Operations of the Central Bank of Nigeria (CBN): Its Impact on the Economic Development of the Country. (1970 - 1986)

BY:

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A, Project submitted to the Postgraduate School, Ahmadu Bello University, Zaria. In partial fulfilment of the requirements for the award of the Degree of Master in Business Administration (MBA)of the Ahmadu Bello University, Zaria.

Department of Business Administration, Institute of Administration, Ahmadu Bello University, Zaria".

OCTOBER, 1988

DECLARATION

I hereby declare that the work done in this project is entirely the research results and effort of the writer.

No project of this nature has been written by anyone in the past with similar specifics.

All materials obtained and used from other sources have been fully acknowledged.

STEPHEN ONYEMAECHI NWABUKO

CERTIFICATION

This Project entitled "Operations of the Central Bank of Nigeria (C.B.N.): Its Impact on the Economic Development of the Country" Written by Stephen Onyemaechi Nwabuko meets the regulation for the award of Masters Degree in Business Administration (M.B.A.) of Ahmadu Bello University, Zaria, Nigeria, and is approved for its contributions to knowledge and literary presentation.

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DEDICATION

This work is dedicated to MR. BONIFACE OBIOMA ULONNAM NNANNA NWABUKO my love and my all, in whose stead I stand firm in the comity of the elites.

ACKNOWLEDGEMENT

I have toiled through thick and thin before emerging with this piece of academic work by the special grace of the Almighty God. The direction of this work, the organization of thought and the presentation of materials has been conducted under the strict and careful supervision of my painstaking supervisor in the distinguished person of Mr. Emmanuel Ojo Onipe. I appreciate his guidance.

I am highly indebted to all the lecturers in the department of Business Administration, Ahmadu Bello University, Zaria, who have contributed immensely to my academic upbringing. Without my family (the entire Nwabukos) it would not have been possible for me to undertake the Post Graduate Programme at the time I did. My good in-laws and sincere friends are valuable assets to me. To all my good friends at the Central Bank of Nigeria especially Mr. Fidelis Mbamba (Principal Economist - CBN Zonal Office Kano), Mr. C.C. Nnochirionye (Banking Manager - CBN Kano), Mr. S.N. Ibeabuchi (Senior Economist - CBN Lagos) and a host of others, I shall always relive your kindnesses.
Thanking the Almighty God for sparing the lives of my parents to bear witness to their mustard seed.

To all, I am eternally grateful.

ABSTRACT

This study is about Money and Banking and iioonomic activity. As such it necessarily deals with a number of important questions - questions whose answers affect all of us regardless of our occupation or status in life..

In relating various theories of the demand for, and supply of money, with the intent of determining how money exerts its influence on the broad economic questions of the level of employment, the level and change of prices, and economic growth and stability, facilitates an understanding of Monetary Theory which reinforces the meaningful consideration given to questions of Economic Policy.

This study postulates among other things that; there is no unique method of managing money. Each country makes up its mind as to what institutions it needs and what rules it needs to prescribe and what tools to rely upon for the management of its monetary resources. The changes in the value and valume of money can affect the level of economic activities through its effects on production, employment income, prices and the Balance of Payments. The act of changing the value and quantity of monetary management.

The Central Bank of Nigeria (CBN) is however powerless with respect to foreign assets and they have had to succumb to pressure from the Government to finance budget deficits. Where, therefore, the Central Bank credit constitute significant elements in the process of money supply determination, monetary management is

not likely to succeed,

Foreign trade and Government Expenditure are the principal factors affecting the money supply in the developing countries. It is accepted, that without autonomy, Central Banks in developing countries are not likely to maintain the value of the currency which is essential for the growth and development of their Economies.

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CHAPTER ONE

1.1 INTRODUCTION

This study is about the effectiveness of Central Banking operations in promoting Economic development in Nigeria. Specifically, it examines the origin, structure and operations of the Nigerian Financial System. The study recognises the Central Bank of Nigeria as the apex of the Nigerian financial system. It also identifies with the advocates of "more-money-policies than fiscal policies" and hence the choice of the topic - "Operations of the Central Bank of Nigeria (CBN): It's impact on the economic development of the country".

The study has been divided into five parts of three sub-topic accompanying each chapter.

Chapter one deals with the introduction of the study which traces the background and origins of the Central Bank of Nigeria. The objectives of the study was stated, problems identified and some assumptions advanced.

Chapter two, contains an exposition of theoritical framework and literature review and the views posited are in line with the basic tenets of Economic theory and policy.

Chapter three - introduces the history and mechanics of Central Banking and the conduct of the research properly elicited.

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Chapter four-contains the data presentation which is largely descriptive and narrative in nature.

Chapter five - summarises the entire study. Basic conclusions were drawn from the Research Process and recommendations proferred.

This by no means is not an exhaustive study but provides a basis for future research work.

1.1.1 THE BACKGROUND OF THE STUDY

To expedite the study of money and banking and its impact on Economic activity, attempt is made to tie together a number of seemingly divergent areas of inquiry. Thus, the areas basic to this study are; Institutions, Theory and Policy.

Institutional factors examines the relationships between the money-using public and their banks which comprise the commercial banking system, determine the linkage between commercial banks and their bank, the Central Bank and finally to explore the role and significance of the treasury (that is, the finance ministry).

This area focuses on the description of the basic monetary institutions and in analysing their behaviour. This is done through answering questions such as: What is money? What functions does it serve? Where does it come from, and how may its quantity be regulated?

An understanding of how the institutions of our money and banking system - the money-using public, the Commercial Banks, and the Central Bank and Treasury - determine, through their interaction, the composition and size of the money supply, shapes the taking up of monetary theory.

Theory provides the means whereby the Policy Objectives, or ends, can be obtained. And because there exists alternative and competing monetary theories, gives vent to competing policies prescribed to attain given economic goals.

The problem of managing money seems to revolve around several pillars: can we identify the optional relationship for our society between money, output, prices and employment? Can we use the tools available in our environment to attack simultaneously the strange twins of high unemployment and inflation? Can we use the powers of regulation and control to achieve our desired distribution of investment and our desired rate of growth of investment?

For a long time now, economic development is always thought to be centered on those economic elements of production, distribution and consumption which invariably are thought to be the primary elements of economic development while importation and exportation are thought to be secondary elements of economic development.

It is rather through importations and exportations which unavoidably relates to the movement of foreign currencies are invariably the nerve centre of economic growth.

Indeed, Policy Considerations are the basic focus of the entire study, because whether as professional economists, business or community leaders or simply informed citizens, a knowledge and understanding of Economic Policy are of vital importance.

Friedman, M. (1984)[1], opined that, "real economic growth can be interferred with by the government, but it cannot be produced by the government. Government can provide a favourable background, but real growth fundamentally is produced in the private sector by individuals saving money, investing money, taking risks, innovating".

"Why do Policy Makers and their Professional Economic Advisors, who should know better, consistently retreat into "real" analyses of and solutions for monetary problems?

I can offer only a brief sketch of an answer here. The "real" world is familiar, and identical with the "Monetary" world as long as the price level is reasonably stable; everyone lives his normal live in a partial-equilibrium context in which money price changes are also real price changes. The "Money" world of monetary macro-equilibrium and disequilibrium is by contrast unfamiliar and strange.

Few people indeed possess either a systematic concept of the economy as a whole, as distinct from their own small corner of it, or the imagination to recognise what seem like "real" changes with "real" causes as being in reality monetary changes with monetary causes...."

By - Harry G. Johnson.

"Money, Balance of Payments Theory, and the International Monetary Problem", - Princeton Essays in International Finance: No. 124 (November, 1977), pp. 2 - 3, 6.
Edited in; International Economics - The Theory of Policy. By Gerald M. Meier. Oxford University Press, (1980), p. 191.

THE EVOLUTION OF THE CENTRAL BANK OF NIGERIA

The Central Bank of Nigeria (CBN) became operational on July 1, 1959. The Central Bank of Nigeria forms an intergral part of the programme for Independence - which Nigeria achieved in October 1, 1960. The purpose for instituting a Central Bank for Nigeria was to ensure a responsibility for monetary autonomy which is essential to the working of an independent modern state.

Okotie-Eboh, F. (1959)[2] (former federal Minister of Finance) in his memorable speech at the inauguration of the C.B.N. retorted; "During my Budget speech last February, I said that it was hoped that on the 1st July, the Central Bank would assume its functions as the Bank of issue and that of Nigerian currency would commence on that same day. Today that prophecy is fulfilled. From today, the bank has sole authority over the issue of currency throughout the federation".

The experiences and/or developments in central Banking or Banking Practice per se, is not unconnected with our political affiliation with Britain - the then colonial power and the developments in the International Monetary System ranging from Bretton-woods in 1944, the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD) - or World Bank), the European Economic Community (EEC), the London Club of guaranteed creditors, the Paris Club for debt reshedulement to the activities of the International Finance Capital(IFC).

Based on an amended motion[3] of 1953 calling for the establishment of a central bank for the country, Mr. J.L. Fisher an adviser to the Bank of England was, in accordance with this undertaking, appointed in the course of the same year, "to examine the desirability and practicability of establishing a Central Bank in Nigeria as an instrument for promoting the economic development of the country".

After reviewing the principles of orthodox Central Banking as developed in England and considering the financial and economic environment present in Nigeria, he produced conclusions and recommendations which did not favour the establishment of a central bank in Nigeria at that time. He did not see how the establishment of a central bank to regulate currency and credit expansion could promote savings for capital formation.

In defence he asserted[4]: "It is difficult to see how the establishment of a Central Bank would of itself promote savings for productive capital development. Such a bank could not itself create capital for development and if established, would normally be concerned with the regulation of current credit".

In recognising the contribution a Central Bank might make towards improving the standard of performance of the indigenous banks, he[5] felt that it was better to "build the financial structure from the base upwards rather than try to build from the top downwards".

Going by this projection, this study attempts at vindicating the obvious assertion through pin-

pointing certain events and economic indicators which underscores the stage of our Economic development.

Okotie-Eboh, F.[6] while atoning the vission for the CBN in his inaugural speech expoused the view that "the issue of the new notes and coin is only the beginning of the central bank's assignment. The Bank will be charged with the responsibility of managing the currency. It is vital that the currency should be so managed that it will command full confidence both in Nigeria and overseas". He further contended that "there are no pre-ordained methods of managing monetary affairs which can be taken from the experience of other countries and put immediately into operation in Nigeria. Our circumstances and problems call for action which is suitable for our economy and for the present stage of our financial development. In country's where there is a developed money or capital market it is common for central banks to purchase or sell securities on the open market and to employ a flexible bank rate as means of managing the economy." Said he, "although the central bank is a federal institution, its services are intended for the good of all Nigeria. One of the most important roles to be played by the Central Bank is that of financial adviser to the Government". To the extent that this role is pursued meaningfully, provides a latitude for an assessment of the effectiveness of the operations of the Central Bank of Nigeria.

1.2 STATEMENT OF THE PROBLEM

The basis of this study is an attempt at addressing some of the key Economic Problems facing the country and proferring some suggestions that may be useful in confronting such problems. The main thrust of the study as earlier stated focuses on unearthing the "myths" behind the institutional framework of the Nigerian Financial System to show if the system is over-stretched, and thus, constituting another extension of "Financial bureaucracy".

Secondly, "orthodoxy" may have been substituted for "Pragmatism" in the frame of CBN functions being tied to policy issues. Over the years, political instability in Nigeria (reflective of political successio has necessitated, in the main, the adoption of short-range planning. Economic Policy issues thus become incongrous with the development aspirations envisaged for the country. One fact is certain; the "Global Economy" is an inter-dependent Economy and such Economies exist within the latitude of what has been copiouslytagged "the developed (advance and affluent) and the under-developed (backward and poor) Economy".

Samuelson, P.A. argued that, "although norminally a corporation owned by the government, (CBN), - it is a 'Public Agency'. It is directly responsible to government, and whenever any conflict arises between its making a profit and the public interest, it acts according to the public interest without question".

Therefore, any inadequacies of the CBN cannot be linked to its character per se, rather to the human elements of professionalism, competence and performance.

The issue to be addressed critically relies in asking whether the CBN is a "means to an end or an end in itself". And, if a means, does it justify the end.

In an effort to answer the question on "means - end - relationship" due consideration is given to the key Economic indicators which have been indentified as the basis for evaluating the performance of an Economy.

With a huge Public debt put at about 12 billion U.S. dollars, uncontrollable inflationary rate of over 50 percent mark, a rising unemployment that has entered its double-digit rate, all in the face of an economic recession (anti-thesis of Economic theory), are basic problems facing the Nigerian Economy in recent times. Indications suggest subtly, that Nigeria and in particular the CBN was ill-prepared to face them. This assertion provides a loophole in the CBN's function of Banker and Financial Adviser to the Federal Government and admittedly a valid critism of the performance of the CBN.

Going by the peculiar nature of International trade, Nigeria being a "developing" country have more often had to contend with adverse Balance of Payments position than it has ever recorded favourable Balance of Payments.

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The Nigerian Economy is said to be a "Mixed Economy" but with a mono-product base (petroleum resources) and over-involvement of the public sector has continously ensured the crowding-out of private investment. The consequences lie on the unacceptable level of government expenditure necessitating deficit financing and the over-monetisation of the Economy in the face of low export earnings which engendered over-valuation of the currency, high spending power but low standard of living and an unconscionable investment but with a low per capita income.

The question is, what monetary policy tools has the CBN applied to reverse the trend? Is money supply (the core issue) determined endogenously or exogenously at the CBN? Has supply - side Economics failed? Is Monetary-Policy or Fiscal-Policy being over-sold? This study attempts at answering such useful questions.

1.3 OBJECTIVES OF THE STUDY

This study is not a departure from what the text-books say on Economic theory and management. Specifically, the essence is to show inter-alia;

(a) the significance of the CBN's data vis-a-vis economic planning and (b) the relationship between economic theory vis-a-vis government economic policy formulation. No intent whatsoever is shown by the author to indict the personnel or the image of the CBN but rather to pry into the soundness of policy measures without undermining the soundness of state power.

Any attempt at deviating from classical or orthodox Central Banking functions could impede the orientation of Banking techniques especially as monetary and fiscal policy tools has been identified as unchangeable and has universal applicability. Rather,what can be varied is the variety and the extent to which each tool is employed in solving Economic Problems.

Quite constructive as this may seem, this study is an effort in showing:-

1. the strength of economic tools in prompting rapid economic development.
2. the sophistry in policy arguements; monetarism versus fiscal policy in extending the frontiers of economic development, and
3. a recognition of the immense role played by the CBN in developing the Nigerian Financial System.

1.4 HYPOTHESES

What is the foundation of economic growth and development? What institutions are required and what policies are relavant? What type of relationships are envisaged for effective and efficient economic management for the country?

The contention of this study presupposes a combination of private and public activities which will maximize the net benefits obtained overtime from available resources. Policy failures are relative, not absolute, and the same is true of the deficiencies of state planning.

Policies and plans both have strengths and weaknesses, benefits and costs. An approach should be to compare these, advocating that markets be allowed to do those things in which they are the more efficient, and for the state to do those things in which it is the more efficient.

One general principle, then is let the private and public sectors each do those things in which they can produce better results than the other. So far as "Static Efficiency" is concerned, therefore, there is a general case in a "mixed economy" (like Nigeria) for allowing resources to be allocated through the decentralise instrumentality of the market mechanism, rather than by central direction.

1. A well functioning market mechanism is more likely to achieve static efficiency in the allocation of resources than is state regulation. In general, therefore, Micro-Economic Production and consumtion decisions are better left in private hands.
2. It is a responsibility of the state to provide socially desirable services which the price mechanism either would not produce at all or would only do so at greater cost or with smaller social benefit.
3. The achievement of static efficiency will require state action to eliminate the ill-effects of monopoly power and other impediments to the competitiveness of private markets.
4. The market mechanism will result in self-reinforcing inequalities which are likely to be judged socially unjust.

This indicates socialistic intervention by the state provided that the resulting improvements are regarded as outweighing the cost of achieving them.

5. An unregulated market economy is inherently unstable; the state should so manage the macro-economic variables of the ecomomy as to neutralise this instability.

6. A market economy is likely to fall short of full long run dynamic efficiency but it has yet to be demonstrated that government achieve generally better results.

7. The desirable balance between state and private activity will fluctuate overtime and should thus be be subjected to continous re-examination.

1.5 SCOPE OF THE STUDY

The theoritical base of this work is largely economic and the references made are those of experts in the field of Economics as appropriately acknowledged. It's central focus is macro (or supply-side) Economics, that is, aggregate demand and supply.

The characteristic of this study is based on observation in the trends of the key economic indicators which includes:

1. Inflationary trend/money supply trend
2. The level of employment
3. Balance of Payments position
4. External debt commitments
5. Patterns of federal budget deficits
6. Growth rate in Gross Domestic Product (GDP).

The study, though not a pioneering work has as its specifics a critical assessment of the operations (basically the conventional functions of central banking) and its impact on the economic development of Nigeria between 1970 and 1987.

1.6 FOOTNOTES ON CHAPTER ONE

1. Friedman, Milton, 1984 - "perspectives on the Nobel Price Winner in Economics(1975). International Monetary System Economic Impact (Ed.) copyright(c) 1980, U.S. News and World Report Inc.

2. Okotie-Eboh, Festus, former Federal Minister of Finance (1960-1966) 1959 - "Dateline July 1, 1959 CBN expectations". Inauguration speech of the CBN. Anniversary Bullion (Part II) - July-December 1979, a publication of the CBN.

3. Mbadiwe, K.O. Honourable member, Fed. House of Representatives. 1953 - "A case for a central Bank of Nigeria" - Twenty years of Central Banking in Nigeria. A CBN publication.

4. Fisher, J.L. Adviser to the Bank of England. 1953 - "Report on the desirability and practicability of establishing a central bank in Nigeria for promoting the Economic development of the country. Government Printer Lagos, Nigeria 1953, p.17.

5. Fisher, J.L. Op. cit.

6. Okotie-Eboh F. Ibidem, "Dateline July 1, 1959".

CHAPTER TWO

THEORITICAL FRAMEWORK AND LITERATURE REVIEW

2.1 ECOMONIC THEORY AND POLICY

The basic analytical framework in macro-economic analysis is aggregate demand and supply.[1] Three (3) classes of economic thought have emerged on the discussion leading to the dialogue[2] between the aggregate demand function together with three different types of aggregate supply functions, those for the;

(a) Neoclassical (monetarists) led by Professor Milton Friedman,

(b) Classical - postulated by Sir, Lord Maynard keynes and

(c) Intermediate cases.

Lipsey, R.[3] observed and rightly too that...." the basic problem in "micro economics is the determination of the allocation of resources, and the basic theory is that of the determination of relative prices through demand and supply. The basic problem in 'macro Economics' is the determination of total employment, output and the price level. And the basic theory is that of the determination of the national income through aggregate demand and supply".

In the Neoclassical and intermediate case models it postulates that prices must change if either the supply curve or the demand curve shifts.

However, in the keynesian model, a shift in the aggregate demand function alone cannot affect prices in the short run, because the supply curve is assumed to be horizontal as prices offered by suppliers are fixed in the short run.

The fixed-prices hypothesis is the point of departure for macro-disequilibrium theory. Although initiated by keynes,[4] the strength of this approach to macro-theory was not recognised until recently. Keynes hypothesis of price rigidity together with his assumptions about the behaviour of workers was interpreted by most economists to represent a special case of the real world.

Recently, a more rigorous reinterpretation of keynes hypothesis has been made and it has been argued[5] that keynes propositions are not a special case but rather a general description of the aggregate market. This view contended that, due to wage rigidity, monopoly elements, and like features pervasive in today's labour market, adjustment to full employment equilibrium is not instantaneous but is delayed for a considerable period of time.

Disequilibrium theory is mainly concerned with:

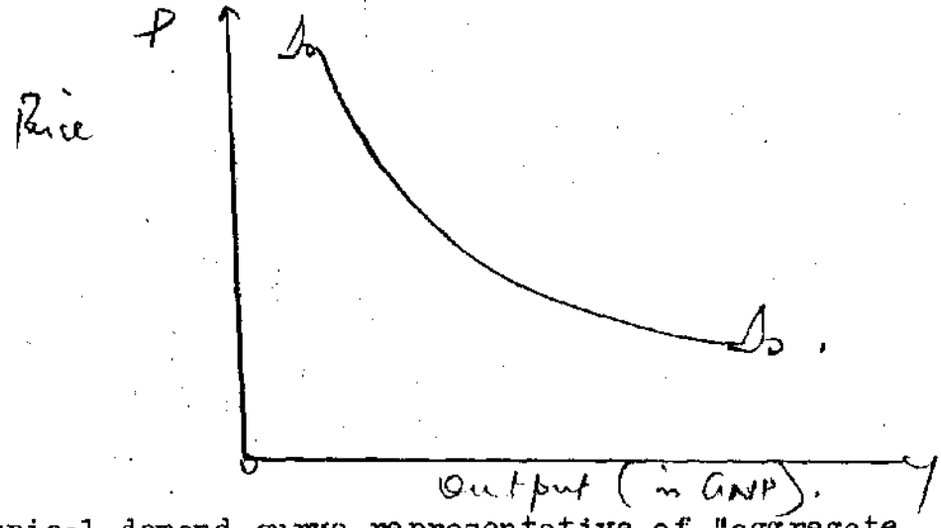
1. the inability of prices such as commodity prices, the interest rate and the wage-rate to change freely in the short run,
2. modifications that should be made to the conventional general equilibrium theory of market adjustment with the hypothesis of such price rigidities, and

3. how this new model fits into the analysis of inflation and unemployment.

THE FRAMEWORK: AGGREGATE DEMAND AND SUPPLY

Aggregate demand for real national output comes, from government (government purchases) and the private sector (consumption, investment and net exports). It seems intuitively plausible that the lower the price of output (the Gross National Product deflator), the greater the quantity of output demanded by the private sector and, given government demand for output, the greater the total demand for real output.

By illustration, a familiar downward sloping demand curve is presented with demand schedule "D" relating prices "P" and real output demanded "Y"



A typical demand curve representative of "aggregate demand" - C + I G + (X - M). Where, C = consumption by the household .

I = Investment by the Private sector

G = Government Expenditure

X - M = Net export

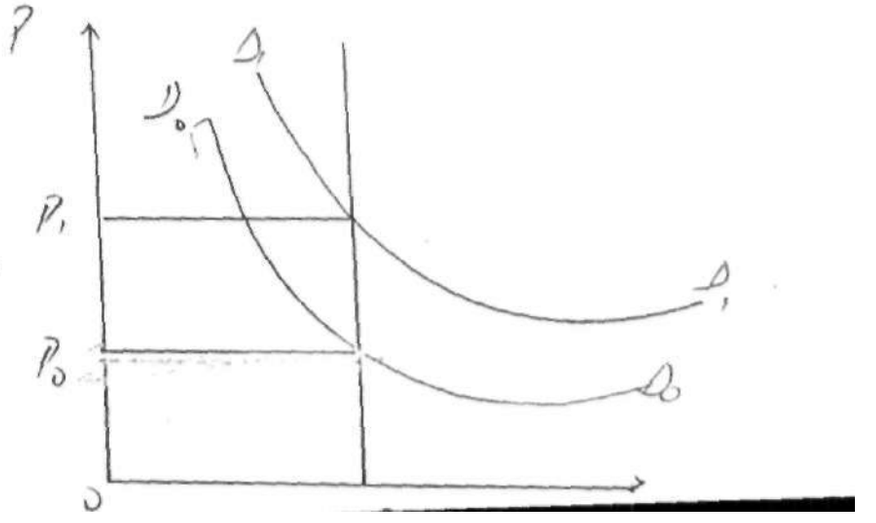
Source: D-S OTT, A.F. OTT and J.800 "Macroeconomy theory 1975.

On the other hand, the shape of the "aggregate supply curve" is a matter of dispute. Three possibilities are most often cited:

1. a vertical supply curve (the neoclassical model)
2. a horizontal supply curve (the keynessian model) and
3. a positively sloped supply curve, which at some level of real output, turns vertical, or nearly so (the intermediate case). The shape of the aggregate supply curves reflects fundamental assumptions made about the short run behaviour of the economy.

CASE ONE

For the Neoclassical curve (monetarists), shown as 'S' - the assumption, is that both wages and prices are flexible enough so that no matter what happens to the price level, output will always be at the level where full employment of labour (and capital) occurs, that is, at "YF". Shifts in total demand in this model only affect prices, not real output. For example, if total demand for real output at each price level increases (the demand curve shifts rightwards to "D1"), prices rise from "Po" to "P1" while output remains at full employment. The Neoclassical model, then, makes output "supply dorminated" and prices "demand dorminated".

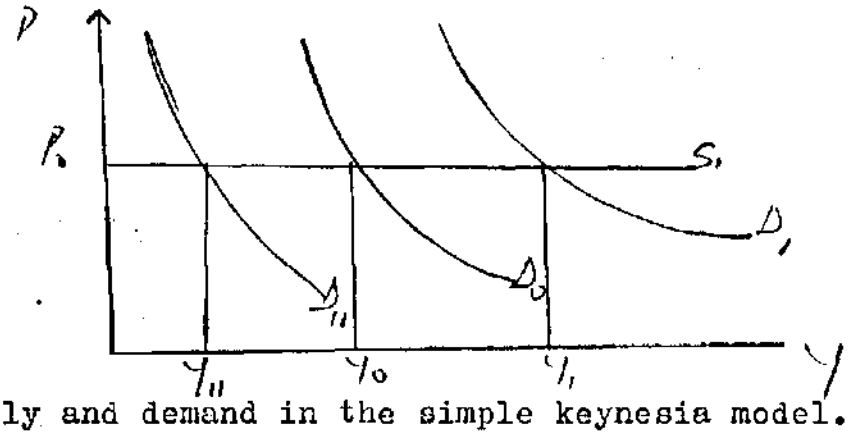


Aggregate supply and demand in a Neoclassical model.

Source: D.J. OTT. A.F. OTT and J. Yoo "macro-economic theory" 1975.

CASE TWO

At the other extreme are the simple keynesian models which most intermediate text books begin with. In this case, the price level is assumed constant at some level "Po"; the aggregate supply curve is thus in effect assumed to be horizontal at this price level, as with "S". In this setting, output becomes demand dorminated and prices supply dorminated. With the aggregate demand curve "D" and the horizontal supply curve "S"1"; real output will be "Yo" which may or may not correspond to full employment output "YF". Increases in aggregate demand (to "D") raise real Output (to "Y") but also do not affect prices.

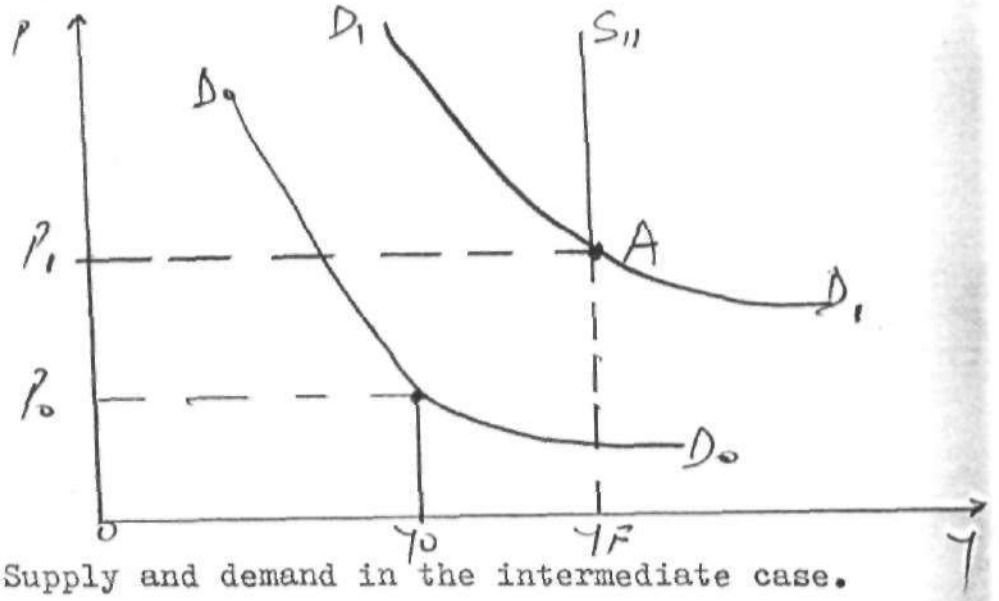


Aggregate supply and demand in the simple keynesia model.

CASE THREE

The third possibility for the aggregate supply curve - assumes that over some range, the supply curve has a positive slope - is consistent with the assumption that

money wage rates are constant. If money wage rates (W) are constant, then a higher level means that producers will hire more workers and produce more output because the additional revenue produced by the additional output from a unit of labour is raised. Or to explain it in another way, elementary price theory shows that, given the price of labour (and other inputs) higher prices produces increases in output by competitive firms until price equals marginal cost. This intermediate supply curve is shown as "S11". Note that at full employment output "YF", the curve turns vertical - increases in prices beyond this point cannot result in more output.



Aggregate Supply and demand in the intermediate case.

Source: D.J. OTT, A.F. OTT and J. Yoo.

In this setting, as long as the aggregate demand curve cuts the supply curve on the positively sloped portion, policies affecting aggregate demand can affect both prices and real output. For example, if aggregate demand can be raised to "D1" so that the demand curve cuts the supply curve at point "A", full employment output can be reached at the expence of some rise in the price level.

Thus, the first major difference in the alternative macromodels is in the shape of the aggregate supply curve. The assumptions made about the nature of these curves are crucial to the potential of using aggregate demand policies to affect output, prices or both.

The second issue can be stated very simply: how much effect do fiscal and monetary policy have on the aggregate demand curve? Some Economists take the view that fiscal actions (changes in government expenditures and net taxes) have little impact on demand, while monetary policy actions (e.g. changing the supply of money) have a major impact. Others believe fiscal policy is a potient influence on aggregate demand and monetary policy is not. Still other writers believe both are powerful in their effects, although their impact on demand occur through different channels and affect different sectors differently.

To support or debunk a particular idea, one must keep in mind keynes[6] warning regarding the abundance of such ideas (that is, the injudicious acceptance of such folklore and mythodotogy), when he quipped... "practical men, who believe themselves to be quite excempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back".

2.1.1 THE PHILOSOPHY OF BANKING

Nwankwo, G.O.[7] made the assertion that, "any realistic appraisal of Banking Philosophy must start with the concept of banking. A lending philosophy that emphasises profitability and liquidity alone cannot be regarded as appropriate for a developing economy". He further contended that, "... it is also necessary for creative banking that the primary function of banking be clearly defined. The problem of effective banking reform in developing countries is one of operational reorientation and adaptation".

Samuelson, P.A.[8] defined a central bank as ... "a bank that the government sets up to help handle its transactions; to coordinate and control the commercial banks; and, most important, to help control the nation's money supply and credit conditions".

Economic theory singles out those independent variables that determines the values of the dependent economic variables. The economic variables of key relevance to this study include: the supply of money, the level of prices, the rate of interest, the balance of payments position, the index of production/manufacturing and general commerce and the level of employment and income.

The relevance of economic theory in the study of money and banking rests upon its application to the question of economic policy.

Policy, perhaps may be defined as the set of rules which may bring about some desired end. Policy is thus not necessarily concerned with "What is" but with "What may be". The end or objective is specified, and the appropriate variables or conditions are manipulated to bring about the desired goal. Therefore, Economy theory and Economic Policy are intimately connected.

To carry out economic policy, it is necessary to have the desired economic objectives established. These objectives may be single goals or multiple goals. Examples of economic objectives are; stability of prices, rapid economic growth, full employment, and equilibrium in the balance of payments position.

Agreeing that these objectives are generally accepted standards of economic objective, the question then arise: How are these objectives to be attained? What kinds of economic policies are available for working toward these goals? The tool kits of our various policy groups include the following:

(a) monetary policy
(b) fiscal policy and
(c) debt management.

MONETARY POLICY AND ECONOMIC GOALS

Monetary policy may be defined as the regulation of the quantity and cost of money in order to achieve some objectives or set of objectives.

For instance, the central bank regulates the cost and availability of credit as it seeks to promote a high level of employment, growth, equilibrium in the Balance of Payments and stable prices. Monetary policy is designed to ensure that the supply of money to the economy is adequate to support desirable and sustainable economic growth and that the supply is not too much as to generate inflationary pressures.

At its disposal are such principal tools used in regulating the money supply are its open market powers, its authority to vary reserve ratio requirements and its administration of the discount mechanism. These quantitative controls aim at influencing the cost and availability of credit in general. They operate on the commercial banks reserve position by changing the volume of reserves (OMO), by altering the disposition of a given amount of reserves relative to required reserves and excess reserves (reserve ratio requirements), and by changing the level and cost of borrowed reserves (discount rate policy).

FISCAL POLICY AND ECONOMIC GOALS

In contrast to monetary policy which is concerned with cost and availability of money, fiscal policy deals with the receipts and expenditures of government. The government sector affects aggregate spending, employment and prices through its revenue absorptions and expenditures. Because government expenditures are part of final demand, they are part of the GNP stream.

While taxation reduces disposable income and, consequently, reduces final demand for output, borrowing on the other hand, depending on the sector that lends, has various effects on the money supply. The effect have depends on the source of the funds.

Fiscal policy by allowing for changes in both government expenditures and revenues, provides an important tool for pursuing the policy objectives of full employment, growth and price stability.

DEBT MANAGEMENT AND ECONOMIC GOALS

The difference between government tax receipts and expenditures generates a surplus or a deficit. If a deficit, it means that tax collections fall short of expenditures and the difference being financed by borrowing. The sources of borrowed funds has a direct bearing on money supply.

Similarly, a surplus use to retire debt has monetary consequences. This one aspect of debt management is determining how a deficit is to be financed or a surplus is to be utilized.

Kenneth J. Arrow[9] commented that, "the problem is a different one: How is the deficit financed? If it is paid for by printing more money, then the deficit is likely to be inflationary. But if the economy gets to reasonably full employment, there is another danger. If the government finances the deficit by borrowing rather than by printing more money, it may crowd out private investment.

That hurts the economy because growth ultimately depends in great measure on private investment".

Nwankwo, G.O.[10] identified four major factors in monetary and fiscal policy formulation in Nigeria. First, the broad perspectives of the political economy, of the country are important considerations in monetary and fiscal policy formulation. For this purpose, two documents are of key importance, and indeed indispensable. These are the current National Development Plan and the current budget.

Secondly, another factor of crucial concern is the financial position of the nation. In this connection government finance is examined with respect to revenue and expenditure, including domestic and external borrowings. The financial position of the private sector and of the financial system is also examined in terms of the availability, price and allocation of funds and degree of fund mobilization and utilization.

Thirdly, since the national economy is part of the world economy, the external situation comes into focus in formulating monetary and fiscal policies. Apart from the balance of payments position mentioned above, include the foreign reserve situation of the country, the naira exchange rate, the movements in the currencies of major trading partners including devaluation/revaluation of these currencies, the pricing of imports and exports and the trade balance between the country and its major trading partners.

There is finally the political environment including current Political Philosopy. Since economics take a queve from politics, the political situation is of crucial importance in monetary and fiscal policy formulation.

Jan Tinbergen[11] classified all relevant economic variables into two categories namely: first, there are "target variables" (called "t-variables"). These relate to such items as the level of employment, the rate of inflation, the growth of output, the distribution of income variables the government is likely to be interested in but which it does not directly control. Its value are known and determined exogenously by government.

Secondly are "Policy Instruments", also called "instrument variables" or "policy variables" ("P-variables"). The refers to the type of instruments like; taxes, direct controls, government services etc, whose values are unknown and endogenously determined by the targets set by the government.

A conclusion could be drawn, that, for a government to achieve multiple policy objectives it must use atleast as many policy instruments as the number of its objectives. This assertion is true to the extent that one accepts as fact the postulation of Arthur M. Okun[12] that "the plain fact is that no school of Economists has a satisfactory theory of inflation. Neither those who place most faith in fiscal policy (Keynesians) nor those whose religion is found in monetary policy (Friednanites), had the answer. It means in effect, that conventional methods to deal with inflation like budget-balancing, or tight money may be

ineffective but may also slow down the Economy or create a recession. That's why inflation and recession can co-exist, even if the text books say it is impossible".

2.1.2 OBJECTIVES OF THE CENTRAL BANK OF NIGERIA

A major responsibility of the modern central bank is monetary management to ensure a stable internal and external value for the national currency - so as to facilitate the performance of the vital functions of:-

- medium of exchange
- store of value
- standare of deferred payments and
- unit of accounts.

Monetary policy formulation and implementation raise very difficult conceptual as well as practical problems. While it is generally agreed that monetary policy may be designed to deal with four broad objectives, namely:

(a) price stability
(b) high rate of employment
(c) a desirable or sustainable rate of economic growth
(d) Balance of Payments Equilibrium.

In practice, one finds, more often than not, that these policies conflict intractably. Thus the art of monetary management involves difficult trade - offs among conflicting objectives in order to maximize the overall benefits to the society.

In Nigeria, the broad objectives of monetary and fiscal policies are enunciated in the second and Third National Development Plans as:

"to establish Nigeria firmly as a united, strong and self-reliant nation, a great and dynamic economy, a just and egalitarian society, a land of bright and full opportunities for all citizens and a free and democratic society".

Towards those five long-term national objectives, seven short term objectives were prescribeddas:

(a) more even distribution of income

(b) increase in per capita income

(c) reduction in the level of employment

(d) increase in the supply of high level manpower

(e) diversification of the economy

(f) balanced development

(g) indigenisation of economic activity.

To buttress and reinforce the above, the CBN, as the prime mover and chief executant of monetary policy enshrines added objectives geared towards the:-

(i) maintenance of confidence in the Nigerian currency

(ii) maintenance of reasonable stability in wages and prices.

(iii) support for increasing levels of agricultural and industrial output, and

(iv) provision and organisation of development finance.

While the broad objectives are usually enshrined in the National Development Plans, the short term objectives and strategies for achieving them are usually enunciated in three documents; the Annual Budget speech by the Head of State, the Press Statement by the Federal Minister of Finance, and the monetary policy circular by the

Central Bank.

The specific focus of monetary policy management is of paramount importance in evaluating performance. For instance;

(i)) the pursuit of accelerated economic growth may lead to rapid importation of capital goods, imposing, in the short-run, disequilibrium pressures on the balance of payments.

(ii) the objectives of growth and price stability are also in frequent conflict. Inflationary policies may accelerate the rate of growth in the short-run which cannot be substained in the long-run.

(iii) a firm commitment to full employment may be inflationary.

However, the objectives may not be of equal importa nce for all times in an economy and it is possible to determine the main focus of policy at any given point in time, depending upon the prevailing economic and financial conditions. Even with the development of standard tools of monetary management, the problem still remains that the tools are not universally applicable. Selectivity in monetary tools employed is imperative, and an effective tool is that which reflects each country's circumstancess and stage of development given the right financial e n environment and conditions to the use of any package of instruments selected.

The CBN has enjoyed a deal of independence in its primary responsibility for formulating monetary policy although the final authority for policy rests with the Federal Executive Council. It has been the practice that

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the CBN's monetary policy proposals are made as an integral part of the federal government annual budget which combines approved monetary and fiscal measures.

2.1.3 OPERATIONS AND DEVELOPMENT OF THE NIGERIAN FINANCIAL SYSTEM.

Given the mix of factors that influence economic development, namely, political, social, economic, and even fortuitous, the contribution of a Central Bank is limited and may be seen more in the creation of the environment and the institutional framework conducive to the mobilization and channeling of funds into more productive investment.

In pursuit of the important task of promoting the transformation of the rudimentary financial structure of the economy, the development of financial markets was early contemplated by the CBN in the context of promoting the accelerated development of the economy and of providing the institutional environment for the effective operation of the CBN itself.

The financial markets as generally conceived, comprise :-

1. The money market which facilitates the intermediation of short-term funds from surplus to deficit units, and
2. The capital market which deals with the mobilization and channeling of longer term capital resources.

THE MONEY MARKET

One of the main objectives of setting up the local money market facilities in Nigeria was to stem the outflow

of surplus funds into investment outlets in the London money and capital market and then Nigerianize the credit base.. Other major reasons included the enhancement of an effective monetary management which a well developed money market would provide the monetary authorities, and the promotion of commercial banks management of their port folio of assets and liabilities.

As a first major move in forstering the development of the market:-

(i) the CBN introduced short-term government debt instruments treasury bills and certificates, - to supplement the commercial paper already in the market. In April 1960 the CBN introduced the "treasury bills" as short term debt instrument by which government was persuaded to issue bills exceeding its own immediate needs in the overall interest of encouraging the growth of the market and the repatriation and centralisation of overseas assets which the financial intermediaries had maintained in the absence of an organised domestic money market.

(ii) In 1962, the "call money scheme" was introduced by which the CBN established a call money fund that provided the central bank with other financial institutions with an outlet for the temporary or overnight investment of their surplus funds. Under the scheme, participating financial institutions were required to maintain for clearing purposes minimum balances with the CBN while any excess over these minimum balances were lent to the call money fund.

(iii) A third important development in the Nigerian money market with the support of the CBN in the early 1960's was the introduction in 1962 of a Bill Finance scheme for marketing boards.

(iv) The fourth stage in the development of the money market started in 1968. The year saw the introduction of another money market instrument - the "treasury certificate" - to deepen the market and enhance the borrowing capacity of the federal government.

(v) A subsequent development was the introduction of certificate of deposit (CD's) and Bankers Unit Fund (BUF) as additional instruments in the market. The certificate of deposit introduced in 1975, were of two classes, namely:-

(a) Negotiable certificate of deposit (NCD) and
(b) Non-Negotiable certificate of deposit (NNCD).

Both types of certificates of deposit are inter-bank debt instruments designed mainly to channel commercial bank surplus funds into the merchant banks. The Negotiable certificates of deposit were also rediscountable at the CBN. The Bankers Unit Fund introduced in 1975 were also designed to channel commercial banks, merchant banks and other thrift institutions surplus funds into federal government stocks.

Beginning from 1976, "stabilization securities" began to be issued by the CB to MOP up idle cash balances of the participating commercial banks.

THE CAPITAL MARKET

Participants in the organised capital market include development banks, corporations, investment trust, mutual funds and banks (commercial and merchant banks). The Stock Exchange is the hub of the capital market and operates through agents known as brokers, jobbers and underwriters on behalf of both the lenders and the borrowers of funds.

The Establishment of the Lagos Stock Exchange in 1960 led to increase issues and offers of companies shares and debentures. CBN's analysis of operations of the exchange is in respect of transactions in both giltedged securities and industrial stocks and shares, number of securities listed and the price of securities.

In line with the recommendations of the committee on the Review of the Nigerian Financial System (CRFS) approved by the federal government, the Lagos Stock Exchange was reconstituted into the Nigerian Stock Exchange in 1967. The CBN has been criticised on the grounds that it perpetuates an unrealistic interest rate structure in the gilt-edged market. The crux of the arguement is that CBN's support makes yield on the securities low and unaltractive to private investors.

The main arguement in favour of the policy has been that it is necessary to maintain stable prices for government securities.in order to build up investor confidence in the securities. The policy is also supported by the need to minimize the debt burden on the government for such borrowings.

CBNs ROLE IN OTHER GOVERNMENT SPONSORED FINANCIAL INSTITUTI

Another vital way in which the CBN has influenced the course and pace of development of the Nigerian Economy is through the promotion of the establishment of, and continued assistance to mobilize and channel savings into productive investments. These institutions which operate largely in the market for medium and long-term capital include; the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural Bank (NAB), the Federal Mortgage Bank (FMB), the Federal Savings Bank (FSB), the Nigerian Agricultural and Cooperative Bank (NACB) to mention a few.

The Nigerian Industrial Development Bank(NIDB) was established in January 1964 by the Federal Government as a private concern and specialises in the provision of finance for industries either by way of loans or by taking up equity shares.

The Nigerian Agric Bank (NAB) was established in April 1973 with the objectives of improving the level and quantity of all aspects of agricultural production, enhance the availability of storage facilities and promote marketing of agricultural products through liberal credit to farmers.

The Nigerian Bank for Commerce and Industry was established in April 2, 1973 with the main function of providing Equity Capital and loans for long and medium-term investments, to indigenous persons and bodies engaged in industry and commerce.

The Federal Mortgage Bank (FMB) created in July 1977, was set up to expand and coordinate mortgage - lending on a nation-wide basis.

In a further effort at promoting the rapid development of agriculture, the federal government and the CBN established the Agricultural Credit Guarantee Scheme(ACGS) by the instrument of the Agricultural credit guarantee fund decree of March 17, 1977. Under the scheme the whole or part of a loan for agric purposes is guaranteed as a measure of protection against possible losses on the loans and advances granted by credit institutions to farmers and corporate bodies.

CBNs ROLE IN NATIONAL ECONOMIC POLICY FORMULATIONS

Besides its principal responsibility for the formulation and implementation of monetary and exchange rate policies, the CBN also makes significant contributions to various national Economic Policy Formulation Processes. The CBN, for instance, usually submits along with monetary proposals and other related matters; fiscal proposals for the consideration of the Ministry of Finance during the laters annual budgetary exercise.

In other areas, the channel of the CBN influence on government policy is through regular membership of various committees or other ad-hoc bodies/groups dealing with economic and financial issues by which it has played an important role in respect of short-term policy review and crisis management.

The CBN continues to work hard towards spreading the banking habit in the country - a development necessary

for forstering greater financial intermediation in the country. In particular, the CBN as financial adviser to the government, considers it an important objective, the promotion of rapid expansion of banking services to the rural areas to facilitate the transformation of the rural economy.

Conclusively, the development of local financial markets has helped significantly to internalise the credit base of the Economy and so help to minimize the outflow of funds to foreign financial markets.

Directly also, the CBN's monetary policy circulars issued periodically to commercial banks have helped to direct investment funds in accordance with the development priorities of the government. In the guideline, commercial banks are permitted greater increases in their loan and advances to the "productive" sectors, which include manufacturing industries, agriculture, public utilities and transportation hopefully to expand the productive capacity of the Economy. However, the CBN's measures as delineated above do not always give positive results due to conflicting objectives. For instance, the CBN's underwriting role with regard to issues of treasury bills, treasury certificates and development stocks, which ensures that the government can always borrow as much as it desires, frequently gives rise to inflationary monetary expansion. In any event, when all is said and done, the overall impact of CBN's activities on the country's development efforts remains incontrovertibly positive.

2.1.4 FUNCTIONS OF THE CENTRAL BANK OF NIGERIA

The principal objectives of the CBN remain as stated in the original Act,[13] the:

1. Issuance of legal tender currency in Nigeria;
2. Maintenance of external reserves in order to safeguard the international value of the currency,
3. Promotion of moretary stability andsound financial structure.
4. Banker and Financial adviser to the Federal Government and
5. Banker and to other banks in Nigeria and abroad.

These represent the broad traditional functions of a central bank in mixed economies where both private and public sectors perform significant Economic functions. For analytical purposes, these functions may be classified into two broad groups namely:-

(a) those relating to the domestic Economy, and
(b) those affecting External Economic and monetary relations.

(a) The domestic functions of the CBN includes:
(1) the issue of legal tender currency and maintenance of its purchasing power;
(2) performing clearly defined bamking functions for the government and the commercial banks;
(3) the regulation of banking system's credit as well as the general supervision of banks; and
(4) the promotion of the Economic development of the country.

(b) The External functions of the CBN includes:

(1) the management of the country's external reserves,

(2) the maintenance of an adequate stock of such reserves,

(3) safeguarding the International Value of the Nigerian currency; and,

(4) Exchange Control and maintenance of relations with other central banks and International Finance institutions such as the International Monetary Fund (IMF) and the World Bank (I.B.R.D.)

Strictly speaking, the totality of the functions of the CBN may be classified as "services". The term service functions is used to refer to the set of CBN functions other than monetary and exchange rate management. The functions may be discussed under three broad heading; namely:

(i) Issuing of currency

(ii) Banker and adviser to government and

(iii) CBN's relations (Banker) with the commercial banks.

(i) Issuing of currency

The CBN is by statute[14] the only bank of issue in the country. Over a period of twenty (20) years (1959 to 1979) it has issued four (4) currencies - in 1959, 1965, 1968 and 1973.

The Bank issued the first Nigerian currency on 1st July, 1959, the date it formally started operation. Consequently, the West African Currency Board (WACB) notes and coins then in circulation in the country were withdrawn and on completion of the exercise in December 1962 a total of £65.0 million (₦130.0 million) notes and coins of

the WACB was redeemed and the equivalent in sterling was subsequently paid at par to the CBN by the WACB.

On assuming a Republican status for Nigeria in 1963, a decision was taken to replace the existing federation of Nigeria notes.[15] The Exchange exercise which began in 1st July 1965 ended in June, 1966, and a total of £68.5 million (₦137.0 million) was redeemed.

In 1968 another currency exchange exercise was undertak in accordance with the central bank (currency conversion) Decree No. 51, 30th December, 1967 - which was ammended at achieving the following three objectives:-

(a) Ensure the success of the trade embargo on the secessionist areas;

(b) Forestall the use of uninsured currency notes that were burgled from the CBN valuts located in Enugu, Port-Harcourt and Benin City; and

(c) Prustrate the flourishing illegal trafficking in the Nigerian currency known to be going on in some foreign countries.

On completion of the exercise, a total of £86.5 million (₦173.0 million) was redeemed.

The conversion to "decimal currency" the fourth currency exchange exdrcise in the thirty year period took place in January, 1963. A committee set up to examine the issues involved and make necessary recommendations submitted its report[16] early in 1964 in which it favoured the decimalization of the currency on the following major grounds:-

(a) arithmatic simplicity in schools and in numerous aspects of economic life,

(b) increased access to modern business machines which are based mainly on the decimal system; and
(c) enhanced understanding of transactions involving the international monetary system.

In February 1976, a fifty denomination, the ₦20 note bearing the portrait of the assassinated Head of State, General Murtala Mohammed, was issued. It remained the largest unit ever issued by the CBN. The new unit was a logical response to the growth in the size of transactions in the country, which continues to be done substantially on cash basis.

In April 26, 1984, the Federal Military government (FMG) effected a change in the colour of all the denominations of the Naira - probably to check currency traficking and excess money in circulation and the illegal repatriation of money overseas.

(ii) Banker to the Government.

The CBN avails itself of the banking business (involving internal and external transactions) of the federal, state, plus various quasi-government institutions.

Statutorily the CBN is required by law to render to the federal government the banking service of granting of "ways and means" advances to meet temporary budgetary deficit. The CBN also has responsibility for floating the various federal government debt instruments - treasury bills and certificates, and development stocks - which thus imposes an important debt management function on the bank.

The CBN is conferred with the power to render financial assistance to the marketing boards and agro-allied ventures which are important components of government statutory corporations.

CBN AND PUBLIC DEBT MANAGEMENT

On inception, the CBN was vested with the authority[17] to float the country's internal debt. The terms and conditions of issues of government debt instruments is determined after consultation between the CBN and the treasury. The CBN's functions in the area of public debt management include essentially:-

(a) advising the government as to the timing of floatation of the debt instruments and the terms of issue,

(b) advertising for public subscription to the issues,

(c) collecting the proceeds of issues on behalf of the government; supervising the issue of certificates and warrants and maintaining proper books of accounts in respect of receipts and disbursements;

(d) payment of interest and principal on due dates and managing the "sinking fund" set up to facilitate the redemption of issues.

Three categories of debt instruments constitute the mechanism by which the CBN mobilizes financial resources on behalf of the government, namely, treasury bills, treasury certificates, and development stocks. The issue of these debt instruments is governed by the needs of government but subject to statutory limits.

WAYS AND MEANS ADVANCES

Section 34 of the CBN Act 1958 (Cap 30 at amended 1962 - 1969) empowers the CBN to grant temporary advances in the form of ways and means to the government up to 25% of estimated recurrent budget revenue.

CBN AS FINANCIAL ADVISER TO GOVERNMENT

The CBN is charged with the responsibility for:-

(a) maintaining monetary stability,

(b) an important link between the government and the financial community.

The aim is to ensure the necessary coordination between; monetary, fiscal, and other policies of the government, bearing in mind the overall objectives of the society.

By way of appraisals or proposals, the CBN contributes in drawing up the annual budget being undertaken by the Ministry of Finance and also exercises it's advisory role in Economic Planning in the area of National Economic and Financial Policies not directly under its portfolio.

It should be noted that no matter how strongly the CBN may feel about its advice or proposals, the financial responsibility for policy formulation in these areas lies with the political authority. The CBN as member of many policy organs play important role in reviewing and streamlining the government policies and procedures. Such bodies includes: the productivity, prices and incomes policy Board (PPIB), the National Economic Advisory Council, the National Institute of Social and Economic Research (NISER) consultancy services unit, the National Advisory Committee on statistics, the committee on the Review of the Financial System and Revenue Allocation Committee (ad hoc).

(iii) CBN's SERVICES (BANKER) TO COMMERCIAL BANKS

The CBN Act of 1958 section 39 (Cap 30), provided that; "the bank shall wherever necessary seek the cooperation of and cooperate with, other banks in Nigeria, to:

(a) promote and maintain adequate and reasonable banking services for the public.

(b) Ensure high standard of conduct and management throughout the banking system.

(c) Further such policies not inconsistent with this Act as shall be in the National interest".

This Act empowered the CBN to act as banker to other banks. This relationship imposes certain mutual obligations on the CBN and the banks.

To promote a sound financial structure and ensure that commercial banks operate within the provisions of the law; the CBN undertakes:

(a) regular examination of the books of the banks (commercial as well as merchant).

(b) it imposes a liquidity ratio requirement on the banks, designed originally to protect depositors but later made usable for controlling monetary expansion.

(c) provides cheap and efficient clearing facility and outlets for investment of banks temporary surplus funds.

(d) as a lender of last resort, the CBN accomodates bank's short-term demand for funds either by granting them direct advances or through rediscounting eligible bills presented by banks.

BANK SUPERVISION

The supervisory function of the CBN can be classified into two related functions namely:-

(a) Bank examination or the periodical overseeing of the books and affairs of licenced banks, and

(b) Bank crutiny involving the appraisal of the operations and financial positions of the banks based mainly on the statutory returns and annual balance sheets.

The purpose of bank examination is to:-

(a) ascertain the correctness or otherwise of periodical returns of commercial banks to the CBN vis-a-vis their operating books of account;

(b) ensure that the licenced commercial banks comply with banking acts and their amendments and in particular, the CBN credit guidelines as contained in the monetary policy circulars periodically issued to banks;

(c) ensure that the banking operations and especially the external transactions of commercial banks are being carried out in accordance with internationally accepted standards; and

(d) Oversee the adequacy of the banks management as well as operational personnel.

In a nut-shell, efficient banking practice presupposes that central banks manipulates monetary and fiscal policy tools in pursiut of stated objectives. In principle, central banks are autonomous and monopoly cartels devoid of its functions and moreover, the fact that central banks pursue goals dictated by mainly extemporaneous factors provides an impetus for an appraisal of central bank's contributions to economic development.

2.1.5 THE NATURE AND FUNCTIONS OF MONEY

It has been said that money is truly one of mankind's most significant investions. Money serves as a medium of exchange, facilitating trade and acting as the unit of account for making economic calculations. Money is essentially important in modern times because of the difficulty that would be encountered in carrying out "Exchange by means of Barter".

The primary role of money in an economy is to facilitate the process of exchange, the exchange of goods and services among individuals of a society. Conceivably, exchange can take place without money. But in modern economic society this process becomes extremely complicated. Thus, the principal need for money is to provide for exchange. Money is not desired principally for it's own sake but rather for what it can purchase.

Obstacles to finding parties who need the goods and services offered by one and who, in turn, offer him the goods and services he needs, would mean that very little trading would occur in any given period, engendering the thesis of "Double coincidence of wants".

Another problem associated with barter is that there is no common unit in which prices are expressed. Trade in a bzrter system requires that everyone know the price of every good in terms of every other good.

Once money is introduced into the system, however, a person has only to know the prices of goods in terms of one other good, the monetary unit.

In generalising its relevance, money then, has two immediate and obvious functions: It serves as a medium of exchange and also as a unit of account; that is, money provides the common denominator in which prices may be expressed.

FUNCTIONS OF MONEY IN AN ECONOMY

1. Medium of Exchange function:

The most obvious fact that makes money important is the difficulty of carrying on economic activity by barter. Money is necessary to carry on exchange. Thus, instead of exchanging goods or services for other goods or service, - we exchange goods or services for money; which may then be readily exchanged for the goods and services we need.

The use of money as a medium of exchange has two immediate consequences:- viz,

(a) First, it makes possible the determination of the terms of trade - prices and therefore allows for division of labour and, consequently, for specialisation and greater efficiency in production.

(b) Second, it also allows for an extension of the marketing process over time.

In the first instance, money functions as a unit of account, in the second instance, money serves as a store of value.

2. The Unit of Account function

Since every economic unit is both a buyer and a seller, its decisions to buy or sell are strongly influenced by the prices of the things that it can buy or sell. The mere existence of a price system enables us to compare

choices in terms of the common denominator of money. Without the price system, goods and services would have to be expressed in terms of anyother available good or service.

Consequently, however, subject to certain constraints, the price of a product roughly equals its cost of production. The cost of production consists of the cost of the resources used to produce the product, and the prices of resources entering into production equal the values of their respective productive contributions.

Secondly, prices lead producers to provide the items consumers want and also cause buyers to economise on the use of scarce resource. That is, resources are scarce relative to the uses to which they may be put; therefore, they are channelled into those uses that yield the highest utility relative to their price or the greatest revenue relative to their cost.

Thirdly, nevertheless, there is a distinction between money as a medium of exchange, and money as the unit of account. As a medium of exchange, money functions as something essentially real - a coin, a piece of currency, a credit entry in a bank account. But as a unit of account, money functions as an abstract measure of value - for example the Naira, the dollar or the pound sterling.

In our modern society, the abstract unit of account is the price of a unit of the concrete medium of exchange.

asset in which it can immediately be sold at its fixed and certain price. This provided the original impetus for the development of money and capital market instruments.

Liquidity, then, is simply the ability of an asset to be converted into spendable form promptly without risk of loss to its holder. Several elements or conditions are involved in this property of liquidity. First of all, to be liquid, the asset must be readily marketable or transferable. Secondly, it must be stable in price.

Money is fixed in price. Hence, it has the desired property of being an asset-possessing the necessary stability of price. Similarly, money is certainly marketable or transferable because it actually functions as a medium of exchange. In other words, money is spendable; it is marketable.

In sum, money is anything that is spendable and is defined in the "unit of account".
Steiner Et-Al[18] defined money as; "money, therefore, may be defined as anything which has a fixed and unvarying price in terms of the unit of account and is generally accepted within a given society in payment of debt or for goods and services rendered". The crucial aspect is, of course, that money is spendable.

Being spendable and possessing a fixed and unvarying price quality, lends credence to the ambition of the protagonists of monetarism and provides a fountain for the advocates of fiscal policy.

While this elicits an important motivation for this study, attempt has been made, thus far, to assert a strong relationship between; money; prices; and quantities - which form the hallmark of macro-Ecomonics epitomised in "Aggregate" demand and supply functions.

If money is "spendable" and "fixed" in price, why control its supply? This is the great puzzler and of course, the foundation of modern macroeconomic dialogue. Yet another motivation for this study.

FOOTNOTES ON CHAPTER TWO

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CHAPTER THREE

3.1 RESEARCH METHODOLOGY AND DATA PRESENTATION

The importance of money and its control in general economic management is not independent of the efficacy of tools used to effect such control. It is therefore appropriate to attempt an appraisal of the effectiveness of conventional tools at the disposal of monetary aggregates. Even on purely analytical evidence, the shortcomings of traditional regulatory tools are overwhelming.

These shortcomings tend to be magnified in less developed countries, especially those with substantial Government budget deficits. In such special cases, monetary control tantamounts to budgetary regulations. The proven irrelevance of traditional tools of monetary management in these regions coupled with the demonstrated inadequacy of the narrow-based "direct controls" strategy, tends to leave them with little option other than the administrative one of reforming the working relationship between the fiscal and monetary authorities.

The openness of the Nigerian Economy and its constraining effects on monetary management under regimes of fixed and managed floating exchange rates is reviewed. The framework of the analysis and and subsequent statistical estimation and testing of links or relationships among domestic and external macroeconomic monetary variables is based on the monetary approach to balance of payments and exchange rate theory. Extensive application of works in the literature using concepts developed from this approach

have been applied. The include the means and variances of inflation rates, balance of payments pressure, money supply co efficient, offset coefficient of federal budget deficits, and Gross Domestic Product (GDP) variances. Individually, results from these concepts give alternative perspectives of the links; the overall evaluation of the results indicates the direction and significance of the links and how far theoritical expectations have been borne out by emperical evidence over the period.

However, under the general equilibrium analysis framework of the monetary approach, when other monetary variables (real and norminal) in the system come into play in the Longrun adjustment process we have conclusive evidence of links between domestic and external indicator variables with behavioural distortions resulting from the administrative controls of the "price" variables (norminal interest rates and exchange rates).

From the analysis, we may conclude that monetary management in Nigeria may not successfully be conducted by dichotomizing into domestic and foreign targets to be hit by isolated policy instruments via partial equilibrium policy actions. Instead, the targets should be seen as a package, requiring the use of a co-ordinated optional mix of monetary instruments under a general equilibrium analysis framework.

An economy is said to be open if it trades with other nations in goods and services and is involved in international payments and relations with them no matter what form the transactions take.

The extent of openness depends on the relative levels of imports and exports, exchange rates as well as capital flows.

World inflation filters into the domestic economy by raising the prices of imports, and domestic goods that are closely competitive with imports and exports. Thus, openness of the economy imposes serious constraints on the conduct and the effectiveness of monetary management; seriousness of the constraints, however, depends on the type of the exchange rate regime, and stem from the interdependence between the domestic economy and the rest of the world. The important fact is that if the economy is open all the linkages aexist and have very important implications for macroeconomic policies.

Much as fiscal policy measures may be as effective or even more effective than monetary policy, attention is paid on the monetary approach to the above issues of openness and economic policy through monetary management. In this context, monetary management refers to policy actio of the monetary authority, especially the central bank with monetary policy instruments directed to influence the availability and cost of money, financial resources and credit including foreign exchange in such a manner as to achieve the objectives of monetary policy.

In recapitulation, monetary policy objectives in Nigeria include; maintenance of confidence in the national currency - the Naira, stabilization of domestic wages and prices, satisfactory growth of output,

sound revenue base and credit facility for government, and satisfactory Balance of Payments Position. Desirable as the above objectives are, actions aimed at achieving one objective could conflict with another due to the close inter-dependence, sometimes inversely, between policy instruments. Therefore, a cardinal task of monetary management is to identify, rationalise and effect an optimised mixture of the instruments to achieve desirable targets internally and externally.

3.2.1 DATA COLLECTION (PROCEDURES)

To facilitate the accomplishment of this study, informations) statistical and otherwise) were sought from both primary and secondary sources. Primary information was gathered through a personal visit made to key government establishments like; the central bank of Nigeria (CBN) -(head office) at Lagos, the Nigerian Stock Exchange - NSE (head office) also at Lagos, the Nigerian Securities and Exchange Commission - SEC (head office), Federal Ministry of Finance and Economic Planning, Federal Ministries of Information, Agriculture, Industry and Trade - all located at the Federal Secretariat Ikoyi - Lagos. Data collected from these sources are largely representative of statistical reports by means of the accessibility to the several issues of CBN quarterly and Annual Publications such as: the Bullion (1977 - 1987), Economic and Financial Review (basic projections - 1977 - 1 987), Annual Report and Statement of Accounts (actual result of operations - 1975 - 1986), monetary policy and credit Guidelines (1977 to 1987), Nigeria's Principal Economic and Financial Indicators 1970 - 1985, Stock Market Report -

quarterly review of quoted companies, the securities and Exchange Commission - Annual Reports and Statement of Accounts (1980 - 1986), Budget Speech/Ministerial press briefing of the federal Republic of Nigeria, and other relevant mimeographs.

The sources of secondary data that were employed in eliciting theoritical foundations of macroeconomic policies and the monetary arguement, were sorted and sifted from the library services of the John F. Kennedy and Kashim Ibrahim Libraries of A.B.U. Zaria, centre for social and Economic Research (CSER) ABU Zaria, Nigerian Institute for Social and Economic Research (NISER), National Institute of Policy and strategic studies(NIPSS) Kuru-Jos, Nigerian Institute of International Affairs(NIIA) Lagos, Administrative Staff College of Nigeria (ASCON) Badegry Lagos etc. To compliment my secondary data major relevant text books were read to comprehend the theoritical implications of basic Economic postulations. The works of the authorities cited in this study has been aptly and appropriately acknowledged.

To wit, the result of this study lays claim to a thorough cross-fertilization of ideas and experiences of experts in the field by means of uncodified interviews and impromptu discussions. This is so because a random sample of my test statistic maintained aparthy or anommity in the course of my research effort probably due to their status as civil/public servant as the regulation imposes. To vitiate the findings of my study, I employed a statistical measurement technique for estimating parameters - namely:

The Goodness-of-fit test, expressed as $\chi^2 = \frac{(O_i - E_i)^2}{Ei}$

where O_i = observed data

E_i = Expected data

χ^2 = Chi-square (level of significance/confidence interval).

3.2.2 DATA PRESENTATION

The purpose of this study is to use the monetary approach to balance of payments (MABOP) and fiscal elements of an open economy to determine the existence and significance and significance of the links and relationships among macroeconomic variables which are regularly applied in monetary management of both the domestic and external sectors.

Some key indicators like; the degree of money supply, the level of growth of gross Domestic Product, the parttern of federal deficit and the amplitude of balance of payments position has been tested with CBN data from 1977 to 1986 (ten years). The result has been presented in the light of existing theoritical expectations and recommendations proferred on the basis of operational alternatives where necessary. By this procedure, it is hoped that, through statistical analysis, a basis for rethinking about the adequacy or otherwise of current stance in monetary policy (management) for the achievement of desired targets with minimal distortions on all the sectors of the Nigerian Economy.

Table 1

DEGREE OF MONEY SUPPLY

₦' Million ₦' Mill.

Year	Observed	Expected	DEGREE OF SIGNIFICANCE Absolute	Percentage	Fitness Test
1977	4,047.4	4,794.4	- 747	-15.6%	116.4
1978	4,785.8	5,089.7	-303.9	-5.9%	18.1
1979	6,146.6	6,146.6	-	-	
1980	9,226.8	9,226.8	-	-	
1981	9,744.9	9,744.9	-	-	
1982	10,048.6	10,048.5	-	-	
1983	11,282.4	11,282.4	-	-	
1984	12,204.1	12,204.1	-	-	
1985	13,267.8	13,267.8	-	-	
1986	13,105.0	13,105.0	-	-	
Total	93,859.4	94,910.2	-1,050.8	-1.1%	11.6

Money supply measure adopted is (M1) - defined as currency outside banks plus demand deposits at commercial banks plus domestic deposits with the central bank less federal governemtn deposits at commercial banks.

By permitting the inclusion of money supply measure (M2) (inclusive of Quasi-money), provides a channel of international transmission of inflationary disturbances, especially under fiexed exchange rate regime. In such a situation, monetary expansion in excess of money demand would have very limited success in sustaining the change in the norminal money stock.

Factors responsible for the large increase in money supply (over estimated by 11.6 million naira) for the period under study included the increase in aggregate banking system's credit to the economy and the monetisation of a substantial proportion of the increase

in net foreign assets to finance government expenditures.

TABLE 2

THE PATTERN OF FEDERAL DEFICIT

	₦' Million	₦' Million	Level of Significance		
Year	Observed	Expected	Absolute	Percentage	Fitness Test
1977	-901.5	-781.4	-120.1	+15.4%	-18.5
1978	-2389.0	-2116.4	-272.6	+12.8%	-35.1
1979	+1461.7	-2539.2	+4000.9	+157.6%	-6304.0
1980	-1975.2	-1951.2	- 24.0	+ 1.2%	- 0.30
1981	- 3928.6	-5397.7	+1469.1	- 27.2%	- 399.8
1982	-5440.4	-6178.6	+ 738.2	- 11.9%	- 88.2
1983	-3715.6	-5070.0	+1354.4	- 26.7%	- 361.8
1984	-1739.4	-2530.7	+ 791.3	- 31.3%	- 347.4
1985	-1500.5	-1708.9	+ 207.5	- 12.1%	- 25.2
1986	-2005.4	-1708.0	- 297.4	+ 17.4%	- 51.8
Total	-22133.9	-29981.2	7847.3	- 26.2%	-2053.9

Source: CBN Annual Report and Statement of Accounts: Several issues.

Study test indicates that federal fiscal operations have a tendency of being misjudged on an average (annually) level of -205.39 (million Naira) deficit, thereby creating the latitude for excess expemditure arising from unconscionable forecasts.

Analytically, any policy proposal aimed at controlling federal deficit from the above table would be made within limits of -205.35 (₦' million) to + 205.39 (₦' million) confidence interval so as to reduce the "lag" (zone of ignorance) while at the same time approaching the limits of Budget balancing. Therein lies the wisdom of the CBN's role in advicing on federal deficits.

Table 3

TREND IN BALANCE OF PAYMENTS POSITION

	₦'million	₦'million	Level of Significance		
Year	Observed	Expected	Absolute	Percentage	Fitness Test
1977	-527.2	-422.1	-105.1	+24.9%	-26.2
1978	-1296.3	-1293.6	- 2.7	- 0.21%	- 0.01
1979	-1868.9	+1868.9	-3737.8	-200%	-7475.6
1980	+2402.2	+2402.6	- 0.4	- 0.02%	- -
1981	-3020.8	-2967.0	- 53.8	-11.8%	- 0.98
1982	-1398.3	-1398.3	-	-	-
1983	- 301.3	- 244.8	- 56.5	+23.1%	- 13.0
1984	+ 354.8	+ 362.1	- 7.3	- 2.0%	+ 0.15
1985	+ 561.1	+ 561.1	-	-	-
1986	+ 535.9	+1881.1	-1345.2	-71.5%	961.9
Total	-4558.8	750	-5308.8	-708%	37577.8

Source: Central Bank of Nigeria.

Minus sign (-) indicates increase in assets/decrease in liabilities, plus sign (+) indicates decrease in assets/increase in liabilities. - Given an overall adverse balance of -4,558.8 (₦' million), the test result of +37,577.8 (₦'Million) is indicative of the fluctuations in the trend of the balance of payments position which is traceable to the content and direction of external trade. As a foolproof, there exists an wide disparity in the contributions made by oil exports (about 90%) and that of non-oil exports/services on invissible items of trade. Therefore, a change in world oil prices has an inverse effect on our balance of payments position, external reserves and, ultimately, dictates the pattern of our foreign reserves movement.

Table 4

LEVEL OF GROWTH OF GROSS DOMESTIC PRODUCT

	₦'million	₦'million	Level of Significance			
Year	Observed	Expected	Absoluted	Percentage	Fitness Test	GNP at Current Market prices
1977	32,510.4	27,924	4586.4	16.4%	753.3	32,035.3
1978	35,545.7	28,888	6657.7	23.0%	1534.4	35,071.7
1979	43,150.8	31,488	11,662.8	37.0%	4319.8	42,534.6
1980	49,754.9	36,078	13₦676.9	37.9%	5184.8	48,664.7
1981	52,255.3	38,553	13,702.3	35.5%	4869.9	51,345.4
1982	55,679.0	42,262	14,417.0	34.9%	5037.3	54,343.3
1983	55,226.2	44,232	10,994.2	24.9%	2732.7	54,036.7
1984	56,716.3	47,490	9,226.3	19.4%	1792.5	55,381.9
1985	57,283.5	51,071	6,212.5	12.2%	755.7	55,935.7
1986	57,000.0	51,633	5,367	10.4%	557.9	55,658.8
Total	495,122.1	398,619	96,503.1	24.2%	23,362.8	485008.1

Source: CBN and Annual Abstract of Statistics 1985 edition;
Federal Office of Statistics, Lagos.

The extent of the Openness of the Nigerian economy between 1975 and 1985 is as reflected in table 5. Between 1975 and 1985 the average propensities to import and export, measured by the ratio of imports and exports to the Gross Domestic Product (GDP) were on average of 16.7 and 21.3 percent, respectively. For the same period, the average propensity to import in the U.S.A. was 8 percent.

Another measure of openness is the ratio of total trade (value of imports plus exports) to GDP; for the period, it averaged 34.7 percent in Nigeria. This compares with data of such developed market economics as United Kingdom (33.4 percent), Italy (40.0 percent), Sweden (45.1 percent), Norway (54.3) and Denmark (48.5 percent).

In Nigeria, the marginal propensity to import is very high partly because of domestic supply shortages, especially of food, raw materials and spare parts. In so far as an economy is more open to trade and its production is concentrated in few export products (for Nigeria crude oil accounted for 70 - 99 percent between 1975 and 1985) its "dependence" on international markets increases, the capability of its citizens to make independent decisions about resource allocation decreases. As a result independence of monetary policy is norrowly circumscribed. Monetary expansion results in increased imports, and unfavourable balance of payments, loss of international reserves, pressure on the exchange rate, etc.

Table 5

₦'Million

NATIONAL ACCOUNTS (INCOME)

THE INDEX OF DEVELOPMENT

Year	Gross Fixed Capital Formation A Current price I	Private Consumption Expenditure C	Gross Consumption Expenditure G.	Exports (X)	Imports (M)	Gross National Savings	External Reserves	Balance of Trade (X-M)	External Debt Outstanding	Reserve Movement	Debt Service Ratio %	Average Monthly Import
1975	5019.8	13,688.5	15,925.4	4925.5	721.5	4796.9	3448.5	+1204.0	349.9	-157.5	0.7	310.
1976	8107.3	16,297.0	18,882.2	6751.1	5148.5	7371.4	3122.5	+1602.6	374.6	+339.9	0.4	429.
1977	9420 .6	18,824.3	22,651.2	7630.7	7089.7	8136.2	2592.5	+541.0	496.9	+527.2	0.4	590.
1978	9386.3	23,802.7	28,802.0	6054.4	8140.8	5066.6	1305.6	-2076,4	1,265.7	+1293.6	12.6	678.
1979	9094.5	25,927.7	30,809.4	10,836.8	6169.2	10491.3	3043.2	+4667.6	1611.5	+1867.9	1.7	514.
1980	10841.2	30,601.3	35,652.7	14,186.7	9095.6	11,504.3	5445.6	+5091.1	1866.8	-2402.2	0.8	758.
1987	14,346.9	35,870.1	41,373.6	10,876.3	12719.8	8047.2	2424.8	-1843.5	2331.2	+3220.8	4.8	1060.
1982	12001.2	40,620.6	46,124.7	8722 .5	10770.5	6609.1	1026..5	-2048.0	8819.0	-1298.3	8.9	897.
1983	92723.1	40,271.4	45,832.1	7502.5	8903.7	6898.8	725.2	-1401.2	10,5777	+301.3	17.8	742.
1984	6974.1	40,129.4	45,736.5	9068.0	7178.3	8624.5	1080.0	+1909.7	13,077.2	+354.8	29.1	598.
1985	4672.6	39,987.4	45,640.9	11,214.8	7543.4	10349.4	1641.1	+3671.4	19,063.4	-561.1	33.2	628.
Grant Total	99,137.6	320,020.4	377,430.7	97,799.3	83,481	87893.7	25855.5	+14,318 .3	59,833.9	+3387.4		

SOURCES:

- Nigerias economic Indicators 1970 - 1985
- Bullion Vol. 10 NO. 4 Oct/Dec 1986 PP. 31,32
- Debt service Ratio = $\frac{\text{Dept service (Prin. + Int)}}{\text{Total Expoets}}$
- Ntional Income (Y) = Private consumption (C) + Capital formation (I) + Government Expenditure (G) + (Exports-Import
- Ten Year - period N.I = Y = 39,987.4+99,137.6+377,430.6+14,318.3 = 530,8740

While the country benefited in terms of enhanced inflow of foreign exchange during periods when developments in the world oil market were favourable to oil producers and exporters, it suffered reverses when developments turned adverse. Thus, during the oil glut of 1978, the balance of payments deficit more than doubled from ₦527.2 million in 1977 to ₦1,293.6 million.

As should be expected, the increase in the absolute level of the debt and the service burden it imposed have generated severe payments problems for the country in recent years. This has happened at a time marked by creditors' increasing reluctance to extend new loans or open new lines of credit, persistently high interest rates both in norminal and real terms, and a slow down in export earnings.

In this regard, it is worth noting that the harsh experience of the recent past has made it obligatory for the authorities to issue strict guidelines governing borrowing from external sources by the federal and state governments and their agencies. Thus in 1982, the amount of loans that any state government could borrow externally was limited to ₦200 million.

While the country will continue to have need to raise external loans, it is essential to do away with the notion of external borrowing filling the gap between domestic investment and savings.

Debt service is not, and cannot be construed as the only call on Export earnings. Thus, setting aside a disproportionately high portion of export earnings to meet debt service obligations means increasing inability of the country to pay for other essential imports of goods and services.

An examination of the major components of the GNP - e.g. consumer expenditures, gross private investment expenditure, government spending and net export-shows that all of them will be falling.

Table 6

NIGERIA: ECONOMIC INDICATORS OF PERFORMANCES 1975 - 1985

1975 - 1985 (in %)

Year	GDP[a]	F[b]	U[c]	Discomfort Index (F + U)
1975	22.1	33.5	4.1	37.6
1976	12.8	22.2	4.3	26.5
1977	6.8	21.5	2.1	23.6
1978	-5.7	16.6	1.6	18.2
1979	-0.1	11.8	1.7	14.5
1980	-5.1	10.0	1.1	11.1
1981	-3.8	20.8	3.8	24.6
1982	-4.8	8.0	4.1	12.1
1983	-8.5	23.2	4.2	27.4
1984	-5.5	39.6	7.9	47.5
1985	+2.4	40.0	9.7	49.7

Notes:

a - Annual growth rate of GDP

b - Inflation rate (changes in yearly composite price index)

c - Unemployment rate (urban)

Source: [1] Quarterly Bulletin of Labour Statistics, 1983,

Table 7

SELECTED ECONOMIC INDICATORS FOR MEASURING BANKING SYSTEM' EFFICIENCY IN NIGERIA - 1975 TO 1985

A. N	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
A. Nigeria's population (Million)	74.9	76.8	76.7	80.7	82.7	84.8	86.9	89.1	91.3	93.6	95.9
Nigeria's Land Area (Sq.Km)	9237	69.1									
No. of Commercial Bank Branches	436	463	508	618	687	771	863	993	1108	1205	1297
Total Bank Assets (₦'million)	4380.0	6371.4	8530.9	9105.7	11238.6	16340.5	19477.5	22661.8	26707.5	30066.8	30,963.8
Money Supply (₦'million)	2044.1	3293.0	4047.4	4785.8	6146 .6	9226.8	9744.9	10048.6	11282.4	12204.1	13,267.8
B. GDP	21207.3	26991.7	31651.1	33861.2	40514.6	46535.8	52300	55700	55200	56700	58,700
C. GNP	20987.4	26717.7	31175.0	33387.2	39898.4	45851.9	51254	54586	54096	55566	57,526
Total Laons and Advances (₦'M)	1537 .3	2122.9	3074.6	4109.7	4618.7	6379.2	8604.8	10277.0	11100.0	11503.5	12,170.3
Total Demand deposit (₦'m)	1268.8	2185.0	2980.1	2700.9	3265.7	4845.9	4880.9	5180.7	5855.6	6343.5	7046 .2
Total Deposit Liabilities (₦'M)	2939.2	4164.3	5235.2	5302.6	6967.8	10009.1	10676.9	12018.9	13938.5	15734.8	17,597.1

NOTES

a. projections are based on the 1963 census figure.

b. GDP was at current market prices

C. GNP (1981 - 1985) = Projections were made at 98% of GDP.

SOURCES:

i. CBN; Nigeria's Economic and financila indicators 1970 - 1982 (ii) CBN: Economic and financial Review (various Issues)

ii. CBN: Annual Report and statement of Account (various Issues,)

Table 8

ESTIMATE RATIOS OF BANKING SYSTEMS EFFICIENCY IN NIGERIA. (175 - 195)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Banking Devisity (persons per Bank)	171,789	165,875	154,922	130,583	120,379	190,988	100,696	89,729	82401	77,677	73,940
Banking Devsity (sq.km) (Distance Per Bank)	2118.7	1995.2	1818.4	1494.8	1344.6	1198.1	1070.4	930.3	833.7	766.6	712.2
Banking Habit (%)	20.5	23.8	27.4	27.3	28.2	35.6	38.0	41.5	49.4	54.1	53.8
Chequing Habit (%)	61.9	66.3	73.6	56.4	53.1	52.5	50.1	51.5	51.9	52.0	53.1
Credit generation Ability (%)	75.2	64.5	75.9	85.9	75.1	69.1	88.3	102.3	98.4	94.3	91.7

KEY: (i) Banking density, (a) Persons per Bank = $\frac{\text{Total population}}{\text{Total commercial Bank Branch}}$

(b) Land Area = $\frac{\text{Total Land Area}}{\text{Commercial Bank Branch}}$

(ii) Banking Habit = $\frac{\text{Total desposit liabilies of Bank}}{\text{Gross National Product}}$

(ii) Banking Ratio = $\frac{\text{Total Assets of Banking system}}{\text{Gross National Product}}$

(iv) Chequing Habit = $\frac{\text{Total Demand Deposit}}{\text{Money Supply}}$

(v) Credit Generation Ability = $\frac{\text{Total Loans and Advances}}{\text{Money Supply}}$

$1712.2 = \bar{\Pi} R^2$

$= \sqrt{712.2}$

$r = 15.00$ sq.km.

Source: CBN: Bullion vol. 11 No. 1 Jan/March 1987 P. 47

Table 9

BANKING SYSTEM'S SECTORAL CREDIT ALLOCATION (1980-86) AGRICULTURE, INDUCTRIAL PRODUCTION AND GENERAL COMMERCE

	1980	1981	1982	1983	1984	1985	1986
A- Index of (Base: Average Agric production 1975=100	89.4	92.4	91.9	87.9	91.4	94.3	95.0
Bank credit (%) Commercial & Merchant Banks	11%	13%	13%	15%	15%	18%	23%
B- Index of (Base: Average Industrial Production 1972=100)	190.8	185.5	206.7	154.6	147.0	171.7	175.0
Bank credit (%) Commercial & Merchant Banks	80%	82%	82%	82%	103%	102%	100%
C- Index of (base: Average Merchandising 1975=100)	203.0	245.2	264.2	326.8	455.4	482.3	504.9
Bank credit (%) Commercial & Merchant Bank	33%	31%	31%	30%	30%	30%	43%
D- Credit to Government Sector #(M)	3589.2	6607.2	10,528.2	15,824.5	18,194.5	18,980.1	19,455.3
#- Credit to Private #(M) Sector	7190.9	9654.2	11,371.5	12,353.9	12,942.0	13,700.2	17,365.0
Aggregate Credit #(M)	10,780.1	16,261.4	21,899.7	28,178.4	31,136.5	32,680.3	36,800.3

SOURCES:

1- Derived from Data from Federal Offiee of Statisties (FOS); FAO production Year Book, CBN Annual survey repots.

2- Monetary pàlicy and credit guidelines 1980- 1986.

1984 and 1985 Lagos, Federal Ministry of Employment, Labour and Productivity.

2. Federal Office of Statistics, "Economic and social statistics bulletin", 1985.
3. CBN's Annual report and statement of account (various issues).

It is now known that there are certain economic forces that generate a high level of investment activities. Among such forces are:-

1. Technological innovation
2. Dynamic growth in population, territory or a change in tastes and;
3. capital formation - optimism or business confidence about the future which in turn may be the by-product of government policies.

Hence, in a recession, one finds prices falling, unemployment increasing, disposable income falling, savings falling (as people dis-save by dipping into past savings to keep up consumption.) Because of the falling prices, businessmen feel that any goods held will fall in value, so inventories are also reduced. This is the kind of process that was set in motion world-wide in 1929 which went on to the extent where people, in the process of dis-saving, wanted more cash than the banks had.

The activities of the banking system results in two key indices which are of interest in any discussion of business cycles, namely:- money supply and interest rates.

If an economy is operating at less than full-employment, an increase in the money supply tends to increase Net National Product. But at near full-employment, further increase in money supply only leads to inflation. With inflation, and given that recession by definition, is a period of falling prices and unemployment, it follows that either the behaviour of the banking system is part of the problem (via tight money) or should become part of the solution (via easy credit).

Emefiele, G.I[1] observed that, "Banks now have to cultivate the habit of marketing their services in a way that would improve and promote their image thus helping to increase their patronage by existing and intending depositors, the main reason being that the era when we had the sellers market had passed". Although the banking habit more than doubled over the ten-year period investigated, (table7) it is quite discouraging that, of all the total goods and services produced and sold in Nigeria in 1985, only 30.6% went through the banking system in the form of deposits. This shows that the patronage rate of banks by Nigerians is still low.

Following on the 'tip of the iceberg', Olashore, O.[2] pointed out that, "one of the factors responsible for the unpopularity of the banks is their reluctance in adapting to changing pattern of business, especially, the delay in applying modern technology to accelerate some of the more routine functions in their operations". He continued... "Whereas there are no banking offices in most parts of the rural areas, those in the urban areas have become badly congested". These assertions,

however suggests that, Nigeria is largely "under - Banked". An assessment of the Rural-Banking Scheme.

To show the divergencies in monetary policy formulation and implementation, Eleazu, U.O.[3] posits that; "In a recession when business confidence is low, industrialists become affraid of borrowing. To stimulate growth, monetary authorities are likely to increase the money supply and reduce interest rates. On the other hand, if they sense any danger of "over-heating" and inflation threatening, they are likely to adopt a policy of tight money and push up interest rates.

At present, the Nigerian Economy faces two critical issues; namely:
first, management of the short-term financial crisis and stabilization of the economy and, second, long-term structural adjustment of the economy.

In attenmpting to see the relationship of the banking system to Industry, Agriculture and General Commerce in Nigeria, it is worthwhile describing the Banking Environment, the investment climate and the general business environment of Nigeria in which economic activities are being carried on.

3.2.3 PROSPECTS BY SECTOR

A stricking feature of the Nigerian economy is its categorisation into sub-structures, also called "sectors" by which two troad groupings are easily discernible namely: the "Preferred" sectors and the "less preferred" sectors of the economy.

Ours is an appendage economy. Our money economy had it's origin in the colonial administration of Africa. The early banks in Nigeria were equally extensions of British banks to help oil the wheels of commerce rather than promote industry. Agriculture which used to be the mainstay of the Nigerian economy found a back-seat at the exploration/production of crude oil in commercial quantities in the late 1960s. On the industrial sector, Nigeria has really not ceased to be an appenage. The policy of import substitution which dorminated the first - two decades of industrialization in Nigeria, gave opportunity for the erstwhile trading houses to turn to manufacturing products they used to import.

In a number of cases, such manufacturing consisted of bringing in intermediate inputs and putting finishing touches to them. In virtually all cases, the machinery, spare parts and even expertise for its installation and start up came from outside.

In the main, the economy is still basically outward - oriented.

Of paramount importance in Banking System's credit is an examination of its sectoral credit allocations to the three key economic sectors including; Agriculture, Industrial Production (involving manufacturing mining and electricity) and General Commerce (especially merchandising).

The above table is a representation of the structure and direction of banking system's credit in the Nigerian Economy. It is clear however, that Nigeria's economic policies are geared towards promoting rapid industrialization through the establishment of import substitution industries and by stimulating domestic trade and competition. This aspiration has not been achieved so far due to incoherent development plans that are time-bound thereby leading to the abandonement of projects, the application of financial resources in non-income yielding ventures (e.g. infrastructure), huge federal deficit in non-specific capital projects (sunk cost) resulting to illiquidity and credit squeeze, vagaries of the weather condition constitutes an impediment to agricultural production, and merchandizing has initiated smuggling import licence racketeering, currency trafficking, frauds, bribery and corruption.

The increasing credit to the government sector is indicative of too much government participation in economic activities which is inimical to the free enterprise economic system. While such measures does not only crowd-out private sector investment, it creates an aperture for private sector "profiteering" with its inflationary tendencies. In this regard, the CBN should concede to ineffective financial planning strategy.

Moreso, when account is taken of the country's overtures to foreign investors, whose view of the Nigerian environment could said to be adequately represented by the following statement of a business

group from the U.S.A.:[4] "Business operations here (Nigeria) can be exceedingly difficult. The climate, inadequate infrastructure, inefficiency and government regulations can drive even the most tempered executive to distraction. In addition, Nigeria is annunpredictable market, with economic upturns often resulting in unexpected patterns". And of manufactruing in the country, they had this to say:- "Manufacturing in Nigeria is extremely difficult, productivity is low, transport unreliable, infrastructure is not adequate, imports of essential inputs are problematic, and government bureaucracy is cumbersome". Little wonder we cannot convince investors with this picture of over economy - indeed a true picture - to invest their capital here when other third world countries even in ECOWAS (Economic Community of West African States), offer better attractions.

In conclusion, an independent indigenous Nigerian industry exists only on the periphery of this monetised economy-making simple tools and weaving simple cloth. Nigerian industry is thus largely dependent on outside forces. This outward orientation means that the slightest shiver of the international economy has wide repercursions here in Nigeria. Given this outward orientation, the leading indicators that matter are :- 'net export', followed by 'money supply' and employment.

3.3 LIMITATIONS OF THE STUDY

An attractive impetus of this study lies in its blend of the foundations of economic theory and practice. The reliability and validity of this study lays credence to its ability to describe, explain, interprete and predict hypothetical propositions about presumed relationships among phenomenal deductions.

1. One major limitation of this study is its inability to exert critical information about policy reviews and reversals in some key policy variables by even the most liberal of key personnel for whom an interview session or questionnaire design would have been effective. Results from tests (Goodness-of-Fit-Rest-Estimation of parameters) conducted hitherto, are by no means full-proof of claims advanced but merely represent a "critical incident" point emanating from "factor analysis" (trend of indicator variables over the period studied) on which the issue of reliability and validity may find empirical support whether or not anonymity has been pledged. Nonetheless, this has precipitated an anlogy based on inferential statistics to dertermine the extent/degree of relationship between variables. However, accessibility to CBN's monthly and annual reports and other supporting documents constitutes an authoritative data source to base meaningful analysis concerning research propositions/ assertions.

2. Another draw back is with the conceptualization of the study. By subjective consideration this study involves an uphill task.

By way of delimitation and delineating the constituents of central banking operations and economic development, credence is given to the conceptualization of operations as conventional functions and roles (ie. statutory objectives) of the CBN as contained in its statute of incorporation in 1958. In recognition of the effects of macro-policy proposals, this study has been pruned down to an assessment of the effectiveness of CBN functions in ensuring the economic development of the country.

3. Thirdly, given the orthodoxy of central banking functions, it's universality, there is an added fact of the almost impractical demarcation of CBN economic roles (by wielding autonomy status) and the political imperatives (administrative mechanism) of the supremacy of government. By all measures, the CBN is subordinate to government regulation and as such the exercise of its functions is an expression of the will of the state. However, attempt has been made in this study to decipher the extent of government control from CBN's action in monetary matters regarding polich execution.

4. Finally, the "real cost" involved in undertaking this study is monumental. While acknowledging the expanse of knowledge acquired vide exposure to some interesting Economics and Banking Literature, personal contacts with reputable bankers and policy planners, yet the premium is paradoxically inevitable. A research of this type requires much time to elicit response and information.

Time constraint may be considered in evaluating the quality of this work.

By reasonable estimation, the best ought to and indeed has been expended amidst all odds toward making this study a unique work especially by not assuming repository stance in a cognate discipline.

FOOTNOTES TO CHAPTER THREE

1. Emefiele, G.I. "Marketing of Retail Bank services". CBN: Bullion, Vol.II No.1, January - March 1987. p.42.

2. Olashore, O. "Why Banks are unpopular: A Bankers Viewpoint". CBN Anniversary Bullion (Part II) July - December 1987.

3. Eleasu, U.O. "Banks and Industry in a depressed Economy". CBN: Bullion, Vol. 8. No.4 October to December 1983.

4. Manufacturers Association of Nigeria, "Pre-Budget Menmorandum for 1982 Federal Government Budget".

CHAPTER FOUR

4.1 DATA ANALYSIS

INTRODUCTION:

How, you may ask, does monetary and fiscal policy affect economic activities? In the simplified classical theory approach with the assumption of equilibrium and stable demand for money, an increase in the money supply means an excess supply of money. This surplus money leads to additional spending and in the process effective demand is stimulated.

In the Keyncesian theory approach, on the other hand, an increase in money supply affects the rate of interest through the liquidity performance; this change in the rate of interest influence the level of investment and income through the multiplier.

Taylor, A.B[1] stated aptly that, "the main instruments of monetary policy which have been employed in developing countries could be grouped into three broad categories, namely: those directed towards influencing the liquidity of the banking system, direct control of the operations of the banking system and other measures aimed at filling the credit gap in the economy".

Following a previous analysis, changes in the value and volume of money can affect the level of economic activities through its effects on production, employment income and prices and the balance of payments. The act of changing the value and quantity of money in the economy is what constitutes monetary management.

Thus a fundamental pre-requisite for the growth and development of a modern economy is an efficient monetary system.

To determine the success or otherwise of the authorities in monetary management in developing countries, it is necessary to examine the process through which the money supply is determined. In particular, it is necessary to know the part played by the Central Bank, the Commercial and Merchant Banks and the non-bank public in determining the money supply.

In positive monetary management, interest rates and inflation rates play very significant roles in the determination of administered exchange rates because of their inter-relationship as price functions of the capital/financial and commodity markets in the economy. There is concern about inflation and interest rates to the extent that, as inflation persists, the rate of interest (norminal) must be set high enough to maintain the real return (real interest rate) and real level of financial activity. Where foreign capital for financing projects is hard to come by, there has been increasing emphasis on the mobilization of domestic resources through the financial system. Where this effort is based on credit creation by banks, the nation is engulfed in inflationary pressures; in attempt to finance public sector deficits through resource to excessive expansion of money supply by the Central Bank, the inflation feeds back to the financial system, making financial assets unattractive

to hold (and Central Bank is obliged to rediscount, reduce or buy them up) thus compounding the mobilization problem.

In recapitulation, the results of the analyses exposited thereto reinforces the conclusion that three main lessons have emerged from the experiences of our monetary authorities in managing money. These are :-

(i) the economic and financial instability in Nigeria stem from the inability of the monetary authorities to control domestic credit expansion.

(ii) that as a result of the current arrangements for for the management of the public debt, the Central Bank acquiesced in the problem of economic and financial instability which characterised our development process.

(iii) that the Central Bank of Nigeria have over the years taken the exchange rate of the Naira as untouchable and have therefore interpreted monetary management to exclude the use of the exchange rate.

There is wisdom in the advocacy of John Stuart Mill[2] that "No great improvements in the lot of mankind are possible until a great change takes place in the funda - mental constitution of their modes of thought".
Data has been analysed in statistical (see tables) four. Interpretations and inferences made draws from empirical evidence derived from research investigations/tests. The presentation thus made, is largely descriptive and narrative (graphic and quantitative summaries) and adopting the pattern of normative thinking.

LANDMARKS IN CENTRAL BANKING IN NIGERIA:

"AMENDMENTS TO THE CBN ACT".

Several amendments to the original Act affecting various aspects of the CBN's functions and authority have been undertaken to stream procedures and strengthen the hands of the CBN in certain areas, all geared to enabling it maximise it's contribution to the overall economic progress of the country.

The areas in which the amendment extended the powers and scope of operations of the CBN may be summarised as follows:-

1. Under the 1962 amendments, the composition of the CBN's external reserves holdings was widened to enable it include in its official external reserve assets donominated in currencies which were freely convertible into gold or sterling, hitherto, exclusively monopolised and aligned to sterling assets.

2. By subsequent amendments[3], the composition of external reserves was defined to include the following, provided they were freely convertible to gold or sterling: foreign Bank balances, treasury bills of foreign governments, foreign government guaranteed securities or those of International Finance Institutions, Nigeria's gold tranche position in the International Monetary Fund, and allocation of Special Drawing Rights made to Nigeria by the IMF[2]. The CBN was also given greater discretion to hold some proportion of such assets having longer maturities.

3. The original legislation had required the CBN to hold until June 1964, External Reserves equal to 60% of its total demand liabilities and thereafter 40%, because maintaining a high level of external reserves backing at its formative years may retard the role envisaged for the CBN in mobilizing domestic funds for financing accelerated economic development. From 1964 till 1967, the reduced vatio of external reserves to total demand liabilities, gave sufficient flexibility to the CBN in its domestic credit operations while at the same time ensuring efficiency of reserves to meet balance of payments needs.

4. Another legislative amendement in 1967 further reduced the ratio of foreign exchange reserves to CBN demand liabilities to 25%. This was meant to give legal recognition to the law external reserve position following continous drain on the reserves arising from the civil war in the country. However, the most significant impact of the downward adjustments of external reserves to CBN demand liabilities ratio, over the years, was to facilitate CBN's credit accomodation to the government.

5. The 1968 amendment decree was aimed at enabling the CBN have ready access to information necessary for the efficient discharge of its responsibilities by extending its power to collect statistical information to cover non-bank institutions and individuals. The objectives accomplished by this amendment (1968) decree is augmenting the power and sphere of influence of the CBN and by circumscribing its responsibility for monetary policy formulation.

The 1968 amendment decree also gave new instruments of monetary control to the CBN. These included powers to:-

(i) Prescribe minimum ratio of loans, advances and discounts which each commercial bank shall grant to indigenous persons;

(ii) Prescribe from time to time cash reserve ratios to deposit liabilities which the commercial banks should maintain at the central bank;

(iii) Call for special deposits from commercial banks;

(iv) Impose credit ceiling;

(v) Vary the composition of special liquid assets to be held in stipulated ratios to deposit liabilities;

(vi) Approve Commercial Banks loans of certain sizes; and

(vii) Issue and repurchase from financial institutions stabilization securities.

6. As regards the management of the Nigerian currency, one of the earliest amendments was to severe the Nigerian Pound from direct link with the pound sterling and define its parity in relation to gold. The CBN was then given the power to alter this parity subject to the approval of the federal Excutive Council.

7. Another important legislative change is the authority given to the CBN to require commercial banks to link their interest rates to the bank rate (often referred to as the minimum rediscount rate of the

central bank). This was designed to strengthen CBN's power of monetary management.

Much as the legislative amendments may have presumably been made to ensure its greater accountability as a public institution, and make its operations an intergral and more consistent part of the overall administration and developmental aspirations of the country, however, some of its provisions have also had the effect of weakening the powers of the CBN in certain areas and to that extent constrained its operational efficiency.

The most significant among these provisions are:-

(a) the requirement that the Board shall keep the Commissioner (minister) for finance informed of the monetary and banking policy pursued or intended to be pursued by the Bank. But in an event of a disagreement between the minister and the CBN on the monetary and banking policy pursued or intended to be pursued, the over-riding decision of the federal executive council after duly considering the representations made by both parties must prevail.[4]

Before the amendment, the Board of Directors was solely responsible for the policy and general administration of the affairs and business of the Bank.[5] This meant that the Board of Directors was not required to inform or seek agreement of the Commissioner (for finance) for any monetary policy it intended to pursue.

This would have been construed as a conferment of Autonomy status on the CBN.

(b) The right of the Commissioner to approve or disapprove the Banks opening of new branches and appointment of agents (controllers) and correspondents.

(c) The requirement that the CBN's expemditure proposals of up to ₦100,000, later raised to ₦1.0 million should be submitted for the approval of the Federal Executive Council.

(d) The removal from CBN Board determination of salaries and conditions of service of the employees of the CBN, but was rather subjected to the stipulations of the Federal Executive Council and harmonized and streamlined along lines of the service conditions of the entire public sector.

Subsequently, this study shall elucidate the implications for Nigeria of the ever increasing responsibilities ascribed to the CBN under the auspices of the structural adjustment programme (SAP of 1986) by virtue of the economic crisis facing the country.

3.1.3 THE NIGERIAN ECONOMY IN TRANSITION: A REVIEW OF SOME MAJOR ECONOMIC POLICIES

Just as Nigeria's past political traumas have contributed to a gradual maturing of the system of government, the nations economic crises, which have been at least as severe as those in the political sphere, have resulted in a gradual maturing of economic policies.

Since independence in 1960, Nigeria's economic history has been a sad tale of roller-coaster boom-and-burst cycles, with extraragant and poorly planned squandering of revenues followed by severe foreign exchange shortages, import restrictions, wage freezes and other austerity measures. These economic traumas have embittered foreign investors and Nigerians alike.

But sensible policies and good intentions can only have a limited effect as long as Nigeria's economy remains tied to oil revenues. Oil currently accounts for over 90% of exports and about a quarter of Gross Demestic Product (GDP). World oil demand is erratic, and sudden fluctuations can still throw a wrench into Nigeria's economic plans.

Between 1960 and 1970, Nigeria was settling from from the rigours of independence struggle and to face serious economic planning. This effort was however thwarted by the unfortunate civil war that engulfed the country between 1967 and 1970. Two important consequences of that civil war are discernible, namely, the dearth of agricultre, which hitherto, constituted the bane of the Nigerian economy accounting for over 56.0% of our export earnings. Secondly, forced by income squeeze after the civil was, Nigeria rode into her shores to tapper-off the production of crude petroleum in commercial quantities to augment the ravaged agrarian sector. The implication of this measure resulted in the gradual transition from an agrarian economy to an oil economy.

Since Independence, Nigeria has undertaken the formulation of four (4) National Development Plans spanning through five years on the average for each plan period. (1962)-1968, 1970-1974, 1975-1980. 1981-1985). Economic Planning per se, is envisaged for rapid growth and a self sustaining domestic sector in order to stimulate internal production and encourage foreign investment within the domestic economy. However, growth rate in GDP terms since indpeendence may be put averagely as ranging between 3.5% and 5%. The extent of federal deficit engendered by the huge capital outlay endorsed by these development plans lays no claim to any better economic prospect for Nigeria today and, of course, economic plans and forecasts have been held responsible for our present day economic travails.

A landmark development in government policy pursuits was the enactment of the "indigenisation Decree" in 1977 by which the major producing and service businesses in Nigeria were reduced to Nigerian ownership and control. The programme was regulated by means of a classification into schedules (one, two and three) for proper definition of the pattern and acquisition of shares in key company's. This measure was aimed at stiffling the internationalisation of the Nigerian economy through income leakages and to guarantee indigenous participation in the development process of the country. The CBN did not end at imposing on banks the requirement to reserve at least 25% of their loans and advances to Nigerian interests but this figure attained a record level of 70% and this

time, the decree had effected the desired change in form of Nigerian majority participation in most organizations. It also made banks hold long and short-dated government papers, retain substantial part of their profit in the business, devote an increasing proportion of their loans to the productive sector and make serious efforts to place suitable senior Nigerians in senior executive positions.

Nonetheless, the ownership changes led, as observed already, to the withdrawal of certain foreign interests which did not want minority positions. The International Business Machines (IBM), Chase Manartan in the present Continental Merchant Bank of Nigeria withdrew and first City Bank of New York felt the situation was inconsistent with free Enterprise to which it is used.

Followed by indigenisation in the second half of the 1970s, was the development of "Rural Banking", not as a result of organic expansion within the banks themselves but the result of a policy imposed upon them. W.C. Newlyn and D.C. Roman[5] put it succintly "foreign banks were in Nigeria to make profit and not to promote the social development of a particular group. This accounted for the collection of deposits from Nigerians and the granting of loans to Europeans during the colonial days". Continuing, "This same spirit ruled the banking operations of erstwhile foreign banks even after the indigenisation decree so much that they manifested no practical interest in development finance. Little wonder then why their growth structure in terms of branch location followed

rather than precede growth in urban and industrial centres".

In pursuance of a form of forced social responsibility on banks, government introduced in July 1977 the rural banking programme after many years of research and planning. It has the following stated objectives:

1. Cultivation of banking habits among the rural dwellers;
2. Mobilisation of savings from the rural areas for the purpose of channelling same to profitable rentures;
3. Creation of credit by way of equity and loans for small scale industries;
4. Development of agriculture and agro-allied industries with a view to achieving the national objectives of self sufficiency in food production; and
5. Reducing to a comfortable extent, the rampant incidence of rural - urban drift.

The implementation of the programme was scheduled to fall into three time-periods called phases. The first phase covered the period between July 1977 to June 1980 (three years) with a total of 200 centres identified and allocated to the commercial banks out of which 188 were opened. The second phase covered the period between August 1980 and December 1983 (about three and half years). The number of centres or allocations made was 266 whereas 300 new rural branches are expected to be completed (as allocated) between August 1985 and July 31 1989 (four years), under the

three phases.

Rural banking forms part of the branch banking system which characterises the Nigerian banking scene, and which makes it possible for a bank to spread itself throughout the length and breadth of the country.

LIST OF COMMERCIAL BANKS IN NIGERIA AND NUMBER OF BRANCHES AS OF OCTOBER 31, 1987

	Banks	Rural Branches	Urban Branches	Total
1.	African Continental Bank	36	62	98
2.	Allied Bank of Nigeria	36	21	67
3.	Bank of Credit & Comm. Int.	9	19	28
4.	Bank of the North	29	45	74
5.	Commercial Bank credit Lyonnais	-	1	1
6.	Cooperative Bank Nig. Ltd.	14	22	36
7.	Cooperative and Comm. Bank	20	23	43
8.	Cooperative Develop. Bank	-	1	1
9.	First Bank of Nigeria	78	160	238
10.	Habib Bank Nigeria	-	7	7
11.	IBWA	25	48	73
12.	Kaduna Cooperative Bank	12	48	73
13.	Kano Cooperative Bank	9	4	13
14.	Loin Bank Ltd	-	1	1
15.	Lobi Bank Ltd;	-	6	6
16.	Merchantile Bank	9	26	35
17.	National Bank of Nigeria	31	70	101
18.	New Nigeria Bank	18	24	42
19.	Nigeria Arab Bank	12	14	26
20.	Nigeria International Bank	-	1	1
21.	Owena Bank Ltd	-	15	15
22.	Pan African Bank	9	20	29
23.	Progress Bank Ltd	-	20	22

Bank	Rural Branches	Urban Branches	Total
24. Premier Commercial Bank	-	-	1
25. Societe Generale Bank	6	8	14
26. Savannal Bank	18	15	33
27. Sokoto Cooperative Bank	-	1	1
28. Trade Bank	3	1	4
29. Union Bank	66	135	201
30. United Bank for Africa	71	81	152
31. Universal Trust Bank	-	3	3
32. Wema Bank Nigeria Ltd	15	27	42
	526	900	1426

Rural Branches are branches opened under the Rural Banking Programme.

Source: CBN: Guardian Financial Weekly, Monday May 9, 1988. p.57.

Two factors led to the success or failure of banks:- both positive and negative. The first and most important is the soverign consumer or what the banks regard as customers. These define the size of deposits and the amount of business a bank could make. In general, it is the positive contributory factor to growth. The second factor is the policy Environment as defined by the central bank - the limits on credit expansion, the squeeze on liquidity, legal checks and other implements which place limits to banks' expansion.

Generally, the success or effectiveness of any banking system depends solely on peoples general awareness of, and the response to, banking facilities, and the regulatory environment within which the institutions operate.

The growth and performance of the banking system over the years can be assessed by such crucial indicators as; assets and liabilities, deposits, loans and advances, investments, profit and aggregate credit of the system injected into the economy. The growth and structural developments in these variables enable one to have a rough idea of the economic systems behaviour and performance.

To place agriculture back to its initial focus as a major foreign exchange earner, two agricultural policies were formulated to boost agricultural production. These were; the Operation Feed the Nation (OFN) of 1977 and the Green Revolution of 1982 in realisation of the fact that a country that can not feed her teeming population cannot rule herself. Through this two policy pursuits, the agric credit guarantee loan was established by which the CBN made it obligatory to all banks to extend credit facilities to occupational farmers as a percentage of their loans and advances to the agric sector. The CBN itself undertook to support the scheme (ACGS) by insuring three-quarters of agric loans (about 75%) against risk or default in payment by farmers as well as waving the requirement for collaterals.

The reform of the Federal Public Service and Parastatals of 1974 coupled with the granting of a minimum wage of ₦125.00 - the minimum wage bill of 1981 was a policy measure that seriously affected the consumption pattern of Nigerians especially as regards

imported goods. The implication was a mounting import bill in subsequent months and years signalling a balance of payments disequilibrium and a rise in the general price level (inflation) that almost grinded the economy to a halt. This was the era of "Laizzez-Faire" Economics and "Spend thrift". Thus Samuelson P.A.[7] enthused, "the easy macroeconomic victories are behined us. The humane mixed economy now suffers repeatedly from the disease of stagflation. What policy does to help the "stag" part of the problem tends to worsen the "flation" part; what helps the latter hurts the former. So, we will be seeing that dilemmas do remain".

The experience of the 1970s illustrates this dilemma. The 1974 quadrupling of oil prices pushed inflation up to 35% because the economy could not absorb the funds. By the time the government implemented massive investment programmes, the 1978 glut hit, cutting foreign reserves by 80%.

The epitome of the Nigerian economic crises was the introduction of Austerity measures, first in 1978 followed by the Economic Stabilization Act (Emergency Powers Provision) of April 1982 at the floor of the National Assembly which ironically aimed at discouraging "import consumption" rather than encouraging import substitution". Indeed, a weakness of policy initiatives.

This has Implication for the genesis of External debt and the much Vaunted "Public debt" crisis.

A contending and contemporary development in policy initiatives is the introduction of the Structural Adjustment Programme (SAP). The foundation of SAP lies in the short-comings of the economic policy measures taken between 1982 and early 1986 which were in the form of intensified payments and trade controls. Suffice it to say that the control measures were not only largely unsuccessful, but also led to a situation of drastic short-supply of industrial imputs, plant closures, large scale retrenchment of workers, shortage of goods and price inflation. At the same time external debt increased rapidly through an indiscriminate recourse to external borrowing and accumulated upaid trade bills. Even then, debt service payments rose many folds from 1984/85 above the level in 1980. Our foreign creditors became impatient by refusing to grant further credit lines, safe for exceptional cases but at prohibitive costs to the economy. It was in this regard that the 1986 Federal Budget set the tone for the two-year Structural Adjustment Programme (SAP) which was launched in July 1986.

The SAP was introduced to achieve the following objectives:

(i) To restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and imports;

(ii) To achieve fiscal and balance of payments viability over the period;

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

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

In order to achieve these objectives, a shift in economic policies became necessary. The main elements of SAP envisaged not only strengthening demand management policies but also adopting measures to stimulate domestic production and broaden the supply base of the economy.

Thus the adoption of a realistic exchange rate policy, rationalization and restructuring of the tariff to promote industrial diversification and increased trade and payment liberalization, and abolition of complex administrative controls are therefore the key elements of the SAP.

The major instruments of SAP includes the following:-

(i) De-emphasis on the role of the state in development;

(ii) Reduction in subsidies on petroleum products and fertilizer;

(iii) Abrogation of the import licencing arrangement and the scrapping of commodity boards;

(iv) Introduction of foreign exchange though the second-tier market (SFEM/FEM) as a means of correcting the over-valuation of the naira.

(v) Decontrolling interest rates.

Commenting on the character of the Nigerian economy, the Business International reported, "Dependence on oil revenues means that if the government misjudges a price trend, it can be caught by either a drop that causes already committed funds to envaporate or, conversely a price increase resulting in inflation-fueling surplus funds that cannot be absorbed owing to the insufficiency of investment plans."

In summary, the "status" of the Nigerian Economy may have been aptly elucidated from the foregoings. Turning to the "structure of the same economy what one finds are:- a centrally planned but not controlled economy (mixed and dynamic economic system), a monoproduct economy (over-reliance on petroleum resources), an economy over laden with huge external debt, an economy burdened with the travails of ever increasing growth in population, insufficient food and medical services, politico-economic undertones (mismanagement, affiliations with the International Monetary System) and significantly, the economy's tag as a "developing economy".

Let us now examine critically the operations of the CBN especially between 1977 and 1986, taking into cognisance the aforementioned policy issues to see it's effect on Nigeria's developmental process. The key of course, is a test of basic economic indicators to show their response to macro-policy formulation and implementation.

THE APPLICATION OF MONETARY AND FISCAL POLICIES IN NIGERIA - 1970 - 1987.

An examination of how monetary and fiscal policies were executed during the period under study shows that three phases stand out very clearly. These are:-

(A) The Post-War or Deficit Finance Phase 1970-1977

(B) The Austerity or Stabilization Phase 1978-1983

(C) The structural Adjustment Phase 1984-1987.

An overriding consideration in policy execution at each period, has been given to the intricacies of the three National Development Plans undertaken during the period and the complexities inherent in the economic system as a result of the oil - boom Euphoria.

(A) THE POST-WAR OR DEFICIT FINANCE PHASE - 1970-1977

The Macroeconomic objectives of a high rate of growth of output goods and services and a more equitable income distribution have to be accomodated within any package of monetary and credit policies designed to ensure relative price stability. The task of reconcilling

the two important but somewhat conflicting objectives of output growth and price stability presented the main challenge to the monetary authorities.

The depletion of foreign exchange reserves came to a halt in 1967 when it hit a trough of ₦101 million, and steadily recovered its lost grounds by 1973 when it attained the level of ₦439 million. This represented a gain of 28.4% on its 1960 level. 1974 brought a huge increase in foreign exchange reserves amounting to over seven times its 1973 level. It rose further to its highest ever peak of ₦3,703 million in 1975 but dropped to still robust level of ₦3483 million in 1976. Further drain on reserves was experienced in fiscal 1977/78. A drastic reduction to ₦1078.5 million was recorded for December 1978.

Other examples of the use of monetary and fiscal policies to intervene in the economy to achieve objectives that would otherwise have not been possible abound in the area of fiscal policy. The Udoji salaries and wages awards in 1974, for instance, was an instrument for income redistribution so also is the system of revenue allocation between the federal, state and local governments.

Safe for the import liberalizations and massive importation of certain goods in 1975, the inflationary consequences of the Udoji awards and arears would have been much more disastrous for the country than they

im fact were and, without the Austerity measures adopted in the 1978/79 budget, it would have been extremely impossible to restore the country's balance of payments and external reserves to a manageable position.

The period is perhaps best described as featuring a policy of moderately restrained monetary expansion implemented by two variants of credit rationing guidelines. The first variant operative from July 1969 to March 1972, took the form of setting the rates of change for the aggregate and components of commercial banks loans and advances. This method of overall and sectoral credit ceilings was again reintroduced in April 1976. The second variant, applied between April 1972 and March 1976, dropped the prescription of aggregate credit ceiling and instead relied on the specification of a sectoral distribution of credit which emphasises discrimination in financial accomodation in favour of the productive activities and against consumption - prone expenditures.

(B) THE AUSTERITY OR STABILIZATION PHASE - 1978-1983

The oil boom euphoria was short-lived. Although the balance of payments had moved from a deficit of ₦40.8 million in 1973 and reached a record level of ₦3,102.2 million in 1974, it dramatically decreased to a meagre surplus of ₦157.5 million in 1975 and deficits of ₦339.9 million, ₦447.0 million, and ₦1,382.4 million in 1976, 1977 and 1978 respectively.

Although the multi-billion Naira third National Development Plan was described as a "monument to progress" when it was launched, some eighteen months later, the cracks emerged signally serious grounds for concern.

In the first place, contrary to the expectations and forecasts in the plan, inflation was on the increase rather than decrease. Secondly, the plan was based on the continued increase in crude oil production, However, rather than increase, crude oil production actually fell by 21% in 1975. Thirdly, oil revenues were expected to provide 96% of the country's foreign exchange earnings during the five year period of the plan. But foreign exchange earnings declined rather than increased. Moreover, against an estimated ₦3,000 million increase in the country's foreign exchange reserves, only ₦158 million accrued in 1975. Although one of the objectives of the plan was to consolidate the indigenisation exercise such that "Nigerian enterpreneuship is present and dorminant in all sectors of the economy", it was found that in actual fact, only about a third of the foreign enterprises concerned fully complied with the requirements of the decree.

The message was beginning to sink, that Nigeria has learnt its first lesson in "cutting coats according to size". Monetary and fiscal policies were henceforth mobilized along four main directions, namely: Psychological reorientation, institution building, demand management and supply management.

The Psychological orientation was began in the 1976/77 budget by de-emphasising the the spending spree and the wealth euphoria which the 1975/76 budget created. The 1976/77 budget attempted to influence the social Psychology of the nation towards the realities of the country.

In the area of institution building, the prices and incomes board was established to police an incomes policy on wages, salaries, rents, dividends and fringe benefits. In addition to the OFN scheme, an Agricultural credit guarantee fund was established in the central bank to facilitate agric financing by guaranteeing banks up to 75% of any losses they incur on credits for agric in pursuance of operation feed the nation.

While supply managwment was intensified by further measures to protect local industries, establish new ones and expand local production, demand management was instituted through wages and dividends, restraints and adjustments in income and corporate taxation.

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months and 12 months in 1974 and 1975 respectively. The era of qusterity measures was by no means a cosmetic proposal.

(C) THE STRUCTURAL ADJUSTMENT PHASE 1984 - 1987

The economic stabilization measures involving stringent exchange and trade controls introduced in April, 1982 proved rather ineffective and by the end of 1982 there was no significant improvement in the country's foreign exchange position nor in the economy. With the collapse of the world oil market which started by mid-1981, the failure of various restrictive measures introduced in 1982 to 1985, the persistence and deterioration of balance of payments problems, the debt crisis, the pressure for national economic reform could no longer be resisted.

There has been a major credit squeeze in the country since the introduction of the Second-tier Foreign Exchange Market (SFEM) and it is argued by the business community that the tight credit limits are impeding the sustained expansion of local production. Specifically, the prevalence of exchange and trade controls pursued

ge rate regime which

lverse consequences

oreign exchange and

trade malpractices - large scale over-invoicing of imports and under-invoicing of exports, capital flights, commercial and maintim frauds.

The 1984 Economic Report on Africa, produced jointly by the African Development Bank (ADB) and the Economic Commission for Africa (ECA), together with the 1983 ECA

"perspective study, 1983-2008" set out the major policy issues. Both reports recognise that Africa's problems (and indeed Nigeria's problems) are structural and therefore need to be tackled by a range of policy measures.

While the evolution of a completely free foreign exchange market has remained the ultimate policy objective of the monetary authorities in Nigeria, a consensus was however reached at the inception of the SFEM not to completely liberalize the operations of the market, in view of the supply-gap problem. Specifically, the dorminant factor underlying the performance of the SFEM was the achievement of the agric sector in improving local supply and providing a gedge against inflationary pressures that would have otherwise materialised following the unprecedented 66% norminal depreciation of the Naira exchange rate that was induced by the primier auction.

In summary, several factors militate against the effectiveness of monetary policy. There is the perenial problem of monetary policy lags usually involving recognition, action and effect lags. Even if one could ignore the problem of recognition and action lags, effect lags presents insurmountable problems. Far from being traceable to any fundmental mistakes in policy formulation, the specific problems facing monetary policy in Nigeria are largely attributable to strong exogenous factors: The first factor is the inability to use the conventional techniques of monetary policy because of the lack of a financial market of the required depth and breadth.

Closely associated with the above factor is the rigidity and the conservatively low level of the structure of interest rates in the country arising from government interventionist policies in the operations of the money market.

In particular, the low interest rates on government debt instruments (bills, certificate and stocks) have largely been conducive to inflationary monetary expansion, and more importantly because the CBN is required by law to absorb the unsubscribed proportion of government debt instruments.

Interlocking the Phenonenon of low and flexible interest rate structure is government fiscal operations which have preponderantly determined the rate of monetary expansion movement in government expenditure especially in the 1970s represented the single most important factor influencing the growth of the money stock.

The rapid monetisation of such inflow of funds to finance an unsustainable level of government expenditure has posed the greatest threat to monetary stability in the 1970s. In promoting a sound financial system to mobiliz adequate development - oriented finance, the CBN has be obliged to be less restraining on the credit operations of the banking system than it otherwise would have been.

4.1.2 THE EXTERNAL SECTOR: DEBT COMMITMENTS AND NIGERIAS ECONOMIC DEVELOPMENT

The major preoccupation of macroeconomic policy makers the world over is the maintenance of a healthy and sustainable balance of payments position. Over the past few years, the Nigerian Economy has been witnessing an economic crisis of great magnitude. This crisis is one of illiquidity; in other words, the financial resources available could not meet payments for past transactions and there has been a conseqent reduction in the allocation for current transactions.

In a situation where a country finds itself unable to meet its contractual obligations in terms of servicing her external debt, its credit worthiness within the international business community is reduced leading to a loss of confidence in a country's ability to manage her economy effectively and consequent loss of access to external funds.

Since 1970, there have been significant changes in Nigeria's external sector. Broadly, two phases, are discernible - one of 'reserve accretion' and the other of 'reserve depletion'. In the period 1970 to 1971, 1973 to 1975, 1979 to 1980, over all performance of the external sector resulted in accumulation of foreign reserves. On the other hand, during the intervening years, 1972, 1976 to 1978, and 1981 to 1983, the country experienced severe balance of payments crisis culminating in rapid depletion of external reserves.

A number of factors standout vividly in influencing the course of development in the balance of payments position.

First, the ascendancy of crude petroleum as the largest single export commodity since 1970 has linked the performance of the external sector inextricably to the developments in the world oil market. Secondly, there has been a remarkable growth of merchandise import. The period under review witnessed the launching of four National Development Plans whose import content was very high. Moreover, a significant increase in National Income also occured during the period. Largely as a result of local shortages, Nigerians acquired a tremendous taste for imported goods. Thirdly, some policy measures taken during the review period served to exacerbate the balance of payments problem. In particular, the recourse to deficit financing in an economy like Nigeria's would inevitably result in demand pressures and the fueling of inflationary tendencies.

Moreover, a tendency to abruptly change policy was also discernible (e.g. Economic stabilization Act of April 1982, and the SAP of July 1986). Thus, instead of allowing policy measures to work themselves through or to effect changes only in the light of sustained and remarkable improvement in the external sector, policies have been changed arbitrarily.

Fourthly, government policy over the past two decades has been essentially based on administrative import control as a stop-gap measure to restrict demand and consumption. No recognition has therefore been given to the long term nature of the problem which is basically structural. No attempt was made to introduce "supply-side" policies to diversify the export base and stimulate inflow of foreign capital.

The last factor is the increasing level of external debt and the resultant debt service burden.

The arguement is that the absolute level of debt itself, though at a record high is not the major cause of concern. Rather the more disturbing aspect of the debt problem is the remarkable shift in its "structure" such that the greater proportion now consists of short to medium term debt with its implications of higher debt-service payments.

NIGERIA'S DEBT COMMITMENTS

Under the external loans decree No.30 of 1978, the federal government was authorised to raise external loans up to ₦5 billion. If the provision of the decree limiting external debt outstanding to ₦5 billion had been kept, Nigeria would not have run into debt problems at the time she did. Putting a limit to external borrowing was thought necessary since foreign loans were only needed to supplement the resources that would be raised internally.

The general rule was that external loans should be disbursed to finance productive ventures which are self financing in the sense of generating funds that can be applied to repay the loan. Such a loan will not put excessive burden on the nation's resources.

The IMF prescription which now serves as a rule of thumb is to relate total debt service to total export earnings to a given period. It might be useful at this point to ask the following related questions:

a. What was the borrowing used to finance?

b. How did Nigeria get to this ugly position?

The problems is that most of the state sponsored projects were financed by high cost, short-term funds either from the International Capital Markets or from supply credit sources (especially the London and Paris club creditor Banks).

A turning point was reached in 1978 when for the first time, Nigeria borrowed from the International Capital Market. The loan of $1 billion (U.S.Dollars) was raised primarily to finance a number of projects. Being a loan raised from the private sources, it attracted high interest rates while the maturity was shorter. Some state governments also contracted loans and supplier credit without the federal government guarantee. One would ask whether the CBN's jurisdiction was ousted? Why didn't the CBN advice against such short term maturity loans? This can pass for a case of insensitivity or coperant misappropriation.

TREND IN NIGERIA'S EXTERNAL DEBT

Fasina, O.A.[9] observed and rightly too that, "In 1970, the level of Nigeria's total external debt outstanding was relatively low at ₦488.8 million. At this level, external debt constituted only 9.2% of GDP. Nigeria remained largely under-borrowed throughout this period". For example, external financing under the second National Development Plan (1970-1974) was to account for only 19.4% of total public sector expensiture during the plan period. This was much lower than the 50.2% anticipated for the first National Plan (1962 to 1968). In both cases however, the realised external finance fell far short of projected level of borrowing, it accounted for only 8.3% of total public sector expenditure during the second Plan Period.

In fixing the proportion of total public sector expenditure to be financed by external borrowing during the third National Development Plan Period (1975-1980) cognisance was taken of:-

(a) the inability, to attract foreign loans in sufficient quantity during the first-two plan periods and,

(b) the anticipated huge inflow of foreign exchange during the period.

Consequently, foreign exchange was not considered a constraint during the third plan period, and accordingly, projected external borrowing was fixed at ₦2 billion representing 4.6% of total planned public sector expenditure.

Under the fourth Development Plan (1981 to 1985) where planned public expenditure was projected a ₦70.5 billion, the proportion to be financed from external source was ₦6 billion or 8.6% of the total. In drawing up the various development plans, therefore, reliance was not placed on external financing. The problem is related not so much to the magnitude of outstanding debt but more to the pattern of the maturities and variability of interest payment.

4.1.3 THE RELATIONSHIP BETWEEN THE NON-BANK FINANCIAL INSTITUTIONS AND THE CENTRAL BANK OF NIGERIA IN PROMOTING ECONOMIC DEVELOPMENT,

The relationship between the CBN and financial intermediaries in general may be properly understood in the context of the statutory[10] obligation of the Bank ... "to promote monetary stability and sound financial structure in Nigeria". Non-Bank financial institutions are subset of these intermediaries whose activities are outside the explicit and regular scrutiny and regulation of the CBN within the framework of the CBN Act (1959), the Banking Decree (1969) and subsequent amendment to both statutes.

I In terms of their sources of funds, non-bank financial institutions in Nigeria could be categorised into; "depository institutions" - which institutions that obtain some of their funds directly from the public by way of deposits; "contractual institutions- such as insurance companies which obtain funds from

the public on agreed contractual basis; institutions largely funded initially, by government through capital funds and loans, and other private credit institutions which obtain funds by ways of loans from other sources.

The existence of financial institutions within any financial system is often explained in terms of the basic economic determinants of savings and investment. The basic difference between banks and non-banks, is that banks, as a system, create their own loanable funds, while the non-banks cannot. In fact the amount of financial assets which each non-bank financial institution can acquire is determined by the amount of savings placed with it.

A basic factor in determining how individuals employ their savings is the relationship between individuals and the services that the different forms of savings provide. Financial intermediaries have certain operational characteristics which individuals lack: namely, financial expertise, economies of scale and the ability to diversify and to pool resources. In addition, they enable the saver to share the costs of security analysis, market transactions, and portfolio management, with other savers, thus minimising costs.

Akamiokhor, G.A.[11] postulates that, "broadly defined, non-bank financial institutions in Nigeria would include: the securities and Exchange Commission, the Stock Exchanges, Stock-broakers, registrars, insurance companies, pension/

Provident funds, investment companies; and they can be classified into:- Regulators, facilitators and investors".

THE STRUCTURE AND OPERATIONS OF THE NON-BANK FINANCIAL SUBSECTOR

Financial intermediation can be seen as essentially embracing the matching of the needs of deficit units (borrowers) and those of surplus units (lenders) by means of various instruments that are traded in either the money or capital market. The needs of borrowers are often for long-term loans, the acceptance of risk by the lender and relatively large amounts of credit. Savers on the other hand, have been of liquidity, the safety of their funds, convinience, and for most savers, the availability of financial assets in small denominations. In mediating these sets of needs, the financial intermediary acquires primary securities from deficit units or borrowers and issues its own, secondary securities to savings surplus units who are the ultimate lenders.

Alile, H.I. and Anao, A.R.[12] contended that, "the essence of capital formation is a postponement of consumption. Capital formation usually equals Net Investment and is given by the amount by which total current production (GNP) exceeds current consumption. Thus capital formation is not necessarily equal to total savings, but only that part of savings which is represented by goods". The central task of the capital market is the mobilization of funds in the hands of myriad individuals who save and the pooling and channelling of such funds into productive uses.

Traditionally, special attention is accorded commercial banks among all financial intermediaries because they are considered to possess the key to unlimited expansion of deposit money and as such they have to be restrained through central bank's controls. Financial intermediaries other than banks, do not create money and therefore the scale of their assets is limited by their liabilities, principally by the amount of savings the public entrusts to them.

Akatu, P.A.[13] contended that, "the tendency now is therefore to focus on demand for and supply of the whole spectrum of assets and to regard credit availability rather than just the quantity of money, as the linkage between the monetary sector on the one hand and the real sector on the other. In this regard, effective monetary policy can no longer ignore the activities of non-bank financial institutions,

In general terms, this requires the use of an appropriate regulatory mechanism to guarantee firstly, that financial institutions operate as financially sound enterprises and secondly, that their activities are in accordance with regulations designed to control money and crdit in the control. This dual role is vital in any modern economy basically because of the key role of credit and therefore of financial intermediaries in a system where those who save are not the same as those who invest.

If in such a system, financial intermediaries are to be financially weak, poorly organised and poorly run, they are likely to be highly distrusted by savers and this, at the least, would adversely affect savings, investment and Economic growth.

For this reason, the role of the CBN should also be seen as that of promoting appropriate competition and innovation within the financial industry - in areas such as the range and quality of services provided, technology employed and in the accessibility of financial services. At the same time, the band would also be concerned firstly, about the ability of the system to remain solid in the face of change and secondly about its own ability to control money and credit in circumstances of rapid innovation.

Given the importance of these institutions as sources of savings and investment, information about their activities are essential in any overall analysis of the trends in the economy. Furthermore, these institutions are some ways key instruments for attaining certain specific objectives of government policies aimed at rapid economic development.

Nwankwo, G.O.[14] suggests that "as the apex of the financial system, the CBN properly belongs to both the money and capital markets as the key operator without which the markets can scarcely exist". He ascribes to the CBN four key roles in relation to the capital market. These are the promotional, financial, operational and parti[illegible]atory roles.

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CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

PERSPECTIVES ON THE INTERNATIONAL MONETARY SYSTEM

Those familiar with monetary affairs will doubtless remember the intensive discussions of international monetary reform conducted in the committee of two organized by the international monetary fund (IMF) in the early 1970s. The ultimate decision was not to conclude a revolutionary restructuring of the world's monetary order, but to accept a more flexible and progmatic course that would accomodate the need for more flexible exchange rates, improve the adjustment process, and permit the system to evolve gradually in response to changing needs.

The negotiators considered, but could not agree upon, a highly structured system, investing a large degree of authority in a central body or in a set of precise rules for national economic behaviour. Their decision was shaped in part by recognition that the energy crisis emerging at that time would bring vast and important changes, and that those changes could not be predicted with assurance.

That decision was realistic. Even the highly flexible system then adopted has encountered serious strains and at times, disruption. There is a legitimate desired for greater order and stability. But at the same time, we must acknowledge that the world has

survived drastic economic upheaval, and abrupt shifts in payment patterns, without general resort to damaging restrictions.

The problem is much larger, and one that the world has to face: whether it is prepared to contemplate openly a partial ceding of national authority over economic policy to an international body. The point is that such a step is not politically realistic today. But real national authority and authonomy are limited in any case by the fact of our interdependence. The question is whether we learn to coordinate management of our economies to the benefit of all concerned, or whether, because of the strains and pressures arising from our interdependence, we end up retreating from the thrust of the past two decades and slip back into a nationally oriented and ultimately autarchic international regime. There is no viable in-between in the long run - and the long run is getting shorter and shorter.

The real issues (debt crisis and static or retarded economic development) are addressed when answers are found for the following broad based questions:

1. Everybody is looking for ways of expanding the economy, creating more jobs and cutting taxes, but without inflation. Realistically, can this be achieved all at the same time?

2. Is the debt problem, seeing from its structure and content, still basically a liquidity problem rather than a solvency problem?

3. Should the World Bank, which has been basically a developmental institution, play a bigger role in helping resolve debt problems?

4. Does protectionism threaten the ability of some developing countries to export, and thus to service their debts?

5. On balance, has the recent international debt problem strengthened economic inter-dependence among nations, or has it weakened it?

The central problem of the international monetary system has therefore been how to allow nations to pursue their domestic economic objectives without having to forgo the gains from trade or suffer balance of payments disequilibrium. In his study of the, "Economies of interdependence Economic Policy in the Atlantic Community", Richard, N. Copper[1] states that the central problem of international economic cooperation is "how to keep the manifold benefits of extensive international economic intercourse free of crippling restrictions while at the same time preserving a maximum degree of freedom for each nation to pursue its legitimate economic objectives".

Sidney, S. Alexander[2], opined that...."if a devaluation is to affect the foreign balance, it can do so in only two ways:

1. it can lead to a change in the production of goods and services in the country; this change will have associated with it an induced change in the absorption of goods and sercices so that the foreign balance will be altered by the difference between the change in income and the

income-induced change in absorption.

2. The devaluation may change the amount of real absorption associated with any given level of real income".

5.2 RECOMMENDATIONS

This study in any way is not representative of an expert's opinion but rather it borrows from the knowledge of accomplished scholars and professionals to buttress the point that Nigerias economic development and indeed policies aimed at stimulating economic development should be built around an effective central banking operations.

The establishment of a new international entity to stretch out maturities of developing country's debt and reduce its interest burden would inevitably pose serious "moral hazard problems.

When a country gets into trouble, there should be negotiations between it and its private and public creditors. With reasonable recovery in the global economy, the problem of international debt should prove manageable and the degree of its current risk to the international system should decline.

Broadly, the debt problem is one of illiquidity, not insolvency. In a situation charaterised by very low foreign reserves, the maintenance of balance of payments equilibrium should be the objective of policy. Where however exchange controls are used to ensure that demand for foreign exchange equals available supply of foreign exchange, the maintenance of relative price stability should be the goal.

To combine price stability or balance of payments equilibrium with the objective of economic growth, the CBN must have complete freedom of action to influence not only the commercial, savings banks and non-bank public but also have complete control over its own activities.

Nwankwo, G.O.[3] pointed out that, "the scope for the manipulation of exchange rates in high import oriented developing countries is limited. In many cases, some of the prices of the key export commodities are internationally fixed such that devaluation may not necessarily affect their export prices, and supply inelasticities may result in an inability to fully exploit advantages of devalvation and to the extent that import demand is inelastic, devaluation may worsen rather than improve the balance of payments position. Revaluation may also be inadvisable since it may make exports expensive and imports cheaper. While the later may minimize the effect of imported inflation, it may run counter to domestic policies of self-reliance through promotion and protection of local production and exports. All these imply that 'foreign exchange rates' have to be managed in developing countries combining both rules and discretion".

Finally, any attempt to arrest the dwindling Nigerian Economy, Stabilize its monetary base and ensuring economic development should incorporate the following hard facts:

1. The CBN's autonomy status is non-negotiable and should be enhanced.

2. Emphasis should shift from import substitution to export promotion by encouraging agro-allied industries as a mecurs of reducin the over dependence on the oil sector.

3. The Nigeria Stock Market should be streamlined by making it more effective and efficient. The present dilema between the Nigerian Stock Exchange and the Nigerian Securities and Exchange Commission (SEC) cannot be tolerated if we want to developing. Their continued struggle for suppremacy is indicative of an unorganised capital market which does not augur well for effective central banking operations.

4. Further reforms should be envisaged for the public sector enterprises as a means of encouraging a free enterprise system and privatisation and commercialisation where necessary should be encouraged.

In summary, there is need to be judicious in contracting new loans. The era of raising foreign loans to fiance ill-conceived projects and/or to supplement budget shortfalls should be deemed as over. What is required is an effective demand management policy which will be an intergral part of our overall macroeconomic management.

FOOTNOTES ON CHAPTER FIVE

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