS	43,824,442	15,797,951
EXCHANGE DIFFERENCE ON PROMISSORY NOTES	49,110,617	37,841,286
	234,255,077	183,264,983
Operating Surplus for the year (ascertained in accordance with Part II Section 5(4) of the Central Bank of Nigeria Decree 24, 1991)	6,996,094	6,299,854
	6,966,094	6,299,854

15. Capital Commitments
Commitments for capital projects in progress as at 31st December, 1992 amounted to ₦450 million (1991 - ₦295 million).

16. Contingent Liabilities
Contingent liabilities in respect of litigation pending against the Bank amounted to ₦95 million (1991 - ₦28 million). The various actions are being contested by the bank.

17. Comparative Figures
Certain balances in prior years have been reclassified to conform with current year's presentation.

18. Approval of Accounts
The Board of Directors approved these accounts on 25th February, 1993.

CENTRAL BANK OF NIGERIA

BALANCE SHEET AS AT 31ST DECEMBER, 1992

	Note	1992	1991
		N'000	N'000
ASSETS			
Gold	2	19,009	19,009
IMF-Reserve Tranche		1,730	832
IMF-Special Drawing Rights		318	24
Convertible Currencies	3	13,971,456	44,259,735
Total External Reserves		13,992,513	44,279,600
Federal Government Securities	4	122,026,421	80,598,224
Other Securities	5	2,696,424	736,424
Rediscounts and Advances	6	2,604,660	4,031,498
Other Assets	7	43,824,442	15,797,951
Exchange Difference on Promissory Notes	8	49,110,617	37,841,286
		234,255,077	183,264,983
CAPITAL AND LIABILITIES			
Capital			
Authorised and Fully Paid-up by the Federal Government of Nigeria		300,000	300,000
General Reserve	9	2,853,991	1,692,976
		3,153,991	1,992,976
Trade Debts Promissory Notes	10	51,059,442	40,956,385
Other Foreign Currency Liabilities	11	1,063,718	1,920,155
Currency in Circulation	12	39,735,416	25,331,194
Deposits	13	80,650,430	76,317,761
Other Liabilities	14	58,592,080	36,746,512
		234,255,077	183,264,983

.....*(Alhaji A. Ahmed)* Governor

.....*(Alhaji Madu Umar Biu)* Director

.....*(Mr. K. Oba Otudeko)* Director

.....*(Mr. G. Shonoye)* Director of Finance & Accounts

Notes 1 to 18 form part of these accounts.

CENTRAL BANK OF NIGERIA

NOTES ON ACCOUNTS

1. **Significant** *Accounting Policies*

(a) *General*

In preparing its financial statements,the Bank has applied accounting principles which best reflect its financial position and results of its operations. These accounting principles include certain principles commonly used in the private sector and also those which are generally accepted in the public sector.

(b) *Fixed Assets*

Expenditure on land and buildings is written off each year against provision for capital projects as in Notes 1(h)(ii),while that on motor vehicles, furniture and equipment is treated as part of operating expenses.

(c) *Foreign Exchange*

Transactions in foreign currencies are translated at the prevailing rates on transaction dates. External assets and liabilities at the balance sheet date are translated into Naira at the rates ruling on that date. Profit and loss arising from currency translation other than those arising from Federal Government obligations are transferred to Foreign Exchange Revaluation Suspense Account.

(d) *Gold*

The Bank's gold is stated at cost.

(e) *Federal Government Securities*

Federal Government Securities are stated at cost.

(f) *Investments*

Investments are stated at cost.

(g) *General Reserve*

An annual transfer is made to the general reserve account of an amount representing approximately ⅓ or 16.67% of the operating surplus of the Bank for the year. This is in accordance with Part II Section 5(2) of the Central Bank of Nigeria Decree 1991.

(h) *Miscellaneous provision*

Charges made by way of provisions to the Income and Expenditure Account are as follows :-

(i) *Internal Currency Insurance*
This provision is built up to cover possible losses that could arise from currency stock held within the Bank and in transit.

(ii) *Capital Projects*
A transfer is made annually to capital projects provision account of an amount equal to the estimated cost of all projects approved by the Board during the year. Capital cost incurred during the year is charged to this account.

(iii) *Agricultural Credit Fund*
This is the amount required to meet the Bank's commitment in respect of Agricultural Credit Guarantee Scheme Fund.

(iv) *External Fluctuation*
This represents amount set aside to meet possible losses that may arise from foreign exchange fluctuations.

(v) *Contingency*
This provision is made to cover unexpected fluctuations in the value of investments and other assets not specifically covered by any of the other provisions in (i) to (iv) above.

2. **Gold**

The market value of Gold held as at 31st December,1992 was ₦4,491 million (1991 - ₦2,384 million).

3 Convertible Currencies

	1992 ₦'000	1991 ₦'000
Current Accounts with Foreign Banks (Note 3 (b))	(3,738,193)	4,523,707
Escrow Accounts (Note 3 (c))	596,797	291,484
Time Deposits and Money Employed	13,313,311	39,086,948
Other Foreign Securities	3,799,541	329,596
	13,971,456	44,229,735

3(a) Summary of Currencies

United States Dollars	7,358,524	40,293,589
British Pounds	156,321	1,732,102
Swiss Francs	512,129	46,849
French Francs	1,879,725	1,313,984
Deutsche Marks	3,768,124	630,884
Dutch Guilder	6,841	2,806
Australian Shillings	7,145	4,056
Canadian Dollars	12,757	5,281
Indian Rupee	1,168	653
Japanese Yen	170,450	48,883
Norwegian Krone	7,554	3,893
Italian Lira	219	107
West African Currency Unit	(37,822)	19,563
Belgian Francs	17,381	(2,138)
Saudi Riyal	110,940	140,123
	13,971,456	44,229,735

3(b) Balances with foreign banks include a total sum of ₦194,432 (1991 - ₦607,691) upon which attachment orders have been made by some foreign courts pending the determination of legal actions instituted against the Bank by some overseas suppliers of the Federal Government of Nigeria.

3(c) Balances on the Escrow Accounts are made up as follows:-

	1992 ₦'000	1991 ₦'000
Australian Trade Accounts 1 & 2	462,219	231,950
Others	134,578	67,534
	596,797	299,484

Balances on the Escrow Accounts can only be utilized in accordance with the provisions of the respective trade agreements.

4. Federal Government Securities

	1992 ₦'000	1991 ₦'000
*Nigerian Treasury Bills	79,058,960	32,378,422
Nigerian Treasury Certificates	22,845,874	27,411,864
Nigerian Treasury Bonds	19,006,474	19,528,101
Nigerian Development Stocks	1,115,113	1,279,837
	122,026,421	80,598,224

* A special issue of ₦45,000 million (1991 - ₦3,120 million) was made at the end of the year to clear the temporary advances to the Federal Government of Nigeria.

5. Other Securities

These comprise investments in:-

		1992 ₦'000	1991 ₦'000
Nigerian Security Printing and Minting Company Limited		22,198	2,198
Nigerian Industrial Development Bank Limited		400,000	160,000
Nigerian Bank for Commerce and Industry		80,000	80,000
Federal Mortgage Bank of Nigeria		60,000	60,000
Agricultural Credit Guarantee Scheme Fund		34,226	34,226
Nigerian Agricultural and Co-operative Bank Limited		200,000	200,000
Nigerian Deposit Insurance Corporation		300,000	60,000
National Economic Reconstruction Fund		100,000	100,000
Export Credit Guarantee and Insurance Corporation	Shares	250,000	50,000
	8% Debentures	1,250,000	—
		2,696,424	746,424

6. Rediscount And Advances

Rediscounts:

	1992 ₦'000	1991 ₦'000
Nigerian Treasury Bills	1,792,987	2,377,587
Nigerian Treasury Certificates	50,693	126,361
Promissory Notes Discounted	—	2,889
Export Refinancing Advances to Banks	29,931	1,214,757
	1,873,611	3,721,594
Advances (Guaranteed by the Federal Government):		
Nigerian Agric & Co-operative Bank Limited	63,312	72,417
Others	667,737	237,487
	731,049	309,904
	2,604,660	4,031,498

7. Other Assets

	1992 ₦'000	1991 ₦'000
Accrued Interest Receivable	813,321	1,397,577
Uncleared Effects	5,833,653	669,967
IMF Local Currency Subscription	621,809	621,797
IMF Treasury Note Account	30,192,312	8,080,824
Refinanced and Restructured Debts Redeemed	—	1,931,954
Staff Loans	24,765	19,987
Expenses Recoverable from ACGSF	259	—
IBRD Stock Subscription Account	74	74
Others	6,338,249	3,075,771
	43,824,442	15,797,951

8. Exchange Difference on Promissory Notes

This represents exchange difference arising on translation of US$ Trade Debts Promissory Notes and is recoverable from the Federal Government of Nigeria on whose behalf the trade debts were refinanced by Central Bank of Nigeria. (See Note 10)

9. General Reserve

	1992 N'000	1991 N'000
Balance at 1st January	1,692,976	643,000
Transfer from Appropriation Account	1,161,015	1,049,976
	2,853,991	1,692,976

10. Trade Debts Promissory Notes

Under an agreement reached with Notes holders on 14th January, 1988, the Central Bank of Nigeria on behalf of the Federal Government of Nigeria, issued new US$ Promissory Notes to refinance arrears of trade debts including principal and unpaid interest up to 5th January, 1988 on the existing Promissory Notes.

The new notes have a moratorium period of two years during which eight equal quarterly instalments at the rate of 1.25% of the face value of the notes are to be paid to Noteholders. Thereafter, a fixed payment of 2% of the face value of the notes will be made on 5th April, 1990 and each of the 79 succeeding quarterly days up to and including 5th January, 2010 in full discharge of liability under the notes. A noteholder may redeem the Notes in whole or in part in Naira in accordance with the Debts Conversion Programme being administered by the Central Bank of Nigeria.

Promissory Notes issued and outstanding at the balance sheet date have been translated to Naira at the exchange rate ruling at that date and the resulting exchange difference which is recoverable from the Federal Government of Nigeria is included in the Exchange Difference on Promissory Notes Account (see Note 8).

11. Other Foreign Currency Liabilities

These are made up of:-

	Interest Rate	1992 N'000	1991 N'000
BHF Bank Short-Term Facilities	Variable	—	1,280,406
Bank of Tokyo – Commodity Loan	Variable	292,628	431,312
IBRD-SME Loan	Variable	771,090	208,437
		1,063,718	1,920,155

12. Currency In Circulation

	1992 N'000	1991 N'000
Notes	39,199,090	25,104,986
Coins	536,326	226,208
	39,735,416	25,331,194

13. Deposits

	1992 N'000	1991 N'000
Governments	42,695,051	50,962,710
Deposit for Trade Debts Refinancing	—	6,776,465
Banks	11,441,894	4,540,515
Others	26,513,485	14,038,071
	80,650,430	76,317,761

14. Other Liabilities

	1992 N'000	1991 N'000
IMF Securities Account	27,453,082	8,080,824
IMF Allocation of Special Drawing Rights	1,132,071	1,132,071
Surplus Available to Federal Government	5,469,704	4,952,878
Nigerian National Petroleum Corporation Loan	813,832	813,832
Miscellaneous Provisions	13,934,000	10,684,000
Foreign Assets Equalization Account	85,984	85,984
Sundry Items	9,703,407	10,996,923
	58,592,080	36,746,512

CENTRAL BANK

BALANCE SHEET AS AT 31ST

	1992 N'000	1991 N'000
LIABILITIES		
CAPITAL		
Authorised and fully paid up by the Federal Government of Nigeria	300,000	300,000
GENERAL RESERVE	2,853,991	1,692,976
TRADE DEBT PROMISSORY NOTES	51,059,442	40,956,385
OTHER FOREIGN CURRENCY LIABILITIES	1,063,718	1,920,155
CURRENCY IN CIRCULATION	39,735,416	25,331,194
DEPOSITS	80,650,430	76,317,761
OTHER LIABILITIES	58,592,080	36,746,512
	234,255,077	183,264,983

Alhaji A. Ahmed	Governor
Alhaji Muda Umar Bia	Director
Mr. K. Oba Otudeko	Director
Mr. G. Shonuye	Director of Finance and Accounts

INCOME AND EXPENDITURE APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1992

Transfer to General Reserve	1,161,015	1,049,976
Transfer to Capital Account	—	297,000
Balance payable to the Federal Government of Nigeria (in accordance with Part II Section 5(3) of the *Central Bank of Nigeria Decree 24, 1991*)	5,805,079	4,952,878
	6,966,094	6,299,854

AUDITOR'S REPORT

As auditors appointed under Part VIII, Section 43(1) of the Central Bank of Nigeria Decree, 24 of 1991, we have examined the Bank's Balance Sheet and Income and Expenditure Account and Notes 1 to 18 on the Accounts. Our examination was made in accordance with generally accepted auditing standards and accordingly included such test of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the financial statements, together with the notes thereon, present fairly the financial position of the Bank's affairs as at 31st December, 1992, and the operating surplus, apportioned in the manner so stated for the year ended on that date.

To the best of our knowledge and from our examination of the books and records, no contravention of the Productivity, Prices and Incomes Board Policy guidelines has come to our notice in respect of the year ended 31st December, 1992.

Lagos, Nigeria
25th February, 1993.

Akintola Williams & Co.
Chartered Accountants

(End of Month)

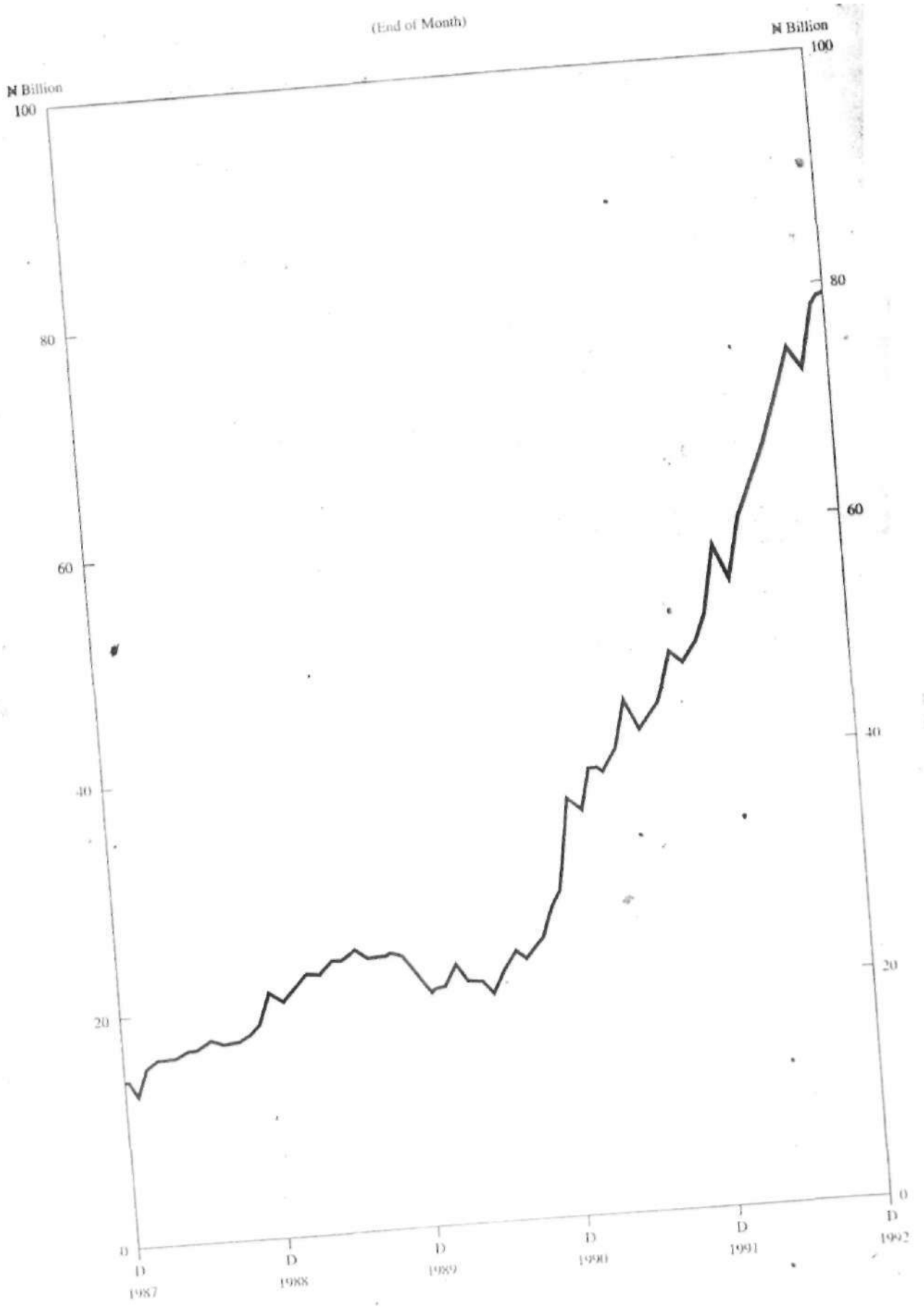

CHART III

TOTAL CURRENCY IN CIRCULATION

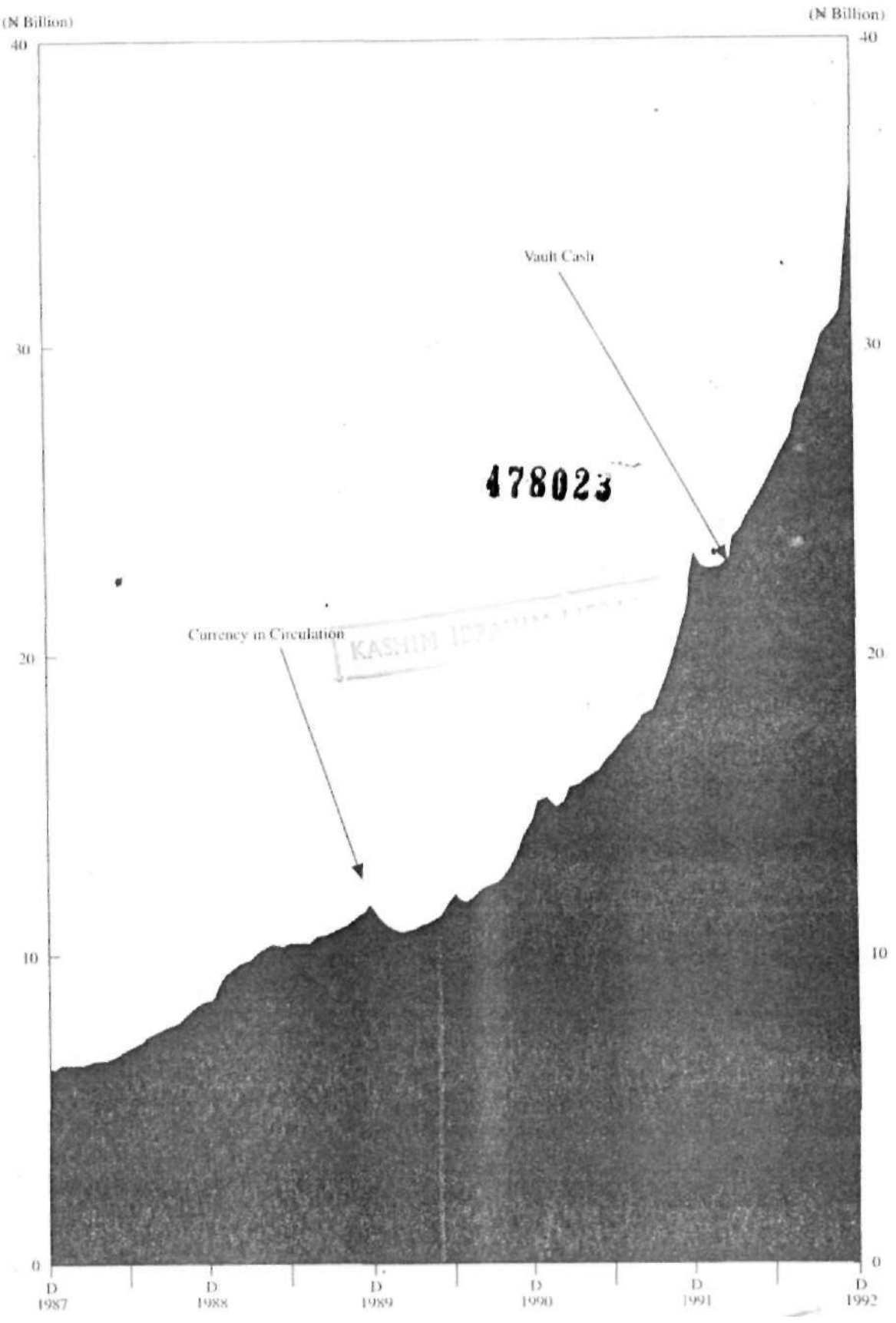

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CHART IV

FOREIGN ASSETS OF THE BANKING SYSTEM

(End of Month)

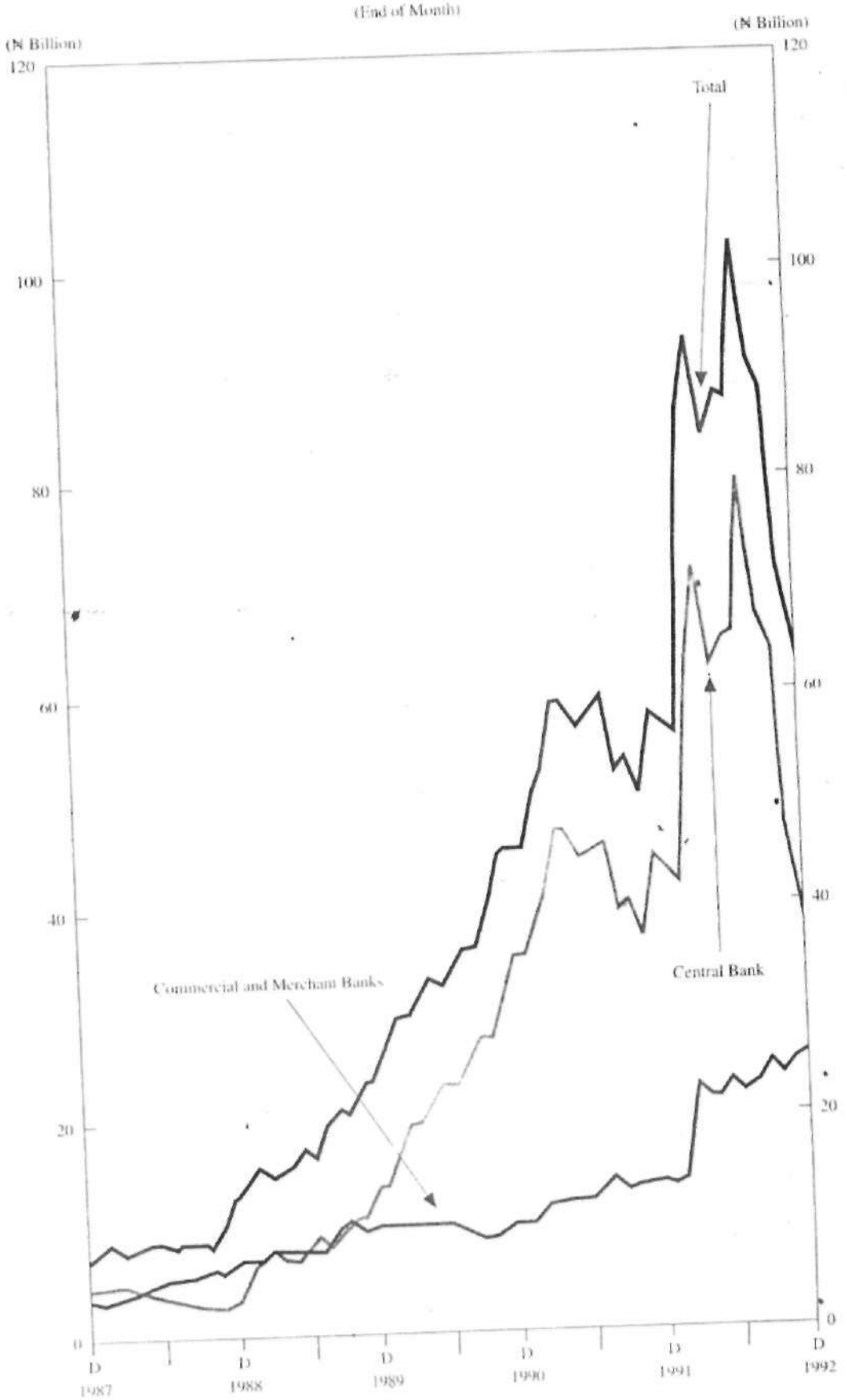

CHART V

BANKING SYSTEM'S CREDIT

(End of Month)



CHART VI

SELECTED INTEREST RATES

(End of Month)



CHART VII

FINANCIAL SAVINGS AT BANKS AND NON-BANK FINANCIAL INSTITUTIONS

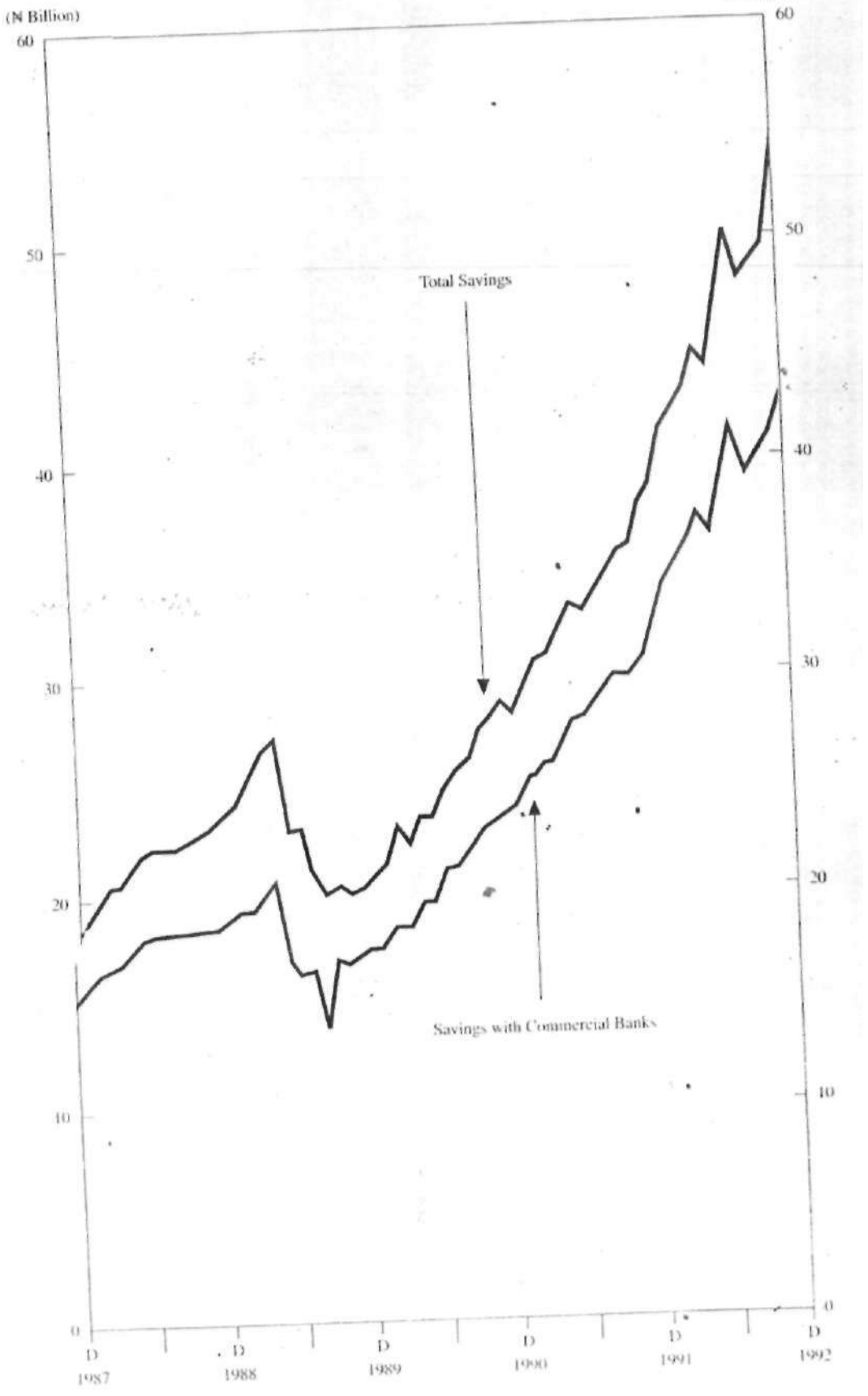

CHART VIII

COMMERCIAL BANKS' INVESTMENTS

(End of Month)

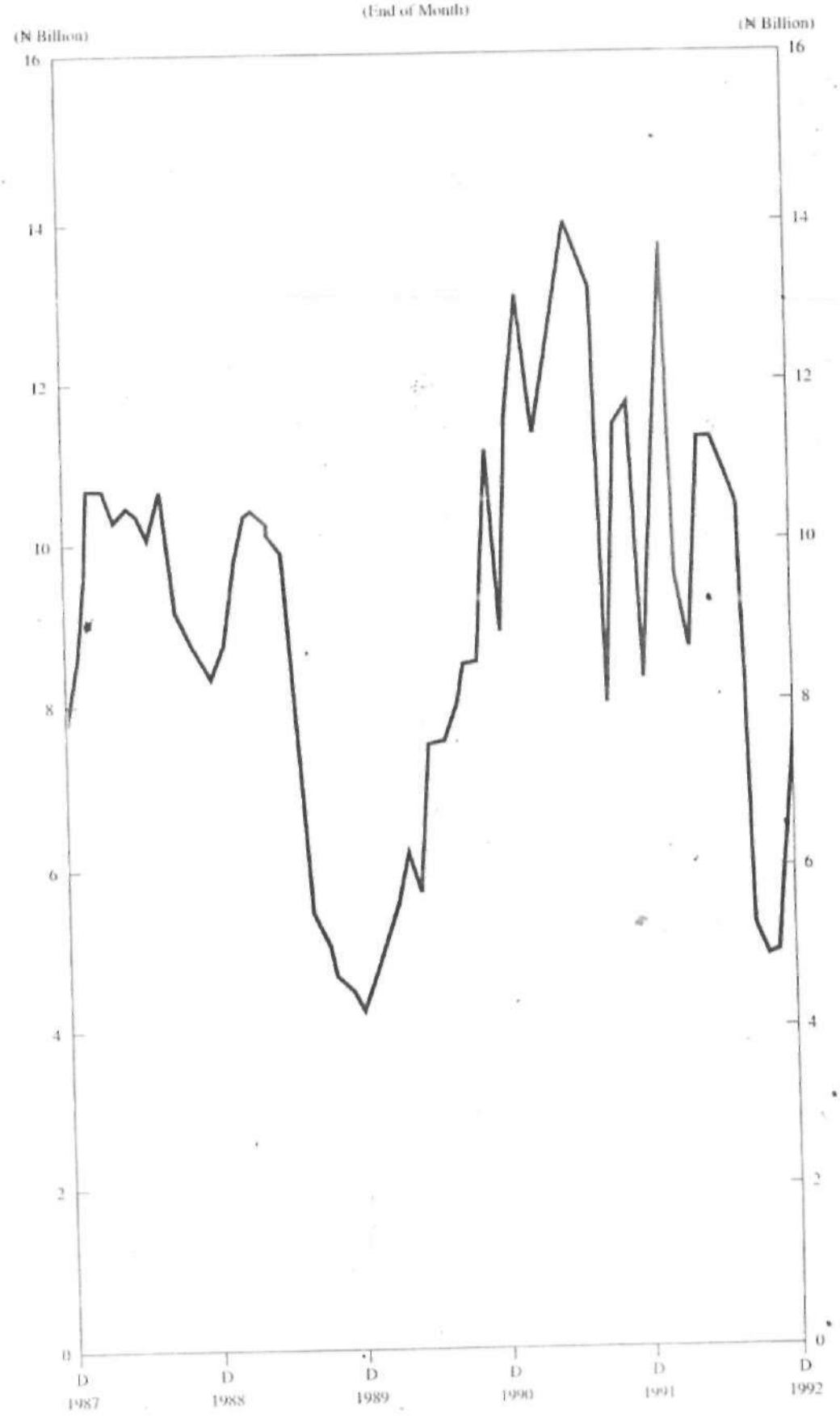

CHART IX

COMMERCIAL BANKS' CREDIT TO THE PRIVATE SECTOR

(End of Month)

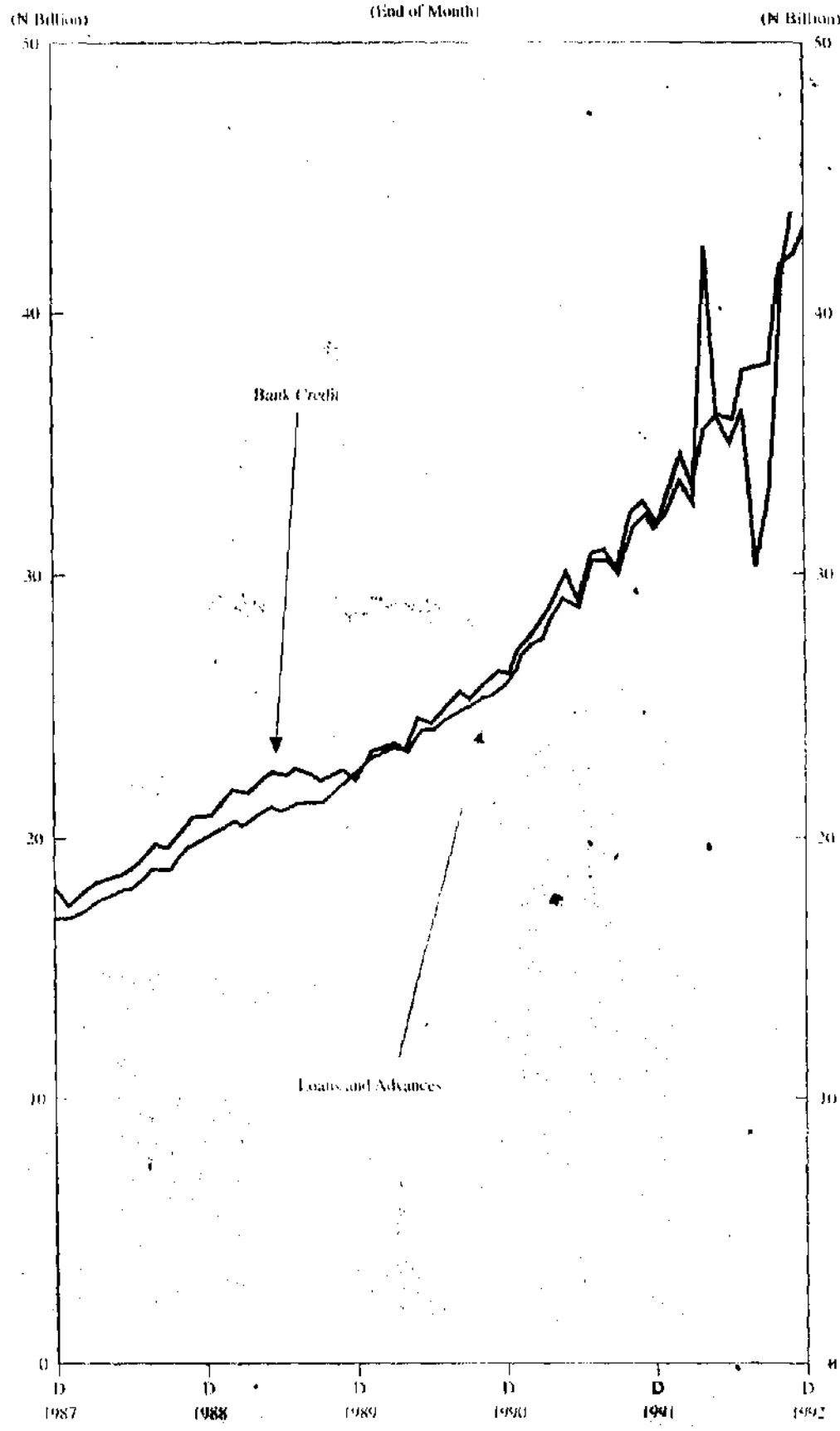

CHART XI

COMMERCIAL BANKS' LIQUIDITY

(End of Month)

