THE INDIRECT MONETARY CONTROL TOOLS

INNIGERIA:PROBLEMSANDPROPECTS

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DECLARATION

I hereby declare that this project report has been written by me, and that it is a record of my own research work. All sources of information and where applicable, other writer's views have been duly acknowledged in form of references and bibliography.

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NAME OF STUDENT

SIGNATURE

6/5/1999

DATE

CERTIFICATION

This project entitled "THE INDIRECT MONETARY CONTROL TOOLS IN NIGERIA: PROBLEMS AND PROSPECTS" by MUTUM YOHANNA ANDERSON, meets the regulations governing the award of the Degree of Master of Business Administration of Ahmadu Bello University Zaria, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to my late father, MUTUM BANKWOT NANTAM, who he was that built me up.

Dad, may your great soul rest in perfect peace.

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A number of personal friends and professional acquaintances provided valuable help during this research and to all of them I remain grateful.

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ABSTRACT

This research work has been done to and designed to highlight the public on the indirect monetary control tools in Nigeria, and how far the government has gone with the implementation, administration and operation. This project work is meant to also give the public or the reader, an idea of the problems, associated with it and also the prospects that go along with it.

The policy was introduced not too long ago, and so much has been experienced by the financial system, in relation to this.

Also this work is directed to what constructs the indirect approach to monetary control. The principal instruments and modalities for it's implementation in Nigeria, the pre-conditions and the challenges to the introduction of the new technique. Also the problems and prospects, the advantages and the disadvantages of these techniques are discussed in details.

The researcher gave details of what is expected by the banks from this new policy and the successful implementation in order to achieve the desired goals towards the improvement of the macro-economic.

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CHAPTER ONE

1.0 INTRODUCTION

Monetary policy as an instrument of macroeconomic policy in Nigeria had been constrained be the large size of fiscal deficits and the mode of their financing. In an effort aimed at strengthening the effectiveness of monetary policy and the overall efficiency, of the financial markets, the Central Bank of Nigeria has embarked in the last nine years, on a phase programme to shift form direct to indirect system of monetary control.

As part of this programme the CBN in September,1992 lifted aggregate ceilings on bank credit, for selected banks adjudged to be healthy, as a step towards the abandonment of direct credit control which for over two decades had been the main instrument of monetary management.

In the aim to do this, the inter bank market for reserve is being revamped, while regulatory changes and reforms are being carried out at institutional levels aimed at promoting the growth of the money market as a whole. The introduction or the indirect monetary control and the effort being made so far would enable the CBN to establish over time, market based intervention mechanism, favourable to efficient financial markets, competitive interest rates and a firm and predictable transmission channel for monetary policy. Ultimately, this should enhance the bank's control over inflation contributions to greater stability in the financial market, restore confidence in the (Naira) and Naira denominated financial assets and consequently induce higher financial savings investment and sustainable economic growth.

This is why in the budget of January 1991, the federal government indicate that the technique of monetary management would shift to the use of indirect monetary control. This study will therefore examine the efforts so far, and the problems and prospects of the new arrangements.

Monetary policy has a central role in the macroeconomic management, primarily because of the close relationship between the monetary policy in this regard is a package of actions designed to manage the growth of money supply during a period, it's optional target.

When successful, the level of money becomes compatible with the rates of growth of output, inflation and interest rates. The efforts to deregulate all sectors of the Nigerian economy through the structural adjustment programme (SAP) which was introduced in 1986 has considerably influenced the development in the financial sector. The deregulation in the financial system is intended to create a suitable environment for the introduction of the indirect techniques of monetary and credit management. Initial efforts compromise simplification of the formal for sectoral credit allocation, deregulation of bank deposit and lending rates. Introduction of an auction based system for dealing in treasury instruments, and liberalisation of procedures for establishing new banks. In the 1991 budget announcement, the federal government indicated that technique of monetary policy instruments during the year. However, government did nor recognise the existence of man problems which should first be tackled before the introduction of a new approach. While attempts have been made to solve many of the problem some of them are still outstanding.

1.1 STATEMENT OF THE PROBLEM

The problems militating against the successful implementation of the indirect monetary control in Nigeria are enormous and varied.

The Government's fiscal deficit, financing and excess liquidity in the system is one major and also, there is the problem of harmonisation of fiscal and monetary policies.

Also the undeveloped nature of the financial market and the inadequate supply of the relevant debt instrument and deliberate restraint on interest rates is a problem.

Problem of insolvency in banks and inadequate money market activities affects the implementation, and also the inadequate banking supervision, which normally results from data constraints, lack of efficient communication system and means of getting market players to revive and review their expectations.

There is also the need for the proper training of personnel, and the improvement of the monetary control framework.

1.2 OBJECTIVE OF THE STUDY

With the above identified problems, the aim and objectives of this project are as follows.

(1) To identify the problems faced by the Nigerian government (Monetary authorities in the implementation of the indirect policy of monetary control).

(2) To determine the desirability of the government in highlighting and evaluating the efforts made by the CBN in implementing the new policy.

(3) To assess the performance of the different tools of indirect monetary control.

(4) To provide information on the future prospects of indirect monetary management in Nigeria and make suggestions on how to improve the policy of indirect monetary and credit control.

1.3 SIGNIGICANCE OF THE STUDY

The work on completion will try to provide answer to what constitute indirect monetary controls, highlights of the principal instruments, and the modalities for it's implementation in Nigeria. It will also outline the problems addressed so far and the outstanding ones. This research work will also seek to answer questions on whether Nigeria should continue the implementation of the new policy. It will also indicate the government's financial institutions and other participant's area of concern in the policy implementation.

The work will also provide useful solution to such problems that hinder effective implementation of indirect monetary control in the economy.

It is hoped that this work will also provide a useful reference material for academic purpose including further research work on related topics by other students

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1.4 HYPOTHESIS

For the purpose of this work, four (4) hypothesis were tested and they are as below;

H_0 Financial institution have not been meeting public awareness and interest on the new policy in indirect monetary control.

H_1 Financial institutions have been stimulating public awareness and interest about the new policy.

H_0 Indirect monetary control has not made appreciable impact in the economic development of the country.

H_2 Indirect monetary control has not made appreciable impact in the economic development of the country.

H_0 The indirect approach to monetary and credit management has to re-establish the macroeconomic stability in Nigeria.

H_3 That indirect approach to monetary and credit control has not been effective to re-establish the macroeconomic stability in Nigeria.

H_0 That indirect approach to monetary and credit control has supported or encouraged the reduction of fiscal deficit financing and excess liquidity.

H_4 That indirect monetary and credit management has not supported or encouraged the redirection of government fiscal deficit financing and excess liquidity.

1.5 SCOPE OF THE STUDY

The scope of the study is limited to the assessment and evaluation of problems and prospect of direct monetary control tools. In relation to the efforts being made by the monetary authorities and other participants towards the implementation of the new policy.

However any other additional factor to this will be designed to help drive home ideas in the process of the work.

1.6 LIMITATION OF STUDY

This study is limited by the following factors:

(1) Lack of relevant Data.

There has been the problem of little or no literature on the experience of Nigeria in the indirect monetary control policy; in that it has not been put to use in Nigeria long enough. Again the implementation is still new in Nigeria and so not much data and documentation has been produced on its implementation.

(2) Time constraints.

Researchers of this nature require a lot of time for efficiency, effectiveness in collection and also in computation and analysis of the information, gathered.

(3) Due to discrepancy in knowledge, understanding and experiences of individuals filing the questionnaires, there is a wide gap in their responeses.

Also, there is decay in returning of questionnaires, by the people connected, and that is why the researcher decided to face to face interview with respondents.

1.7 DEFINITION OF TERMS

(1) Money Supply.

This is the total value of money in the economy and this consists of currency (Notes and Coins) and deposit with the commercial and merchant banks.

(2) Excess Liquidity.

This is the amount of liquidity over and above the optimum level of liquidity determined by the levels of output and prices,

(3) Bank Credit.

This is a major determinant of money supply and it's embraces the amount of loans and advances given by the Central Bank of Nigeria and Commercial and merchant banks loans to economic agents.

(4) Interest rates.

These are quite many and are often refereed to as interest rate structure. Interest rate may differ from bank to bank, as interest have been largely deregulated.

Each bank has interest rate for it's ordinary savers, fixed depositors, as well as a prime lending rate offered to its first class customers and maximum lending rate charge to it's other customers. There is also an inter-bank rate which applies to very short term loans transaction among banks themselves, the rediscount rate is the maximum rate at which the CBN is prepare to lend to the commercial banks either in the form to Bill of discounting or direct loans.

(5) Reserve Requirement.

This refers to the proportion of total deposit liabilities which the commercial banks are expected to keep as cash in value and with the CBN. These are primarily to protect depositors against unforeseen developments in their operations.

(6) liquidity Ratio.

This is the proportion of total deposit that is kept in a specified liquid assets, form, mainly to safeguard the ability of the banks to meet depositors cash withdrawals and ensure confidence in the banking system.

(7) Monetary Base.

This comprises of certain liabilities of the CBN which includes currency with the non-bank public and total bank reserves. The main source of the monetary base are net foreign assets of the CBN net claims on government, claims on commercial banks and other assets (net) of the CBN.

(8) Open Market Operation.

This involves the discretionary power of the CBN to purchase or sale securities in the financial markets in order to influence the volume of liquidity and levels of interest rate, which the CBN sells which ultimately will affect the money supply. When the CBN sells financial instruments, the liquidity (excess reserves) of the banking system reduces. This restricts the capacity of the banks to extend credit or induce monetary expansion on the hand, when CBN purchases instruments, it injects money into the system and banks ability to expand credit is enhanced.

(9) Fiscal Deficit.

This refers to the excess expenditure over revenue of the government. It is usually assessed by its size in relation to nominal Gross Domestic Product. The fiscal deficit may be financed in various ways. External borrowing and internal borrowing (Banking system and non bank public). It is most inflationary when financed by the banking system, especially CBN.

(10) Monetary Policy.

This is the combination of measures designed to regulate the value, supply and cost of money in an economy in consonance with the level of economic activity.

FOOTNOTES

(1) Ahmed A. Indirect monetary control in Nigeria. A seminar delivered at the Annual Dinner of the Chartered Institute of Bankers of Nigeria on 2nd Dec.1991 and published in the CBN bullion magazine vol. 16 No.5 January/march 1992 pg. 1-5.

(2) Ahmed A. opp CIT.

(3) Odozi, V.A. Recent monetary policy development and measure to attract foreign investment in Nigeria, published in the CBN Bullion, Vol. 17No. 2 April/June 1993 pg. 5 – 8.

CHAPTER TWO

2.0 REVIEW OF RELATED LITERATURE

The essence of literature review on this topic cannot be over-emphasized. In order words literature review is a complete summary of what others have written pertaining to the topic in question. Therefore some related literatures have been considered in putting this research work in place.

2.1 THE BACKGROUND OF THE NIGERIAN MONETARY SYSTEMS

The Nigeria monetary system is a part of the monetary authorities the banks (commercial and merchant) as well as the discount houses recently permitted to operate within the system.

The goals of monetary policy remains broadly the same irrespective of the package of instruments in use. Concisely monetary policy attempts to maintain a balance as much as feasible bitterrn the supply and demand for the monetary assets of the economy in order to achieve adequate and stable economic growth.

According to Ojo, this broad purpose may be translated into several specific objectives such as price stability, high level of employment or an acceptable rate of unemployment a sustainable growth rate of real Gross Domestic product as well as balance of payment equilibrium.

Ojo has pointed out in his reports two types of monetary control management. They are indirect instrument of monetary control which could be adopted in a predominantly market based economic. Bank reserves constitute an important component of the monetary base, usually targeted by the monetary authorities to control to with the money supply through the conduct of the open market operation, as well as manipulation of the discount rate and the reserve ratio in support of open market operation.

The order form of monetary control is the direct instrument or quantitative controls which set the monetary target at desired levels. This can be applied in undeveloped financial markets. The commonest examples are interest rate deregulation, credit ceiling and sectorial allocation of credit. In the Nigeria context the application of credit ceiling was designed to ensure that domestic credit expansion and the monetary implications of the balance of payments target matched the expected increase in total demand for liquidity in the economy.

2.1 CONCEPT AND RELAVANCE OF INDIRECT MONETAY CONTROL

The techniques of indirect monetary control basically involves the control of the money stock through manipulation of the source of the monetary base.

Oresobi, defined monetary base as the sum of the total bank reserves, cash and balance with CBN, and currency in the hand of the non bank public. The sources of the monetary base are the net foreign assets of the CBN (CFACB), net on commercial banks, (CCB) and other net assets of the CBN (DACB). These variables as they appear in the CBN's balance sheet forms the following NFACB + NDCGCN + CCB + OACB = RFCP = H here is defined as the monetary base. Oresotu further to point out that the process of money creation in this frame follows from the relationship which makes changes in the money supply dependent on changes in the money multiplier and the monetary base that SM – MH. If the multiplier (M) is stable, over a period of time, the money supply can be controlled by inducing changes in the monetary base (H). to control the money supply, the monetary supply apply the market based instruments (open market operations, discount rate and reserve requirement).

In practical terms the monetary authorities will as before estimate the desired money supply for the future. It will then project the likely growth in the monetary authorities take no action. The difference between desired and likely levels of money stock will then result in the determination of some gap in the type of action to be taken by the monetary authorities.

2.2 DESIRABILITY OF INDIRECT MONETARY CONTROL TOOLS

This is the most cogent reason for the disapproval of the direct monetary instruments by the monetary authorities in Nigeria. It is important therefore to relate the experiences of CBN with the application of the direct instrument in the past. Before the structural adjustment programme was introduced in 1986, CBN relied solely on the direct instrument to money supply growth. Alh. A. Ahmed[5], the former governor of CBN was not satisfied with the outcome of such applications, though there were no alternatives given the constraints of the financial sector". This means that though CBN applied the direct instruments, the desired results were not achieved. According to Ahmed[6], with the application of credit ceilings, the CBN found it increasingly different to achieve the stated monetary targets, particularly with regards to credit to the government and private sectors and ultimately the intermediate monetary variables, the narrow variable monetary supply (MI).

According to CBN annual reports, the credit ceilings were initially effective, until the economy of the banking sector began to expand, so also problems began to set in, such as the exclusion of certain necessary item from credit ceiling. Ahmed stated that only served to erode the effectiveness of the ceiling as some operators used such avenues to hide credit transactions. Enforcement was made difficult by the lags in obtaining and processing monetary dates. This has been a major problem in the Nigeria economy.

Ojo[8] added that credit ceiling encouraged inefficiency in the banking system. He added that permitting banks, irrespective of their efficiency to grow, by the named ratio as stated in the guidelines restrict competition in the system. This has been able to protect weaker banks, and to control the growth of the very efficient ones. This practice also favoured larger banks with large turnovers which enabled them to accommodate more borrowers. Under this condition, banks that mobilised savings were penalised. He also added that credit ceiling encouraged financial disintermediation, and that there has been an important direct monetary tool in Nigeria. This according to him are aimed at giving easier credit access to the productive sectors. The commonest in Nigeria has been the sectorial allocation of the bank loans and advances within the overall credit limit and specific rations of loans to rural areas as and small scale enterprises. The experience of the CBN with the selective credit controls has been a mixed one.

It is on record that under the general framework of SAP, the Nigerian monetary system has undergone significant changes with the ultimate aim of inducing the emergence of a market based system of monetary control. Some of the important actions favourable to the attainment of that goal were numerous institutional adjustments, especially the promulgation of both the CBN degree of 1991, substantial improvements in the macroeconomics legal and regulatory environments, the deregulation of interest rates, the attempt to rid the economy of excess liquidity as well as the simplification and selective lifting of credit ceiling. According to Ojo, this financial sector reform were undertaken to indicate the emergence of an indirect or market based system of monetary control. The desire to shift from direct control is as a result of the informed insurmountable problems of the direct technique of monetary control. The Nigerian authorities has since 1986, made a steady effort to shift from direct to indirect tools of monetary management.

2.4 IMPACT OF INDIRECT MONETARY CONTROL INSTRUMENTS IN A STABLE FINANCIAL SYSTEM

With the financial sector reformation undertaken in 1986 and it's formal announcement in 1991, on the planned shift to indirect monetary control technique, there is a clear evidence that monetary policy in Nigeria has gradually moved in terms of design and implementation, towards a none market based system, which is common in developed financial systems in the U.S.A, Europe and some African countries.

The technique of indirect controls is essentially, but not limited to the control of money stock through a manipulation of the monetary base. The monetary base according to CBN brief, "is the sum of the total bank reserves and currency in the hands of non-bank public. According to the brief, the link between the monetary base and money stock is provided by the money mutiplier which indicates the potential amount of new money that can be supported by the cash unit of the monetary base. To be able to control the money stock, depending on the financial system, the monetary tools such as reserve requirements, the discount rate and open market operations have to be able to influence the value of the money multiplier and the monetary base.

The introduction of an indirect monetary control framework, has several policy implications and impact for the country and these have elicited some actions on the path of the monetary authorities.

Olekah has outlined the impact of indirect monetary control as below:-

1. "The banking system has to rid of excess liquidity which has been injected into the economy since 1988". To be able to achieve this, the CBN has continued to issue stabilisation securities to banks since 1990 to date.
2. Harmonisation of fiscal and monetary policies. According to Olekah, "under a system that relies on the manipulation of the monetary base uncontrolled borrowing by government from the CBN will distort the base and money and stock."
3. To enhance competition among the banks. The competition among banks is very vital in the indirect control system, therefore the existence of distressed or liquid banks is undesirable to the system.
4. Minimisation or reduction of leakages in the control system. According to Olekah, it has to be reduced, hence the need to monitor the activities of all financial operators.
5. Development of money market for open market operations to be effective, the money market must be further developed. The introduction of indirect monetary control will however induce development of the money market and the entire financial system. According to Aresotu 10 efforts, are now being made to increase the number of instruments and operations in the money market. This involves the introduction of non-treasury securities and the development of a virile secondary market in the available instruments,

6. Development of Data-Base; the introduction of indirect monetary control will enhance the data base development of the financial system and the economy-currency, the research department of the CBN has embarked on the development of an economic data bank. Time series data on financial and economic variables which is useful in the projections of some key variables has been complied. Indirect control therefore reduces the establishment of machinery for updating the time series and other information.

7. Deregulation of interest rates: The indirect monetary control will induce and enhance the deregulation of bank deposit and lending rates the temporary control placed on some rates in 1991 were lifted in 1992/1998. Other impacts according to Olekah includes the following:-

8. Issue of treasury instruments by auction

9. Simplification of the procedure for licensing new banks

10. Inducement of the promulgation of CBN decrees.

11. Issue of guidelines for finance and discount.

12. Enforcement of stringent prudential guidelines.

13. Identification of insolvent banks.

14. Increase the minimum paid-up capital of banks, which is both for commercial and merchant banks.

15. Selective lifting of ceiling on individual banks. Credit ceiling on individual banks were selectively lifted, with effect from 1st September 1992, the lifting of credit ceiling is limited to banks adjudged healthy by the CNB. A bank is considered healthy when it meets CBN guidelines on the following criteria during the previous three months.

a) Specified cash requirements

b) Specified liquidity ratio requirement

c) Providential guideline

d) Statutory minimum paid up capital requirement

e) Capital adequacy ratio

f) Sound bank management

16 Creation of a bank examination department in 1992, the field examination division of the banking supervision department was carried out and upgraded into a full-fledge bank examination department in order to enhance the supervisory and regulatory capacity of the banks.

2.5 PRESERVE REQUIREMENT

Through the policy of reserve requirements banks are obliged to sterilise specific part of their deposit liabilities are cash in vault and deposit with CBN. However, for safety reasons, banks may keep some excess reserves over the legally approved reserves, such that the total reserves held by banks at any time only reflects the legal and any other reserve for safety. This arrangement is called the "fractional reserve system" as referred to by Olekah.

This measures are instituted in order to protect deposit holders against the possibility of unforeseen decline in bank's liquid assets, relative to their short term liabilities due to imprudent credit on the part of banks

Beside such reasons, the monetary authorities could use the reserve requirement for controlling money stock, by increasing the reserve ratio in times of trouble in monetary policy, and lowering the ratio during period of monetary case. According to

CBN brief higher ratio means low money multiplier and hence low growth in money stock, with all other things constant.

The use of reserve requirement according to oresolu 12 "has great impact on the economy. It attacks the availability of credit and the cost of credit as a short fall in credit available which arises from an increase in reserve ratio, increases in cost of credit assuming a constant level of demand for credit. He further went on to say that this tool is potentially powerful and has to ensure it's full effectiveness some money authorities try as much to adhere to the following conditions.

1 All deposit liabilities (demand, savings and time deposits) of banks included in the broad definition of money supply are incorporated in the base on which the requirement is calculated.

2 The working definition of a bank is said to be broad enough to prevent switching deposits to institutions not subject to the reserve requirement since they offer a higher rate of interest.

3 Banks keep excess reserve at fractional levels. In some financial environment, especially in less developed markets, the fractional reserve system may not be full operative because banks are always short of funds.

4 Banks should not have easy access to the central re-discount window, so as not to replenish funds through the imposition of high reserve requirement. In addition, banks should not have access to funds from abroad.

This tool has disadvantage of destabilization in the in the system, as small adjustments results in a huge change in the bank's portfolios, largely for reasons the reserve requirements has not been very comfortable with.

2.5.1 DISCOUNT RATE MECHANISM

To strength the effectiveness of reserve requirement, the CBN has adopted a discount rate policy. According to Olekah 12 Discount rate policy is the rate at which CBN is prepared to lend to the deposit money banks. As a control tool, the discount mechanism includes a variety of arrangements designed to influence the level of CBN credit to the banking system. The most important of these arrangements is the manipulation of the discount rate. When monetary policy gets tighter, the CBN increase the discount rate and lowers it, at time of ease. Other arrangements haves to do with limiting the maximum amount of credit available for specified categories of borrowers, against types of eligible financial assets in order to ensure desired effectiveness.

The CBN discount rate may vary in response to developments in other interest rates in the financial system. To maintain an unchangeable discount rate policy, the CBN would have to change the discount rate as a whole.

The relative effectiveness of the discount rate mechanism as a monetary control tool, is limited, up to only the extend where it serves as lender of last resort.

Commercial banks participate lend to banks with reserve deficiencies usually on an over night basis.

Even though the federal funds rate remain higher than the discount rate, the volume of federal funds greatly exceeds borrowing from the federal reserved discount window.

The federal funds are attractive alternatives to the discount window, because borrowing federal funds generally involves less paper work than discounting and administration of discount rate.

The discount mechanism is not as powerful as the reserve requirements, because banks may not discount significantly from CBN. Also the tool may not be very useful for a day to day usage, unlike it will be to the open market operation.

2.5.2 OPEN MARKET OPERATION

This involves the CBN's discretionary power to purchase or sell securities in the financial market. In order to influence volume of credit and subsequently interest rates which will affect supply. For CBN to use this tool successfully, the financial market must be developed such that the large volume of government securities in the system will be responsive to the interest rate change.

This instrument according to Ahmed has been effectively used in Nigeria, because of the three instruments of indirect control, open market. Of the three instruments of indirect control, open market operation appears the simplest and most flexible. In times of tight monetary policy, the central bank may decide to sell treasury securities. In order to induce surplus unit (both banks and non-banks), for the subscription of the new issues, the interest yield or the discount offered on the per value of the securities need to be competitive. By implications therefore, a successful application of the open market operations require appropriate discount rate policy. From all indications the application of open market operation will directly or indirectly embrace the use of other tools of indirect monetary control. Its biggest advantage is that it is capable of achieving desired results, without necessarily destabilising the system. In practice, it is not very easy, deterring with precision the level of open market operations that will be consistent with the general economic goals of the country. For an effective operation and implementation of the open market, some economist in the

U.S.A. have set up a body called the federal open market committee (FOMC) which is responsible for formulating the general trust of open market policy.

The CBN has used the open market operation mainly to meet the short falls in the government financial operations. One reason why open market operations has not been effectively applied in Nigeria as in other developing economy, is the consistent fall of appropriate financial securities.

CBN has had the authority following the Decree 24 of 1991 section 27-30 to issue, sell, repurchase, amorties or redeem securities to be known as stabilisation securities. The prospect of effectively using open market operation as a major instrument of monetary policy in Nigeria has been recognised by a team of erudite bankers long before now.

2.6 PROBLEMS ON THE SUCCESSFUL IMPLEMENTATION OF INDIRECT MONETARY CONTROL IN NIGERIA

It s obvious that the shift to the indirect monetary control will not be very easy, because it will involve a lot of preparatory measures to improve the financial state of the government before the tools are implemented. According to the proper introduction of the market-base require of monetary management are as stated below.

(a) The government fiscal deficit Financial excess liquidity: The fiscal deficit constitute a direct injection to aggregate demand, increasing pressures on the general level of prices and external balance of payment. Relieve on CBN for financing of fiscal deficit of the government leads to an increase in the monetary base, and swell in the level of excess liquidity in the banking system. However, a high level of excess liquidity is inconsistent with the principal of practical reserve system, and the effective use of reserve required and open market operations. There is therefore the need to rid the system of unwanted liquidity. The most effective instruments at the disposal of the CBN are the stabilisation securities and the cash reserve requirements. In addition, arrangements needed to be made for the privatization of CBN function of underwriting issues of government debt instruments as in countries that has already adopted the new technique.

(b) Harmonisation of fiscal and monetary policies. Fiscal deficits of the federal government in the recent past has been out of tune with monetary targets largely because of improper co-ordination of the fiscal and monetary base and the effective use of indirect monetary control tools.

(c) Insolvent Bank: Following the huge size of bad and doubtful debts in banks portfolio of assets some banks are currently not solvent enough for the indirect controls. Insolvency undermines Inter-bank confidence and also affect the general confidence of the non-bank public confidence in the banking system according to Ahmed, it is an invaluable asset, the lack of which would undermine competition among participating depository institution during the period of indirect monetary and credit control.

(d) Non-Bank Institution: Since SAP was introduced in 1986, the number and size of Non-Bank financial institution has risen tremendously. Except these financial institutions are properly monitored, they will become a source of enormous leakages in the monetary control.

(e) Inadequate Financial Market: Activities in the money market are dominated by the federal government securities which are held mainly by C.B.N. Brokages services in the market are controlled wholly by the banks, while there is still no adequately developed secondary market for treasury securities. For this reason, money market activities have remained narrow even though the volume of securities is very large. Brokerage services need to be extended to anumber of independent brokers besides banks as accredited official dealers in government securities as practiced in many countries such as Indonesia Malaysia and the U.S. For the Open market operation to succeed, the money market most be properly developed and strictly controlled.

(f) Banking Supervision: This is necessary for this new technique to be a success. As such, CBN needs to strengthen it's supervisory functions. The role of NDIC is also expected to supplement the supervisory role of CBN. Banks reporting format, will need to be standardised in order to make reports a.ı operational recordscomparable with one another.

(g) Statistical Data: Successful manipulation of reserved requirements, and open market operation will require timely reliable dates on the liquidity position of banks, and the factors determining the monetary base.

For this operation to be effectively carried out, datas should be readily available, either on weekly basis, or even on a daily basis. To this end, the system cf data processing, storage and retrieval in the CBN and the bank's must be strengthened in order to make timely intervention of the monetary authorities easy during the implementation stage.

(h) Training: The staff that will be involved in the implementation of these new techniques should be given a formal training. So far, some CBN staff have undertaken studies on the use of indirect monetary control tools using the Central Bank of Ghana, Indonesia and Malaysia as models. More of it will come up in the future, to be able to fish out its specific problems and find solutions to it.

2.6.1 PROSPECTS FOR THE SUCCESSFUL IMPLEMENTATION OF INDIRECT APPROACH TO MONETARY AND CREDIT CONTROLS.

Currently, the major instrument of monetary policy operating in the country is the open market operations supported by the cash reserve requirement and the minimum liquidity ratio. The aspect of designing monetary programme based on credible targets for growth of output, inflation and net foreign asset has for long been in practice of monetary authorities. However, the problems outstanding are enough to reduce the gains already achieved.

2.6.2 GOVERNMENT FISCAL DEFICIT

It has been agreed that if the problem of fiscal deficit and it's current Mode of financing are removed from the economic problems challenging monetary policy today. The country will witness a greater macro-economic stability reflected in the resumption of stable growth as well as reduced unemployment and inflation.

The prospects for the improved performance of monetary policy, under the régime of indirect approach depends on the extend of reduction in fiscal deficit financing and the avoidance of reliance on the financing of the deficit

The probability of reducing the deficit, depends on the ability of government to generate additional revenue and rationalise it's current expenditures. Efforts to raise revenue through reduction of petrol subsidy have met wit political and social constraints. Government has also introduced the value added tax (VAT) with a view to improve revenue turnover with regards to expenditure. Also, the government has taken steps to privatize some parastatals with view to eliminating the grants to these agencies. It is hoped that the intensification of these measures, and the adoption of credible strategy towards removing the socio-political constraints, will increase the aspects of viability of government finances and eventually eliminate unsustainable budgeting and financing.

The improvement mentioned above, when achieved will promote the viability of government reliance on the banking systems financial resources as it is in many countries adopting indirect approach to monetary and credit control.

2.6.3 CO-ORDINATION OF MONETARY AND FISCAL POLICIES

The monetary policy can's achieve it's target, without the support of The fiscal authorities. The coordination is necessary even at the preparatory stage of the programme. The target rates of growth of output and general level of prices as well as the expected balance of payment for prgramme period should be input to the fiscal deficit. This could be obtained from the banking system. The prospect of the indirect approach to the monetary control in achieving its target depends largely on co-ordination between the fiscal and monetary authorities, because the response of he economy to excessive monetary expansion is more pronounced and noticeable under the market oriented approach than under the credit ceiling.

2.6.4 <u>FOSTERING CONFIDENCE IN THE FINANCIAL INSTITUTION</u>

The prospect of the new monetary strategy could be significantly Enhanced by intensified efforts to sanitise the banking system with a view to promoting the soundness and solvency of a bank. Therefore, the monetary authorities, are expected to increase the tempo of enforcement of regulations designed to raise the confidence of economic agents, the patronage of which sustain the whole system.

2.6.5 <u>DISCIPLINE</u>

Indirect approach to monetary control cannot work without discipline on the part of the government and financial institutions. In the case of banks, discipline is necessary to ensure accurate returns being made and to observe the monetary policy guidelines which are based on the prevailing development in the relevant indicators.

The prospects of indirect approach to monetary and credit control in achieving output inflation, and exchange rate depends on the degree of discipline exercised by government and banks. The technique of monetary management can only create a suitable environment for investment and growth of all sectors of the economy exercise a high degree of discipline.

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CHAPTER THREE

3.0 RESEARCH, DESIGN AND METHODOLOGY

3.1 DATA COLLECTIONS

This was gathered from central banks Bullions, journals, financial newspapers, magazines, interviews which was conducted on face to face to face basis, and other finance text books consulted. In all, the datas collected were both of primary and secondary sources a detailed in the next figure.

3.2 PRIMARY SOURCE

This is the main source of the information used in the course of this research work. A face to face interview, was done with the respondents, whereby the researcher asked questions and was given answers directly by the respondent. The researcher felt is easier to do this, because the usage of questionnaires will result in the day of the work. This is because most people are never faithful to the returning questionnaires. There is also the problem of secrecy in financial institutions, which does not allow the workers to reveal necessary informations that could be useful to the researcher. Following are the questions asked by the researcher in the process of the face to face workers such as CBN, commercial banks and other financial institutions.

1 As a financial institution, do you participate in the implementation of the new indirect monetary control in Nigeria.
2 Do you think the new policy is desirable for Nigeria?
3 What are the tools of indirect monetary and credit control being applied currently in the country?

4 How far have the financial institutions gone in stimulating public awareness and interest on the new policy on indirect monetary control?

5 To what extent has the monetary control tools created impact on the development of Nigeria economy?

6 To what extend has the use of indirect monetary and credit control technique (OMO) encouraged the reduction of government fiscal deficit financing and excess liquidity.

7 How effective has the indirect approach to monetary and credit control been able to re-establish the macro-economic stability.

8 What are the likely problems and constraints facing the successful implementation of the new policy of indirect approach to monetary and credit control in Nigeria.

9 What are the achievements made so far in the adoption of the indirect approach to monetary and credit control in Nigeria.

10 Is there any hope this new policy if properly implemented will help revamp the economy?

11 Suggest three simple ways you feel the use of the monetary and credit control in Nigeria can be improved so as to achieve its objectives.

3.3 SECONDARY DATA

The sources of secondary datas used in this research work are various in number. They include the following:-

PUBLICATIONS

Datas were collected generally from old publications and present ones, on the related matter. Such publications include journals, articles from various financial newspapers, business news magazine, periodicals, seminars papers, text books and central bank of Nigeria publications (Bullions).

The researcher concentrated on the use of C.B.N. library Abuja/Kaduna, the president Kennedy library. Generally, the respondents were fifty five in number (55), and the category of staff interviewed are officers directly concerned with the aspect of the operation, administration and implementation of the indirect monetary control policy. They are mostly seniors officers of the Central Bank, and other financial Institutions. All responses from respondents is assured to be almost perfect, because of the category of respondent involved in the interview.

3.4 DATA POPULATION

The population sample of this research work, are banks and other financial institutions, that have records of involvement in the operation and implementation of the indirect monetary control policy. The research particularly is based on CBN because of it's position in the banking industry, and also in the operation, administration and implementation of the new policy before it was introduced to the other banks and financial institutions.

When considering the sample size to be used in this research work, the researcher had to consider certain things, which include the following:-

1. The extend of the population member involvement in the indirect monetary policy.
2. The proper knowledge of the population by the researcher.
3. The scope of the indirect monetary tools available.
4. The population members experience and knowledge on the subject matter.

5 The need to obtain a true and fair information on the implementation, and impact of the indirect technique of monetary and credit control.

Some of the questions were open ended, while others were closed where the researcher gave suggestions.

3.5 RESEARCH INSTRUMENTS

In the course of the research, the issue of research instruments had to do with following:-

1. How far the financial institutions have gone in stimulating public awareness and interest on the new policy

2. The impact of indirect monetary control (OMO) in the development of the Nigeria economy.

3. How effective the indirect approach to monetary and credit control has been able in re-establishing the macroeconomic stability in Nigeria.

4. The extend, the use of indirect approach to monetary and credit control has supported or encouraged the reduction of government fiscal deficit financing and reduction of government fiscal deficit financing and the reduction of excess liquidity

$$X^2 = \frac{(0i-ei)^2}{ei}$$

Where

X^2 = Chi-square

0i = Observed Frequency

ei = Expected Frequency

Level of significance = 0.03

Degree of freedom = (c-i) (R-i)

Decision Rule

Accept Ho if table value is greater than computer value otherwise reject it.

3.6 DATA ANALYSIS

The method of data analysis used in this research work are as follows:-

a. x^2 – Chi-Square

b. E - Distribution

c. Cv Coefficient of variation

X^2 - Chi - Square

This is used to test two or more population samples, it provides a means of comparing a set of observed frequencies and a set of expected frequencies.

F - Distribution

This is the method used to test more than two sets of populations, the null hypothesis is rejected if the f exceeds the upper points of the f – Distribution.

DATA PRESENTATION

METHOD OF DATA PRESENTATION IN THIS WORK

(a) Bar Chart

(b) Pie Chart

c) Histogram

(d) Percentages

(e) Sample table (Tabular presentation)

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 DATA PRESENTATION

Table 1.

This is showing the distribution of the responses of respondents that were interviewed for the purpose of the research work.

Table 4.1:

Response	Number	Percentage (%)
	55	100

Source. The questionnaire

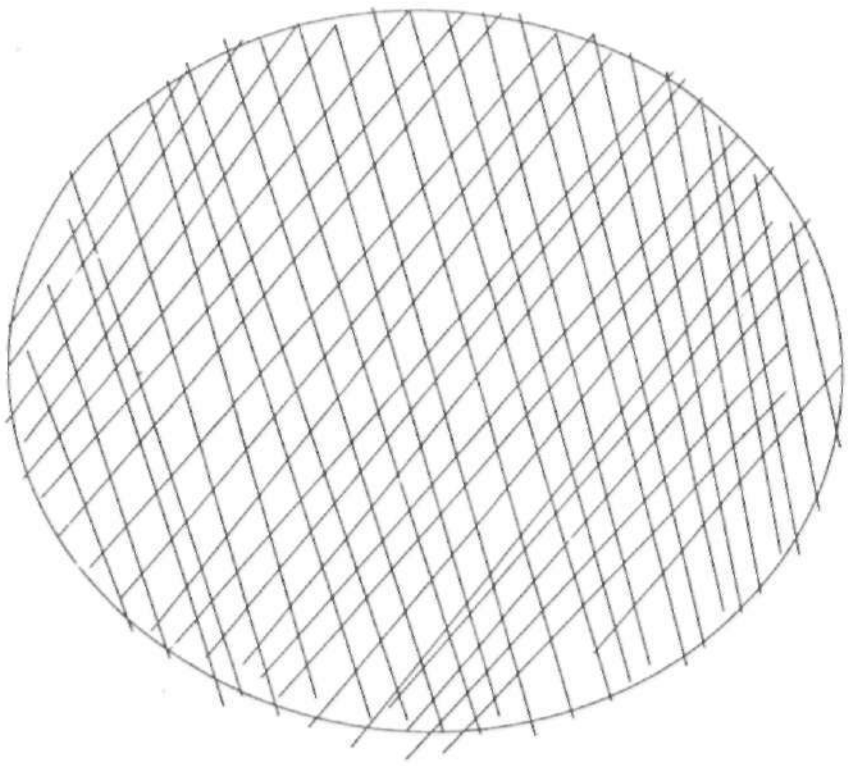
Out of the 55 staff randomly interviewed, all of the respondent gave their responses accordingly. The respondents were classified into their various areas of specialization i.e. there were 36 bankers, 10 accountant and 9 other general workers in the financial institutions, just as in table below.

Table 4.2

Respondent	Number	Percentage (%)
Bankers	36	65.45
Accountants	10	18.18
Others	9	16.36

Source: Same as table 4.1

Fig. 1.



Following are ways in which the respondents responded to the questions asked them by the interviewer i.e. the researcher.

Question One (1):

As a financial institution, have you participated in the implementation of the new policy of indirect monetary control in Nigeria?

Answer:-

The fifty five respondents responded positively to the question.

Table 4.3

Participatory period	Response	Percentage
0 - 4	15	27.27
4 -6	25	45.45
6 - 8	15	27.27
Total	55	100

Source: Same as Table 4.1

This table shows that out of the fifty five (55) respondents (15) have been involved for less than 4 years while twenty five (25) of them have been involved in the implementation of the indirect monetary policy for between 4 – 6 years. While the remaining fifteen (15) have been involved for about 6 – 8 years.

Question two (2):

Do you think the policy is desirable for Nigeria?

Answer:-

All the respondent agreed to the fact that this policy is properly implemented and effected will be desirable for the country.

Question three (3):

What are the tools of indirect monetary and credit control being currently applied in the country?

Answer:-

All the respondents seem to agree on the same instruments and tools of indirect monetary control applied in the counry, which are open market operation, discount rate and cash reserve requirements.

Question Four (4):

How far have the financial institutions gone to stimulate awareness and interest on the new policy of indirect monetary control?

Answer:

The table below shows that 14 of the respondents, are of the opinion that financial institutions stimulation of public awareness, and interest in the new policy, is adequate, 20 of them see it as just adequate, while 12 out of the lot, think the policy is inadequate and the remaining 9 seem to believe that nothing good has come out of this new policy, that is it's completely inadequate or a failure rather.

Table 4.4

Response	Number
Very Adequate	15
Adequate	15
Inadequate	15
Completely Inadequate	55

Source: Same as Table 4.1

Question Five (5)

To what extent has the indirect monetary control tool gone to create an impact on the development of Nigeria economy?

Answer:

The table below also gives a detailed report of the respondents responses in relation to the above question. Out of the lot, 12 were of the opinion, that the impact of the policy on the economy has been very efficient, while 30 of them just feel it is just efficient and then 7 consider the effect as poor, land the remaining 6 think the outcome is completely 0 or rather very poor.

Table 4.5

Response	Number
Very efficient	12
Efficient	30
Poor	7
Very Poor	6
Total	55

Source: Same as Table 4.1

Question Six (6)

To what extent has the use of indirect monetary and credit control technique (OMO) open market operation encouraged the reduction of government fiscal deficit financing and excess liquidity.

Like in all other cases the table below explains the situation of the question above better, that is in respect to the answers that were given to the question by the various classes of respondents.

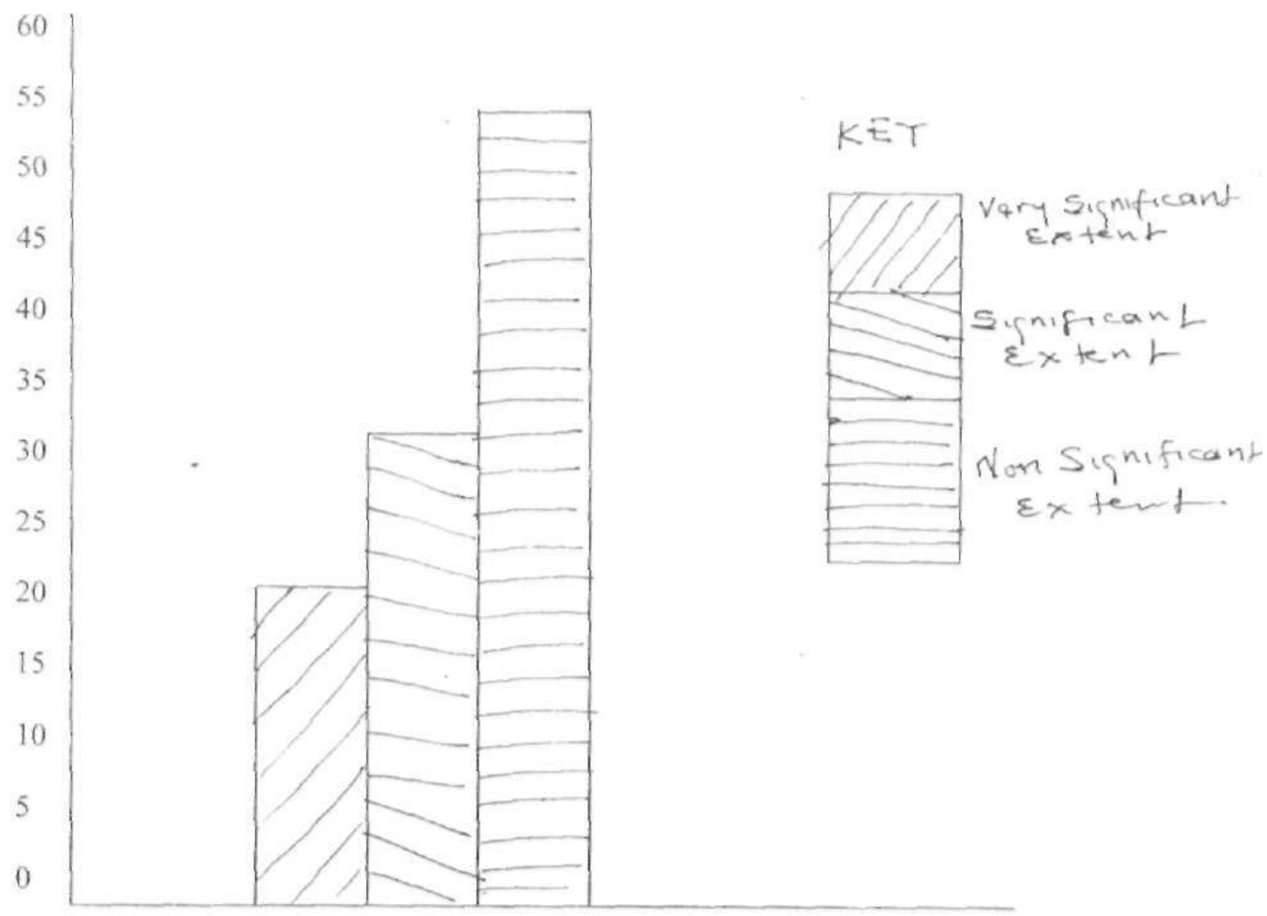
Here the highest number of respondent that is 30 of them believe that the indirect monetary control technique support and encouraged the reduction of government fiscal deficit financing and excess liquidity is to a no significant extent, while 15 of them are of the opinion that it is to a very significant extend, and the remaining 10, believe that it is a very significant extent.

Table 4.6

Response	Number
To a very significant extent	10
To a significant extent	15
To a no significant extent	30
Total	55

Source: Same as in Table 4.1

Fig. II


60
55
50
45
40
35
30
25
20
15
10
5
0
KEY
Very Significant Extent
Significant Extent
Non Significant Extent

The fiscal deficit of the government has been persistently large growing as indicated in deficit profit as follows:

Year	A mount in Billion (₦)	As Rates of Percent
1996	- 7.7	10.6
1987	- 5.9	5.5
1988	- 12.2	7.1
1989	- 15.1	6.7
- 1990	- 22.1	8.3
1991	- 35.8	11.2
1992	- 57.5	10.1
1993	- 101.1	12.3
1994	- 81.0	-
1995	+ 1.0	-
1996	11.3	10.1
1997	12.1	9.6
1998	110.1	11.1

Source: CBN Nigeria economic and financial indicators.

These large budget deficit were financed largely through borrowing from the Central Bank. And such financing constitutes the major source of excess reserves in the banking system. Should these trend continue, the excess reserve that may be required to be mopped up through the use of OMO may prove unsustainable and unrealistic.

Question Number 7

How effective so far has the indirect approach to monetary and credit control been able to re-establish the macro-economic stability in Nigeria?

Answer:

According to the table below, 10 out of the respondents were of the opinion that indirect approach to monetary and credit control has been very efficient in reestablishment of micro-economic stability. While 27 of them agree that it is efficient, and the respondent who are 10 in number are of the opinion that the effect has been poor, and the remaining 8, very poor, that is not effective at all.

Table 4.7

Response	Number
Very Efficient	10
Efficient	27
Poor	10
Very poor	8
Total	55

Source: Same as in Table 4.1

Question Number 8

What are the likely problems and constraints facing the successful implementation of the indirect approach to monetary and credit control in Nigeria?

Answer:

All the respondents agree that the major problems and constraints militating against the successful application of the indirect approach to monetary and credit control in Nigeria, (include the following):-

a. Large fiscal and excess liquidity.

b. Inadequate co-ordination of monetary and fiscal policies.

c. Inadequacy of money market facilities

d. Data Constraints.

e. Lack of efficient communicating system.

f. Inadequate or poor banking supervision.

g. Problems of insolvent banks

h. Unmonitored activities of non-bank financial institutions.

Question Nine (9)

What are the achievements so far from the adoption of the indirect approach to monetary and credit control in Nigeria?

Answer:

In their different words, all the respondents agreed to the following achievements made in the application of the new policy.

a. Deregulation of the financial system.

b. Stimulating of competition in the financial system.

c. Promotion of safe banking system/liability.

d. Licensing of discount houses.

e. Introduction of the auction system in security trading.

f. Development of data base and data processing technology.

Question Ten (10)

Is there hope that the new policy, if properly administered and implemented, would revamp the economy?

Answer:

According to table below, a higher percentage of respondent, that is 45 of them are of the opinion that the new policy when handled rightly, will help in revamping of the economy, awhile 10 think there is no hope whatsoever in the application of this, they believe it can't be realistic.

Table 4.8

Response	Number
Yes	45
No	10
Total	55

Source: Same as Table 4.1

Question Eleven (11)

Suggest three ways which the use of the indirect monetary and credit control can be improved to achieve it's objectives.

Answer

These are some suggestions that were common from the respondents, though various others were given,

a. The problems of fiscal and it's current mode of financing should be changed.

b. That there should be adequate co-ordination between the fiscal and monetary policies.

c. That the monetary authorities should increase the level of enforcement of regulations designed to raise the confidence of the economic agents whose patronage sustain the system.

A, % **DATA ANALYSES**

Hypothesis testing

That is testing the extend the financial institutions have gone in stimulating public awareness and interest on the new policy

Statement of Hypothesis

Ho That financial institutions have not been putting in enough efforts to stimulate public awareness and interest in the policy of indirect monetary control.

If] That is to say financial institutions have been stimulating public awareness and interest in the new policy.

Test Technique

$$X^2 = £\frac{(oi-ei)2}{Ei}$$ *4 73%90*

Where X^2 = Chi-square

= Observed Frequency

ei = Expected Frequency of significance = 0.05 degree

offreedom = (0-l) (e-1)

= 1 x3 = 3.

Decision Rule

Accept Ho if the value is greater than computed value, if] not reject it.

Table 4.9

Response	Oi	ei	Oi - ei	(oi-ei	(oi-ei)
Very Adequate	14	12.5	1.5	2.25	0.018
Adequate	20	12.5	7.5	56.25	4.5
Inadequate	12	12.5	-.5	0.25	0.02
Completely Inadequate	9	12.5	-3.5	12.25	1

Soufce: Same as table 4.1

X^2 = X^2 calculated value

0.05 = 5.53

X^2

0.05 = X^2 Tabular value

= 7.815

Decision

Accept Ho because calculated value is less than tabular value. Therefore H_1.

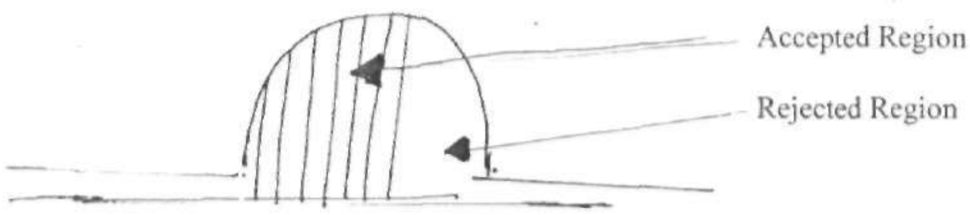


Fig. III

5·53 < 7.815 (Bases of acceptance and rejection).

Here, H0 says that financial institutions have not put enough efforts in stimulating public awareness and interest on the indirect approach to monetary and credit control.

Hypothesis 2

This is to test the impact of indirect monetary control (open market operation) in the development of the economy.

Statement of hypothesis

Ho That the indirect monetary control has made appreciable impact in the economy of Nigeria.

H_1 That the indirect monetary control has not made any appropriate impact in the development of the economy.

Test Technique

$$X^2 = \frac{(0i-ei)^2}{Ei}$$

Where

X^2 = Chi - square

Oi = Observed Frequency

Ei = Expected Frequency

Level of significance = 0.05

Degree of Freedom = (C-1) (R-1)

(2-1) (4-1)

1 x 3 = 3

Decision Rule

Accept H0 if value is greater than the computed value, but if otherwise, reject it.

Table 5.1

Response	0I	Ei	Oi-Ei	(0I-ei)d2	(oi-ei)2
Very Efficient	12	12.5	-.5	0.25	0.02
Efficient	30	12.5	17.5	306.25	24.5
Poor	7	12.5	-5.5	30.25	2.24
Very Poor	6	12.5	-6.5	42.25	3.38

Source: Same as 4.1

$X^2 = X^2$ calculated value 30.32 0.05

$X^2 = X^2$ Tabular value = 7.815

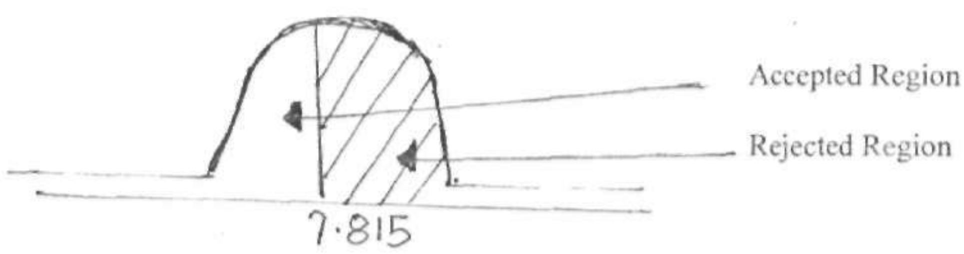


Fig. IV

Decision Rule

Reject H0 because the tabular value is less than the calculated value H1 says that indirect monetary control has made an appreciable impact on the Nigeria economy.

Hypothesis Three

That is testing the effectiveness of indirect approach to monetary and credit control on the reestablishment of the Nigeria macro economy.

Statement of Hypothesis

Ho That indirect approach to monetary and credit management (OMO) has not been able to re-establish the macro economy of Nigeria.

H_1 That the indirect approach to monetary and credit control has been able to re-establish the Nigeria macro economy.

Testing Technique

$$X^2 = \frac{(oi-ei)^2}{Ei}$$

Where

X^2 = Chi-square

Oi = Observed Frequency

ei = Expected Frequency.

Level of significance = 0.05

Degree of Freedom = (C-1) (R – 1)

(2-1) (4 – 1)

1 x 3 = 3

Decision Rule

Accept Ho if the tabular value is greater than the computed value if not, reject Ho.

Table 5.2

Response	oi	ei	Oi-	$(0I-ei)^2$	$(0I-ei)^2$ Ei
Very Efficient	10	12.5	-2.5	6.25	0.5
Efficient	2 7	12.5	14.5	210.2	16.82
Poor	10	12.5	-2.5	6.25	0.5
Very poor	8	12.5	-4.5	20.25	1.62

Source: Same as 4.1

$X^2 = X^2$ calculated value $= 19.44$

$X^2 = 0.05 \quad = \quad X^2$ Tabular value $= 7.815$

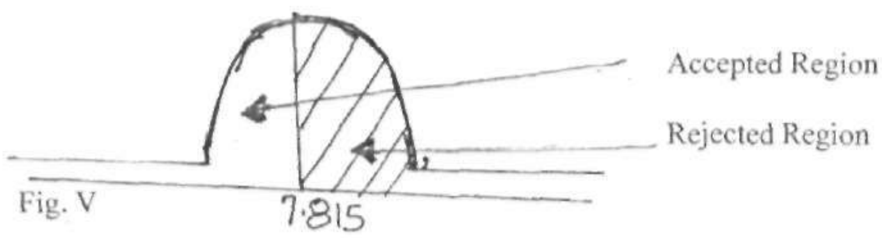


Fig. V

Decision Rule

Reject Ho because, tabular value is less than calculated value $7.815 < 19.44$, so Ho is automatically rejected. H_1 says the indirect monetary and credit control has supported and encouraged the reduction of government fiscal deficit financing and excess liquidity.

Hypothesis 4

Testing the extent the use of indirect approach to monetary and credit control has supported or encouraged the reduction of government fiscal deficit financing and excess liquidity.

Statement of Hypothesis

Ho That indirect approach to monetary and credit control has supported or encouraged the reduction of fiscal deficit financing and excess Liquidity.

H_1 That indirect monetary and credit control management has not Supported the reduction of government fiscal deficit financing and Excess liquidity.

Testing Technique

$$X^2 = \Sigma \frac{(oi - ei)^2}{Ei}$$

Where

X^2 = Chi-square

oi = Observed Frequency

ei = Expected Frequency.

Level of significance = 0.05

Degree of freedom = (c-1) (R-1)

= (2-1) (3-1)

= 1 x 2 = 2

Decision Rule

Accept Ho if the table is greater than the computed value otherwise, reject Ho.

Table 5.3

Response	0I	Ei	0I-ei	(oi-ei)2	(0I-ei)2 _ei
To a very Significant extent	10	16.7	-6.7	44.89	2.69
To a significant extent	15	16.7	-1.7	2.892	0.17
To No significant Extent	30	30	13.3	176.89	10.59

Source: Same as 4.1

X^2 = X^2 calculated value = 13.44

X^2 = 0.05 = X^2 Tabular value = 5.991

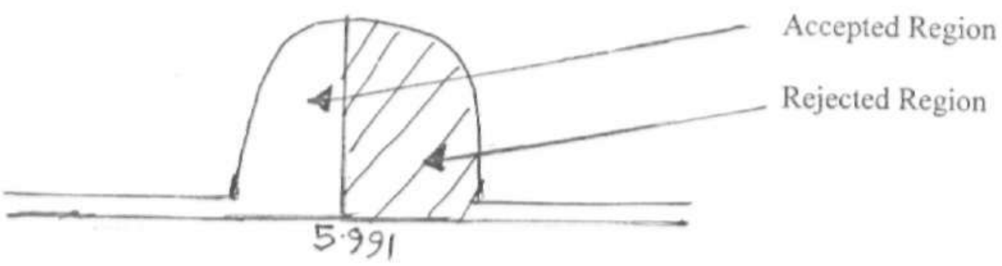


Fig. V1

Decision

Reject Ho because the tabular value is less than the calculated value, i.e 5.991 < 13.44.

H_1 says that indirect approach to monetary and credit control (OMO) has supported or encouraged the reduction of government deficit financing and excess liquidity.

4.4 FINDINGS/RESULTS

From the analysis of this research work i.e the data table, it was discovered that from financial institutions have not been putting effort enough to stimulate the awareness of the public on the implementation of the indirect approach to monetary and credit management in Nigeria. This has been proved statistically by the use of the Chi-square method of testing hypothesis which was based on responses of the respondents.

It was discovered that the indirect monetary control management has been able to make any appreciable impact on the development of our economy in totality. This aspect has been proved statistically in all the tables available in this chapter.

It has also been discovered and shown in the tables related, that the indirect approach to monetary and credit control has not been so effective in re-establishment of the micro-economic stability in Nigeria. This has been proved statistically by the use of the Chi-square, where the calculated values and tabular values are compared.

From indications also, it has been proved that the new policy of indirect monetary control management has not effectively supported or encouraged the reduction of government fiscal deficit financing and excess liquidity. By the use of the chi-square method of testing hypothesis, it has been found by the researcher, that despite the introduction of the new monetary policy, the government has not been able to achieve a steady level in the fiscal deficit financing.

In this vain also it has been discovered that indirect monetary control technique is desirable for the country, this is because direct monetary control is difficult to operate and has failed to achieve the ultimate objectives of the policy, but the indirect monetary controls is flexible and easier to implement to achieve the stated objectives of the policy.

The study has also revealed that open market operation (OMO) was made commercial in 1993 and at the first bidding, a total of =N=1050 million worth of treasury securities were offered by the central bank for sale to the general public to ensure the moderation of excess liquidity. The offer was over subscribed by =N=202 million or 293.3%, the second binding.

Thirdly, the bid rates were in the range of 23.00 to 24% for the first bidding and 19.1 to 30% for the second bidding and 23.3 to 28.6% for the third bidding. The marginal rates which cleared the market varied from 25.5% in the first bidding to 23.6% in the second bidding and 24.8% in the third bidding while the weighted average rates during the three sessions were 24.9%, 23.6% and 23.9% respectively.

Also the researcher noticed that to a certain extent, the indirect monetary control in Nigeria has made achievements though not according to the objective that were set.

Other finding came about also as a result of general and common comments made by the respondents such as the actions the government has taken toward enhancing the shift to the new policy. They include the following:

1) Deregulation of interest rates by the government
2) Issue of treasury instruments by auction.
3) Simplification of the procedure for licensing new banks.
4) Promulgation of CBN and BIFID.
5) Issue of guidelines for finance houses and discount houses.
6) Enforcement of stringent prudential guidelines.
7) Identification of insolvent banks.

8) Increase in minimum paid up capital banks.

9) Licensing of Discount Houses

10) Mopping of banks excess liquidity with stabilisation securities.

11) Development of Database.

12) Selective lifting of credit ceiling on individual banks.

13) Creation of banks Examination Departments.

14) Creation of inter-bank secondary market.

15) Identification of healthy Banks.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 SUMMARY

The whole research work is summarised in this chapter, putting into Consideration, all the other chapter in summary for, i.e in chapter one, the study was thoroughly introduced, specifying the background of the study, it's objectives, significance, all the hypothesis, the scopes, the limitations of the study, and definition of all related terms.

In chapter two which has to do with literature review, other literatures and write ups, were looked at especially the related ones to the research work. Also the nature of Nigeria monetary policy was discussed in details. The concepts related to the desirability of indirect monetary control tool in a financial institution. It discussed in details the form of indirectory monetary tools used, such as Omo, reserve requirements, discontrate mechanism. Also Government fiscal deficit was discussed, and other things like attitude expected from workers of banks and financial institutions to ;bring about the success of the operations.

In Chapter three, the research design and methodology is put in proper place, the primary sources of data and also secondary sources were properly discussed. Also the population sample, interview administration with the respondents from selected banks of CBN Abuja, Kaduna and other financial institutions.

Then to almost close this chapter, the ways in which datas were collected and analysed are presented, and finally how they were analysed into appropriately.

In chapter four, all that took place in this detailed presentation of all the necessary data and the format of analyses. Finally, the data analysed are detailed in this chapter, for proper reading and understanding to whoever finds himself reading this research work.

In this fourth chapter, data presentation was done, and in conclusion, analysis were carried out generally based on the datas available, and results and findings considered. Then in the last chapter which is the fifth, all the summaries of the research work, conclusions and recommendations were made.

In this last chapter which was to do with the summary of all the chapters as above, giving necessary conclusion required to complete the research work and also giving of useful recommendations for the betterment of the subject in question (research)

5.2 CONCLUSIONS

Having done all the necessary analyses, in this research work following the data gathered, the researcher observes that the members of the banking industry, who are the main operators of the money market, owe it a duty of ensuring that the use of instruments of indirect monetary and credit control succeeds in the Nigeria economy.

Having also gone so far with the activities related to the operation of the indirect monetary control, and all the advantages associated with it's usage, as against the disadvantage of credit ceiling and interest rate regulations and given the favourable condition which by far over – weight the adverse ones, the prospects of indirect monetary control as a viable policy in Nigeria, is very promising, provided there is a full commitment by all concerned, towards the realisation of the activities.

A conducive situation for efficient open-market transaction is that there should be a sufficient amount of high quality paper that is regularly traded. Presently, there is a large stock of government securities outstanding, and the bulk of it is headed by CBN.

Though the Nigeria money market is not well established, transactions with similar effects as those of open market operations can be conducted. This could be achieved by using open market type operations, that is using the primary issuing process as the mechanism for selling bills at market prices. Already, treasury bills are issued by tender which is a step close to market based activities. The volume of treasury securities outstanding and the part held in CBN'S portfolio is sufficiently for the CBN to sell from its own portfolio to influence the level of interest rates and credit.

Major characteristics of indirect monetary and credit control which enhances it's prospects of success and which commends it to all market participants include:-

i It's operations are much more flexible in its use than direct controls.

ii Indirect monetary and credit control do not interfere with Competition between banks.

iii The institutional arrangements required for the operation of Indirect monetary and credit control lead to greater efficiency in the Use of funds.

5.3 RECOMMENDATIONS

Following the results of the research, and the conclusion drawn. The Following recommendations are made. Once a problem has been identified, and understood, the solution is assumed to be gotten. The major problems confronting the effective implementation of indirect approach to monetary and credit the following suggestions have been made to improve of these problems and make the indirect monetary control to be a source of the development of Nigeria economy.

1. The government should minimise its deficit financing.
2. The methods and means of advances should be controlled.
3. The CBN should be relieved of the obligation to underwrite issues Of treasury instruments.
4. Bank that are insolvent should be restructured.
5. Secondary and primary markets should be developed in respect Of treasury securities.
6. Money market development should be encouraged.
7. The operations of indirect approach to monetary control should be

Disciplined to ensure a successful implementation. This is because this new technique of monetary management can only create a suitable environment for investment and growth if all sectors of the economy exercise a high degree of discipline.

8. There should be a proper coordination and harmonisation of Monetary and fiscal policies.
9. The prospects of the new monetary strategy could be enhanced by intensified efforts to the banking system with a view to promoting the soundness and solvency of banks. To this end, the monetary authorities should increase the tempo of enforcement of regulations designed to raise the confidence of economic agents, the patronage of which sustained the system. There is also the need to find solution to such sectoral problems as the springing up of mushroom finance and mortgage institutions whose operations conflict with that of the banking system. No wonder the first thing the failed bank tribunal looked into

was financial institutions and banks that had no sound capital base. Therefore efforts should be made for a proper classification of institutions within the financial institutions. Institutions that are into long term financing, such as merchant banks, should be allowed to operate like commercial banks; so as to forego the chances of mismatch of funds that is used as short term funds for long term financing and thereby increasing the risk of insolvency.

Financial institutions are expected to make efforts in stimulating the Public's awareness and interest on the implementation of the indirect approach to monetary land credit management in Nigeria.

It has been discovered from data analysed, that indirect monetary control technique is desirabl: for the country, and this is because direct monetary control is difficult to operate and has failed to achieve the ultimate objectives of the policy. But, indirect monetary controls are more flexible and easier to implement to ensure a successful achievement of the objectives of the monetary policy.

As it is, the new policy of indirect monetary control management has not effectively supported or encouraged the reduction of government fiscal deficit financing and excess liquidity, and so, a little of this will ensure a more perfect operation.

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