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The impact of central bank's monetary policy circulars (MPCs) on the banking industry: 1970-1990

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THE IMPACT OF CENTRAL BANK'S MONETARY POLICY CIRCULARS (MPCs) ON THE BANKING INDUSTRY (1970 - 1990)

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DECLARATION

This Board of Examiners has declared that this Dissertation is the original work of the candidate.

This work has been accepted in fulfilment of the Requirement for the Award of a Doctor of Philosophy Ph.D. degree in Finance and Banking.

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DEDICATION

This dissertation is dedicated to God and Mr. M.O.D. Osiegbu (Late) former statistician Federal Ministry of Health - Lagos who gave me the first academic push in life which has guided me all the way.

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TABLE OF CONTENTS

	Page
Declaration	i
Acknowledgement	ii
Dedication	iv
Table of Content	v
List of Tables	viii
List of Figures	x
Abstract	xi

CHAPTER ONE: INTRODUCTION

Introduction	1
Statement of the Problem	4
Purpose of the Study	6
Research Questions	7
Statement of Hypotheses	8
Significance of the Study	9
Scope of the Study	10
Relation to other Research	11
Limitation of Study	12
Definition of Terms	13
Summary	16

CHAPTER TWO: REVIEW OF MONETARY POLICY CIRCULARS (1970 -1990)

Introduction	17
Monetary Policy Circulars (MPC's) (1970 - 1990)	18
Summary	60

CHAPTER THREE: LITERATURE REVIEW

Introduction	61
Theoretical Foundation of Study	62

CODESRIA - LIBRARY

Page

Monetary Policy Instruments 64

Monetary Policy and the Agricultural Sector in the 1970s ... 82

Monetary Policy and the Agricultural Sector in the 1980s ... 83

Quantity theory of Money and Monetary Policy 86

Classification of Monetary Policy into Phases 97

Review of Monetary Policy Measures 100

Monetary Policy Circular Under Structural Adjustment Programme (SAP)... 101

Formulation and Execution of Monetary Policy Circulars ... 121

Summary... 137

CHAPTER FOUR: RESEARCH METHODOLOGY

Introduction 139

Research Design 139

Population Sampling Procedure 140

Research Grant 141

Questionnaire Design 141

Data Collection Procedures... 142

Data Analysis Technique..... 144

Summary... 147

CHAPTER FIVE: DATA ANALYSIS AND RESEARCH FINDINGS

Introduction 148

Questionnaires Sent Out And Returned By Respondents
Summary of Questionnaires Collected
Section A
Section B 150

Comments on Monetary Policy Circular 153

Advantages on Monetary Policy Circular 154

Section C ... ...

General Comments on MPC - Commercial Banks.. ... 157

Merchant Banks' Comment on MPC.... 160

Test of Hypotheses 175

CODESRIA - LIBRARY

Page

Summary 199

CHAPTER SIX: DISCUSSION OF RESEARCH FINDINGS CONCLUSION AND RECOMMENDATIONS

Introduction 202

Organisational Structure - Commercial Banks.... 205

Opinion of Respondents on Monetary Policy Circular... ... 205

Liquidity Ratios... 206

The Ratio of Loans and Advances to Deposits of Commercial Banks... 208

Compliance Rate Formula 209

Commercial Banks Shareholder's Funds 210

Test of Hypotheses 210

Banking Industry 211

Money Supply... 213

The Policy Implications of the Study 229

Conclusion... 231

Analysis of the Graphs... 235

Recommendations 238

Recommendation for further Research... 239

Bibliography... 240

Appendix 185

(A) Questionnaire

(B) Field Work Cost

(C) Letter From Swedish Agency for Research Co-operation

(D) Letter from Continental Merchant Bank-Lagos

(E) Letter from International Merchant Bank -Lagos

(F) Letter from CODESRIA for Research Grant Award

CODESRIA - LIBRARY

LIST OF TABLES

Table		Page
1.	Sectoral Distribution of Loans & Advances (MPC No. 4 - 5) 1973/74	20
2.	Productive Sector	20
3.	Monetary Policy Circular No. 7, 1975...	21
4.	MPC No. 8, 1976/77 : Composition of Loans & Advances to Various Sectors of the Economy in 1976/77	24
5.	Cash Reserve Requirement for Different Classes of Banks...	26
6.	Sectoral Distribution of Loans Advances (MPC No. 8) ...	28
7.	Sectoral Distribution of Commercial Bank Loans and Advances (1979/80)	31
8.	Sectoral Distribution of Merchant Bank Loans and Advances (1979/80)	33
9.	Monetary Policy Circular No. 12.....	37
10.	Commercial Banks' Sectoral Distribution of Credit (1980) ...	38
11.	Commercial Banks' Sectoral Distribution of Credit (1981) ...	39
12.	The Prescribed Sectoral Distribution of Merchant Banks' Loans and Advances for 1981 (MPC No. 13)...	40
13.	Monetary Policy Circular No. 19	46
14.	Monetary Policy Circular No. 22...	50
15.	Sectoral Allocation of Credit as at 1988...	52
16.	MPC No. 23: Cash Reserve Ratio for Classes of Banks (1989)..	54
17.	Quarterly Credit Guidelines 1989....	54
18.	Quarterly Credit Guidelines 1990....	56
19.	Money Supply and Some of its Determinants...	77
20.	Commercial Banks' Sectoral Distribution of Credit to Agriculture (1979 - 1980)...	83
21.	Questionnaire Distribution Zones...	142
22.	Response Rate by Zones	143
23.	Questionnaire sent out and Returned by Respondents	149
24.	Summary of Questionnaire collected	149
25.	Personality Profile or Respondents from CBN...	151
26.	Personality Profile of Respondents from Commercial Banks..	155
27.	Organisational Structure of Banks...	156
28.	Mode of Bank Registrations (Commercial Banjks)	156

CODESRIA - LIBRARY

29. Post held by Respondents in Commercial Banks 156
30. Respondents Area of Specialisation 157
31. Monetary Policy Circular Questions... 158
32. Mode of Registration (Merchant Banks) 159
33. Monetary Policy Circular Questions 159
34. Personality Profiles of Respondents from Merchant Banks 161
36. Liquidity and Cash Ratios of Commercial and Merchant Banks . 162
37. Money Supply to the Economy 1970 - 1990 164
38. Ratio of Loans and Advances to Deposits 166
39. Merchant Bank sectorial Loan Allocation compliance Rate Determination (1970 - 1990) 167
40. Commercial Bank Sectorial Loan Allocation Compliance Rate Determination 1970 - 1990 170
41. Comparative Analysis of Compliance Rate Deviations of Sectoral Loans in the Banking Industry. (1981 - 1990). 171
42. Number of Banks in Nigeria 1970 - 1990 172
43. Regressional Analysis of Shareholders Fund and Profit After Tax of Commercial Banks during Regulation... 174
44. Regressional Analysis of Shareholders Fund and Profit After Tax of Commercial banks during De-regulation 175
45. Commercial Banks' Compliance Rate Level of Different Sectors (1970 - 1990) 176
46A. Merchant Banks' Compliance Rate Level of Different Sectors 177
46B. Monetary Policy Derivation ormula 177
47. Regression Analysis of Capital Funds and Net Profit During Bank Regulation (1980 -1984)... 179
48. Multiple Regression Analysis of Cash Reserve, Liquidity and Loan of Commercial Banks. 181
49. Regression analysis of loans and Advances to Interest Rate of Commercial Banks 183
50. Regression Analysis of Liquidity Ratio of Merchant Banks and Composite Price Index... 189
51. Summary of Statistical Test of Significance (t) 191
52. Summary of Statistical Test of Variation (r^2) 191
53. Summary of Statistical Test of Significance using Multiple Regreession 191

CODESRIA - LIBRARY

LIST OF FIGURES

		Page
3.1	The Effect of Money supply on Investment	81
3.2	The Effect of Interest Rate on Investment	81
3.3	Discrete Time Model of Monetary Policy	107
3.4	Monetary Policy Circular Control Framework	135
5.1 - 5.2	Graph of Liquidity, Ratio, Cash Reserve Ratio and Loan to Deposit Ratio	192 - 193
5.3 - 5.5	Graph of Loan and Advances to Interest Rate	194 - 196
5.6	Graph of Liquidity Ratio and Composite Price Index ...	197

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ABSTRACT

Monetary Policy Circular is a letter of directive to Banks in Nigeria by Central bank in which they are directed on level of credit interest rate etc charges in different sector of the economy. Previous research on monetary policy circular had been on how and when to manage monetary policy. The first monetary policy circular was issued in 1969/70 whose objective was to regulate inflation and increase the productive sector of the economy. Therefore the monetary policy circular (MPC) is an instrument that regulates and controls the level of money and credit in the economy. It is interesting to note that all the monetary policy circulars had emphasis on increase in the productive sector.

This research investigated the level of compliance of commercial and merchant banks to monetary policy circulars (MPC's) No. 1 - 24 issued from 1970 - 1990. The study developed compliance rate model, MPC deviation model and MPC Actual rate model to assess the performance of the banks to an established monetary policy circular standard. The variables considered in the study are loans and advances, interest rate, money supply, composite price index etc. Based on Central Bank of Nigeria guidelines, the economy had been structured as Production sector, General Commerce sector, Services sector and others for easy monetary management and policy applications.

The problem had been the role conflict between the Central Bank, Ministry of Finance and the Banking Act of 1969 which was replaced by Banks and other Financial Institutions Decree No.24 and 25 of 1991 (BOFID of 1991). Indirect

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control had not been effective because of under developed financial markets in the country.

The undefined guidelines among the institutions and inadequate compliance monitoring model made credit and money management very difficult in Nigeria.

Random sampling and structural questionnaire method was used to collect data from one hundred and fifty (150) respondents. One hundred and twenty - nine (129) respondents completed and returned the questionnaire which is 86% response rate.

Primary and secondary data are used to subject the variables to statistical tests. The techniques employed are per centage, compliance rate, simple and multiple regression analyses. Statistically, the Pearson Product correlation coefficient was used to test the coefficient of dependent and independent variables. We were able to find out that variables such as interest rate, loan and advances and liquidity ratio etc were uncorrelated. The "t" test showed that these variables are not statistically significant.

When we tested level of variation (r^2) it was found to be insignificant. The "F" test was used to test if the variables differ significantly. We found that liquidity ratio, cash reserve ratio and Loan-to-Deposit ratio were statistically significant.

The research findings revealed that the ineffectiveness of monetary policy

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circulars (MPC's) was caused by weak fiscal policy practised by the Federal government. As the government increased expenditure, it decreased taxes which created budget deficit of N5.3 billion in 1983.

Monetary policy circular compliance Rate (MPCCR) revealed that commercial banks over complied in the production sector, General Commerce and others, but under complied in service sector of the economy. Merchant banks over complied in the production, General Commerce and other sectors but under complied in the Service sector. These unco-ordinated application of monetary policy directives created high inflation rate in the economy. Generally, the study finding indicates that Merchant banks had a higher rate of compliance to MPC's guidelines than commercial banks from 1970-90.

The application of regression analysis in the research showed that the monetary policy circulars do have significant effect on Bank profit. Because as the economy was regulated, it attracted N0.27 per owners capital fund, but during de-regulations, it attracted N0.02 per one Naira of owners capital fund. It indicatesthat banks shareholders' return on investment was higher during regulated economy than de-regulated economy.

Traditionally, economic theory states that when the lending rate (interest rate) increases the demand for loan decreases. But this research found that in the Nigerian economy, the reverse is the case because as the regression equation reveals as interest rate increases, the demand for loan increases proportionately.

Major research findings are the development of Actual Monetary Policy

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Deviation rate and Monetary Policy Compliance rate.

The dissertation has achieved its objectives because all the propositions had been discussed. It is an interesting research and future students of monetary policy circular can use the compliance rate formula to determine the banking system's performance visa-vice the prescribed monetary policy guidelines. The basis of assessing banks' adherence to Monetary Policy guidelines in the past had been weak, but the finding in this dissertation can aid Central Banks in their future Monetary Policy formulation.

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CHAPTER ONE

INTRODUCTION

The Central Bank of Nigeria was established in 1959 but commenced business in 1960 following the recommendation of Paton's Commission in 1958. One of its major traditional functions is to manage the nation's money and economy through the issue of various money and monetary policy circular (MPC).

We can view monetary policy circular as measures designed to regulate and control the volume, cost and direction of money and credit in the economy to achieve some specified macro-economic policy objective, which can change from time to time depending on the economic position of a particular country. In a nutshell, we can say that the objectives of monetary policy circular are as follows:-

a) To facilitate full employment

b) Generate rapid economic development

c) To maintain price stability

d) To ensure effective credit control

e) To encourage liquidity control in the economy

f) To ensure balance of payments equilibrium

g) To maintain an effective money Supply and Demand for Money.

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The monetary policy circulars were issued after meetings between the Central bank officials, officials of the Federal Ministry of Finance and Managing Directors of various banks or their representatives. When the rate of increase or decrease in various sectors of the economy must have been discussed and agreed, they are sent to the presidency through the Minister of Finance to be incorporated into the national budget.

From 1970 a total of twenty-four (24) monetary circulars had been issued. These monetary policy circulars had emphasised on low inflation rate increase in industrial production and preference to agricultural lending. It is the issue of monetary policy circular that forms the foundation of a nation's monetary policy in most financial writings, monetary policy is the focal point, but the monetary policy circular gives directives on the monetary policy.

The various literatures reviewed had shown much bias on the word "Monetary Policy" which is an outcome of monetary policy circulars issued by the central bank. The literatures emphasised on one component of monetary policy circular; such as cash reserve ratio, liquidity ratio, exchange rate, loan deposit, capital adequacy ratio, interest rate, lending rate, open market operation (OMO), etc. but non had established the level of compliance by commercial and merchant banks.

This research has been able to design a monetary policy compliance model (MPCM) which can be used to assess bank's level of performance to established central bank's MPC standard.

Statistically, we used Pearson coefficient of determination to conclude that in

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Nigeria, the increase in interest rate, does not decrease the demand for loan and advances. The traditional economic theory says that there is direct relationship between increase in interest rate and demand for loans; that is, when interest rate increases, the demand for loan is supposed to decrease. But behavioural pattern of an average Nigerian is to get the loan irrespective of the increase in interest rate. The behaviour contradicts the generally accepted economic norms.

The first monetary policy problem at the time was to increase domestic production, meet increased demand expectations thereby decrease the rate of inflation. The target was to reduce inflation to 5%, however, it was viewed that the credit ease of this nature may aggravate the inflationary situation, even if it helped to finance increased production, it would equally finance demand for consumption expenditure.

According to Falegan (1972, : 77) the circular instrument contained selective credit control, moral-suasion and partial revision of interest rate. Circular issued imposed various ceiling and distribution of credit. During the period of July 1969 to May 1970 the ceilings and credit expansion was 10%. This was revised upwards to 20% in July 1970 and reduced to 8.2% in March 1971. It was expected that overall loans to all production, services and general commerce were expected to rise at the expense of loans for consumption expenditure. The expatriate banks were required to extend a minimum of 35% of their total loans and advances to indigenous borrowers from April 1970.

This policy circular urged banks to exercise restraint in granting credit for

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consumption expenditure. To encourage increase in savings, the minimum deposit rate was raised from 3 1/2% to 4%.

THE STATEMENT OF THE PROBLEM

In Nigeria, the monetary authorities are the machinery of government that formulate and execute monetary policy. These authorities are the Federal Executive Council (FEC), Ministry of Finance and the Central Bank of Nigeria (CBN). Under the present arrangement, each has a specific statutory function in monetary policy formulation and execution.

The functions of the Central Bank of Nigeria are spelt out in Section 4(1) of the Central Bank Act as follows:

a) To issue legal tender currency in Nigeria

b) To maintain external reserves to safeguard the international value of the currency

c) To promote monetary stability on a sound financial structure in Nigeria

d) To act as banker and financial adviser to the Federal Government.

Despite these functions, the Ministry of Finance has monetary policy functions statutorily assigned to itself. The responsibilities of the Commissioner or Minister of Finance in various legislation such as Banking Decree (ACT of 1969), as amended by CBN Bank and Other Financial Institution Decree (BOFID) No. 24, specified his functions. In the Federal Gazette of July 16th 1975, the monetary matters that fall within the portfolio of the Minister of Finance are as follows:

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a) Banks and banking activities and operations

b) Capital issues

c) Public debt management

d) Nigerian Security Printing and Minting Company Ltd.

e) Bank for Commerce and Industry

f) Internal Borrowing

g) Monetary Policy formulation

h) Credit, currency, coinage and exchange rate control.

Furthermore, the Banking Decree of 1969 (Nwankwo, 1980, :24) states that the Commissioner has power to license and revoke the licences of banks, react to the Central Bank of Nigeria's Monetary and Banking Policy, current or proposed, and received copies of the Report of Bank examiners. This decree was amended by the Bank and Other Financial Institutions Decree No. 24 and No. 25 in 1991 (BOFID) to expand its scope of operation.

From the above functions, we observe that there are monetary matters or group of monetary matters on which the Central Bank of Nigeria cannot act without the specific authorization from the Ministry of Finance.

The problem is that there are considerably concurrent authority because the functions of the Minister of Finance under the Recurrent and Capital Estimates quoted, are basically statutory functions which are assigned to the Central Bank of Nigeria

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under the Central Bank of Nigeria Act of 1956; this Act was amended in 1969, then replaced by BOFID in 1991. With this conflict in role of the two bodies, how can the monetary policy circular be effective in the control of the economy? The monetary management functions are assigned to the minister, but the Central Bank decides on the monetary policy circular, therefore, the monitoring of MPC compliance model is problematic to the economic system. The monetary authority has issued 24 monetary policy circulars (MPC) from 1970 to 1990, but there had not been any statement on the level of compliance by banks to these monetary policy circulars. It indicates that the problem is that a good monitoring tool has not been developed.

PURPOSE OF THE STUDY

The purpose of this dissertation is to study the impact of the monetary policy circular on the Banking industry in Nigeria from 1970 to 1990, but the unanswered question is how do you monitor the adherence to the monetary policy circular by banks? There is no established monitoring models, therefore, the purpose of this study is to develop monetary policy circular rating model.

Generally, there is a consensus among financial experts that monetary policy circulars are best suited for dealing with certain economic problems, but if there is no rating models, the compliance assessment becomes very difficult to policy makers and implementers.

In practice, it has been stated that the effectiveness of monetary policy circular have been hampered by various factors, such as lateness in diagnosing the economic ills to be remedied, improper diagnosis of the problem, the application of half measure

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monetary policies whereby banks pay penalty rather than comply with the monetary policy circular guidelines. Falegan (1978, : 15) says that a major factor that had weakened the monetary policy circular usefulness in Nigeria in pursuing the desired economic goals is the under-developed nature of our financial markets and the related ineffectiveness of Central Bank monetary policy circular in controlling money supply, especially where government expenditures are excessive.

Therefore, the purpose of the research is to study how effective the monetary policy instruments used by the Central Bank of Nigeria can control the economy. The impact is shown in the calculation of compliance rate of the banks. It is our view that a well developed compliance rate model can help to monitor adherence of money management.

Furthermore, the purpose is to develop formulae on how to determine the actual rate of performance. the deviation from the established standard and the monetary policy compliance rate which are used to assess the Banks' adherence to the established guidelines.

This dissertation ensures the empirical validation of monetary policy study in Nigeria. Previous studies on the issue had been based on generalisations, personal opinions; but the data were not subjected to statistical test and validation of the monetary policies.

RESEARCH QUESTIONS

The problems are stated, but the purpose of this research is to address the following questions:-

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1. Are monetary policy circular implementers informed of such policy?

2. Do banks adhere to the monetary policy circular guidelines?

3. What impact do the monetary policy circular have on the Banking Industry in the following areas:

   i) Lending policy of banks

   ii) Granting of credit to customers

   iii) Money supply to the economy

   iv) Bank liquidity ratio position

   v) Production sector of the economy

   vi) Ratio of Loans and Advances to deposit

STATEMENT OF HYPOTHESES

The premise of this study are:

1. H_0: Commercial banks' Sectoral Loan allocation compliance rate is above average (50%)

   H_A: Commercial banks' Sectoral Loan allocation compliance rate is below average (50%)

2. H_0: Merchant banks' Sectoral Loan allocation compliance rate is above average (50%)

   H_A: Merchant banks' Sectoral Loan allocation compliance rate is below average

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(50%)

3. H_0: Merchant banks have distributed their loan portfolio based on the Monetary Policy Circular Guidelines

   H_A: Merchant banks have not distributed their loan portfolio based on the Monetary Policy Circular Guidelines

4. H_0: Merchant banks prefer to comply to Monetary Policy Circular Guidelines rather than pay penalties

   H_A: Merchant banks prefer to pay penalties for defaulting Monetary Policy Circular Guidelines rather than comply

5. H_0: Commercial banks prefer to comply to Monetary Policy Circular Guidelines rather than pay defaulting penalties

   H_A: Commercial banks prefer to pay penalties for defaulting Monetary Policy Circular Guidelines rather than comply

6. H_0: Monetary Policy Circulars have significant effect on the aggregate production

   H_A: Monetary Policy Circular do not have significant effect on aggregate production

SIGNIFICANCE OF THE STUDY

This study is significant because, as we observed earlier, there are statutory conflict between the functions of the Ministry of Finance and the Central Bank of Nigeria. This dissertation recommends ways to avoid the statutory role conflict.

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The dissertation provides the specific impact of each monetary policy circular on the various sectors of the economy. This impact will help future monetary policy formulators and executors in decision making process.

This study can be used by research students, academics, researchers, governments, central banks, commercial banks, merchant banks, financial institutions and other interested parties to guide themselves in monetary policy issues.

It extends our knowledge of monetary policy in developing economy, because it applies models which can be used to assess the performance of banks to the stipulations of the monetary policy circulars.

Presently, Nigeria has deregulated major part of her financial system, so the study is timely because the findings and recommendations can guide us on future financial policy formulation. This dissertation enables the Central Bank to know the extent banks had complied to its monetary policy circulars from 1970 to 1990.

SCOPE OF THE STUDY

This dissertation covers the period from 1970 to 1990. It analyses the various Monetary Policy Circular from MPC 1 to MPC 24, issued in these years under study.

The questionnaire respondents are the Managers, Asst. General Managers, Supervisors of various Merchant and Commercial banks in Nigeria.

Views of monetary policy formulators (officials of Central Bank of Nigeria) are used to expose the research to different opinions, in the issue of monetary policy.

Therefore, this dissertation focuses on the compliance rate of Commercial and

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Merchant banks to the Monetary Policy Circular from 1970 - 1990. It states how to dictate the deviation rate from the established standard of the monetary authorities.

RELATION TO OTHER RESEARCH

In the past some experts had commented on the monetary policy circular. Falegan (1978,: 12) in his article on the instruments of Monetary Policy Circular: 'Their Applications and Effectiveness on Nigeria, highlights the impact of the Monetary Policy Circular on the economy, Monetary Circulation and Bank Activities. This section shows that some researchers had inquired to the activities of monetary policy circulars in Nigeria economic set-up, but they had not built any model to test compliance rate.

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Otiti (1980, : 3) stated the Money and Monetary Policy Circular objectives are used to achieve full employment, rapid economic growth, maintain price stability and balance of payment equilibrium. He traced the use of Monetary Policy Circular from 1972 to 1980, then he concludes that appropriate monetary policy instruments contribute to economic growth by adjusting money supply to the needs of growth, by directing the flow of funds in the required channels and providing institutional facilities for credit in specified fields of economic activities.

Nwankwo (1980,: 24) defined the machinery of monetary authorities as "the machinery of government that formulates and executes monetary policy". The machinery in Nigeria we have the Federal Executive Council (FEC), the Ministry of Finance and Central Bank of Nigeria (CBN). He contends that under this arrangement, each has specific statutory functions in monetary policy formulation and execution. He

concludes that the relationship in the formulation stage is weak because it tends to ignore implementers of the policy (Banks). He feels that the definition should be broadened to include the three key operators in the banking scene.

Enuenwosu (1981,: 22) wrote on the National Monetary Policy, Exchange Rate and Nigerian Balance of Payment. He concludes that monetary policy and exchange rate changes have traditionally been advocated for dealing with balance of payment dis-equilibrium. He feels that there is need to use monetary policy and exchange rate in combination with other fiscal and trade restrictive measures to deal with trade imbalance.

LIMITATIONS OF THE STUDY

This dissertation is limited because it has not researched into all the monetary policies circulars. The Central Bank of Nigeria has issued about twenty-six (26) MPC's, but the research focuses on twenty-four (24)..

Some of the bank officials gave me about two weeks appointment on when to come back to collect the completed questionnaire. This act created extra travelling cost on my part, however, some of the officials were not on sit in their offices, therefore the response rate was reduced.

I gave some self-addressed stamped envelopes to some respondents which were not returned, so, after waiting for some months, I had to declare them uncollectible which limits my response rate.

Monetary Policy Circulars are forecasts which are based on guesses that do not have quantifiable foundation. Most of the banks' management cadre are not well

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informed on the importance of monetary policy circular. These cadre of bank employees are the implementers of these policies, therefore, implementation effectiveness of these policies becomes questionable and problematic to Nigeria's economic system.

DEFINITION OF TERMS

Definition of Terms is the process in which the dissertation explains some technical terms in this work. They enable future readers to understand this work without the presence of the researcher.

Monetary Policy Circular is an instrument designed to regulate and control the volume, cost, direction of money and credit in the economy to achieve specified macro-economic policy objectives.

M_1 is the currency outside banks, plus privately held demand deposits with the Commercial and the Central Bank.

M_2 is composed of M_1 and Quasi-money.

M_{1B} is the money market fund and overnight deposits, with the banking system.

Liquidity Ratio is the minimum ratio of bank liquid assets to its current liabilities which the monetary authority wants it to maintain.

Loan & Advances are the amount given as loan or credit to various sectors of the economy.

Quasi-Money is the savings and time deposits with Commercial banks plus total deposit liabilities of Merchant banks.

CODESRIA - LIBRARY

Demand Deposit is the amount deposited into current account.

Call Money is a scheme introduced in 1962 whereby Commercial banks and other participating financial institutions were required to deposit their surplus funds with Central Bank of Nigeria.

Reserved Requirement regulates the money in circulation in the economy. When reserve requirement increases the cash available to Commercial banks decreases. It is the total deposit liabilities that must be held by Commercial banks with CBN.

Liquid Assets are the vault cash and non-interest bearing balances deposited with the Central Bank. These approved assets are Treasury Bills, Treasury Certificates and eligible development stock less than 3 years to maturity.

Sectoral Distribution of Loan and Advances is a situation where the economy is classified into preferred and less preferred sector and each item is allocated a percentage share of the loan.

Bond is a long-term promissory note which specifies the principal and interest due to the owner.

Capital fund is amount provided by the owner's bank.

Money Supply is the volume of currency and coins supplied to the economy by the Central Bank

Precautionary Demand for money is the level of money needed during the period of uncertainties and exigencies.

CODESRIA - LIBRARY

Speculative Demand for money is when balances are held to purchase interest earning assets.

Transactionary Demand for money is the level of cash and deposits held for day-to-day transactions.

Liquidity Trap is when demand and supply for money is indefinitely elastic with respect to interest rate.

CODESRIA - LIBRARY

SUMMARY

This chapter has introduced the role of monetary policy circular as measures designed to regulate and control the economic direction of a country. Monetary Policy Circular was first issued in 1969 to achieve some objectives such as full employment, rapid economic development, credit control, etc.

The statement of the problem has established the statutory role conflict between the Federal Executive Council (FEC), Ministry of Finance and Central Bank of Nigeria (CBN).

Purpose of the study is based on the understanding that monetary policy circulars (MPC's) have impact on the banking industry and production. But to what extent are MPC's effective in our under-developed financial market?

Six hypotheses are developed to answer some questions that affect monetary policy circular. the significance and limitation of the study are discussed.

In Chapter TWO, related monetary policy circulars are reviewed to examine the previous stipulations of the circulars which are the foundations of Nigeria's monetary policies.

CODESRIA - LIBRARY

CHAPTER TWO

REVIEW OF MONETARY POLICY CIRCULAR (MPC's) 1970 - 1990 (Nos. 1 - 24)

INTRODUCTION

There had been various works in the area of monetary policies in various parts of the world. When the Monetary Policy Circular was introduced in 1969, Falegan (1978,: 12) evaluated it and found out that selective credit control made the share of less preferred sector to decrease from 17.7% in 1969 to 15.2% in 1972.

The various instruments of monetary policies were reviewed, but the Central Bank of Nigeria had used all the instruments introduced in Nigeria as at 1990. At the end of 1990, twenty-four (24) monetary policy circulars were issued and some had impaired the ability of banks to create credit.

On the issue of Monetary policy, there had been divergent views on procedures and methods of implementation. The Keynesians are of the view that regulation of one variable (interest rate) should be used to regulate the economy. The Monetarists led by Friedman had argued that Central Banks can control quantity of money reserve or money base by creating money. His apostles had consistently argued that the control of the quantity of money is the key to economic success.

The supply-siders (Keynesians) had argued that quantity control of money is an inappropriate monetary policy. They felt that never in the history of banking had any institution provided guarantee of the quantity of its assets or the quantity of its

CODESRIA - LIBRARY

production and service industry in order to create employment.

Monetary Policy Circular No. 3, CBN, (1972, : 2) was issued and it states thus: That the aggregate loans and advances should not rise by more than 0.4%.

It states that various sectoral increases should be as follows:

(a)	Industrial sector plus	32%
(b)	General commerce plus	15.5%
(c)	Services plus	17.5%
(d)	Others	35%

CODESRIA - LIBRARY

The circular states that loan to indigenous borrowers were to remain at 35%. In order to satisfy this requirement, comply with government policy, monetary authority wanted commercial activities to gradually pass into the hands of indigenous persons. Banks were required to shift from expatriates to indigenous persons in their loans and advances for general commerce.

Monetary Policy Circular No. 4, CBN, (1973, : 3) which placed aggregate and sectoral expansion of Commercial bank loans and advances were lifted. The banks were urged to exercise restraint in granting loans to the non-productive sectors.

Monetary Policy Circular No. 6, CBN, (1975, : 6) specified the sectoral allocation of bank credit in favour of the productive sectors of the economy. banks were urged in the national interest, to restrict financing the less productive sectors.

TABLE 1

MONETARY POLICY CIRCULAR Nos. 4 - 5

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES 1974

	SECTOR/SUB-SECTORS	%	SHARE OF TOTAL LOANS & ADVANCES
a)	**Production**		
	Agriculture	4.0	
	Mining	4.0	
	Manufacturing	30.0	
	Real Estate and Construction	7.0	**45%**
b)	**General Commerce**		
	Exports	10.0	
	Imports	10.0	
	Domestic Trade	10.0	
	Bills Discounted	2.0	**32%**
c)	**Services**		
	Public Utilities.	3.0	
	Transportation and Communication	8.0	**11%**
d)	**Others**		
	Credit and Financial Institutions	1.0	
	Government	2.0	
	Personal and Professional	6.0	
	Miscellaneous	3.0	**12%**
	TOTAL (A - D)		**100%**

SOURCE: Central Bank, Monetary Policy Circular Nos. 4 and 5, 1973/74, Lagos) pp. 1 - 3)

CODESRIA - LIBRARY

In March 31st 1975, it tabulated the sectoral distribution of loans and advances as following: (Table 2)

TABLE 2:

		% SHARE OF TOTAL LOAN AND ADVANCES
	Productive Sector	
i)	Production	45
ii)	Services	11
	Less Productive Sectors	
i)	General Commerce	32
ii)	Others	12
	TOTAL	100

It specified that loans to indigenous borrowers should not be less than 40% of the bank's total loans and advances in each month.

The MPC stated that liquidity ratio of each bank's holding of treasury bills, treasury certificate and call money shall together be not less than 40% of the bank's total holdings of specified liquid assets during each month.

Monetary Policy Circular No. 7, CBN (1976, : 3) was issued it stipulated the guidelines for 1976. In this circular, Central Bank of Nigeria continued its policy of credit guidelines without imposing overall credit ceilings. This policy was intended to stimulate increased production of essential goods and services.

TABLE 3

MONETARY POLICY CIRCULAR No. 7
SECTORAL DISTRIBUTION OF LOANS AND ADVANCES 1975 - 1976

	PRODUCTIVE SECTOR/SUB-SECTORS	%	SHARE OF TOTAL LOANS & ADVANCES
a)	**Productive Sectors**		
	Production		
	Agriculture	16.0	
	Mining	2.0	
	Manufacturing	30.0	
	Real Estate and Construction	10.0	58%
b)	**Less Productive Sectors**		
	General Commerce		
	Exports	12.0	
	Imports	8.0	
	Domestic Trade	10.0	
	Bills Discounted	2.0	32%
	Others		
	Credit and Financial Institutions	3.0	
	Government	2.0	
	Personal and Professional	4.0	
	Miscellaneous	1.0	12%
	TOTAL (A + B)		100%

NOTICE: Banks are to ensure monthly observance of these guidelines
SOURCE: CBN, Monetary Policy Circular No. 7 for 1976 : 2, Lagos.

CODESRIA - LIBRARY

In 1975, the sectoral credit allocations to financial institutions was slightly increased from 56% to 58% while the less productive sectors was reduced from 44% to 42%.

In 1976, the circular released on 31st March, 1976 gave the composition of each commercial bank's loans and advances to the various sectors and sub-sectors of the economy as follows:

LOANS TO INDIGENOUS PERSONS

This credit policy circular specified that bank loans and advances to indigenous borrowers shall continue to be not less than 40% of the bank's total loans and advances portfolio in each month. It stated that this policy guideline should encourage indigenous entrepreneurial initiatives.

LIQUIDITY RATIO

The policy circular required every bank's holdings of treasury bills, treasury certificates and eligible development stocks in total, should not be less than 40% of the minimum prescribed holdings of specified liquid assets during each month. As it is noted, the 1975/76 policy was to stimulate domestic production, therefore, create employment. So the requirement of policy circular to invest in treasury bills, treasury certificates and development stocks were to stimulate the economy.

INTEREST RATE

The interest structure is another issue specified in the guideline. It required the Commercial banks' lending rate to fluctuate between 6 - 9% per annum; while the

CODESRIA - LIBRARY

minimum interest paid on bank deposits to be 4% per annum. it states that the maximum commission chargeable on foreign exchange transfers should not be more that 1/4% above Central Bank exchange rates.

MID-MONTH SUPPLY OF STATISTICS

This policy guideline injected some discipline into the banking industry by requiring that each bank shall continue to submit returns to the Central Bank of Nigeria showing its position as of every 15th day of each month. this point is to ensure a high level of compliance with the monetary policy guidelines.

The Policy Circular No. 8 (See table 4) reviewed the objective of previous MPC's for the past four years which were supposed to stimulate the productive sectors of the economy and combat inflationary pressures. However, research had shown that the objectives were not achieved. Ciroma, (1976, : 1) stated that the rate of inflation rose by 13.4% and 5.1% in 1974 and 1973 respectively to 33.9%. He contended that the Commercial bank expansion of credit to the private sector was the main factor responsible for such inflationary pressure. Furthermore, he stated that the banks' loans and advances rose by 63.9% in 1975 respectively.

Based on the above analysis, he concluded that it was necessary to re-impose ceiling on Commercial banks' aggregate loans and advances in the 1977 fiscal year, that is, the individual bank's loans and advances outstanding at the end of March, 1976, each bank's monthly aggregate of loans and advances should no rise more than 40% during the 1976/77 fiscal year. Therefore, sectoral allocation of loans should be as per Table 4, above.

CODESRIA - LIBRARY

TABLE 4

MONETARY POLICY CIRCULAR No. 8
THE COMPOSITION OF LOANS AND ADVANCES TO VARIOUS SECTORS OF THE ECONOMY IN 1976/77

SECTORS/SUB-SECTORS	%	% SHARE OF TOTAL LOANS AND ADVANCES
Productive Sectors	6.0	
Agriculture	2.0	
Mining	30.0	
Manufacturing	10.0	48%
Real Estate and Construction		
Services		
Public Utilities	2.0	
Transportation and Communication	8.0	10%
Less productive Sectors		
General Commerce		
Exports	6.0	
Imports	10.0	
Domestic Trade	12.0	30%
Bills Discounted	2.0	
TOTAL		100%

SOURCE: CBN, Monetary Policy Circular No. 8 for 1976/77, p. 2

CODESRIA - LIBRARY

Ciroma, (1976, : 2) said that statistical analysis of performance of Commercial banks in relation to guidelines had shown that most banks had persistently failed to meet the targets stipulated in the various guidelines from April, 1972 to Dec., 1975. Based on his findings, the MPC No. 8 imposed sanctions on erring banks as follows:

⇒ Any bank that exceeds the guideline stipulations in respect of credit to the less productive sector/sub-sector were to receive warning on the first default.

⇒ For any subsequent defaults or continuation of a default, the banks were asked to pay to the Central Bank a penalty on the excess credit.

The details of the sanctions are stated thus:

1st Month	-	Warning
2nd Month	-	Payment of 3/4% of the excess credit
3rd Month	-	Payment of 3/8% of the excess credit
4th Month	-	Payment of 5/8% of the excess credit
5th Month	-	Payment of 1% of the excess credit.

LOANS TO INDIGENOUS PERSONS

MPC No. 8 stated that each bank's loans and advances to indigenous borrowers should continue to be less than 40% of the aggregate loans and advances in each month. This type of static credit policy in 1976 was not advisable because most of the banks were liquid because of the oil boom. It would have been ideal to increase production in the economy by increasing the credit ceiling above 40% to ensure enough investment capital.

CAPITAL FUND

This was the first time the MPC had established policy on capital fund. It is the money that belongs to the shareholders of the banks. It stipulates that during the year, before any funds can be applied for payment of dividends, every bank should have maintained a ratio of not less than one to ten (1 : 10) between its adjusted capital funds and loans and advances. It means that before dividends can be paid, banks must maintain its loans portfolio as 1% of the capital fund.

Table 5 shows a new innovation when MPC No. 8 was introduced to the

CODESRIA - LIBRARY

banking industry. It required each Commercial bank to maintain a minimum amount of cash deposits with the Central Bank of Nigeria in its Head Office. It classified banks

TABLE 5

CASH RESERVE REQUIREMENT FOR DIFFERENT CLASSES OF BANKS

CLASS OF BANK	AMOUNT OF RELEVANT DEPOSIT LIABILITIES	%
A	N300 million or more	12.50
B	N100 million or more but less than N300 million	10.00
C	N30 million or more but less than N100 million	7.00
D	Less than N30 million	5.00
		34.5

SOURCE: CBN Monetary Policy Circular No. 8, 1976, p.4

into four categories using deposit liabilities as basis of measurement. The cash deposits should be expressed as a ratio of each bank's total demand deposits plus time deposits in which it pays its depositors interest of not less than 2 1/2 per annum.

LIQUIDITY RATIO

It specified the minimum liquid assets ratio remains at 25%. However, Commercial banks were required to hold at least 40% of their specified assets in treasury bills, treasury certificates and eligible development stocks.

CBN contended that cash held with the Central Bank for the purpose of meeting the cash reserve requirement should be excluded from eligible assets for computing the minimum liquid assets ratio.

INTEREST RATES

The following rates were established by monetary policy No. 8 as follows:

CODESRIA - LIBRARY

Lending rates: Interest charges on loans and advances shall be within the range of 6 - 10% per annum; but charges on lending to the productive sectors/ sub-sectors shall not be higher than 8%.

The minimum interest payable on savings account up to N20,000 is 4% per annum while interest on other deposits were negotiable.

This policy required all banks to apply the Reducing Balance Method to calculate their interest charges on loans and advances. But interest on savings account should be calculated on the balance existing on the customers' account on the 15th of each month.

CODESRIA - LIBRARY

STABILISATION SECURITIES

In 1976, CBN issued stabilisation securities in order to provide the Commercial banks with an additional avenue for the investment of the savings deposited with them.

The interest payable on stabilisation securities should be 4% or any such rate that might be determined by the Central bank. Stabilisation securities should be non-negotiable, non- transferable and it should not account as Commercial banks' liquid assets.

The Monetary Policy Circular No. 8 gave details of the composition of Merchant banks' loans and advances to the economy.

Merchant banks were required to observe the policy in the distribution of their assets portfolio in the following criteria:

TABLE 6

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES AS PER CBN MPC No. 8

SECTOR/SUB-SECTORS	%	SHARE OF TOTAL LOANS & ADVANCES
Productive Sectors		
Agriculture	6.0	
Mining	2.0	
Manufacturing	32.0	
Real Estate and Construction	20.0	60%
Services		
Transportation and Communication	8.0	
Public Utilities	2.0	10%
Less Productive Sectors		
General Commerce		
Exports	6.0	
Imports	10.0	
Domestic Trade	4.0	
Bills Discounted	3.0	23%
Others		
Credit and Financial Institutions	3.0	
Government	3.0	
Miscellaneous	1.0	7%
TOTAL		100%

SOURCE: CBN, Monetary Policy Circular No. 8, 1976/77, p. 6, Lagos

CODESRIA - LIBRARY

a) A minimum of 50% of total loans and advances shall be of medium and long-term nature with maturities of not less than 3 years.

b) A maximum of 10% of loans and advances shall be short-term in nature maturing within 12 months.

c) A maximum of 15% of total assets shall be in equivalent leasing business.

d) A minimum of 30% of total funds raised from other banks shall be in liquid assets.

Monetary Policy Circular No. 9, CBN, (1978) stated that the provisions in MPC

No. 8 for 1977 were to be applied for Commercial and Merchant banks in 1978 (see Table 6).

In the area of real estate and construction, but it was 10% for Commercial banks and 16% for Merchant banks. Generally, there was no significant changes in 1976/77 and 1977/78 Monetary Policy Circulars.

Central Bank of Nigeria (CBN) stated that the objective of this MPC No. 9 was to contain the inflationary pressure in the economy. Therefore, the apex bank re-imposed a 40% ceiling on the expansion of loans and advances in an effort to minimise the growth of money stock and inflation.

BANK CREDIT

CBN (1978, : 1) stated that in the fiscal year 1978, the general performance of the banks with regard to credit guidelines showed some improvement, compared with the 1977 fiscal year. The banking system failed to meet the prescribed credit targets for some sectors and sub-sectors such as Agriculture and Residential building construction while some banks exceeded the credit ceilings substantially in the year under review. the non-compliance made CBN to enforce the prescribed penalties in 1979.

Monetary Policy Circular Nos. 10 and 11 (1979/80, :p. 1) were issued to curb the high rate of monetary expansion which characterised the fiscal years 1975/76 and 1977/78. There was a drop in the rate of growth of money stock but it was achieved at a cost, because there was substantial outflow of foreign exchange reserves. CBN

CODESRIA - LIBRARY

stated that credit to the domestic economy remained high and it was a major cause of the expansion of money supply while output growth rates, especially in the manufacturing and agricultural industries remained unsatisfactorily low, thereby increasing inflationary pressures. Therefore, the monetary policies for 1979/80 were formulated to reduce pressures on the balance of payments, moderate domestic prices and to stimulate domestic production.

BANK CREDIT

It was observed that the general performance of the bank as it regards to credit guidelines showed some improvement. However, the banking system failed to meet the prescribed credit in sectors such as Agriculture and Residential building construction, while some banks exceeded the prescribed credit. therefore, the penalties prescribed for non-compliance in 1978/79 on MPC No. 10 should apply in 1979/80 on MPC No. 11..

AGGREGATE CREDIT

The Central Bank felt that Commercial bank credit expansion continued to contribute to monetary growth in the economy. Therefore, the ceiling on bank expansion remained at 30% as the MPC No. 10, that is, on the basis of individual Commercial and Merchant banks' loans and advances outstanding as at 31st March, 1979, each bank's aggregate loans should not rise by more than 30% during 1979/80 fiscal year. However, small banks with loans and advances not exceeding N100 million as at 31st March, 1979 were allowed to exceed the 20% ceiling to 40% or 70% of their total deposit liabilities whichever is higher.

CODESRIA - LIBRARY

The table 7 for Commercial banks show that the minimum share of manufacturing sub-sector was raised from 32% to 36% and the Agro-Allied Industries was 3%.

The Services sector, the minimum share of Transportation and Communication was raised from 8% to 9%. The import was restricted to encourage Nigeria export growth. the aggregate share of the less preferred sectors was reduced from 40% to 30%.

TABLE 7

SECTORAL ALLOCATION OF LOANS AND ADVANCES IN 1979/80 COMMERCIAL BANKS

SECTORS/SUB-SECTORS	%	%	TOTAL
A. Preferred Sectors			
Production			
Agricultural Production	6.0		
Mining	2.0		
Manufacturing			
a) Agro-Allied Industry	3.0		
b) Other Manufacturing Construction	33.0		
c) Residential Building	5.0		
d) Others	4.0	45.0	
Services			
Public Utilities	2.0		
Transportation and Communication	9.0	11.0	
Exports	6.0	6.0	70.0
B. Less Preferred Sector			
General Commerce			
Imports	5.0		
Domestic Trade	11.0		
Bills Discounted	2.0	18.0	18.0
Others			
Credit and Financial Institutions	3.0		
Government	2.0		
Personal and Professional	4.0		
Miscellaneous	3.0	12.0	12.0
TOTAL			**100.0**

SOURCE: CBN, Monetary Policy Circular No. 10 and 11 for 1979/80 Fiscal Year, page 4, Lagos

CODESRIA - LIBRARY

Table 8 shows that the credit guidelines as it affects Merchant banks allocation of total loans and advances had been modified. In April 1979, the share of the preferred sectors was raised from 70% to 78% while that of the less preferred was reduced from 30% to 22%.

According to Vincent, (1979 p. 6) Merchant banks were expected to observe some guidelines in respect of the distribution of their asset portfolio as follows:

a) A minimum of 50% of total loans and advances shall be of medium and long-term nature with maturity of not less than 3 years.

b) A maximum of 10% of loans and advances shall be short-term nature maturing within 12 months.

c) A maximum of 15% of total assets shall be in equipment leasing business.

d) A minimum of 30% of total funds raised from other banks shall be in liquid assets.

PENALTIES FOR DEFAULT

The Governor, Ola Vincent, stated that to ensure strict compliance to the credit guideline by banks, CBN instituted some penalties from 1979 for future non-compliance by banks. That is, if a bank's monthly aggregate loans and advances excluding loans for the purchase of shares under the indigenisation scheme, facilities to workers in both the public and private sectors for purchase of cars and loans to Agriculture and Residential Building construction above the minimum prescribed by the credit guideline, the bank shall receive a warning on the first default; for

CODESRIA - LIBRARY

continuation of a default, the bank shall be asked to pay to the Central bank a penalty on the excess credit. banks are not allowed to pass such penalties to their customers.

He further stated that where banks' total monthly loan and advances to Agriculture and Residential Building construction fall short of the minimum ratio of 6% and 5% for the Commercial banks and 5% and 6% for Merchant banks, such bank should be required to deposit the amount of the shortfall with Central bank, and the refund of such money to the banks may not be automatic if later the banks, meet the minimum ratios. the deposits outstanding on this account as at 31st march, 1979, should be transferred to the Nigerian Agricultural and Co-operative bank Ltd. and the Federal Mortgage bank respectively to be utilised for the specific purposes; to

CODESRIA - LIBRARY

TABLE 8
SECTORAL DISTRIBUTION OF MERCHANT BANKS' LOANS AND ADVANCES IN 1979/80 MPC Nos. 10 AND 11

SECTORS/SUB-SECTORS	%	%	TOTAL
A. Preferred Sectors			
i) Producing			
Agriculture	5.0		
Mining	3.0		
Manufacturing	39.0		
Construction	20.0	67.0	
ii) Services			
Public Utilities	3.0		
Transportation and Communication	4.0	7.0	
iii) Exports	4.0	4.0	78.0
B. Less Preferred Sector			
iv) General Commerce			
Imports	8.0		
Domestic Trade	5.0		
Bills Discounted	2.0	15.0	
v) Others			
Credit and Financial Institutions	3.0		
Government	2.0		
Miscellaneous	2.0	7.0	22.0
TOTAL			100.0

SOURCE: CBN, Monetary Policy Circular No. 10 and 11 for 1979/80 Fiscal Year, page 5, Lagos

achieve Government objectives.

LOANS TO INDIGENOUS BORROWERS

It was stated that banks generally exceeded the 60% stipulated minimum allocation of their total loans and advances to indigenous borrowers during the 1978/79 fiscal year. But from April, 1979, the minimum share of indigenous borrowers of individual bank's loans and advances outstanding was raised from 60% to 70%, out of which at least 10% should be reserved for small scale enterprises wholly owned by Nigerians.

Distribution of credit among such enterprises will be based on the annual business turnover as follows:

A.	Up to N25,000	-	1%
B.	Over N25,000 - N50,000	-	1%
C.	Over N50,000 - N100,000	-	2%
D.	Over N100,000 - N200,000	-	2.5%
E.	Over N200,000 - N500,000	-	3.5%

CODESRIA - LIBRARY

LIQUIDITY SQUEEZE

It was found out that the monetary policy measures employed with MPC 9 & 10 to mop excess liquidity in the banking system had strain on the system. Because of the strain, some banks could not grant appropriate type of credit to favour economic activities, therefore, some of the measures were relaxed. The MPC 11 prescribed

CLASS OF BANK	TOTAL DEPOSIT LIABILITIES	RATIO OF CASH TO DEMAND DEPOSIT
A	N300 million or more	6.25
B	N100 million or more but less than N300 million	5.00
C	N30 million or more but less than N100 million	3.00
D	Less than N30 million	2.50

minimum ratio for individual bank remained unchanged at 25%.

CASH RESERVE REQUIREMENT

Commercial banks were required to maintain a minimum amount of cash deposit with Central Bank. However, MPC No. 11 adjusted the ratio for the four classes of banks based on the amount of total deposits liabilities were reduced by half as follows:

STABILISATION SECURITIES

This MPC No. 11 phased out the stabilisation securities in April 1979. The amounts were later released to the banking system.

DEPOSIT FOR IMPORTS

The MPC 11 required an advance deposits for imports except capital goods, raw materials, medicaments and essential food imports. Banks were required to demand and obtain advance deposit from importers as follows:

a) Cement 5%

b) Others 100%

All the deposits were required to be kept in a separate account and deposited with the Central Bank within three days following the end of each month. However,

CODESRIA - LIBRARY

orders already placed for cement and for which Form M had been registered before 1st April, 1979, should be exempted from the advance deposit requirement provided that the consignment arrived in the country not later than 30th September, 1979. These deposits were compulsory for all importers whether they had letter of credit or not.

Monetary Policy Circular no. 12, (CBN, 1980, : 1) was formulated mainly to reduce the inflation rate which was 11.8% in 1979. The objective was to maintain a healthy balance of payments position, mobilise domestic savings and attract foreign capital which was to be channelled into more productive economic activities of goods and services, and to ensure that financial needs of small scale enterprises are adequately taken care for.

AGGREGATE CREDIT

The ceiling on the bank credit expansion in 1980 remained at 30%. However, small banks with loans and advances not exceeding N100 million at 31st March, 1980 were allowed to exceed the 30% ceiling up to 40% to 70% of their total deposit liabilities. Loans granted for the purchase of shares by Nigerians under the indigenisation scheme and for buying motor cars by workers both in the public and private sectors were to be excluded from the credit ceiling.

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES

The old policy on sectoral and sub-sectoral allocation of credit for both Commercial and Merchant banks was retained in 1980 with some modifications, to accommodate the expected increase in credit requirement to finance expansion of

CODESRIA - LIBRARY

TABLE 9

MONETARY POLICY CIRCULAR No. 12
MERCHANT BANKS SECTORAL DISTRIBUTION OF CREDIT 1980

SECTORS/SUB-SECTORS	%	%	%	Minimum % Share
A. Preferred Sectors				
i) Production.			70.0	
Agriculture		5.0		
Mining		4.0		
Manufacturing		41.0		
a) Agro-allied industries	5.0			
b) Other manufacturing	36.0			
Construction		20.0		
a) Residential building	14.0			
b) Others	6.0			
ii) Services			6.0	
Public Utilities	2.0			
Transportation and Communication	4.0			
iii) Exports			3.0	79.0
				Maximum % Share
B. Less Preferred Sector				
iv) General Commerce			14.0	
Imports		8.0		
Domestic Trade		6.0		
v) Others			7.0	
Credit and Financial Institutions		3.0		
Government		4.0		21.0
TOTAL (A) + (B)				**100.0**

Note: Percentage shares in sectors and sub-sectors A(i), (ii) and (iii) should be regarded as MINIMA while those for the sectors and sub-sectors B(iv) and (v) should be regarded as MAXIMA. In other words, Merchant banks may exceed the targets for the preferred sectors within the overall ceiling.

In view of the observed difficulties which Merchant banks had experienced in observing the existing stipulations in respect of the distribution of their assets portfolio, the following modified stipulations were observed in the fiscal year 1980:

a) A minimum of 40% of total loans and advances shall be of medium and long-term nature with maturity of not less than 3 years.

b) A maximum of 20% of total assets shall be in equipment leasing business.

SOURCE: CBN, Monetary Policy Circular No. 12, 1980, p.5 - 6, Lagos

CODESRIA - LIBRARY

In 1980, allocation of each Commercial bank's total loans and advances to various sector/sub-sectors of the economy would, therefore, be as follows (see Table 10):

domestic production of essential outputs in the area of Agricultural and Industrial sectors of the economy.

The Commercial banks' minimum share of the Agriculture sub-sector was raised from 6% to 8%. this policy introduced a new sub-sector called "Development Finance

TABLE 10

MONETARY POLICY CIRCULAR No. 12
COMMERCIAL BANKS SECTORAL DISTRIBUTION OF CREDIT 1980

SECTORS/SUB-SECTORS	%	%	%	Minimum % Share
A. Preferred Sectors				
i) Production			56.0	
Agriculture		8.0		
Mining		2.0		
Manufacturing		36.0		
a) Agro-allied industries	3.0			
b) Other manufacturing	33.0			
Construction		10.0		
a) Residential building	6.0			
b) Others	4.0			
ii) Services			12.0	
Public Utilities	3.0			
Transportation and Communication	9.0			
iii) Exports			5.0	
iv) Development Finance Institutions			2.0	75.0
				Maximum % Share
B. Less Preferred Sector				
v) General Commerce			17.0	
Imports		6.0		
Domestic Trade		11.0		
vi) Others			8.0	
Credit and Financial Institutions		1.0		
Government		2.0		
Personal and professional		3.0		
Miscellaneous		2.0		25.0
TOTAL (A) + (B)				**100.0**

Note: **Percentage shares in sectors and sub-sectors A(i), (ii), (iii) and (iv) should be regarded as MINIMA while those for the sectors and sub-sectors B(v) and (vi) should be regarded as MAXIMA. In other words, Merchant banks may exceed the targets for the preferred sectors within the overall ceiling.**

SOURCE: CBN, Monetary Policy Circular No. 12, 1980, p.4 - 5, Lagos

CODESRIA - LIBRARY

TABLE 11

COMMERCIAL BANKS SECTORAL DISTRIBUTION OF CREDIT 1981

SECTORS/SUB-SECTORS	%	%	%	Minimum % Share
A. Preferred Sectors				
i) Production			56.0	
Agriculture		8.0		
Mining		2.0		
Manufacturing		36.0		
a) Agro-allied industries	3.0			
b) Other manufacturing	33.0			
Construction		10.0		
a) Residential building	6.0			
b) Others	4.0			
ii) Services			12.0	
Public Utilities	3.0			
Transportation and Communication	9.0			
iii) Exports			5.0	
iv) Development Finance Institutions			2.0	75.0
				Maximum % Share
B. Less Preferred Sector				
i) General Commerce			17.0	
Imports		6.0		
Domestic Trade		11.0		
ii) Others			8.0	
Credit and Financial Institutions		1.0		
Government		2.0		
Personal and professional		3.0		
Miscellaneous		2.0		25.0
TOTAL (A) + (B)				**100.0**

Note: **Percentage shares in sectors and sub-sectors A(i), (ii), (iii) and (iv) should be regarded as MINIMA while those for the sectors and sub-sectors B(i) and (ii) should be regarded as MAXIMA. In other words, Merchant banks may exceed the targets for the preferred sectors within the overall ceiling.**

SOURCE: CBN Monetary Policy Circular No. 13, 1981, p. 4

CODESRIA - LIBRARY

Institutions" as a preferred sector and 2% was allocated to it out of the 3% formerly allocated to Credit and Financial Institutions in the less preferred sectors. However, Bills Discounted was removed as a sub-sector, therefore, financing was classified into Imports or Domestic Trade. The preferred sectors loan share was increased to 75% while the less preferred sector was increased to 25% (see Table 10).

TABLE 12

MONETARY POLICY CIRCULAR No. 13
The Prescribed Sectoral Distribution of Merchant Banks' Loans and Advances for 1981

SECTORS/SUB-SECTORS	%	%	%	Minimum % Share
A. Preferred Sectors				
i) Production			69.0	
Agriculture		5.0		
Mining		3.0		
Manufacturing		41.0		
a) Agro-allied industries	5.0			
b) Other manufacturing	36.0			
Construction		20.0		
a) Residential building	6.0			
b) Others	14.0			
ii) Services			7.0	
Public Utilities	3.0			
Transportation and Communication	4.0			
iii) Exports			3.0	79.0
				Maximum % Share
B. Less Preferred Sector				
i) General Commerce			14.0	
Imports		8.0		
Domestic Trade		6.0		
ii) Others			7.0	
Credit and Financial Institutions		3.0		
Government		2.0		
Miscellaneous		2.0		21.0
TOTAL (A) + (B)				**100.0**

Note: Percentage shares in sectors and sub-sectors A(i), (ii) and (iii) should be regarded as MINIMA while those for the sectors and sub-sectors B(i) and (ii) should be regarded as MAXIMA. In other words, Merchant banks may exceed the targets for the preferred sectors within the overall ceiling.

The above guidelines with respect to the distribution of banks' assets portfolio introduced in 1980 should be observed in 1981:

a) A minimum of 40% of total loans and advances should be of medium and long-term nature with maturity of not less than 3 years;

b) A maximum of 20% of loans and advances should be of short-term nature, maturing within 12 months;

c) A maximum of 15% of total assets should be in equipment leasing business.

SOURCE: CBN, Monetary Policy Circular No. 13, 1981, p.1 - 6

CODESRIA - LIBRARY

MERCHANT BANKS

This policy modified Merchant banks total loans and advances reflecting all the changes are as shown in Table 9.

Monetary Policy Circular No. 13, CBN, (1981, : 1 - 8) was issued in 1981, the objectives were to reduce the inflation rate, maintain a healthy balance of payment, mobilise domestic savings and foreign capital. These financial gains were to be used as an investment in productive economic activities.

AGGREGATE CREDIT

In the aggregate credit expansion, the 1980 policy was retained for both Commercial and Merchant banks. (See Monetary Policy Circular No. 12). Small banks, that is, those banks whose loans and advances do not exceed N100 million as at 31st December, 1980 may expand their credit ceiling of 40% or 70% of their total deposit liabilities.

Loans granted for the purchase of shares by Nigerians under the Indigenisation Scheme and for buying motor cars by workers both in the private sector, are to be excluded from the credit ceiling. Loans granted for Agricultural and Residential Building construction were to be excluded from such credit ceiling.

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES COMMERCIAL BANKS

In 1981, allocation of each Commercial bank's total loans and advances to various sectors/sub-sectors of the economy are stated below. It was observed that as at the end of September, 1981, banks had not extended credit to the new sub-sector. Development

CODESRIA - LIBRARY

Finance Institutions was introduced in April 1980. banks were, therefore, required to ensure that sub-sector was no longer ignored in their lending operations.

MERCHANT BANKS

The existing guideline in 1980 with respect to the sectoral allocation of Merchant banks' total loans and advances were retained in 1981. Thus, with effect from January 1981, the share of the "Preferred Sectors" were not to be less than 79% while that of the "Less Preferred Sectors" should not exceed 21%.

Monetary Policy Circular No. 14, CBN, (1982, : 1 - 3) was issued as astringent monetary restraint policy which was geared towards the conservation of foreign reserve. Measures taken were to slow down the amount of foreign exchange disbursements. These should include the re-introduction of pre-shipment inspection of raw materials and spare parts. The re-introduction of pre-import deposits ranging from 10% to 25%. There was an outright ban on a variety of commodities and increases in import duties and reduction of travel allowances.

There was increase of 1% in interest rate on loanable funds across the board. Banks were required to turn over all pre-import deposits to the Central Bank of Nigeria. There was notable recession in the economic system, therefore, banks were compelled to curb credit expansion due to tight liquidity.

Monetary Policy Circular No. 15, CBN, (1983, : 1 -4) was issued because of the general economic recession and sharp increase in the general price level. the Gross Domestic Product (GDP) was 4.4% as compared to 3.4% decline recorded in 1982. the

CODESRIA - LIBRARY

rate of inflation was about 300% because the rate rose from 7.7% in 1982 to 23.2% in 1983. (CBN Monetary report, December, 1983). This high rate of inflation was caused by sharp increase in money supply from 3.1% in 1982 to 12.3% in 1983. the increase in money supply was due to the huge expansion of N5.3 billion in bank credit to the government to finance its budget deficit. The banking system's credit to the private sector increased by N1.0 billion or 8.6%.

Because of the economic crunch, bank lending to the private sector rose moderately. It was observed that banks deviated from the prescribed guidelines as regards the amount of aggregate credit to the private sector and sub-sectoral allocations. The big banks (these are the banks whose loans and advances exceeded N100 million at the end of 1982) were below the prescribed ceiling. Their combined loans and advances to the private sector rose by only 8% compared with the prescribed 25% ceiling. Generally, the performance of banks regarding the allocation of credit to the private sectors of the economy fell below the requirements of the credit guidelines and also below their performance in 1982.

In 1983, the aggregate loans and advances were allowed to exceed 12.5% and ceiling of 20% 0r 40% of their total deposit liabilities. Loans for Residential buildings were allowed to be for a minimum period of fifteen years, except at the instance of the borrower.

Monetary Policy Circular Nos. 16 - 18, CBN, (1984, : 1 - 5) were issued in various periods to conform with the economic situations. These policies were formulated to combat the domestic economic situation of debit burden, cash squeeze and decrease in domestic production.

CODESRIA - LIBRARY

CREDIT GUIDELINES

The aggregate credit ceiling was established on the basis of individual Commercial and Merchant banks' aggregate loans and advances outstanding in December, 1983. It was stated that each bank's aggregate loans and advances should not rise by more than 12.5% during 1984 fiscal year. However, small banks with loans and advances not exceeding N100 million as at 31st December, 1983 may be allowed to exceed the 12.5% ceiling up to 20% or 40% of their total deposit liabilities.

Furthermore, MPC's 16 - 18 stated that loans granted for the purchase of shares by Nigerians under the Indigenisation Scheme and for the buying of motor cars by workers in both public and private sector were excluded from the ceiling. The credit should not effect loan facilities granted for Agriculture and Residential buildings, should be for a minimum of fifteen (15) years except at the instance of the borrower.

Banks were required to supply as an attachment to their monthly returns information on the following items:

i) Loans and advances purchase shares under the Indigenisation Decree.

ii) Loans to employees in the private and public sectors for the buying of motor cars.

iii) Loans and advances to small-scale enterprises wholly owned by Nigerians and whose annual turnover does not exceed N500,000.

iv) Banks were required to supply on monthly basis statistics on total deposits collected from rural branches and loans and advances granted to customers in the rural areas.

CODESRIA - LIBRARY

Monetary Policy Circular No. 19, CBN, (1985, : 1 - 13) was issued to achieve the socio-economic objectives of the Federal Military Government. these objectives were determined to be achieved through monetary and credit policy measures. the policies were to stimulate and increase agricultural production, basic raw materials, increase industrial production and to decrease the rate of inflation.

On the aggregate credit ceiling, each Commercial and Merchant bank's aggregate loans and advances were made not to exceed 7% of the outstanding amount. However, small banks (banks with loans and advances not exceeding N100 million about 31st December, 1984) were allowed to expand credit up to 10% above their outstanding level of credit as at 31st December, 1985.

The sectoral allocation of the loans and advances created minor adjustments for Commercial and Merchant banks. The share of agricultural loan was raised from 10% to 12% go to facilitate the output expected from the sector. In the manufacturing sector, the share was reduced from 36% to 35% and the service industry was reduced from 12% to 11% to take care of the capacity under utilisation of plants due to shortage of imported materials in these sectors.

Based on Table 13, the monetary authorities prescribed sectoral and sub-sectoral allocation of credit in such a way that available bank loans and advances were allocated to the borrowing sectors and sub-sectors in accordance with the objective of the Monetary Policy No. 19.

The purpose of sectoral and sub-sectoral allocation of credit as currently adopted, the sectors and sub-sectors were categorised "Preferred" and "Less Preferred" Sectors.

CODESRIA - LIBRARY

Loans to the preferred sectors are minima in the sense that the banks can exceed the stipulated proportions, while loans to the less preferred sectors are maxima which implies that the banks must not exceed the stipulated proportions. The sector's allocations are altered from time to time to reflect the state of the economy.

Monetary Policy Circular No. 20, CBN, (1986, : 1 -5) was issued to restructure and revamp the economic base of the country. This circular called for an increase in bank

TABLE 13

MONETARY POLICY CIRCULAR No. 19

	COMMERCIAL BANKS		MERCHANT BANKS	
	%	Min. % Share	%	Min. % Share
A. Preferred Sectors				
Agriculture				
Agriculture, Forestry and Fishery		12.0		6.0
Industrial Enterprises		44.0		58.0
a) Manufacturing Agro-allied industries	35.0		41.0	
b) Others (Mining,quarrying,other Constr., other Industries)	9.0		17.0	
Residential Building Construction		6.0		6.0
Exports		2.0		3.0
Services (Public Utilities,Transportation and Communication)		11.0		6.0
TOTAL "A"		75.0		79.0
		Max. % Share		Max. % Share
B. Less Preferred Sector				
General Commerce (Imports and Domestic Trade)		16.0		14.0
Government		5.0		2.0
Others (Credit and Financial Institutions, Personal & professional)		6.0		5.0
TOTAL "B"		25.0		21.0
TOTAL (A) + (B)		**100.0**		**100.0**

Note: Percentage shares "A" (Preferred sectors) should be regarded as MINIMA while those in "B" (Less Preferred sectors) should be regarded as MAXIMA. It means the banks may exceed the targets from the first five (5) sectors within the overall ceiling.

SOURCE: CBN, Economic and Financial Review, Vol. 23, No. 1, p.7, Lagos 1995

CODESRIA - LIBRARY

credit during the year. in order to accommodate the expected increase in the demand for bank credit, mostly in agricultural production, the circular raised the ceiling on bank credit expansion from 7% to 10%.

AGGREGATE CREDIT CEILING

Commercial Banks: on the basis of individual, No. 20 stated that each bank's total loans and advances, however, new small Commercial banks with total loans and advances not exceeding N100 million at the end of December, 1985 were allowed to expand their credit by up to 15% or 20% of their total deposit liabilities (excluding government deposits maturing earlier than six months) which ever is higher.

Merchant Banks: The operational characteristics of Merchant Banks were analysed and compared with Commercial Banks. the Monetary Policy Circular No. 20 directed that aggregate credit should no longer be subjected to the same quantitative ceiling on its credit expansion rate, control would be in form of relating a Merchant bank's total loans and advances to its total assets. therefore, in fiscal year 1986 a Merchant bank's total loans and advances outstanding should not exceed 50% of its total assets less contingent liabilities. The details were stated as follows:

a) Adoption of appropriate pricing policies in all sectors with greater reliance on market forces and reduction in complex administrative controls.

b) An accelerated growth rate in national output.

c) Reduction in the high rate of employment.

d) Moderation in inflation rate.

CODESRIA - LIBRARY

e) Stimulation of increased financial savings and capital formation.

f) Expansion and diversification of the export base in order to restore healthy balance of payments position.

g) Encourage foreign capital inflow and increased export earnings from non-oil sources.

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES

MPC No. 20 saw the need to introduce flexibility in banks' credit operations and facilitate the effectiveness of the Central Bank's monitoring efforts. The apex bank was not ready to sacrifice government's economic objectives, so it re-classified the economic sectors from 8 to 4 sectors from the 1986 fiscal year. To achieve the economic recovery programme, agriculture was accorded high priority sector with high credit allocations.

Commercial Banks: The share of Commercial Banks' loans and advances to agriculture was raised from 12% in 1985 to 15% in 1986. However, allocation to the less preferred sector was reduced from 25% to 21% in 1986.

Merchant Banks: In the Merchant Banking operations, MPC No. 20 increased the agricultural credit from 6% in 1985 to 8% in 1986. Credit to Industrial enterprises decreased from 64% in 1985 to 62% in 1986. The Residential Building was constant at 9% and the less preferred sector was constant at 21%.

Monetary Policy Circular No. 21, CBN, (1987, : 1 - 5) was issued in 1987 to combat the adversely affected economy because of the unprecedented collapse of oil

CODESRIA - LIBRARY

prices in the international oil market. The objectives of this monetary policy circular were as follows:

a) To moderate the inflationary pressures which could arise from the operation of Second-Tier Foreign Exchange Market (SFEM).

b) Stimulate domestic financial savings and efficient resource allocation.

c) Encourage foreign capital inflow and increase export earning from non-oil sources.

d) Stimulate local production of goods and services.

e) Ensure an improvement in the balance of payments position.

In formulating MPC No. 21, it was a conscious effort to gradually dismantle the various controls which had formed the basis for past economic policies which had encouraged corruption, ceiling to commercial banks was retained at 8% in 1987 as it was in 1986.

In the Merchant bank it was observed that the 1986 policy of 50% credit ceiling was too restrictive and it may constrain their lending activities under the Structural Adjustment Programme. Therefore, the maximum proportion of Merchant banks' total assets in loans and advances was raised from 50% in 1986 to 55% in 1987.

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES

The four sector grouping operated in 1986 were re-classified in 1987 into two sector categorisation such as:

CODESRIA - LIBRARY

a) High priority sector

b) Other sectors.

This method when used was to facilitate easy credit operation of its loans and advances.

This MPC 21 directed that Commercial banks should be given high priority sector, as follows: Agricultural Production 15% of its loans and advances.

With reference to Merchant Banks, the high priority sectors were allocated credit as follows:

a) Agricultural Production 10%

b) manufacturing 40% and other sectors 50%.

Monetary Policy Circular No. 22, CBN, (1988,: 1 - 5) was issued with the same objective as in MPC No. 21 (see MPC No. 21).

AGGREGATE CREDIT CEILING

The credit ceiling on the growth of Commercial banks' credit to private sector was raised from 7.4% to 12.5% in 1988. This rate was applied to Merchant Banks.

TABLE 14

Quarter (1988)	Permissible Rate of Increase
First	3.5%
Second	2.0%
Third	2.7%
Fourth	4.2%
TOTAL	12.5%

SOURCE: Monetary Policy Circular No. 22, Published by CBN, 1988, Lagos, p.4

CODESRIA - LIBRARY

Commercial Banks: Individual bank's total loans and advances excluding money at call with other banks should not grow by more than 12.5% during 1988 fiscal year. To facilitate necessary compliance, quarterly target was given as follows:

It was stated that new and small banks with total loans and advances not exceeding N50 million as at the end of December 31st, 1987, were allowed to attain a credit base of N50 million before any ceiling on credit growth apply to them. However, MPC No. 22 directed that those banks with loans and advances of more than N50 million, but not exceeding N100 million can expand credit by not more than 15% above their base or 20% of their deposit liabilities at the end of the base period, which ever is higher.

Merchant Banks: The ceiling on growth of Merchant banks' loans and advances was based on their total current assets (less contingent liabilities). It is the net current assets was used to determine the extent to which Merchant Bank credit could grow in 1987. However, at the end of 1987, it was discovered that the method did not ensure effective control of credit on Merchant Banks' credit operation.

In 1988, it was stated that Merchant Bank credit ceiling on their loans and advances were expressed as a percentage of their total eligible assets outstanding at the end of 1987. Therefore, it was directed that effective January, 1988, the proportion of Merchant banks' total loans and advances excluding money at call with other banks to its total assets (less contingent liabilities) as at December 31st, 1987 should not exceed 47% in 1988. The concession granted to small and new Commercial banks were extended to Merchant banks.

CODESRIA - LIBRARY

TABLE 15

SECTORAL ALLOCATION OF CREDIT AS AT 1988

SECTORS	COMMERCIAL BANKS' RATE	MERCHANT BANKS' RATE
A. High Priority Sectors		
i) Agriculture Production	15.0%	10.0%
ii) Manufacturing Enterprises	35.0%	40.0%
B. Others	50.0%	50.0%
TOTAL	100.0%	100.0%

SOURCE: Monetary Policy Circular No. 22, Published by CBN, 1988, Lagos, p. 5

CODESRIA - LIBRARY

SECTORAL ALLOCATION OF CREDIT

MPC No. 22 gave priority to growth sectors of the economy, particularly agriculture and manufacturing in the distribution of bank credit, the two sector categorisation of the economy was used in 1988 for the purpose of bank credit allocation (see table 15).

Monetary Policy Circular No. 23, CBN, (1989, : 1 - 5), this circular was issued in 1989 because there was need to moderate bank credit expansion to the domestic economy. The acceptable rate of increase in Commercial and Merchant banks' loans and advances which were fixed at 12.5% in 1988 were reduced to 10% in 1989 (see Table 17). The MPC No. 23 introduced some specifics to the economic set-up such as:

a) INTEREST RATES

Central Bank of Nigeria (CBN) re-examined the issue of interest rate and it found the need to further mobilise domestic savings for productive investment and stabilise demand pressures in the economy.

Therefore, CBN decided that effective from January 31st, 1989, the Banks'

minimum re-discount rate was raised from 12.75% to 13.25% which is about 0.5% increase:

b) CASH RESERVE RATIO

The cash reserve ratio was raised by 1% for each Category of Banks based on the following classification (see Table 16).

c) LIQUIDITY RATIO

The statutory minimum liquidity ratio was increased from 27.5% to 30% for Commercial banks and from 20% to 22.5% for Merchant banks. It was stated that deposits lodged with the Central Bank of Nigeria (CBN) in respect of short-falls on loans to agriculture and small scale enterprises and cash deposit made to meet cash reserve requirement should to qualify for inclusion in computing the prescribed liquidity ratio. Penalties paid for non-compliance to previous MPC's in respect to specific ceiling on aggregate loans and advance should apply.

d) CAPITAL FUNDS ADEQUACY

In order to ensure the stability of the banking system and strengthen the Capital base of banks, CBN directed that no bank should apply its Capital funds to pay dividends except with the approval of CBN. CBN shall not grant such approval unless the bank maintains a ratio of not less than 1 : 10 of its Capital fund and its total loans and advances.

e) ABOLITION OF FOREIGN GUARANTEES

CODESRIA - LIBRARY

MPC No. 23 directed that Commercial and Merchant banks should no longer grant domestic loans denominated in Naira on the security of foreign guarantees or foreign deposits held abroad or in domiciliary accounts with Nigerian banks. If this directive is violated, the bank should deposit the amount equivalent to the loan principal granted with CBN which will be non-interest bearing.

TABLE 16

MONETARY POLICY CIRCULAR No. 23
CASH RESERVE RATIO FOR CLASSES OF BANKS IN 1989.

CLASS OF BANK	TOTAL DEPOSIT LIABILITIES	RATIO OF TOTAL CASH TO DEMAND LIABILITIES DEPOSIT %	
		OLD	NEW
A	N1 billion or more	8%	9%
B	N500 million or more but less than N1 billion	7%	8%
C	N100 million or more but less than N500 million	6%	7&
D	Less than N100 million	5%	6%

SOURCE: Monetary Policy Circular No. 23, Published by CBN, 1989, Lagos, p. 31- 33

CODESRIA - LIBRARY

The 1989 policy introduced a new dimension in the bank loan policy formulation. The 10% was allocated on quarterly basis thus:

New and small banks whose total loans and advances had not exceeded N50 million as at the end of December, 1988 were allowed to attain a credit base of N50

TABLE 17

QUARTERLY CREDIT GUIDELINES

Quarter (1989)	Permissible Rate of Decrease
First	2.3%
Second	1.7%
Third	2.2%
Fourth	3.8%
TOTAL	10.0%

SOURCE: CBN: Credit Policy Guidelines for 1989, p.4

million before any ceiling on credit growth could apply to them. But those with loans and advances of more than N50 million but not exceeding N100 million can expand by not more than 12.5% above their base or 20% of total deposit liabilities at the end of the base period whichever is higher.

SECTORAL ALLOCATION OF CREDIT

MPC No. 23, directed that the rate prescribed for 1988, (see Table No. 15) should apply for 1989. Both as basis for their sectoral credit in 1989.

Monetary Policy Circular No. 24, CBN,. (1990, : 10) was issued in 1990 to moderate inflation, stimulate production, minimise unemployment and reduce pressure on external sector of the economy.

The monetary policy in 1990 was restrictive because the money supply decreased from 14% in 1989 to 13% in 1990. However, CBN adopted broader definition of credit to the private sector to include investments and net inter-bank float such as call money and certificate of deposit.

The permissible increase in bank credit to the private sector was stated as follows (see Table 18):

In addition to Monetary Policy Circular issued in 1989, (see MPC No. 23), CBN adopted other monetary policy measures in 1990 such as;

a) The reduction of the minimum shares of Merchant banks' credit of medium and long-term nature, with maturity of not less than 3 years, from 50% to 40%. The share of their credit of short-term nature remained at maximum of 20% while

CODESRIA - LIBRARY

TABLE 18

QUARTERLY CREDIT GUIDELINES

Quarter (1990)	Permissible Rate of Increase
First	2.9%
Second	2.1%
Third	2.8%
Fourth	4.7%
TOTAL	12.5%

SOURCE: CBN Annual Report and Statement of Accounts, December 31st, 1990, Lagos, p.9 - 10

not more than 15% of the banks' total assets should be allowed for equipment leasing.

b) The increase in the ratio of Commercial banks' deposits mobilised in the rural areas to be granted in loans to finance activities in such areas from 45% to 50%.

c) The increase of the share of aggregate banks' loans to Small Scale wholly indigenous enterprise, excluding activities in general commerce from 16% to 20%.

d) The granting of approval to Commercial banks to undertake equipment leasing, up to 15% their total assets. This activity was before 1990 restricted only to Merchant banks.

e) In August, 1990, CBN amended MPC No. 24, by re-introducing the issuance of non-transferable and non-negotiable stabilisation securities to those banks whose reserves were in excess of the stipulated reserve requirements. the securities were to earn interest slightly above the prevailing Treasury Bill rate.

SECTORAL ALLOCATION OF CREDIT IN 1990

CBN continued to give priority to agriculture and industry in allocation of bank

CODESRIA - LIBRARY

credit to the economy. The sectoral percentage distribution of Commercial and Merchant banks' credit remained as per 1988 (see Table 15).

ANALYSIS OF MONETARY POLICY CIRCULARS Nos. 1 - 24

Researchers observe the similarities of all the Monetary Policy Circulars is their emphasis on increasing credit to the production sector of the economy. The intention to stimulate the production sector would have helped to reduce unemployment, increase investment and improve our balance of payment because of the export of our goods to the outside world..

All the MPC's from 1970 to 1976 are similar except MPC No. 3 which restricted loan to expatriates in the general commerce sector. In 1975, MPC No. 6 ordered that liquidity ratio of all banks holding Treasury Bills, Treasury Certificates and Call Money should not be less than 40%. It is an attempt to encourage banks to invest in government oriented programmes.

In 1977, before MPC No. 8 was issued, it reviewed previous ones, then resolved that objectives of MPC 1 - 7 were not achieved. The monetary authority made some innovations when it imposed warning on first offence of non-compliance to MPC in first month, second month non-compliance, a cash penalty was imposed.

The Capital fund policy of 1 : 10 ratio was established before dividend can be paid out; the policy implication is to ensure adequate liquidity and stability of the banks.

Banks were classified from A - D which enabled the apex bank to determine their

CODESRIA - LIBRARY

cash reserve requirements. The previously uniform policy applied by the apex bank was detrimental to good performance analysis.

The stabilisation securities policy was established so that Commercial banks can invest their saving deposits in the manufacturing sector. Furthermore, credit to production sector was increased, to ensure full employment and adequate investment in plant assets.

When MPC Nos. 9 - 11 were issued from 1978 to 1979, they constituted the previous policies, except in 1979 when MPC No. 10 increased Commercial banks' credit to productive sector to 70% and that of Merchant banks to 78%. But in April, 1979, MPC No. 11 phased out stabilisation securities but introduced advance deposit for imports. this was another way of reducing cash available to the general public.

In 1980, the Nigerian economy had started to experience cash liquidity problem and debt burden. Therefore, MPC No. 12 was issued to attract foreign capital to be channelled into productive activities of goods and services. To expand more cash base, Development Finance Institutions were introduced to intermediate in cash flow activities in the economy. this MPC No. 12 directed that 20% of total assets of banks to be channelled to equipment leasing.

MPC No. 13, issued in 1981, introduced a new economic sectoral classification from four to two. The economic system was classified as Preferred Sector and Less Preferred Sector. The objectives were the same as per 1980, but the Merchant banks' credit to production sector which is classified as Preferred increased to 79% while the Commercial bank increased to 75%.

CODESRIA - LIBRARY

From 1982 to 1983 MPC Nos. 14 - 15 were issued to combat the high inflation rate which was about 300% and the general recession in the economy. They were issued to conserve foreign reserve and finance budget deficit in Nigeria. The economy was in a very bad condition because of excess money supply, then the re-introduction of pre-shipment inspection of raw materials and spare parts to reduce fraudulent business practices.

In 1984, MPC Nos. 16 - 18 were issued as a deviation from other MPC's because it emphasised on workers' welfare. It ordered loans to be granted to Nigerians to buy share, residential building loan repayment to be minimum of 15 years. Loans were to be granted to employees to buy motor cars while Small Scale industries were to be encouraged. These MPC's encouraged the small scale industries which can participate in an intermediate economic development.

The 1985 - 1987 MPC Nos. 19 - 21 had similar objectives except the issue of reclassification introduced in 1987. The economy then was reclassified into High Priority Sector and Other Sectors. The MPC No. 20 accorded agriculture high priority sector. This policy was designed to stimulate agricultural production because of the decrease in oil revenue.

From 1988 - 1990, MPC Nos. 22 - 24 divided the year into quarters to ensure easy monitoring of MPC operations. These MPC's emphasised to stimulate production, but in 1990, the MPC No. 24 gave approval to Commercial banks to go into equipment leasing up to 15% of their total assets. The Central Bank wanted the Commercial banks to invest in plant assets with an intention to create jobs, encourage small scale industries and boost economic activities.

CODESRIA - LIBRARY

SUMMARY

The chapter discusses from inceptions, objectives and types of monetary policy circulars from 1970 to 1990. It has shown that a total of twenty-four (24) monetary policy circulars (MPC's) had been issued by the Central Bank of Nigeria (CBN) within this period under review.

Researchers had observed that the Monetary Policy Circulars were issued with various objectives such as increase domestic production, decrease or increase the quantum of money in the economy, to control credit in the economy, and penalties were established for non-compliance to the monetary policy circular.

The Monetary Policy Circular No. 8 was issued to combat the inflationary pressure in the economic set-up. This objective was not achieved because inflation rose from 13.4% to 33.9% in 1973.

Some of the highlights is that MPC's were issued to curb the high rate of monetary expansion which characterised the fiscal years 1975 to 1978. the policies had been re-classified three times and their similarities is that they emphasise on production more than agriculture or services.

Researchers observed that most of the monetary policies were formulated to achieve high production and agricultural development. These objectives were not achieved because Nigeria or the Policy formulators did not have control over the source of raw material base and some of the factors of production.

Chapter III is the literature review which expatiates the views of financial experts who had expressed opinions on monetary policy circulars.

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CHAPTER THREE

LITERATURE REVIEW

On the Methodology, Henderson (1979, 233) stated that an optimal financial policy was determined by the kind of information available to the Monetary authorities about the structure of the economy. He felt that Monetary authorities can use financial market operations such as, monetary operations, intervention, aggregate constant policy and rates constant policy to regulate the monetary system.

Hetzel (1981,: 232) questions if the monetary policy adopted reflects the behaviour of money supply desired by the Federal Reserve Bank Open Market Committee. He felt that if the Money supply targets were classified into short-term, the target of Money supply would have been determined.

Okafor (1993,: 97) reviewed the Monetary Policy mix in Nigeria in the 1980's. He felt that since 1986, the banking industry had experienced more radical changes and reforms in its operating environment than any other industry. He suggested that the ineffectiveness of monetary policy in Nigeria can be attributed to improper timing of policy, wrong choice of policy target, improper co-ordination of policies, absence of internal linkages for existing industrial base and human factors associated with the implementation of the monetary policies.

According to Falegan (1978,: 17), the first monetary policy circular, No. 1 issued in 1969, was a moderate monetary restraint policy from July 1969 to March 1972. The

CODESRIA - LIBRARY

primary economic problem at the time was how to increase domestic production to meet increased demand expectations and decrease the rate of inflation.

He stated that the outcome of sectoral selective credit control made the share of less preferred sector to decrease from 17.7% in June 1969 to 15.2% in March 1972. However, the production and service sectors increased from 32.9% to 35% from 5.4% to 8% respectively. By March 1972, he continued, governing finances had improved following reduced spending on reconstruction which were about completed. Fortunately, there was substantial overall budget surplus in 1972 for the first time since 1960. this policy eased the pressure on the balance of payments because of the increase in production stated above and it recorded an acceptable increase in external reserves.

THEORETICAL FOUNDATION OF THE STUDY

There had been various published works on Monetary Policy Circular. These works had appeared in professional and academic journals. Nwankwo (1980,: 24), Otiti (1980,: 13), Falegan (1978,:36) had contributed on the applications, defects and methods of improving monetary policy formulation and implementation. The Central Bank of Nigeria (1969 - 1990) had issued twenty-four (24) monetary policy circulars in which it had stated the way to manage Nigeria's money and credit on short-term basis. CBN established monetary penalty for non-Monetary Policy compliance on absolute Naira terms whereby CBN debits the bank that did not comply by a given sum of money.

Wong (1992,: 16) compared the monetary policy in Asian countries of Indonesia,

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Philippines and others. He feels that monetary policy circular can be effective in developing countries if their economies are market based. He suggests the introduction of treasury sill and auctioning procedures as the new Methods of improving Monetary Policy implementation.

Okafor (1993,: 97) stated that there had not been a model to measure monetary policy compliance. This non-compliance makes the job of monetary managers (CBN) to be very difficult because performance measurement becomes difficult.

Dernburg and McDougall (1976,: 212) state that Keynesian Monetary theory and other classical economists viewed monetary policy as operating upon the level of aggregate spending, which affects interest rates and credit availability indirectly.

Ogundipe (1978,: 16) analyses the banking industry since the inception of Monetary Policy Circular in 1969. He states that banks derived their economic power from the various Monetary Policy Circulars because it assigned them the role of mobilising savings which are suitable for long-term investment.

Ogbe (1980,: 5) states that monetary policy is designed to control the quantity, price and direction of money supply in pursuit of national economic goals. He contends that the Monetary policy instruments were designed to ensure adequate monetary supply to the economy, ensure economic growth and to ensure that such supply does not generate inflationary pressure.

Henderson (1979,: 232) used Discrete Time Model of Monetary policy to deduce that the nature of the optimal financial policy is determined by the kind of

CODESRIA - LIBRARY

information available to policy makers about structure of the economy and expected shock in the economic system.

Hetzel (1980) categorises the short-term and long-term Federal system and control of money supply in the 1970's. He suggests a target approach to monetary policy formation, whereby there should be short-term target and long-term target desire by monetary authority.

Most of the works had been on how and when to formulate monetary policy. These works had focused on the monetary policy formulator's point of view and none had asked if the implementers had complied. Theoretically, when we suggest the ways to formulate a good monetary policy, we should question if the banks and other financial institutions comply to the policies. If they comply, what is their rate of compliance? It is not a good policy to have all the banks in one basket irrespective of their asset base or liquidity position.

These view of experts are theoretical background of his research. Theoretically, it focuses on how to monitor bank operations against an established standards.

CODESRIA - LIBRARY

MONETARY POLICY INSTRUMENTS

Uzoaga (1981) defines monetary policy as "the management of the expansion and contraction of the volume of money in circulation for the specific purposes of achieving certain declared national objectives". He contends that it involves changing the money supply and credit with expectation that such changes will influence total spending, output, employment and price level. Generally, the objective of monetary

policy could vary from time to time, depending on the state of an economy at a given point in time. In Nigeria, it is the Central Bank of Nigeria that is responsible for the conduct of monetary policy.

There are many instruments which the monetary authorities use to influence the money supply and the allocation of credit to the economy. these instruments are:

1. Open Market Operation (OMO)
2. Rediscount and Discount rates
3. Reserve Requirements
4. Moral Suasion
5. Special Deposits
6. Direct Credit Control
7. Exchange Rate
8. Interest rates

OPEN MARKET OPERATION

Open Market Operation (OMO) is the buying and selling of Government Securities by the Central Bank. When the Central Bank conducts open market sales, it sells government securities and by so doing, it reduces the amount of excess reserves in the banking system. because customers draw on their accounts to pay for the bills they buy. By reducing excess reserves, this action reduces the bank's capacity to

CODESRIA - LIBRARY

create money and it reduces the money supply. On the other hand when Central Bank puts money into people's hand by decreasing bank reserves, then banks' capacity to create money increases.

During an inflationary trend, the Central Bank can sell inflation securities, thereby reduce the cash position of Commercial banks and their ability to expand credit. However, in a deflationary situation, Central Bank can buy securities from the banks thereby provide them with additional funds which can enable them to expand credit. Uduebo (1985,:.5) contended that the policy of Open Market Operations (OMO) has so far not been adopted in Nigeria because of prevailing factors such as:-

1. The under-developed nature of our financial system.

2. Inadequate supply of necessary securities.

3. The fact that interest rates are fixed for government and the government securities account for the bulk of total securities in the Nigerian money and capital market.

The researcher is of the view that Open Market Operation was introduced by CBN in 1992. It had been an instrument of fund mobilisation in any economy. However, Ahmed (1990) contended that OMO instrument will be introduced in 1991. The switch to this system requires elaborate legislative and institutional changes in the financial system. Central Bank will streamline the reporting format and procedure for banks, generate timely supply of banking data and resolve the problems of weak financial institutions. Because of these problems, the Open Market Operation system

CODESRIA - LIBRARY

will be adopted at early 1991 for monetary control.

Lindsay (1970,:.515) stated that the U. S. Federal Reserve Bank eased the impact of short-term swings in velocity of money through the Open Market Operations (OMO). When there was no confidence in the banks' ability to redeem their liabilities, it could be instigated at the time by the willingness of the Central Bankers to be lenders of last resort. This idea of lending can be tempered in advance by identifying certain types of bank lending as a temptation to avoid bringing down some banks down in an attempt to lend from them. Through the Open Market Operation, the Federal Reserve Bank would prevent the over-issuance of money in expansive times and its under-issuance when money was needed for the revival of the economy.

Klein (1970,: 200) stated that Open Market Operation (OMO) is the most potent instrument of Monetary Policy which Federal Reserve Bank (FRB) has at its disposal. FRB purchases U. S. Securities and bankers' acceptances from the non-bank public. If FRB takes this action, it can directly decrease both Commercial bank reserves and the volume of demand deposits.

THE USE OF OPEN MARKET OPERATION TOOL

Klein revealed that Federal Reserve Bank was established in 1913 and Open Market Operation (OMO) was introduced in 1917. The OMO and bankers' acceptance were used to facilitate the role of the United States International Trade through the development of a bankers' acceptance market. However, in practice, OMO and bankers' acceptance had never played a significant role in the implementation of monetary policy, whereas government securities had assumed a very important

CODESRIA - LIBRARY

position in the Monetary Policy formulation.

The Open Market Investment Committee was formed to buy and sell securities for all Federal Reserve Banks. However, it was alleged that membership did not include representatives from each Federal Reserve Bank. In 1930, the membership of the committee was broadened to include representatives of each Federal Reserve Bank and it was renamed the Open Market Policy Conference. However, Klein contends that the Banking Act of 1933 formalised this arrangement and renamed the conference the Federal Open Market Committee (FOMC). The Act denied each Federal Reserve Bank the right to engage in Open Market Operations on its own account. Although an individual bank could refrain from participating in FOMC operations if it wished to do so. However, the Banking Act of 1935 removed the last sentence which deals with the right of individual banks, but left FOMC membership composition.

REDISCOUNT AND DISCOUNT RATE

This is the cost of borrowing from the Central Bank by Commercial banks. To increase the money supply, the Central Bank of Nigeria lowers the Discount Rate, making borrowing more attractive by the Commercial banks. The Commercial banks will in turn lend to members of the public, since their excess reserves had been increased. The rediscount rate is important because it is the basis in which rates were structured. Rediscount rate was first used in Nigeria in April 1960, when the first Nigerian Treasury Bills were issued. CBN (1985) stated that the rediscount rate was increased from 4% to 5% while all interest rates were also revised upwards by 1% point. Changes in the rediscount rate and the interest rate structure were again made

CODESRIA - LIBRARY

in subsequent years such as 1968, 1975, 1977, 1978, 1979, 1984 and 1985.

Adekanye 1986,: 129) stated that discount rate does not directly affect the reserve of Commercial banks. Its direct impact is on the cost of credit and it is the oldest instrument used by Central Bank to control money supply. Furthermore, the Central Bank is able to use the discount rate because of its position as the lender of last resort and because the Central Bank is the primary source of Commercial bank reserve assets.

He contended that in developing countries only the Central Bank can raise rates. When the discount rate is increased, it leads to fall in demand for credit, thereby decrease spending activity. The discount rate cannot be an effective instrument of monetary policy, where Commercial banks have excess reserves or do not depend on the Central Bank for their reserves.

PROBLEM OF DISCOUNT RATE IN DEVELOPING ECONOMY

In many developing economies discount rate is not directly related to the family of interest rates. It is an indication of CBN's willingness to lend to Commercial banks at a nominal or subsidised rate. Discount rate is used to direct credit to specific favoured sectors of the economy. Some countries have adopted the discount rate to suit their peculiar interests through the use of a floating or a multiple rediscount rate. The rate of amount of rediscounting which the bank may desire, so that at any given point in time each Commercial bank would be paying a different rediscounting rate. However, sometimes, the same Commercial bank may be paying different rates for different categories of rediscounting.

CODESRIA - LIBRARY

RESERVE REQUIREMENTS

This is used under the fractional banking system. The Central Bank of Nigeria would require the Commercial banks to keep certain percentage of money behind their demand and time deposits. The reserve requirement regulates the money in circulation in the following ways. When reserve requirements are raised, this puts pressure on the reserve of Commercial banks to decrease. They have to liquidate some of their loans and investments, in order to acquire the necessary reserves. The reserve (expansion of money supply) is true when the reserve ratio is lowered. Hence, there is an inverse relationship between changes in reserves ratio and the ability of Commercial banks to affect the money in circulation.

The reserve requirement can be in any of the following formation:-

1. Cash ratio
2. Liquidity ratio
3. Special deposits
4. Supplementary reserves.

The cash ratio is designed to raise or reduce the liquidity of banks. It is applied in a discriminatory manner because the banks are grouped into four (4) categories according to their ability to maintain largest reserve ratios.

In 1985, the ratio ranged from 2% for banks with total deposit liabilities less than N30 million Naira while banks with total demand liabilities exceeding N300 million

CODESRIA - LIBRARY

Naira the ratio is 5%. The liquidity ratio was fixed at 25% to enhance the ability of banks to meet cash withdrawals on them by their customers.

Jacobs, Farwell and Neave (1972,: 158) opined that Federal Reserve Bank classified Commercial banks in the U. S. A. into:

a) Central reserve city

b) Reserve city

c) Country banks for easy administration of reserve requirements.

A distinction was made between time and demand deposits and reserves required against each type of deposit differ in size. the Federal Reserve Bank can control member bank credit by varying the percentage rates of reserve requirements as well as by controlling the amount of reserve available.

They contend that the circumstances that led to the introduction of the statutory reserve requirement was unique. The excess reserves in Commercial banks had been considered to be abnormal. But in the early and mid- 1930's, a combination of very low short-term interest rates and gold inflow created a large volume of excess reserves. It was feared that these excess reserves will lead to inflation. The Federal Reserve felt that increasing the cost of rediscounting by increasing the rediscount rates, could not mop up these excess reserves because Commercial banks were not indebted to the Federal Reserve; ,neither could open market sales absorb the excess reserve because the amount of securities owned by the Federal Reserve was less than the amount of excess reserves. Federal Reserve felt that increasing reserve

CODESRIA - LIBRARY

requirement could reduce excess reserve. So, the power to use reserve requirement was added to the Banking Act of 1935.

MORAL SUASION

This is a process by which the Central Bank of Nigeria persuades the Commercial and Merchant banks to adhere to its monetary directives. It involves holding of periodic meetings (formal or informal) with leaders in the banking industry. It had been argued by Uduebo (1985,: 7) that this process had not been effective in Nigeria because of the structure of ownership of these banks. Adekanye (1983,: 225) opined that it is a process by which the monetary authority (CBN) makes it known to Commercial bank officials through informal discussions the direction in which they wish monetary policy to proceed and the contribution expected from them. Such discussion may lead to agreement and commitment on the part of Commercial banks but there are no legal basis of forcing Commercial banks to comply to the discussion. However, bank officials are aware that behind the discussion, there is tendency that the monetary authorities would adopt appropriate monetary policy and involve the use of legal instrument to achieve the policy objectives if Commercial banks did not co-operate with the monetary authorities.

CODESRIA - LIBRARY

SPECIAL DEPOSIT

The Central Bank of Nigeria Act (Amendment No. 3) Decree No: 50 of 18th September, 1968, gives the CBN the Power to call for special deposits from the Commercial banks. This is in addition to those which they normally held as part of their cash reserves. this is used to put pressure on the reserve position of Commercial

banks in times of excess liquidity. This method was used in 1986, to mop up 4.2 billion Naira from the economic system.

EXCHANGE RATE AS MONETARY POLICY INSTRUMENT

The exchange rate of the Naira is the rate at which the Naira is exchanged for other currencies. Nigeria had used various methods to determine the exchange rate for Naira. These methods are pegging, managed float and import weighted basket.

Under the pegging systems, the Naira was pegged to the dollar because of the collapse of the gold standard which previously guaranteed global exchange rate stability.

Uduebo (1974,: 7) stated that in April, 1974, the Naira exchange rate was allowed to float. At the same time, a policy of gradual appreciation of the Naira was adopted, taking into account variables, such as, balance of payments, the rate of domestic inflation and changes in the value of the currencies of Nigeria's major trading partners. The float system was not guided by the developments in the international exchange markets, therefore, it did not work.

In a review of the Monetary Policy, Enuenwosu (1980,: 21) made a comprehensive analysis of the Monetary Policy and exchange rate from 1970 - 1980. He enumerated the objectives of monetary policies, but stated that within the period the monetary policy stance shifted from relative tightness to relative ease. The main factor that influenced the policy formulation was the state of the economy. There were four phases of the monetary policy that were pursued from 1970 - 1980. These were

CODESRIA - LIBRARY

phase I - 1970 to March 1972 - is period of restrictive monetary policy. Phase II - April 1972 to March 1976 - period of expansionary monetary policy. Phase III - April 1976 to March 1979 - period of monetary restraint. Phase IV - April 1979 to 1980 - relative monetary ease period.

The researcher is of the opinion that the effectiveness of monetary policy is dependent on the instrument of the policy and prevailing economic environment. The Nigerian economic environment is such that it does not have reliable data collection process that can absorb sophisticated instrument like Open Market Operation (OMO) at this time. Therefore, the use of orthodox techniques of monetary policy as a result of the narrow base of the financial market was the method available at the time. These instruments are direct credit control, reserve requirements, moral suasion, variable rediscount rate and interest rate, these instruments may not achieve the result because of weak data generation.

Ahmed (1990,: 7) had argued that the Naira had been over-valued in the past, but there had never been a statistical evidence of the over-valuation. The impact of over-valuation was the increase in the level of imported goods and services which may have been imported for industrial development.

The researchers feel that various methods had been used in the past to find the level of Naira value. Such methods like pegging, managed float and weighted basket were used but the exchange rate had not been determined. The present bidding system had not been able to stabilise the rate of Naira. The present method of over-valuing of other currencies such as dollar and sterling over Naira causes another

CODESRIA - LIBRARY

hardship to the people of Nigeria.

The average rate for a year should be used to determined the value of Naira in the exchange rate market. This average can be achieved by using the value of all the bidding over the number of bid meeting in a year to determine the Naira value.

DIRECT CREDIT CONTROL

Is a policy of direct control of credit which was applicable not only to Commercial banks but also to non-Commercial bank intermediaries such as Merchant banks. To control the credit operations of the banking system, monetary authorities imposed credit ceilings on the overall expansion of credit in which it takes into account acceptable levels with reference to some economic variables such as Gross Domestic Product (GDP) reserves and money supply.

CODESRIA - LIBRARY

MONETARY POLICY AND CREDIT CONTROL

Otiti (1981,: 13) stated that there is relationship between money and monetary policy. He defined monetary policy as a measure designed to regulate and control the value, cost and direction of money and credit in he economy to achieve a specific objective. These measures may be to solve some macro-economic policy objectives which may change from time to time.

The effectiveness of monetary policy instruments had been hampered by various factors like lateness in diagnosing the ills to be remedied and application of the half measure monetary policies which may compound the economic problems and impossible to evaluate performance. The effectiveness of monetary policy

depends upon the instrument of credit control applied. the techniques of monetary policy depend upon the instrument employed.

Among all the techniques of monetary control available to Central Bank of Nigeria, the selective variation of the direct control method was the most popular because of its greater relevance to Nigeria's economic circumstances. Though the sectoral allocation of credits was a good idea, but it suffered a major defect because borrowed funds may be diverted to other purposes.

The researchers express an opinion that the banking industry sectoral allocation had been fairly effective because it had helped to re-direct the bank credit to the preferred sector of the economy. For example, in 1969, when the credit guidelines were first introduced, the share of Commercial banks' loans and advances to the preferred sector was 28.2% but it rose to 64.0% by December, 1978 and it was over 70% in 1980 (see Table 19). The selective credit control as an instrument of monetary policy is usually effective in a situation where there is a strong and widespread demand for bank advances. The researchers conclude that monetary policy of a country is important aspect of her overall economic policy. If an appropriate monetary policy is instituted, it will enhance economic growth by adjusting money supply to needs of growth, by directing the flow of funds in the required channels and by providing institutional facilities for credit in specified fields of economic activities.

Olashore (1977,: 19) states that lending is part of the monetary policy circular stipulations. But the ability of an individual business or government unit to obtain

CODESRIA - LIBRARY

credit depends on the prospective creditor's faith in borrowers ability and willingness to pay. He opined that there were some variables banks consider before if can extend credit to a prospective investor. Such variables as borrowers property, business acumen, willingness, his integrity were considered before a credit can be extended. He enumerates the four "C's of Credit", such as character, capacity, Capital and collateral as some of the factors that guide the lender.

The four C's of credit which he has stated are at variance with what the researcher called the five "C's of credit" which the borrower needs on his day to day

TABLE 19

MONEY SUPPLY AND SOME OF ITS DETERMINANTS (%CHANGE)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Credit Domestic Economy (Net)	21.7	50.9	43.7	28.6	10.5	4.9	12.7	12.4	26.1	-14.1
Credit to Private Sector	23.8	34.3	17.8	8.6	4.8	5.9	26.8	10.1	21.6	3.9
Credit to Government Sector (Net)	4.4	84.1	59.3	50.3	15.3	4.3	2.5	14.4	43.9	-33.5
Monetary Supply (M_1)	50.1	5.6	3.1	12.3	8.2	8.7	-4.1	17.1	30.0	21.5
Rate (MRR)	5.0	7.0	9.8	8.0	10.0	10.0	10.0	11.1	12.5	16.9

SOURCE: CBN: Economic and Financial Review, Vol. 2, No. 1, June 1992, p. 78

operation. The working capital is the fifth criteria for the acquisition of short-term assets and operation of the company.

Security considerations are of particular importance in developing countries like Nigeria where information on character, integrity and credit worthiness of the borrowers are not readily available because there is no credit information bureau,

CODESRIA - LIBRARY

We could observe that the credit to the economy was 21.7% while the private sector credit was 23.8% (see Table 19), in 1980. However, credit to government sector was 4.4% and money supply was 50.1% in 1980.

Credit to domestic economy increased to 50.9% in 1981 but it continued to decrease from 34.7% in 1982, 28.6% in 1983, 10.5% in 1984, 4.9% in 1985, but it increased to 12.7% in 1986. The credit decreased to 26.1% and -14.1% in 1989. We could see that the lowest credit period was between 1984, 1985 and 1986, because these periods were Structural Adjustment Programme when the economic policy was self-reliance.

Credit to government was highest in 1981 at 84.1% because of the government debt position to domestic and external creditors. The credit decreased up to 4.3% in 1985 and 2.5% in 1986. The credit increased up to 43.5% in 1988 and -33.5% in 1989.

Money supply (M_1) was 50.1% in 1980 but it decreased to 5.6% in 1981, 3.1% in 1982; increased to 12.3% in 1983, it decreased to 8.2% in 1984, 8.7% in 1985 and -4.1% in 1986; it increased to 30% in 1988 and decreased to 21.5% in 1989. Based on Table 19, we conclude that there is relationship between money supply and level of credit available to the economy.

the Minimum Rediscount Rate (MRR) started with 5% in 1980, it rose from 7% in 1981 to 10% in 1984 up to 16.9% in 1989. The increase in rediscount rate was used to discourage borrowers because CBN wants banks to be prudent in their financial activities.

CODESRIA - LIBRARY

INTEREST RATE

Enuenwosu (1980,: 23) stated that the interest rate structure had remained fixed from 1970 - 1980. The rediscount rate was slowly fixed at 4.5% - 6%. Commercial bank lending remained stable with minimum rate fixed at 7% between 1970 and 1974. While from 1975 - 1980 it ranged from 6% - 7%. The banks' maximum lending rate was unaltered at 12% between 1970 and 1974 and fluctuated between 9% and 11% from 1975 - 1980.

Generally, the researcher knew the effects of changes in interest rate on economic, financial sector and investment decisions. When interest rate increases, it curtails borrowing because of high cost of capital, thereby reduces business investment activities. there are multiplier effect on the decrease in national income and expenditure, which would have improved the balance of payment position of the country.

The researcher thereby concludes that the Monetary Policy produced both positive and negative consequences for the economy. On the positive side, there were decrease burden of servicing outstanding external debt as well as a general downward movement in export prices. However, the negative effect was the depreciation of the Naira which means reduction in the currency value of export earning which was a disincentive to capital inflow and an incentive to the capital repatriation.

In view of the overall high liquidity of the economy, bank lending rates were reduced from a range of 7 - 12% to 6 1 9% in 1975. The Central bank minimum

CODESRIA - LIBRARY

rediscount rate was reduced from 4.5% to 3.5% while Treasury Bills, Treasury Certificates rate were each reduced by 1 1/3% points. In order to encourage increased savings, minimum deposit rate was raised by 1% point in the same year.

Although there was nothing wrong with mopping up excess liquidity, but the researcher is of the opinion that there are no clear parameters on which government would determine this excess liquidity.

Hence, government may be chasing shadows as *Time International* of July 1989 - 17th edition, puts it. Therefore, it had been a common practice for government to overshoot its expenditure thereby contribute to the excess liquidity problem.

CODESRIA - LIBRARY

The researcher ponders with the illustration below to picture the effect of decreased money supply (MS) on investment (Illustration 3.1)

The illustration (3.1) relates Interest rate (I.R) to Money Supply (MS). It states that money may be demanded for transaction, precautionary and speculative purposes. At r^0, the MS_0 the interest rate charged equates money supply. However, when Interest rate decreases to r^1 there is a decrease to MS_1, therefore, a liquidity trap has been created. But when $r^2 = MS_2$ the excess income may be for transaction, precautionary or speculative demand for money.

The researcher deduces from the above graphs (MS) that decrease in money supply from MS_0 to MS_2 achieves a lower level of investment due to increase in interest rates that (see Illustration 3.1) accompany decrease in money supply. Therefore, the idea of stemming the economy which may be the Central Bank's

intention may not be realised because of the resultant high interest rate which will muzzle the investment curve, hereby generate a cost push inflation. And when this

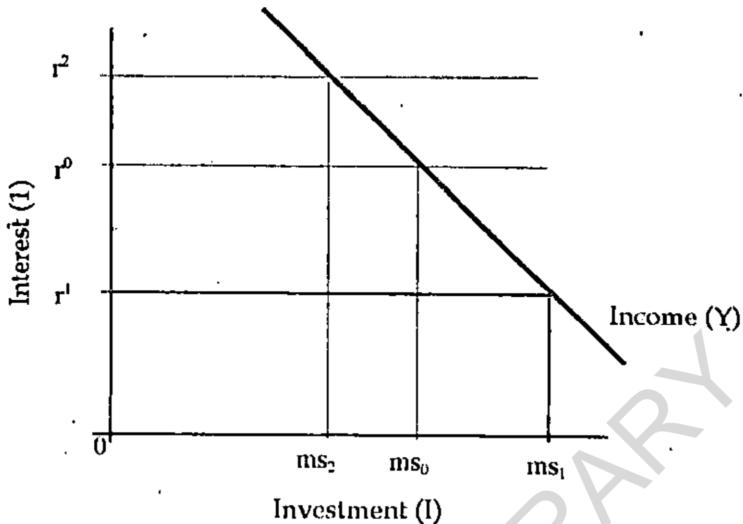

Figure 3.1: The Effect of Money Supply on Investment

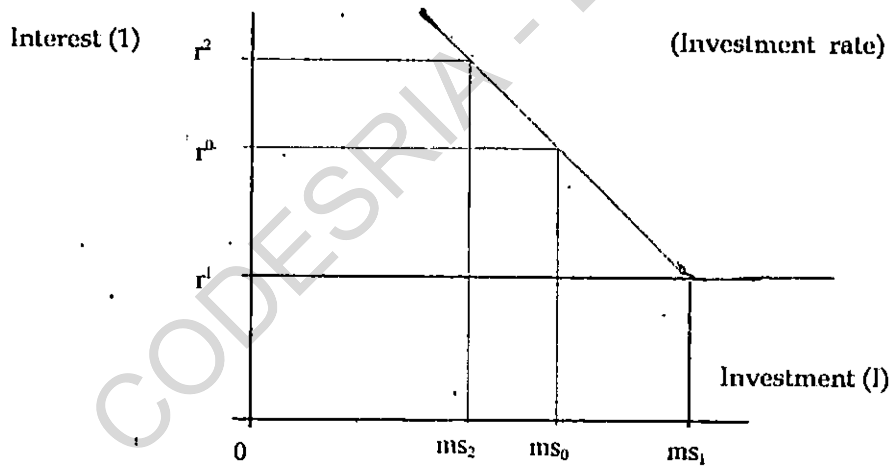

Figure 3.2: The Effect of Interest Rate on Investment

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happens the standard of living which the entire monetary policy package is intended to improve will be ineffectively illusive. However, the effect on interest rate and money supply confirms Keynesian trap concept.

The entire monetary policy package employed for the years under review are strong economic stabilisers and stimulants were well intentioned. But to what position have these measures brought us. According to the Central Bank of Nigeria Annual Report (1988) , a labour force sample survey conducted in September, 1988 by the Federal Office of Statistics (FOS) showed that the rate of unemployment in the country was 4.7%. This is a conservative estimate. Though there were some posture of growth in the Gross Domestic Product and balance of payments positions over the years, it was demonstrated that the foregoing distortion existed in the economy. These distortions affected interest rate, money supply and investments.

MONETARY POLICY AND THE AGRICULTURAL SECTOR IN THE 1970's

According to Mohammed (1987,: 9) stated that in order to provide the necessary financial backing to agriculture the government made it part of the Monetary Policy in 1972 in which it assigned specific allocation in 1972 of banks' credit facilities to agriculture. He stated that during the fiscal years 1972/73 to 1974/75 the government directed that 4% out of the total 0f 45% Commercial banks' loans and advances should go to the agricultural sector was increased to 6% out of a total of 46% allocation to "Production Sector".

The researcher feels that this action was necessary to encourage agricultural activities, but the 4% was too small compared to the total loan portfolio in the banking system. In the 1970's agriculture was de-emphasised because of the oil boom. The monetary policy came to the. time the world in general was experiencing economic recession. During recession, agricultural lending appears risky because of low

CODESRIA - LIBRARY

business activities. In 1971/72 when there was no mandatory allocation of Commercial bank loans and advances to agriculture, the bank lent N11.6 million representing 2.9% and N10.5 million representing 2.1% (see Table 20).

MONETARY POLICY AND THE AGRICULTURAL SECTOR IN THE 1980's

In 1979/80, the total share on Loans and Advances of Commercial banks were assigned to agriculture and "agro-allied" industries, where increased to 9%. The policy stipulated that 6% is for agriculture in which 3% was for "agro-allied" which was previously classified as part of manufacturing.

During the year 1979/80, the monetary policy circular directed all banks to

TABLE 20

COMMERCIAL BANK SECTORAL DISTRIBUTION OF CREDIT TO AGRICULTURE (INCLUDING FORESTRY AND FISHING) 1979 - 1980

1	2 Total to the Economy	3 Total to Agriculture		4 Annual Change Agriculture		5 Annual Change in % to Agric.	6 MPC Difference between Government Set Target and Performance	
Year	N million	N million	%	N million	%		MPC	%
1971	393.4	11.6	2.9	-	-	-	-	-
1972	503.9	10.5	2.1	-1.1	52.4	-0.8	4	+1.9
1973	579.6	16.0	2.8	+55	52.4	+0.7	4	+1.2
1974	754.9	25.3	3.4	+9.3	+58.1	+0.6	4	+0.6
1975	977.1	26.8	2.7	+15.0	+5.9	-0.7	4	+1.3
1976	1561.6	51.5	3.3	+24.7	+92.2	+0.6	6	+2.1
1977	2208.0	86.1	3.9	+34.6	+67.2	+0.6	6	+2.7
1978	3217.4	146.7	4.6	+60.6	+70.4	+0.7	6	+1.4
1979	4128.9	258.5	6.3	+111.8	+76.2	+1.7	6	-0.3
1980	4728.9	38.5	6.5	+50.0	+19.3	+0.2	6	-0.5

SOURCE: Various issues of CBN Monthly Report (1970 - 1980)

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establish agricultural departments staffed with qualified agriculture and credit experts.

Merchant banks were directed to increase their credit to agriculture from 4% to 5% of their total lending and 4% to "agro-allied" sector.

In 1990 financial year, allocation of Commercial banks' loans to agriculture was further raised to 8% while the agro-allied industries was constant at 3%. This rate adjustment increased the productive sector to 56%.

The researcher feels that most of these loan rate adjustment were aimed towards encouraging the development of agriculture but the Commercial and Merchant banks were sceptical on the viability of agricultural projects. Their scepticism was observed in 1975/76 fiscal year in which out of a total of N1,561 million Commercial bank lending, to the economy, their lending to agriculture sector was N51.5 million (see table 20) which represents 3.3% of the total Monetary policy guidelines for the year which stipulated 6% allocation to agricultural sector. there was a shortfall of 2.7% or about N42.2 million in cash terms.

In 1976/77, the total Commercial banks' loans to agricultural sector went up by 0.6% to 3.9% of the total Commercial Banks' loans to the Nigerian economy as a whole. However, if the researcher compares the rate of 6% allocated by the Monetary Policy guidelines for the year, the figure showed a shortfall of 2.1% or N46.4 million of total Commercial bank lending to the economy for this year which amounted to N2,208 million with share going to agricultural sector amounting to only N86.1 million or 3.9%.

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During the 1977/78 fiscal year, the Monetary Policy Circular called for 6% allocation to the agricultural sector but Commercial banks were able to give 4.6% of their total loans to the economy to the agricultural sector. Commercial banks' total loan to the economy for that fiscal year was N3,217.4 million but of which only N146.7 million went to the agricultural sector. This represented a shortfall of 1.4% or N46.3 million in cash terms.

The researcher is of the opinion that in general terms, Commercial banks had performed better in meeting the Monetary Policy stipulations in respect to agriculture. the compliance rate had been above 50% because in 1975/76, the monetary policy guideline stipulated 6% it gave out 3.3%, in 1976/77 the monetary policy guidelines stipulated 6% the banks gave out 3.9%, while in 1977/78, the guideline was 6% but the Commercial banks gave 4.6%.

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MERCHANT BANK AND AGRICULTURAL SECTOR

Soyingbe (1981, : 15) stated that in 1976/77 fiscal year Merchant banks were expected to adhere for the first time to the CBN Monetary Policy Circular guidelines on sectoral allocation of their loans and advances to agricultural sector. The performance of Merchant banks as regards their credit allocation to the agricultural sector was below expectation because of liquidity problem of Merchant banks.

The researcher compares the performance of Merchant banks to that of Commercial banks showed poorer picture on the part of Merchant banks. The Commercial banks' credit allocation to agricultural sector showed they complied above 50% rate. We may state that the better overall performance of Commercial

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banks as compared to Merchant banks could be explained by the differential in resource base. The total asset/liabilities of Commercial banks stood at N12,709.4 million in 1980, while Merchant banks assets and liabilities totalled N795.4 million in the same year and this may contribute to poor performance on the part of Merchant banks in the agricultural sector loans.

QUANTITY THEORY OF MONEY AND MONETARY POLICY

Dernburg and McDougall (1976,: 428) stated that Keynesian Monetary Theory and other classical economists viewed monetary policy as operating upon the level of aggregate spending indirectly through its effect on interest rates and credit availability. In their view, an increase in money supply lowers the relative supply of alternative financial assets which reduces interest rates and it increases expenditure on goods and services.

Modern monetary thinking has produced two schools of thought. The first view is known as the "Monetarist" or "Modern Quantity Theory" which says that Monetary Policy would be effective without interest rate changes. The second view known as "Radcliffe" or "Gurley-Shaw" maintained that the demand for money would shift under the impact of monetary tightness, so that the effect of the tightness may be insignificant but the value of the elasticity's of given demand and supply functions may be different.

The monetarists led by Milton Friedman of the University of Chicago School of Economics had gained substantial influence because they believed that an increase in money supply changes asset holdings and produces portfolio adjustment. But in

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Keynesian theory, the initial impact of such action is to produce portfolio adjustment purely in financial assets. Subsequently, spending effect would occur because of the interest rate changes. In view of the monetarists, an increase in the money supply would produce direct change in spending, because goods and services are permanent income. However, it was one way of adjusting port folios in response to a change in relative supply of some assets.

It was argued that if wealth were increased by expansionary monetary policy, one could believe that spending would increase. However, monetary policy effected through the purchase of, and sale of securities on the open market has no effect on wealth except the policy changes interest rate. A good example is that if bonds are purchased by Central Bank, and if this has no effect on interest rates, the result is a simple one-for-one swap of assets with no change occurring in the value of private wealth.

However, if the interest rate does fall when the money supply is increased, there would be an incréase in private wealth as the result of capital gain. this may stimulate spending through conventional interest investment mechanism because of the wealth effect of falling interest rates. If the effect of interest rates materialises, it was out advancement over Keynesian's theory of interest rate adjustment.

According to International Business Week (1981, June 1st,: 15), European Central Bankers could not control the high interest rates as a result of Reagan Administration's approach to monetary policy. The Treasury in U. S. A. tried to curb inflation and bring down interest rates, its counterparts in European Central Banks

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were commenting on the impact on the Reagan's Monetary Policy on European economy.

They warned that the U. S. policy of monetary control would be disaster because they believed it guaranteed interest rate volatility. They believed, the U. S. Federal Reserve Board attempted in vain to control monetary measures such as M_{1B} that were inherently unstable.

However, International Business Week (1981, June 1st,: 16) stated that the apostles of supply side economics notably Jude Waniski and Arthur B. Laffer of Poly-economic Inc., a political consulting firm attached to Reagan Administration were accused to be adhering to the monetarists, who tried to regulate the economy. They suggested a return to gold standard as a base for currency value determination.

GOLD CONVERTIBILITY

Some economists (supply-siders) had argued that an Administration could reach its goals which are lower inflation rate and strong growth, simultaneously if it returned to gold standard. By doing this, the government can guarantee the purchasing power of its currency; because gold standard was an anti-inflation policy.

Monetarists had consistently disagreed with the supply siders that strong growth and return to gold standard could stabilise a currency. They had argued that interest rates would decline as the economy softens for a short time in response to a consistent tight monetary policy.

Waniski in his view, said that monetarists led by Milton Friedman would doom

CODESRIA - LIBRARY

the economy into recession if their ideas were implemented.

CAN THE CENTRAL BANK CONTROL QUANTITY OF MONEY?

The monetarists do say "Yes" to the above question because if Central Banks focus on controlling bank reserves or monetary base, the raw material out of which banks create money will make government to exert enough control over business to bring about price stability and satisfactory economic growth.

But supply-siders were of the view that quantity control of money supply would be impossible to achieve because banks, individuals, and corporations had invented new monetary and credit instruments to serve as money in which the monetarists call money is very difficult to define. They argued that by the Central Bank placing limit on the cheques and savings deposits that are included in the monetary aggregate that it tried to control, such as M1B is causing the kinds of money not included in that aggregate, like the money market funds and overnight deposits which were excluded, makes the monetarist definition of money very narrow.

SHOULD THE CENTRAL BANK TRY TO CONTROL THE QUANTITY OF MONEY?

The monetarists were of the view that such control of the quantity of money was the key to economic success. But in the opinion of the supply-siders, quantity control of money was an inappropriate monetary policy. The supply-siders argued that never in the history of banking had any institution provided guarantee of the quantity of assets or the quantity of its liabilities (which include the bank deposits that made up most of the nation's money supply). Commercial banks had guaranteed the quality of

CODESRIA - LIBRARY

its assets, therefore, Central Bank should do same but this quality control can only be guaranteed by gold standard. The only thing the government can produce was a quality product which are the money supply as opposed to regulating the quantity of money in the market place.

Ogbe (1980,:51) stated that Monetary Policy is designed to control the quantity, price and direction of money supply in pursuit of national economic goals. He argued that monetary policy instruments were designed to ensure adequate monetary supply to the economy, ensure economic growth and to ensure that money supplied did not generate inflationary pressures.

He stated that from 1969 when the first monetary policy was issued, the share of Commercial banks' loans and advances to the preferred sectors of the economy was 28.8% but by December, 1979, the share of the preferred sector's loans and advances had risen to 70.3%. The highlights of the monetary policy guidelines since 1979 was that banks were required to pay special attention to agriculture, agro-allied industries, exports, residential construction and small scale indigenous enterprises.

When banks violated these guidelines, that is, if they do not meet credit targets in the area of agriculture and residential building construction, they were required to deposit the shortfall with the Central Bank. Arrangements were worked out whereby the CBN grants loans of the equivalent amounts of the shortfalls to the Nigerian Agricultural and Co-operative Bank and the Federal Mortgage Bank of Nigeria respectively. The equivalent amount of deposits lodged with the Central Bank were not to be counted as part of the specified liquid assets of the banks concerned and

CODESRIA - LIBRARY

would not attract any interest.

The researchers are of the view that the Keynesian theory of interest rate and monetarist quantity theory of money supplied were propounded at the time the economies were not as complex as it is today. These theorists considered only the economies of U. S. A. and Europe as a model for other countries. Some of the economies were under-developed, agricultural and unplanned, therefore, any theory that negates the economic environment of other countries is null and void.

In these theories the attitude, culture and economic norms of Third World countries were not considered as a variable in the acceptance or implementation of these theories. Most of the Third World countries' economic planning had been on control of interest rate or money supply. These actions had helped to cause economic disorder as we had in Nigeria during the period of interest rate deregulation. The control variables were not built into the Nigerian financial and economic system, therefore, interest rate on loans rose to about 120% from the initial rate of 15%.

The under-developed economies should study their economic and financial environment before they can formulate an acceptable monetary policy that can solve their short-, medium- and long-term financial problems. The orthodox monetary policy instruments may not be used, but they can develop an instrument or monetary policy method that can solve their immediate environmental problems. However, for any monetary policy instrument to be effective in developing countries, their raw data generation and collection base must be reliable and authentic.

CODESRIA - LIBRARY

REFORM OF MONETARY POLICY INSTRUMENTS

Chorug-Huey Wong (1992,: 16) stated that the basic function of a financial system in a market economy was to mobilise a society's savings and channel them to the most efficient types of investments. He stated that direct controls of credit and interest rates had led to inefficiency and resource misallocation. These actions led developing countries to embark on reformation of their monetary control in favour of more active use of their indirect or market based instruments to achieve macro-economic objectives.

He contended that market-based monetary instruments were employed to influence money, credit and interest rates indirectly through changes in liquidity conditions of Commercial banks and other financial institutions. He felt that money issues had risen during the monetary policy reform in the developing countries. These issues are:

(a) how to make a successful transition toward a market based system, and

(b) how to strengthen the effectiveness of market based operations.

Wong suggested that monetary policy reform takes time because all reforms were not implemented at the same time. However, the reform of monetary control instruments and procedure did affect the system mostly when there is liberalisation of the financial sector. The reforms that were to be applied will vary from country to country. But experience had shown that many countries in Asia had shown that the following sequencing of financial reform measures had worked well. ıese

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sequencing are as follows:-

(a) **INTRODUCTION OF MARKET BASED MONETARY INSTRUMENTS**

The various monetary policy reform instrument should be introduced early in the reform process to enable the Central Bank to anticipate reserve developments and to absorb or provide bank liquidity at its own flexible manner.

The first, Mr. Wong contended, was to introduce new monetary instruments such as treasury bills, auctioning procedures or such instruments and changes in the rules of access to Central Bank refinancing facilities which can be used to facilitate the development of the auction system.

He concluded that an early implementation of such monetary policy reforms in Indonesia and the Philippines facilitated subsequent interest rate liberalisation and financial market development.

(b) **PRUDENT REFORM**

The other monetary policy reform processes, he suggested, is the prudential reform which is a system of prudential regulation and supervision. It should include loan classification, provisioning, capital adequacy requirements and limits on loan concentration should be established. He felt that weak financial institutions should be recapitalised or re-structured. This action would minimise bank insolvency and financial crisis that could occur in the time of credit growth because of

CODESRIA - LIBRARY

financial liberalisation. He concluded that this type of strong, effective bank supervision and prudential regulation in Malaysia helped in maintaining the interest rate stability after the rapid interest rate liberalisation in the late 1970's.

(c) DEVELOPMENT OF FINANCIAL MARKETS

Mr. Wong felt that the development of financial markets should be the basic reforms of monetary control, procedures and prudential regulation should be implemented. However, efforts should be devoted to the development of financial markets which will strengthen banking competition. When these actions are taken, interest rate will progressively liberalise in which interbank lending rate and reserve requirements are lowered to an acceptable stage. In his opinion, the restrictions on the scope of bank activities would be eased and entry barriers lowered. In addition, the Central Bank could provide regulatory support to market participants, dealers and it should develop a system whereby market information are effectively passed to the public.

CODESRIA - LIBRARY

At the government level, differential tax treatment regarding financial instruments should be removed and the government's debt instruments should be market oriented.

OPERATION PROCEDURE

In Asian countries such as Indonesia, Nepal, Philippines and Sri-Lanka the

operation of a market based system of monetary control had varied from country to country.

However, the steps that are common to these countries is that they strived to achieve quantitative targets for money or credit. The methods used are as follows:

a) A desired path for demand for reserve money is established by using variables such as broad money which are consistent with the ultimate policy goals.

b) A desired path for the operating target variables such as the net domestic asset of Central Bank based on the target reserve money is estimated.

c) On the basis of forecasts for the major elements of the Central Bank's balance sheet, the projected path for the operating target variable are calculated, assuming that there are no sales of government securities and there are no change in other policy instruments.

He concluded that the ways to develop a market based system is to strengthen the effectiveness of monetary control.

Wong suggested the various ways monetary policy instruments could be used to manage the economy. All the suggestions such as using market based instruments and prudential reforms had been used in Europe and U. S. A. The writer has failed to analyse the outcome of these methods of monetary management. Before a method is recommended, the writer would have taken the pain to analyse the effects of such methods in other economic set-up.

The researcher is of the opinion that when the Central Bank of Nigeria

CODESRIA - LIBRARY

introduced prudential guidelines in 1991, the banking industry had a lot of problems. The Owema Bank,PLC, Progress Bank declared losses to their shareholders. The Central Bank of Nigeria and Nigeria Deposit Insurance Corporation (NDIC) declared five Commercial banks and two Merchant banks distressed and some banks were liquidated. These actions led to unemployment which contradicted government fiscal policy of full employment in Nigeria at the time.

MICRO-ECONOMIC FINANCIAL REPORTING IN LESS DEVELOPED COUNTRIES

Blondal (1988,: 15) stated that financial reporting for central financing and economic management can play important role if there is regard for inter-relationship between fiscal and other macro-economic aggregates. these aggregates will strengthen the basis for monitoring fiscal trends and they can enhance the potential of reporting in areas of economic concern, monetary policy and cash management.

Government financial reporting in less developed countries is relevant for monetary policy because the monetary repercussions of the fiscal decisions taken at the budget time were crucial for money supply and supply credit. Separate monetary aggregates were also affected mostly when project related capital inflows are significant source of finance and the treasury often had recourse to the Central Bank. Therefore, a good financial reporting can facilitate the conduct of monetary policy.

When the cash inflow forecasts had been prepared, they reveal the overall fiscal surplus or deficit in each month of the year. This gives the Central Government financing requirement which had been viewed in an overall monetary context and

CODESRIA - LIBRARY

reconcile with the objectives of the monetary policy. therefore, the cash flow forecasts should be integrated with projected monetary surveys and targets.

The co-ordination of fiscal and monetary policy in the short-term would require close collaboration between the relevant sections of the Ministry of Finance and Central Bank. These agencies are supposed to discuss the financing part of cash inflow forecast at the beginning of each year and at regular intervals during the year. These discussions should address issues such as financing options, their timing and the proper fiscal- monetary policy mix which were used to achieve broader economic objective policy.

The research concludes that the problem of cash management is minimised when there is consolidated account in the Central Bank on which the cheques are drawn and into which revenue collection and borrowing are deposited. these information are passed to the Ministry of Finance for policy oriented cash flow forecast.

The researcher feels that the monetary policy problem in less developed countries is a weak base of data collection which had misled policy formulators.

CLASSIFICATION OF MONETARY POLICY INTO PHASES

Ogundipe (1978,: 7) analysed the banking industry since the inception of the Monetary Policy Circular in 1969, in which he divided the periods into phases. In phase I, he stated that from 1969 Commercial banks derived their economic powers from the Banking Act of 1969, because it assigned them the role of mobilising savings

CODESRIA - LIBRARY

which was suitable for long-term investment.

The phase II which was 1970 to 1976 was a new dimension to solve the credit problems and it would be solved if the expatriate banks were nationalised. However, it was argued that banking was considered to be one of the strategic economic sectors that if it was well managed, it could re-shape the economic destiny of a nation. based on this advice, in 1973 the Federal Government of Nigeria decided to intervene directly to Commercial banking activities when it acquired 40% equity holding in three largest expatriate banks like Barclays Bank Nigeria (now Union Bank), Standard Bank and United Bank for Africa. There was an effective use of credit guidelines and other tools of monetary policy to continue the evolution of banking system in Nigeria. In 1976, the Federal Government acquired enough shares in all the licensed banks to bring indigenous participation to 60% with the right to appoint chairman of the boards and some members of the board. Phase II, 1977 - 78, was a period of criticism in the banking system because of their lending policies. The business community felt that the bank lending was too short-term and it was not sufficiently directed.

He concluded that the monetary policy circular goal for the past years had been fast rate of economic growth in the development of small and medium size enterprises. Our economies can not be developed without planned re-allocation of financial resources to them. Productive sectors require a new lending technique, local knowledge and ability to exercise relatively strict collateral control.

The researcher argues that the reason why banks embark on short-term lending is because of the uncertainties and insecurity associated with our economy. Business

CODESRIA - LIBRARY

activities are not stable, therefore, it is a high risk to lend fund on long term basis. The monetary policy circular directs the economy on short-term basis, therefore, if it is an instrument of authority to Banks, bankers have the right to lend on short-term basis. There may be situation where another form of medium and long-term monetary instruments may be designed to take care of long-term lending activities.

Falegan (1978: 18) categorised the monetary policy circular thus:-

Formative years and passive monetary policy July 1959 - March 1962, April - Sept. 1964 Cheap money policy October 1964 - Oct. 1966 credit restraint policy Nov. 1966 - June 1979 - monetary ease policy July 1969 - March 1972 moderate monetary restraint policy. April 1972 - March 1976 Monetary Ease Policy. April 1976 - 1978 moderate restraint policy.

Though, it has been categorised, the period of this dissertation covers from 1970 to 1990, therefore, the focus is based on these periods. In 1970/71 and 1971/72 was considered to be a period when credit restraint was stifling productive output therefore, it was to be relaxed.

Within 1972/1976, the monetary policy was directed towards domestic production expansion which needed increased credit and the mounting inflationary pressure. It was expected that production would grow faster than consumer goods in other to stabilise domestic prices.

To achieve the above objective, in April, 1972, the Central Bank lifted the ceiling on aggregate bank credit but retained allocations of credit to the sectors and sub-

CODESRIA - LIBRARY

sectors of the economy. However, Central Bank issued a warning that a cash reserve requirements and other measures would be imposed when development warrants monetary restraint.

In 1973, Central Bank Monetary Policy circular directed that production or preferred sectors was allocated 56% of aggregate banks' loans and advances while 44% was assigned to less preferred sector. The objective of this allocation was to decrease demand for consumer credit while increase producers credit. In this year under review, the economy experienced inflationary pressures because government expenditure started to rise because of its increased earnings from petroleum products. These earnings resulted in a balance of payments surplus of N165 million in 1973. The surplus rose to an unprecedented high level of N4.1 billion in 1974.

The composite price index rose to 12.5% in 1974 and money supply increased by 42.5%. These developments led to the introduction of changes in interest rate structure and the exchange rate of the economy.

CODESRIA - LIBRARY

REVIEW OF MONETARY POLICY MEASURES

CBN (1990,: ,9) appraised the monetary policy circular stance which was designed to achieve moderate economic restriction. There was reduction of the minimum share of Merchant Bank's credit of medium and long-term nature with less than 3 years maturity from 50% to 40%. The share of short-term credit was stipulated at a maximum of 20% while not less than 15% of the total bank asset can be used for. equipment leasing.

Commercial banks were given permission to undertake equipment leasing, but it stipulated that it should not be more than 15% of their total assets. The researcher feels that traditionally, before 1990, the equipment leasing activities were the sole responsibility of Merchant Banks. To allow Commercial Banks to embark on it, reduces merchant's market share, increases competition and administrative costs.

In order to reduce bank excess reserves CBN in August, 1990 (MPC 24) re-introduced the issuance of non-transferable and non-negotiable stabilisation securities to those banks whose reserves were more than stipulated reserve requirements.

This action was to decrease the total money in circulation, thereby reduce loanable fund in the economy.

MONETARY POLICY CIRCULAR UNDER STRUCTURAL ADJUSTMENT PROGRAMME

Onyido (1991, : 36) compares the CBN Monetary Policy circulars during the Structural Adjustment Programme and their impact on the economy. He stated that following unfavourable developments in the international petroleum market since 1981, Nigeria's balance of payments came under severe pressure. The total external reserves fell drastically while imports continued to rise in disproportion to export. External debt and trade arrears mounted, government deficit increased and problems of unemployment was acute which gave rise to domestic prices.

The above economic situation made the monetary policy to re-introduce the compulsory advance deposit against imports between 1982 and 1984. Credit ceilings were reduced from 30% in 1982 to 7% in 1985 in order to reinforce credit restraint.

CODESRIA - LIBRARY

By mid 1986, the economy was in the verge of collapse, because the various monetary policies issued in the past were not effective to cope with the economic situations because of some distortions and over-regulation of the economy.

He concluded that Monetary Policy Measures that had been deregulated include interest rate and sectoral allocation of credit. In line with the objectives of SAP, monetary and credit policy measures since 1986 had been restrictive, except in 1988 when an expansionary stance was adopted in order to steer the economy towards resumed growth.

The researcher states that monetary policy circular was best suited for dealing with certain economic problems. In Nigeria, the effectiveness of monetary policy circular had been hampered by various factors. These are lateness in diagnosing the ills to be remedied, improper or wrongful diagnosis, the application of half measures or the over-dose of measures applied. The usefulness of monetary policy circular in pursuing some desired economic goals is the underdevelopment nature of our financial markets and related ineffectiveness of Central Bank instruments in controlling money supply in a situation where government expenditures are excessive.

CODESRIA - LIBRARY

Awe, (1980,: 1) conducted a study in which he examined the structural change in the asset composition of Commercial Banks in Nigeria from 1970 - 1979. He used decomposition analysis method to discover that change in asset portfolio were remarkable for 1970/71 and 1976/77, and very low for 1972/73 and 1974/75. The changes were assumed to be independent of structural changes in liabilities of the

Commercial Banks.

Lambo (1977, : 207) used the decomposition analysis method to study the portfolio behaviour of Nigeria Commercial Banks from 1962 - 1972. The structural changes in asset portfolio were seem to be independent of structural changes in liabilities of the banks. He found that changes in assets were mainly to changes in Central Bank of Nigeria monetary policies within the period under study. Lambo's analysis shows that the changes were remarkable for 1964/65, 1967/68, 1968/69 and 1970/71 and very low for 1969 and 1971/ 72.

Lambo (1973,; 30) wrote an article in which he analysed the structure of Commercial Bank loans and advances. He found out, using decomposition method that from 1969-73, Central Bank of Nigeria's monetary policy circular had effect on the size of banks' loans and advances, but it does not have significant effect on the allocation pattern to the various sectors of the economy.

Smith (1958,: 171) conducted a study in U.S.A. on the relationship between Discount rate and credit control. He discovered that the effect of increased member bank borrowing from the Federal Reserve bank in an atmosphere of restrictive monetary policy tend to affect rather than reinforce that policy. He concluded that this action leads to a number of offsetting reactions in the banking and financial system. Some of these reactions are shifting the composition of banking portfolios from government securities to loan adjustment.

Wood (1974,: 403) conducted a study in Britain where he related portfolio behaviour of Commercial Banks to cyclical changes in the economy. He found out that

CODESRIA - LIBRARY

the loan rate (r) and the yield on securities (y) rise during economic expansion and fall during recession. However, the cyclical variability of y exceeded that of r so that the difference (r - y) tended to decrease in expansionary periods and increase during recession. These movements in the differential during expansion, would appear to cause securities to become more attractive to loans as bank investment. He noted that bank holdings of securities relative to loans decrease during expansion. But at the same time, bank holdings of loans relative to securities were found to decrease when rates of return on loans were rising relative to yields on securities.

According to Aigbokhan (1992,: 70) he reviewed the Monetary and credit policies in Nigeria from 1980 - 1990. He stated that from 1970 to 1980, the policy was designed to achieve the understated main macro-economic objectives such as: -

(a) To provide optimum level of bank credit and to channel such credit into the more productive and small scale enterprises sector of the economy as a means of raising the level of employment and output of goods and services.

(b) To achieve and accelerated growth rate in national output, reduction in high rate of unemployment, moderate inflationary pressure, stimulate increased financial savings, capital formation, diversification of export base to restore healthy balance of payment position.

(c) To moderate inflationary pressure, stimulate domestic financial savings, ensure foreign capital inflow and increase export earnings, stimulate, domestic production and improve the country's balance of payments position.

CODESRIA - LIBRARY

He observed that the above objectives were not achieved because much power was assigned to monetary policy circular which was ill-equipped to deal with all the macro-economic objectives. He stated that the traditional monetary policy can not deal with the damage caused by SAP induced higher production costs due to high oil prices, removal of oil subsidies and higher input prices due to accelerated excessive depreciation of the Naira exchange rate. The deregulation of interest rates and banking activities had called to question the efficiency of interest rate targeting as a policy objective and measure. Banks now, pay interest on more monetary assets than before as in the case of current accounts. Therefore, banks were expected to recoup such interest payments from somewhere, this is the reason their lending rates often exceed stipulated rates.

Aigbokhan critically reviewed the performance of Monetary Policy and the economy. He observed that Commercial Banks had continued to avert the agricultural finance credit policy despite the government policy of self-sufficiency in food supply to the economy.

The government sector itself was the source of over-shooting the aggregate credit ceiling targets. This was observed from a statistical table which shows that bulk of the increase in bank credit in most years since 1981 was to the government sector while the rate of increase to the private sector was often below targets.

The author concludes as follows:-

- Credit guidelines were rarely adhered to, because there has often been shortfall in the case of credit allocation to the preferred sectors and overshoot in the case

CODESRIA - LIBRARY

of the less preferred sectors.

- The non-compliance penalty introduced in 1987 came too late and it is not stringent enough to ensure compliance on the part of Commercial and Merchant Banks.

- There is need for government to be more prudent in its credit Management and utilisation because credit expansion may be inflationary.

- Banks should be dedicated to agricultural credit policy in practice rather than paying lip service to it.

- There are too frequent and unpredictable changes in policy instruments. The frequent change is not healthy for investment planning.

- Monetary and credit policy objectives were often contradictory. Because the monetary authority relies on few instruments than there are targets or objectives. Monetary.policy as presently implemented in the country seems ill-equipped to deal with may objectives set by the authority.

- There is the need for more co-ordination in the implementation of policy instruments.

Henderson (1979,: 232) stated that the nature of the truly optimal financial policy is determined by the kind of information available to the authorities about the structure of the economy and expected shock in the economic system.

The model , (Illustration 3.3), illustrates the shocks on financial policies in an

CODESRIA - LIBRARY

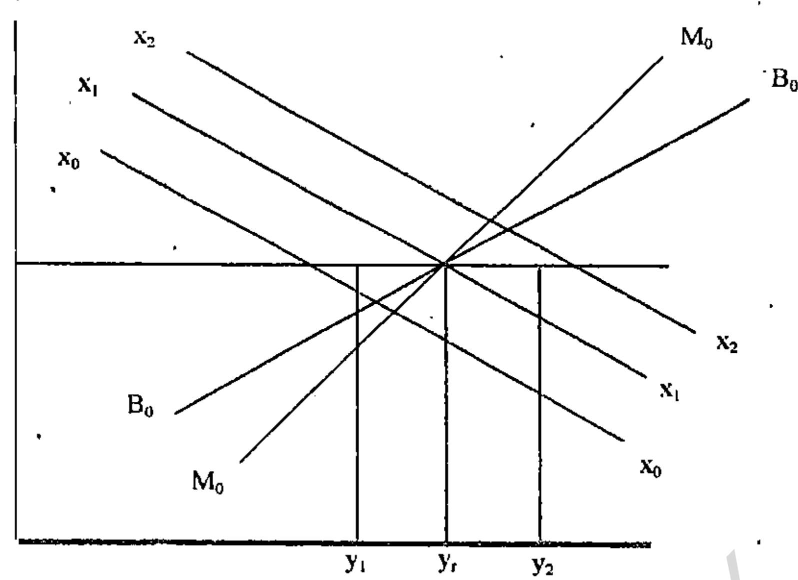

Figure 3.3: Discrete Time Model of Monetary Policy

SOURCE: Henderson, A., American Economic Review, Published by American Economic Association. May 1979, p.232

CODESRIA - LIBRARY

open economy which may end up balancing the asset portfolio at the beginning of the period. The model designates X_0X_0 as the equilibrium schedule for the single home good which is purchased by home residents and foreigners. It states that when there is increase in the home interest rates which lowers demand for money, it is usually accompanied by a decrease in production output.

Line M_0M_0 is an equilibrium Schedule for home money which is held by home residents alone. When the interest rates increases it reduces money demand which must be offset by a rise in production output.

The B_0B_0 is an equilibrium schedule for the single security denominated in the home currency which is held by both home residents and foreigners. If there is increase in interest rate, which raises demand for home security, it must be accompanied by an increase in output which lowers demand.

It is therefore, assumed that home money, the home security and a single security denominated in foreign currency are strict gross substitutes, therefore, M_0M_0 schedule must be steeper than the B_0B_0 schedule. Therefore, either the exchange rate which is defined as the home currency price of foreign currency or foreign exchange reserves which is defined as the home authorities holding of foreign securities, are adjusted until the three schedules have a common intersection point.

In the discrete time model, λ_0X_0, M_0M_0 and B_0B_0 intersect at the "full employment" level of home output (Y_f). It is assumed that the home currency price of the home good and the foreign currency price of a single foreign good which is different from the home good, are fixed in the short-term and the foreign authorities act to keep the foreign interest rate and foreign output constant.

The home authorities have both home and foreign securities as assets and the money supply as a liability.. The home Central Bank can choose as monetary policy instruments and set values for any of the two financial variables. These financial variables are the money supply, foreign exchange reserves, the interest rate and the exchange rate. The values of the other two financial variables are then determined by the model.

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Therefore, the Central Bank can conduct financial policy using two kinds of financial market operations thus: -

1. Monetary operations in which the exchanges of home securities for money with private agents are used.

2. Intervention operations in which exchanges of home securities for foreign securities with private agents are used.

3. Aggregate constant policy is where the money supply and foreign exchange reserves are kept unchanged at chosen values.

4. Rates constant policy is where the monetary and intervention operations are employed to keep the rate and the exchange rate constant at selected values. He concludes that there are no costs associated with changing the values of the policy instruments. The monetary policy is a short-run instruments therefore it should have consideration of how the Central Bank or financial authorities should respond to the dynamic effects of savings, capital accumulation, the transfer of wealth between countries through current account imbalances, and monetary policies implying differing secular rates of inflation.

The researcher feels that the author (Henderson) advocates a non-traditional monetary policy instruments to be used in a country's money management. He advocates the management of the financial variables on selective basis, but he is silent on other economic forces in the economic system. He sees monetary policy in a narrow perception where some financial variables are considered, but how about developing economy where data gathering procedures can not be 100% authentic.

In a given economy, we have cyclical business activities where there are a lot of uncertainties, unethical business practices and speculative exchange rates. Therefore; it would be very difficult for any monetary authority to succeed with constant policy instruments. The impact of such policy is that a lot of underground exchange rate will

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be created which will lead to hoarding.

The researcher concludes that each country should study the financial variables in her system then design a monetary policy to regulate these financial variables.

Pinto (1987,: 419) compares Nigeria's Monetary Policy with Indonesia during and after the oil boom. The analysis assumed fixed exchange rates and capital controls which Nigeria adopted.

The increase in foreign exchange as a result of the oil boom accrues to the government and it is deposited in the Central Bank. If it accrued to private citizens and were deposited in Commercial Banks an increase in the money supply would occur in the usual way through the money multiplier. Since the increase is deposited in the Central Bank, there will be no increase in the domestic money supply unless the government spends at home out of the increased oil earnings or domestic credit to the private sector is increased. This is because in the absence of spending, the increase in net foreign assets of the Central Bank is exactly off-set by the reduction in net domestic credit to government which leads to unchanged monetary base.

This can be shown by manipulating the balance sheet identity for the combined Central and Commercial banking system with the equation below according to Pinto (1987,: 323):-

$$M_2 = (G - T + NFA^g) + DC^{nb} + NFA^b$$

where

M_2 = the liabilities of the banking system (broad money)

$G - T$ = government spending less taxes

NFA_g = net foreign asset of government

DC^{nb} = domestic credit to the non-bank private sector

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NFA^b = net foreign assets of the banking system

Sources: Pinto, B.: The World Bank Economic Review, Vol. 1, No. 3, May 1987,: 423.

Taxes, T, sum together oil and non-oil revenues. If the oil revenues increase by $1, which is deposited in the Central Bank, G remains constant.

On the right hand side of the above equation, T and NFA^h increase by +1 each, therefore, the net change is zero. Money supply does not change. If government domestic spending monetize the oil dollar, G increases by +1 as well so that $M^2 = +1$. Since government debt held by the non bank public is negligible countries like Nigeria Open Market Operation to sterilise the impact of this spending on the domestic money supply is not feasible. He emphasised that if oil boom is a real phenomenon and open market operations were feasible and carried out, there would be wealth distribution. This action will merely alter the shares of money and bonds in private wealth and the spending effect would still operate as a result of the rise in real income.

The Money Supply would have increased as government domestic spending monetizes the oil revenues. The demand for real money balances rises as well, owing to the rise in real income. Inflation would therefore result only if the increase in the supply of money exceeds that of the demand for money.

The researcher feels that these actions made the use of Open Market Operation as a means of monetary management impossible till 1992 in Nigeria.

Hetzel (1981,: 31) analyses the short-run and long-term Federal Reserve System and control of money supply in 1970s. In his research, he questions if the monetary policy adopted reflects the behaviour of money supply desired by the Federal Open

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Market Committee (FOMC) of the Federal Reserve Bank. He examined the Federal System Operating Procedures for implementing Monetary Policy in 1970s.

He stated that if the FOMC had viewed the money supply as its primary target policy, it would have put into place a set of operating procedures that would have ensured control of money supply.

In conclusion, he suggested some operating procedures that if adopted, the target of money supply can be determined. First, there must be long-run money supply targets that are operationally significant must be in existence. Secondly, there must be short-term money supply targets that are derived from the long-run target must be in existence. These targets, he said, provided for the Federal Reserve System Open Market Account Manager, a guide for week to week actions that were to ensure that the long-run money supply targets were to ensure that the long-run money supply targets were achieved. Thirdly, the Manager's desk must be able to alter its operational variables sufficiently to eliminate deviations of actual values of the money supply from the targeted values.

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The researcher accepts his concept of target approach to achieve money supply is a good idea. But his suggested implementation procedures are faulty. Monetary Policy formulators perceive money supply in a short-term either on quarterly basis or annual basis.

The authors idea that we should project from long-term money supply target to short-term money supply target may have political implications. If a different [illegible]rty wins election to be president of a nation, his monetary policy programme, if it had

been formulated on long-term basis, there may be dislocation in the monetary system. Therefore, it is advisable to project the monetary policy variables from short-term to long-term.

Turnovsky (1981, :156) researched into the Monetary Policy and foreign price disturbances under Flexible Exchange rates in which he used stochastic approach to analyse the effects of Monetary Policy under flexible exchange rates in which allowances can be made for expectational issues. He used stochastic model of small open economy operating under flexible exchange rate. He considered its response to two types of erogenous disturbances which are domestic money expansion and a foreign price increase.

He concluded that the level of domestic output, its price and the exchange rate at a given time will vary positively with:

(a) the unanticipated components of money supply during that period.

(b) the discounted sum of the amounts by which the forecasts for all future money supplies are revised during that period, from what they were in the previous period.

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In equilibrium, the model possess the usually monetary neutrality properties in that a 1% increase in money supply will have no effect on the real output and it will raise the price level and exchange rate proportionately. The transitional dynamics to a given monetary disturbances can take various form, depending particularly upon how rapidly expectations of future money supplies adjusted and the time period between

the announcement of the policy and its implementation.

Axilrod, S. H and Lindsay, D. E (1981,: 246) analysed the Federal Reserve System Implementation of Monetary Policy in which they used two variables, such as Reserves and Interest rates for controlling money supply. They stated that under the required reserve operating target, and the complications introduced by lagged reserve accounting in the short-run, the money stock is determined by the interaction of money supply and demand functions, with a short-term interest rate, such as the federal funds rate serving as the indigenous price variable made for expectational issues. He used stochastic model of small open economy operating under flexible rate. He considered its response to two types of erogenous disturbances which are domestic money expansion and a foreign price increase.

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They contended that the control variable is taken to be the non-borrowed reserves, but the role of monetary base has been the subject of many studies in monetary policy discussion.

They felt that random disturbances can displace the money supply function from its expected position for any given rate. The error for this function represents

CODESRIA - LIBRARY

unexpected variations in bank's demands for excess and borrowed reserves. The demands by banks and the public for reservable bank liabilities not included in the money stock such as interbank tending, government and large time deposits in the composition of assets in the money supply as between those with relatively high or those with relatively low reserve requirements can displace the demand function from its expected position for any given interest rate.

They concluded that the experience with this new procedures appears satisfactory because money growth has generally been within desired long-run range target. Interest rate had been responsive to changes in market forces and have moved more promptly in a contra-cyclical direction. There were some confusion and uncertainty which reflect the nature process of adaptation to a new environment. In addition, inflationary expectations had at least kept it from worsening in the short-run.

Shonekan (1993,: 80) stated the effect of Monetary Policy circulars on consumers from 1986 to 1990. He enumerated the instruments of monetary policy, the theoretical analysis of monetary policy and the inflationary trend within the period. He analysed the period and indicated that the monetary policy measure in 1986, made the aggregate bank credit growth to the economy to increase from 7% to 10%. When Structural Adjustment Programme (SAP) was introduced, the aggregate bank credit to consumers decreased from 10% to 8%. In 1987, the growth in aggregate domestic credit to the economy was projected at 4.4% while in 1988 it was increased from 4.4% to 18. 1%. In 1989, the government projected the growth in aggregate domestic bank credit to be 9.5% but in 1990 it was increased from a 9.5% to 13.5%.

CODESRIA - LIBRARY

The Policy implication to consumers was that the monetary policy measure had on the average led to decline in the welfare of the consumers since 1986. A good example was the issuance of stabilisation securities which was designed to mop excess liquidity in the banking system, had often led to scarcity of loanable fund. The small funds available charged at high interest rates which were ultimately transferred to consumers of goods and services in form of higher prices.

He concluded that since the changes in income were not commensurable with the changes in prices, the inevitable outcome had been declining consumer welfare.

The researcher feels that the monetary policy measures may be well intentioned, but the measures were ineffective in implementation, lack of policy co-ordination and poor performance evaluation method.

Okafor (1992,: 7) reviews the monetary policy mix for Nigeria in the 1989's. He felt that since the 1986 Structural Adjustment programme, the banking industry had experienced more radical changes and reforms in its operating environment than any other industry. He felt that the ineptitude of monetary and economic policy measures in Nigeria can be attributed to five major factors such as:

(a) Improper timing of policy changes

(b) Wrong choice of policy target

(c) Absence of internal linkages for the existing industrial base.

(d) Improper co-ordination of policy initiatives

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(e) The human factor in relation to policy implementation

(f) Poor compliance evaluation method

He expatiated the above topics individually but concluded that the deregulation of the economy should be a continuous process. Money stock and liquidity control through credit ceilings, sectoral allocation etc should give way to indirect control measures. The money market has matured enough to sustain monetary control through open market operations (OMO).

The researcher is of the view that there was no co-ordination of the monetary policy instruments, but this dissertation has a formula where the monetary authority can now monitor the extent banks had complied to the stipulations in the monetary policy circulars (MPC). It can use the compliance rate formula as basis of assessing the level of banks' compliance to monetary policy guideline.

Oduyemi (1993,: 1) analysed the prospects of monetary policy in Nigeria with high reference to open market operation (OMO). He stated that the technique as it was used in Nigeria can be divided into direct control is predominant in under developed countries, while indirect control is dominant in developed countries. He stated that the direct technique is when credit ceilings and interest rate are fixed by the monetary authorities for compliance by banks. However, the indirect technique achieves the same objective through the financial markets. Therefore, the most popular of indirect monetary policy control is the open market operation (OMO).

He stated that prior to the introduction of SAP, the main instruments of monetary

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policy was the imposition of credit ceilings on individual banks, interest rate regulation and sectoral credit allocation which were supplemented by cash and liquidity ratio the negative effect of direct controls was to reduce competition in the financial system, which led to inefficiently and misallocation of resources in the banking industry. The idea of credit ceiling generated arbitrary and high lending rates and employment of various techniques to circumvent the controls by window dressing of financial statements.

Furthermore, the use of off balance sheet items and the channelling of transactions through uncontrolled institutions especially finance which were ill-managed without the technical competence.

The researcher is of the view that before a monetary policy is established it is the responsibility of monetary authority to study its financial environment, then design a control system that can be efficient. It is wrong to arbitrary select a traditional control mechanism because it was used in other countries. The indirect control started with weak sources of data generation, unplanned financial markets and public unawareness of an existing system of control. Therefore, Central Bank of Nigeria has responsibilities to streamline the monetary system to achieve efficiency.

Ojo (1992,: 1) reviewed the evolution and performance of monetary policy in Nigeria in the 1980s and their prospects in the 1990s. The monetary policy objectives in the 1980s were to simulate output and employment, promotion of stable prices and support of external equilibrium. He stated that the direct monetary control frame work was retained which included aggregate ceiling, the use of selective credit

CODESRIA - LIBRARY

controls, imposition of reserve requirements and maintaining a lower interest rates as a means of including an increase in productive capacity.

However, in the 1990s the monetary authorities took actions to strengthen the monetary control processes. He stated that ceiling on bank credit expansion were to apply to all banks and they were to include loans and advances. The items to be recognised as investments were to include leased assets, call money and certificate of deposit. The monetary authority improved the control process when it established an equal treatment to both commercial and merchant banks because each category operation will affect the financial system.

Some of these actions were to harmonise their credit ceiling, computation of the monetary supply and demand of the equalisation of the liquidity ratio for the two types of banks.

He enumerated some implications of indirect monetary control. He stated that the main sources of increased liquidity had been the divergence of government fiscal operation and financing needs from the projection which are higher than prescribed growth rates of commercial and Merchant bank credit to the private sector.

However, the author felt that the system of indirect control was to ensure keener competition in the banking system because the financial markets were to be system where the financial markets were to be main determinant of their performance.

The researcher feels that the author contracts himself when he stated the positive aspects of indirect monetary policy control and at the same time he says that Nigeria

CODESRIA - LIBRARY

financial system has not been developed to the extent of absorbing such system. The researchers feel that any action that is market base like (OMO) may make some banks to desist from buying Treasury bills or Treasury Certificates. It is good for CBN to obtain a good statutory frame work that can force financial institutions to participate in open market operation (OMO).

CBN (1994,: 1) stated that the latest developments in the monetary policy was the commencement of indirect monetary control technique in 1992. The action leads the financial system to be market based and it enhances government money base.

The technique of indirect money control is the control of money stock through the manipulation of the monetary base. This monetary base is the sum of total bank reserves currency in the hands of the non-bank public. It stated that the basic link between the monetary base and money stock is provided by the money multiplier which indicates the potential amount of new money that can be supported by each unit of the monetary base.

The monetary control authority states that with the introduction of indirect monetary control, there are numerous policy implication for the country. Such policy implications are that the banking system is deprived of excess liquidity which was injected into the economy since 1988. It is this understanding that made CBN to issue stabilisation securities to banks. The researchers feet that there is need to harmonize the fiscal and monetary policies whereby competition can be created among banks which will reveal distressed or liquid banks. It makes CBN and NDIC to revoke the licenses of affected banks.

CODESRIA - LIBRARY

CBN intensified the conduct of (OMO) by using existing government securities and development stock. OMO took off with N250, million sales of treasury bills on 30th June 1993 had at end of the April sold a total of N93,795.5 million treasury bills of which N82,795 million has been repaid with net outstanding of N11,000.5 million.

The researcher feels that the introduction of the indirect control of the monetary policy instruments can enhance the government revenue. But the policy implication are numerous because some of the banks were distressed or liquidated. This action created insecurity and unemployment in the banking industry which contradicted government fiscal policy of full employment.

Masha (1983,: 19) compared the monetary circular issued in three African Countries such as Nigeria, Zimbabwe and Kenya. He stated that the three economies have high level of sophistication in terms of the number of financial institutions available in the countries and the types of institutions available operating in them. His article enumerated various financial institutions in the three countries but Kenya lacked discount houses.

CODESRIA - LIBRARY

FORMULATION AND EXECUTION OF MONETARY POLICY CIRCULARS

The author observed that monetary policy circulars in Zimbabwe and Kenya were pursued with the aim of ensuring optimum and balanced of payment position. In pursuance of their monetary policy objective, the central bank of Zimbabwe and Kenya and Nigeria apply the tools of monetary policy that are considered relevant to the peculiar characteristics of their respective economies at a particular time.

He contends that monetary policy circulars formulation defines money supply in different ways. Nigerian Monetary Authorities uses Ml as currency outside bank plus privately held demand deposits in Commercial banks and Central Bank. The Kenya Central Bank uses M_2 which is M_1 plus time and savings deposits in Commercial banks while Zimbabwe uses M_1 to include currency in circulation plus the demand and short-term time deposits held by private sector with the monetary banks such as the Reserve Bank, Commercial banks, discount houses and the Merchant banks.

The author contends that there is uniformity in the process of monetary policy circular formulation in Kenya and the process obtained in Nigeria. In Nigeria, the Central Bank formulates monetary policy circular, through a proposal sent to Ministry of Finance for approval. In doing this, the Central Bank considers the view of others through the Bankers Committee, after considering some economics and financial options. When the discussion must have been concluded, the final decision of the Government is embodied in a monetary policy circular issued by the Central Bank to all Merchant, Commercial Banks and Insurance Companies.

In the Bank's monetary policy circulars, the annual rate of bank credit expansion and the sectoral distribution of bank credit are indicated and banks are required to adhere to specific proportion of their total credit to various sectors of the economy.

He opined that the monetary policy circular formulation is an annual event which is carried out on a continuous basis. The Reserve Bank of Zimbabwe meets regularly with financial community (except insurance companies) to discuss the

CODESRIA - LIBRARY

prevailing economic and financial conditions in the country. During the time of the discussion, the bank considers the reaction of the financial community by the Treasury which expresses opinion on the banks proposed policy circular.

The author contends that the vital authority in monetary policy circular formulation in Zimbabwe is the Board of Directors of the Reserve Bank. The bank uses prevailing economic conditions, views and suggestions gathered from financial and business community in general, the Board decides from time to time on a particular policy or combination of policies are then discussed with the Government in a way described earlier. The Reserve banks final decision is then announced to the general public by the bank itself.

The author enumerated monetary policy tools used by the three countries. The three countries had consistently used minimum Re-discount rate, liquidity ratio, cash reserve requirement, selective credit controls. However, open market operation (OMO) had been used in Zimbabwe but not in Nigeria and Kenya. The moral suasion had been very effective in Kenya and Zimbabwe because it had been used to influence the banks compliance with the respective to Central Bank's regulations and guidelines.

The researchers are of the view that this research was conducted between 1982-83 when we can say the yolk of colonial financial administration were in the old colonies, from 1992, Central Bank of Nigeria started the open market operation (OMO) as a tool of monetary management. In the 1990's the CBN started variable method of management by dividing the year into four quarters. The percentage credit allocated to each sector of the economy is determined, on quarterly basis rather than annually as

CODESRIA - LIBRARY

employed earlier.

This method conforms to Zimbabwe's approach of continuous review of the monetary policy circular. The basic similarity in monetary policy circular formulation and execution between Kenya and Nigeria is understandable, British used indirect rule in these territories while direct rule was prevalent in Zimbabwe. The economies in Kenya and Zimbabwe are smaller and it has unitary system of government while Nigeria has larger economy, therefore government fiscal policies do result to deficit budget.

In Zimbabwe, the monetary policy circular is used as public information, but in Kenya the Treasury takes the views of the Central Bank merely as advisory. In Nigeria the views in the monetary policy circular is embodied in the National budget. The government fiscal operations are particularly dependent on the banking system to finance its deficit is beginning to threaten the effectiveness of monetary policy circular in Nigeria.

CODESRIA - LIBRARY

Swamy and Tavias (1990,: 99) explored the financial deregulation the demand for money and monetary policy circular in Australia. The paper is of three parts in which they stated that Australian financial sector experience in era of regulation is similar to that of Nigeria. The article examines the factors which informed the process of financial deregulation of such reforms for the demand for money and monetary policy circular.

In part I, the article provides brief description of Australian financial system. It points out that the financial system is based on restriction of entry to the banking

sector. They state that during the period of strict regulations the main monetary policy circular tools used for money management are reserve ratio, quantitative credit controls and interest rate regulation of the banking systems, lending operation to foster monetary stability. These control measures were undertaken to protect investors and to build the confidence in the financial system, mostly the financial markets, institutions, promote priority sectors, promote social groups and manage public debts. The authors contend that some factor emerged during the 1970s which prompted the deregulation of the financial system. These factors necessitate:

(i) The selling of Treasury Bills

(ii) removal of ceilings on interest rates on some deposits payable by trading and saving banks.

(iii) abolition of exchange control and floating of Australian dollar.

(iv) removal of interest rate ceiling on bank loans under $A100,000 (other than these for owner, occupied housing).

CODESRIA - LIBRARY

The part II of the article gives a theoretical exposure of monetary policy circular and money demand in the deregulated financial system. The authors observe that in line of financial deregulation, there were changes in the manner in which monetary policy is transmitted to the sector and the stability and interest elasticity of the demand for money.

Particularly, they point out that the introduction of a tender system of selling government securities and the move to a floating exchange rate regime increased the

monetary authorities potential control over injections of liquidity into the domestic financial system. However, deregulation weakened non-price credit rationing but strengthened the role of market forces in determining financial and credit flow.

The researchers feel that several points emerged from the article. The first and most important is that the model results provided evidence that financial deregulation led to a break down in the well-behaved money demand relationships that are held in the regulated financial system in Australia. To every central bank this is a critical point since the ability of the Bank to control money supply depends on the predictability of the demand for money. However, from the experiences of other countries such as Nigeria, U.S.A and U. K., it is clear that no single concept or definition of money or credit can be expected to always provide reliable signals about economic performance.

In our views, these factors are market innovations regulatory changes and usual economic developments. Therefore, we observed, using monetary and credit aggregates as guides for policy and in interpreting likely economic developments there is need for continuing judgements about the impact of emerging institutional developments when the economic or financial environment has changed.

We can say that when there is an increase in the proportion of investment balances held within M_3 instability in the demands for money may result. This can be associated with Nigerian experience when the interest payment on demand deposits in 1990 created instability in the economy, and more in the financial system. Therefore, financial deregulation may change the route through which monetary

CODESRIA - LIBRARY

policy is transmitted to the real economy.

Akatu (1993,: 321) argues on the conceptual framework of monetary policy circular, their challenges and problems for monetary authorities. The article is in three parts. In part 1 he describes monetary policy circular in Nigerian context as an instrument which encompasses actions of the Central bank that affect the availability and cost of commercial and merchant banks reserve balance and the overall monetary policy circular is not the only macro-economic policy tool, but in Nigeria, the effectiveness of monetary policy circular had depended crucially on the stance of fiscal policy. Exchange rate policy has also exerted an important influence on the economy, particularly from the supply side apart from the enhanced flexibility that a floating rate regime could in principle lend to the conduct of monetary policy circular.

The author enumerated the objectives of monetary policy circulars. He stated that in the short-run monetary policy circular ensures the attainment of a wide range of other objectives or priorities.

However, the main objectives are combating inflation pressures restoring a sustainable balances of payments, maintaining a stable exchange rate at internationally competitive level and restoring stability in the money market.

The author argues that the impact of monetary policy circular on the external sector is of crucial interest to every open economy such as Nigeria, which has a relatively undiversified export base. He contends that with an open economy and limited exchange rate flexibility, monetary policy actions that affect income may also

CODESRIA - LIBRARY

affect the current account of the balance of payments through a change in imports of foods and services. According to the author, changes in interest rate, caused by the policy actions may also impact the capital account of the balance of payments.

According to the author, supply and demand for money make the Central Bank to conduct an effective monetary policy, because the bank issues the primary money, and it has the tools that can be used forcefully to achieve its objectives. However, in practice, Central Bank control of primary money may be limited because only some of its determinants are subject to its effective control while there are limits to the extent the Central Bank could use its control instruments without crippling the private sector and endangering the solvency of the banking and financial system as a whole.

He contends that the main determinants of money supply are basically primary money and the money multiplier.

The determinants of primary money are the net foreign assets of the Central Bank and its net claims on the government are virtually outside Central Bank control. Foreign assets depend on the outcome of the balance of payments while net claims depend on the outcome of the balance of payments while net claims and government in Nigeria have usually been determined by the borrowing requirements of the Federal Government. The determinants of the money multiplier are the public's demand for currency, measured by what is called the currency ratio, then portfolio choice as between demand, time and savings deposits and the cash reserve requirement prescribed by the Central Bank.

The researchers are of the opinion that only the Central Banks claims on the

CODESRIA - LIBRARY

banks and reserve requirements are subject to Central Bank control and they constitute its main influence on money supply. Though, the Central bank has control of the money supply, the general public ultimately decides how much of its total wealth it wants to hold as cash.

Therefore the impact of money supply changes on the economy depends crucially on how movements in the supply of money relate to demand for money balance by the public. Since the demand for money is outside of such demand becomes a necessary condition for successful implementation of monetary policy circulars.

In part two, the author stated that the monetary policy circulars from 1986 were designed to conform with the objectives of the structural adjustment programme whose major components were stabilisation and structural transformation. The monetary policy circular had an important supportive role to play within the main strategies adopted for promoting structural transformation.

These reforms were designed to eliminate disincentive against savings mobilisation, correcting distortions in the allocation of resources for investment and enhancing the effectiveness of monetary policy circulars. He stated that the deregulation of commercial and merchant bank deposit and tending rates in August 1987 are part of the reforms. This major change is rigidly inherent in the level of interest rates and the tendency for real interest to become negative as inflation accelerated became less of an issue. In 1989, an auction system for determining the discount on treasury bills and treasury certificates was introduced in order to bring

CODESRIA - LIBRARY

their yields more in line with the market and thereby pave the way for the application of indirect instruments of monetary control by the Central Bank.

According to the author, in 1992 there was a change over to the market based system of monetary management which gathered momentum with the selective lifting of credit ceilings on the growth of commercial and Merchant bank credit. For the past two decades, credit ceiling had been the dominant instrument of monetary policy circular. however, their used had impeded competition among banks and biased the flow of credit towards well established firms which did not necessarily offer the best investment opportunities.

The researchers are of the view that since late 1990, credit ceilings had been to be reinforced by periodic issues of stabilisation securities, the rigid control of bank credit growth made the activities of financial intermediaries such as finance houses to assume a stronger influence in the economic set up.

Therefore, financial innovations have increasingly done havoc to the effectiveness of credit ceiling which in any event was being marginalised as a monetary control instrument by the increasing loss of control due to the large and destabilising level of government deficits. It is our opinion that under these circumstances of uncertainty, only a market based approach of monetary policy offered a realistic avenue for privatising the financing of government deficits which gives the central bank the degree of freedom it needs to determine the state of monetary policy.

In part three the author analysed the major economic trend in the financial

CODESRIA - LIBRARY

system. He drew attention to the actual outcomes of the economic variables and other underlying factors such as weakness of the linkage between monetary trends and overall economic conditions in the country. He highlighted the monetary activities within this period, that in 1985 and 1987 M_1 grew at moderate pace but M_1 fill 4.1% in 1986 while the rise of 8.7% in 1985 was only 2.5% above the target rate.

On the domestic price stability, inflation was moderate in 1986 and 1987 in spite of the price adjustments that accompanied the take off of the Structural Adjustment Programme.

In 1990, he stated the inflation rate dropped to 7.4% from 50.5% in the previous year. Inflation continued its fall in 1991 reaching a rate of 4.4% in April 1991. Thereafter it maintained an upward trend reaching 13% for the whole. He contends that the evaporation of inflationary pressures in the economy in this period did not reflect any moderation in monetary expansion.

The researchers are worried on the rate in which the inflation rate dropped from 50.5% to 7.4% without corresponding price decrease in the economy we feel there is need to co-ordinate macro-economic policies. A highly expansionary fiscal stance makes the control of domestic inflation and external sector imbalance impossible where monetary policy circular adjusts passively to the fiscal position. If the Central Bank were to act more forcefully in these circumstance to restrain bank credit, interest rates would have climbed higher risking more widespread insolvency of non-financial business enterprises and banks. Technically, the assumption of a stable demand for money does not appear to have been undermined at this period, it mak[illegible]

CODESRIA - LIBRARY

the formulation and implementation of monetary policy circular extra difficult.

Oke (1993,: 296) analysed the monetary policy circular components. He overview the shift from Direct or Indirect components in which a monetary and credit control could be divided.

He stated that the indirect approach is used very extensively in the more developed market economic while the direct approach predominates in the less developed economies of the Third World with undeveloped money markets and centrally planned economies. Both techniques are used to influence the cost and availability of banking system's credit ceilings on individual banks, the regulation of deposits and lending rates as well as sectoral credit allocation. The indirect technique achieves the same objective through the use of open market operation(OMO) supplemented by cash reserve requirements and discount window operations. Therefore, he stated, the indirect technique of monetary policy actions are expected to be transmitted to the rest of the economy through the financial markets. Therefore, the shift from direct to indirect monetary and credit controls in Nigeria should therefore be seen as a part of the broader government policy of deregulation of the Nigeria economy and the placing of reliance on market forces and reduction in complex administrative controls since the adoption of structural adjustment programme in 1986.

In part one, he opined that the change from strictly regulated financial system by the less developed countries of Asia, Latin American and Africa toward a more liberal, market oriented approach has gathered momentum in recent years. This

CODESRIA - LIBRARY

action has been a direct response to external pressure from institutions such as international monetary fund (IMF) and the World Bank and it has more been motivated by the search for a more effective way to mobilise domestic and international resources and to increase the efficiency of their utilisation.

The author enumerates the advantages and disadvantages of both Direct and Indirect control mechanisms but concluded that the creation of new instruments by the Central Bank for purposes of open market operations constitutes a cost to the monetary authorities.

The researchers are of the view that the theoretical framework of monetary policy circular instruments have been enumerated, explained and illustrated, but the missing links are the problems associated with the economy as a whole. These problems such as what can cause distortion in the financial system whether direct or indirect control is used. The adverse trends in price movements, government fiscal operations which has shown deficit from 1986 to 1993, balance of payments, exchange rates as well as increasing distress in the financial markets are symbols of growing macro-economic destabilisation.

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Other problems may be inadequate monetary policy circular and fiscal policy co-ordination, inconsistencies in the money market, data constraint, reporting time tag which may effect information flow to the Central Bank and inefficient communication inherent in our system.

Adegbite (1995,: 11) stated the implications of the 1995 monetary policy circular on the manufacturing and financial sector is that it was not effective in making

substantial contributions needed for the recovery of the economy.

He opined that 1995 monetary policy circular provided for the continuous use of open market operation (OMO), stabilisation securities, expansion of bank credit but it repealed the 1962 Exchange Control Act and Enterprises Promotion Decree of 1989.

The author contended that the OMO as a monetary policy instrument, does not have negative effect, but stabilisation securities allow the monetary authority to mop up at its own discretion the excess liquidity in the economy. It is the monetary authority that has the exclusive knowledge on the liquidity position of the economy. When there is excess liquidity in the economy, Central Bank collects funds of an interest of about 12.7% while on the other hand, the monetary authority desires banks to pay an interest rate within 12 - 15% range.

The researchers can ask the question that "who bears the heavy loss incurred on depositors' funds if the stabilisation securities are forced at 12.75%. We can assume that if the fund is not withdrawn from banks, the action would have increased the loanable funds and ultimately boost the manufacturing sector through granting of additional loans and advances. We can state that other implication is that the balance of banks loanable funds after the deduction of stabilisation securities would be invested in instruments or income yielding ventures. If the action is taken, banks would be able to pay its depositors interest fee and they can recoup on the impact of the low return on the stabilisation securities.

In the foreign exchange sector, the monetary policy circular made effort to solve the problem of exchange rate instability. But it was not solved because the circular

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opened multiple foreign exchange windows such as:

(a) government foreign exchange pegging of the Naira at N22 = $1.0.

(b) The interbank forex market designed to operate at the autonomous rate.

(c) "The black market"

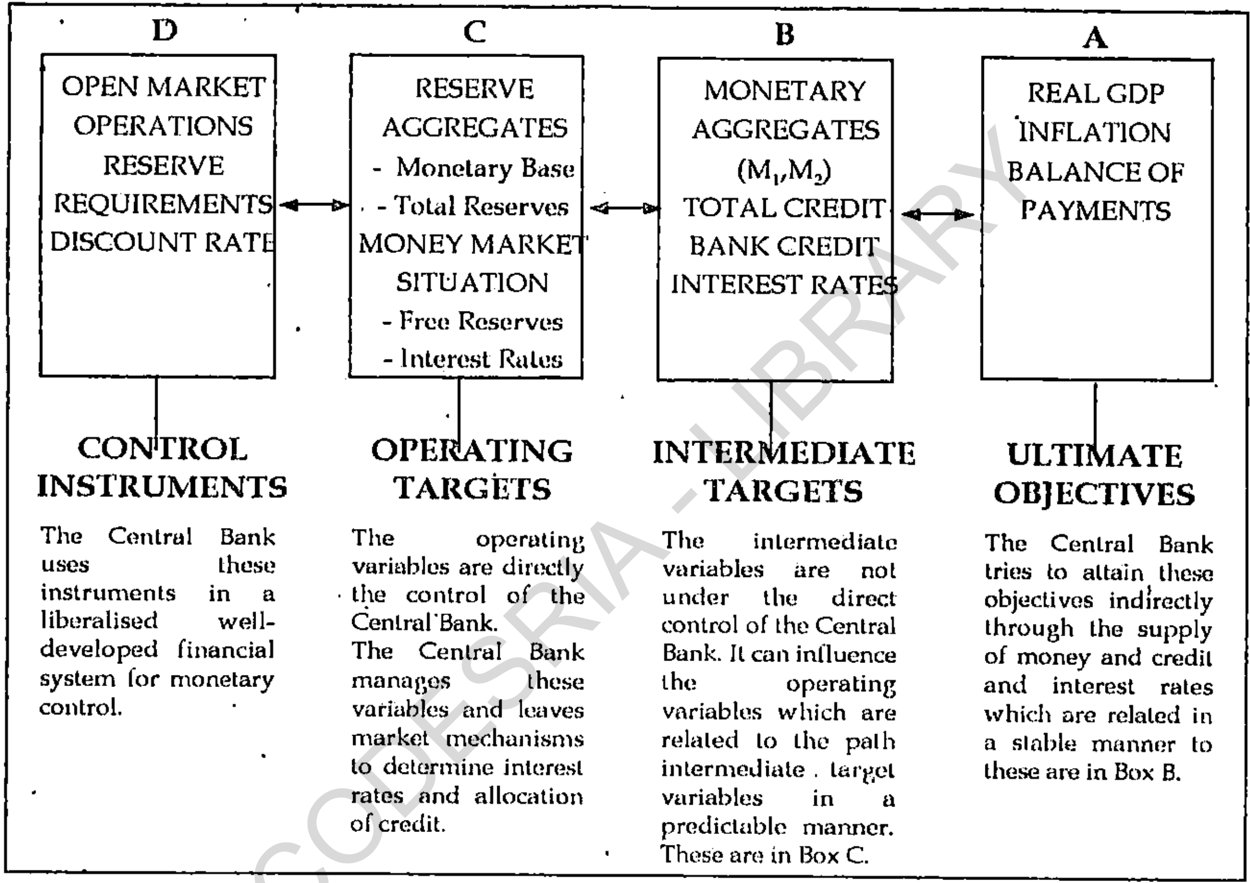

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Figure 3.4: Monetary Policy Circular Control Framework

SOURCE: Oke, B. A. : CBN Economic and Financial Review, Vol. 31, No. 4, March 31st , 1993, p.306

The above multiple choices have created problem for manufacturers who are expected to source fund from the autonomous market at the prevailing market rate. The implication is that manufacturers feel that if the goods are manufactured, there are tends for inflation because of high cost of manufacturing and eventual high product pricing. it is the objective of the monetary policy circular to curb inflation and

increase production, but the high manufacturing cost because of unstable forex rate may dampen the objective of the circular. Other implications is that an average Nigerian may not be better off as his/her purchasing power would be further eroded. Presently, the industrial capacity utilisation is less than 30% and with the high exchange rate, it may not improve significantly because of induced high prices of finished goods that leads to low demand of goods and services.

The transmission of the impact of the Figure 3.4 instruments of policy to the ultimate objectives of the monetary authorities is illustrated in Figure 3. 4. The ultimate objectives of monetary policy generally include stable growth in real GDP, moderation of inflation and the attainment of balance of payments (See Box A). Very often, these objectives include full employment and stability in exchange rate. The Central Bank tries to attain these objectives indirectly through the intermediate variables in Box B i.e., the supply of money and credit and interest rates which are related in a stable manner to the ultimate goals. But these intermediate target variables are not under the direct control of the Central Bank. However, it can influence the operating variables in Box C, which are related to the path of the intermediate target variables in a predictable manner. The Operating Targets, i.e. Reserve Aggregates, especially bank reserves, interest rate and money market situation, are directly under the control of the Central Bank through the use of the control instruments in Box D, i.e. OMO, reserve requirements, and the discount rate.

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SUMMARY

The views of experts on monetary policy had been reviewed. Some had suggested methods and procedures to implement monetary policies. Some are of the view that traditional monetary policy instruments such as, Interest Rate, direct credit control, selective control reserve requirement, moral suasion, open market operation (OMO) etc. should be used to control the economy.

Operationally, the money supply period should be classified into short-term and long-term period and the desired targets should be determined according to the periods. The Keynesians are of the view that the use of interest rates can be used to control money supply and investments. However, the monetarists are of the view that the quantity control of money supply can lead to economic success.

There are disturbances in most economic systems. Some variables such as business cycle, speculative nature of financial system and international financial environment make it difficult to have monetary policy that can be perfect. The effectiveness of policy can be achieved if all variables (such as interest rate, money supply, money demand business activities etc), are held constant. The indirect monetary control is one of the policies recommended and it had been operational in Nigerian since 1992.

Comparatively, monetary policy circular is used in Zimbabwe as public information, but in Kenya the Treasury takes the views in the monetary policy circular, are embodied in the National Budget. Monetary policy circulars had influenced financial deregulation and the adoption of financial innovations in

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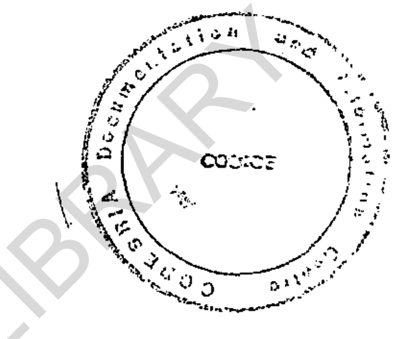
Australia. The financial system is based on small number of trading banks which had the right to issue foreign exchange.

This chapter sees the challenges of monetary policy circular since 1986 as a conceptual framework and instrument which encompasses actions of the Central Bank that affect the availability and cost of commercial and Merchant Banks' reserve balances and credit conditions.



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CHAPTER FOUR

RESEARCH METHODOLOGY

INTRODUCTION

Osuala (1987,: 1) states that research is the simple process of arriving at dependable solutions to problems through planned and systematic collection, analysis and interpretation of data.

Baridam (1990,: 15) defines research as the activity of investigating the phenomena of human experience which leads to new knowledge, using methods of inquiry which are currently accepted as adequate by scholars in the field.

However, irrespective of the various definitions, the researcher defines Research Methodology as the various procedures adopted in the data collection, questionnaire design and other investigative methods and techniques applied to achieve research objectives.

In this dissertation, the researchers had applied experimental research design technique because they had control over the dependent and independent variables. By the nature of the research it was necessary to solicit for, and obtain primary data which required direct contact with people who are involved in initiating and implementing Monetary Policy circulars.

RESEARCH DESIGN

The research deals basically with the Monetary Policy circulars as they affect

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banking industry. Primary data was obtained when questionnaire were distributed to formulators and implementers of monetary policy circulars. The questionnaire was filled by management staff of the banks and other top officials. The questionnaire was personally distributed to Commercial banks, Merchant banks and Central Bank of Nigeria in their respective offices in Port-Harcourt and Lagos. The two cities were used because the corporate head quarters are located in these cities. The questionnaire were designed to obtain information which can aid us to calculate monetary policy compliance rate.

Secondary data were derived from Annual Financial Report of Commercial and Merchant Bank, Central Bank Annual Reports, various issues of monthly reports of Central Bank, Economic and Financial Review, magazines, Newspapers and other relevant journals from 1970 - 1990.

Based on the above procedures researchers used experimental research design because of the scientific sophistication required to arrive at research conclusion.. It is a six (6) chapter dissertation.

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POPULATION SAMPLING PROCEDURE

The target population of this dissertation are the management staff of Commercial, Merchant and Central Banks, in Nigeria. These organisations are the accessible population from which sample size is drawn. Therefore, the systematic random sampling technique was used. This method was necessary because of the nature of the questions the selected respondents were required to answer. It is not every official in these banks who knows about monetary policy circular, so, positions

and levels in management determined respondent's ability to answer the questions. Stratified technique was used to classify the banks into commercial and merchant banks. The names and locations were obtained from the Annual reports of Central Bank of Nigeria.

Sample size for the dissertation is 127 responds because these respondents returned the questionnaire. The researcher randomly distributed 150 questionnaires to management staff of the banks with bias to a stated guidelines. Twenty three (23) of the questionnaires were not returned and some did not meet the guideline, therefore, they were not used for analysis. Among the participants in the study were some management staff of Commercial and Merchant banks, Research department, Bank operations and Bank examination departments of the Central Bank of Nigeria.

RESEARCH GRANT

In order to get wider respondents, the researcher sent letters of financial assistance to the Central Bank of Nigeria, two (2) research agencies, and ten (10) Merchant Banks. The researcher received negative responses (See appendices D - E) from two Merchant banks one from research agency, and Central Bank of Nigeria while others did not reply. However, Council for the Development of Social Research in Africa, (CODESRIA) gave me small grant for Dissertation writing and University of Port Harcourt supplemented it (See Appendix G).

QUESTIONNAIRE DESIGN

The questionnaire was designed in three parts, Section A and C were filled by Commercial and Merchant Bank staff while Section B was filled by Central Bank staff.

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These questions are the main tool used to collect primary data.

The primary data were analysed to test some of the hypotheses. The questionnaire was framed in a way to solicit an objective information on the subject of study. They were factual and opinion type of questions. These opinion questions were used as basis of discussions, conclusions and recommendations of the study.

In total there were twenty-eight (28) questions contained in the questionnaire. These questions are both of the close-ended and open-end type because of the information required. (See Appendix A).

DATA COLLECTION PROCEDURES

The data for this dissertation was collected through the primary and second. We zone the areas for efficient questionnaire distribution and collection thus:

Questionnaires were physically administered in Port Harcourt and Lagos respectively (See Table 19). One hundred and fifty (150) questionnaires were

TABLE 21

QUESTIONNAIRE DISTRIBUTION BY ZONES

ZONE	AREAS
A	Port Harcourt
B	Victoria Island, Lagos
C	Azikiwe, Tinubu Square, Balogun Street, all in Lagos Island
D	Ikoyi, Lagos

administered to the above zones and the questionnaires were accompanied by a letter addressed to "WHOM IT MAY CONCERN" signed by my Principal supervisor (Dr.

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C. C. Ntamere). The letter solicited assistance from the respondents in respect to the data collection (See Appendix B).

The researcher travelled eight (8) times to Lagos (See Appendix C) for the distribution and collection of the questionnaires. The respondents gave me various dates to collect the completed questionnaires. When some of the respondents disappointed. The researchers gave them self addressed envelops which were used to mail the questionnaires to them.

Table 22 shows that 150 questionnaire were distributed to four (4) zones as stated

TABLE 22

RESPONSE RATE OF TOTAL QUESTIONNAIRES DISTRIBUTED BY ZONES

ZONE	QUESTIONNAIRES DISTRIBUTED	COMPLETED, RETURNED AND USED	NOT RETURNED
A	20	15	5
B	50	46	4
C	60	49	11
D	20	17	3
TOTAL	150	127	23
RATE	100%	85%	15%

SOURCE: Derived from Research Questionnaire

above. It shows that one hundred and twenty-seven questionnaire were returned and used which represents 85% response rate while twenty-three (23) which represent 15% did not return theirs.

The secondary data for the dissertation was collected from Annual Financial Reports of various commercial and Merchant banks. These data were supplemented

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by various issues of monetary policy circular 1 - 24, CBN annual Reports and Account and various issues of monthly reports. Financial and Economic Review and Billion Published by Central Bank of Nigeria were major source of data collection.

DATA ANALYSIS TECHNIQUE:

Based on the type of dissertation the data were analysed based on both parametric and non-parametric tests. These methods of analysis were used for the hypotheses stated in the research work. In the test, the researcher had laid emphasis no two to three dependent and independent variables, therefore, simple and multiple linear regression analysis w ere used to ascertain the validity of the research. The formulae stated in the next page are to achieve different test results in the study.

1. $Y = a + bx$
   Where Y is the dependent variable
   X is the independent variable

This regression equation expresses the relationship between the variables.

2. $Y_c = a + b_1 X_1 + b_2 X_2$
   The b_1 is the average change in Y_c resulting from a one unit change in X_1 and b_2 is the average change in Y_c resulting from a unit change in X_2.

In the above regression equation, Net Profit = X_1, is the independent variable and Y1 is the dependent variable. It states the effect of net profit on owner's capital fund because of bank deregulation. The compliance rate analysis below is used to measure the statistical significance of sectoral allocation of loans and Advances to the Banking Industry. For the researchers to measure the strength of relationship between the various monetary policy circular instruments and their degree of associations among the variables, therefore, ratio percentage simple and multiple regression method of

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analysis are used. The models used are:

3. **ACTUAL BANK PERFORMANCE RATE**

$$\frac{\text{SECTORAL Loan Amount in Naira X 100}}{\text{Total Loan to the Economy}} \quad or \quad \frac{SAN}{TLE} \times \frac{100}{1} = \%$$

The above rate is used to determine the actual banks' performance within the economy as per the monetary policy circular stipulations.

4. Bank Performance Rate Deviation = Actual MPR - Standard MPR = %

   It shows the extent banks had deviated from the established standard rate in the Monetary Policy Circular stipulations.

5. Monetary Policy Circular Compliance Rate $= \frac{\text{Rate Deviation}}{\text{Standard Monetary Policy Rate}} = \%$

or

$$\frac{RD}{SMPR} = \%$$

It shows the rate of bank compliance to the Central Bank established rate in the economy.

6. Test of coefficient X $= [(\Sigma Yx_1)(\Sigma x_2^2) - (\Sigma Yx_2)(\Sigma x_1 x_2)]/[(\Sigma x_1^2)(\Sigma x_2^2) - (\Sigma x_1 x_2^2)]$

7. Multiple Regression "t" test t $= [x_1]/[s(x_1)]$

8. Multiple Regression r^2 test $= r^2 = [\Sigma(Yp - y)^2]/\Sigma(y - y)^2$

9. Simple Regression "t" test t $= \{r\sqrt{[n - 2]}\}/[1 - r^2]$

10. r^2 - test $= [n(\Sigma xY) - (\Sigma x)(\Sigma Y)]/\{\sqrt{[n(\Sigma x^2) - (\Sigma x)^2][n\Sigma Y^2] - (\Sigma Y)^2}\}$.

11. F - test: SSTO $= \{\Sigma x_1^2, x_2^2, Y^2 - [(\Sigma x_1, x_2, Y)^2]\}/n$

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$$SS_b = \{[(\Sigma x_1)^2]/n\} + \{[(\Sigma x_2)^2]/n\} + \{[(\Sigma Y)^2]/n\}$$

F - ratio: $= [MS_b]/[MS_w]$

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SUMMARY

This chapter discusses the step by step procedure and principles applied in collecting and analysing data for the research. The primary data was collected through, the distribution of questionnaire, while the secondary data were collected through Banks' annual financial reports, CBN monthly reports and Financial and Economic Reviews.

The experimental research design method is used because of the scientific base of the research. The random sampling technique of the management staff of commercial, and merchant bank is used in the study, however, the research department, Bank operation and Bank examination department of Central Bank of Nigeria participated in the study.

Finally, the statistical tools used in the analysis are the regression analysis, compliance rate, ratio analysis, and percentage method of analysis, t - test, r^2 test and F - test to various levels of significance.

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CHAPTER FIVE

DATA ANALYSIS AND RESEARCH FINDINGS

INTRODUCTION

The objective of this chapter is to arrange and analyse the data collected.from both primary and secondary sources. The data are organised structurally to aid the reader of this research without a need for supplementary analysis.

A total of 150 questionnaires were sent out, a total of 129 were received, which represents 86% response rate. Therefore, 129 is the research population size. Twenty three of the questionnaires were not returned, which is 14% of the total distributed questionnaires.

The respondents have fair knowledge of monetary policy circular which was first issued in 1969. The average age of Central Bank respondents is 44 years and the average working experience in the banking industry is 13 years. The Commercial bank respondents average age is 42 years and the average working experience is 12 years. Respondents in Merchant bank have average age of 40 years and average working experience of 6 years.

The liquidity ratio position shows that as the Commercial bank liquidity ration continues to decrease while the composite price index continues to increase which made banks to curtail lending to customers. the deposit ratio was low because of the high inflation rate.

The compliance rate analysis shows that in the area of sectoral loans allocation,

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TABLE 23

BANKS	NUMBER SENT OUT	RETURNED COMPLETED	INCOMPLETE
CENTRAL BANK			
1. Research Department	12	12	-
2. Bank Operation Department	12	6	4
3. Bank Examination Department	8	4	4
TOTAL	30	22	8
MERCHANT BANKS			
1. Nigbel Merchant Bank	2	2	-
2. Nigeria Merchant Bank	2	2	-
3. ABC Merchant Bank	2	2	-
4. International Merchant Bank	3	2	1
5. New African Merchant Bank	4	4	-
6. Liberty Merchant Bank	2	2	-
7. Manufacturer Merchant bank	4	4	-
8. Rims Merchant Bank	4	4	-
9. Capital Merchant Bank	3	3	-
10. NAL Merchant Bank	4	2	2
11. Industrial Merchant Bank	4	4	-
12. First Interstate Merchant Bank	1	1	-
13. MIDAS Merchant Bank	1	1	-
14. Central Point Merchant Bank	4	4	-
15. Continental Merchant Bank	2	-	2
16. Victory Merchant Bank	1	-	1
17. Crown Merchant Bank	2	2	-
18. Lead Merchant Bank	2	2	-
19. Alpha Merchant Bank	2	1	1
20. Abacus Merchant Bank	2	2	-
21. Century Merchant Bank	2	2	-
TOTAL	53	46	7

BANKS	NUMBER SENT OUT	RETURNED COMPLETED	INCOMPLETE
COMMERCIAL BANKS			
1. United Bank for Africa, Plc.	6	6	-
2. First Bank, Plc	5	4	1
3. Union Bank of Nigeria, Plc.	5	5	-
4. Pinacle Commercial Bank, Ltd.	2	2	-
5. Commerce Bank, Plc.	4	4	-
6. AllState Trust Bank	4	4	-
7. Societe Generale Bank	2	2	-
8. Savannah Bank Ltd.	4	4	-
9. Access Bank (Nig) Ltd	2	2	-
10. LOBI Bank (Nig.) Ltd.	2	2	-
11. Afribank Ltd.	1	-	1
12. ACB Ltd.	1	1	-
13. Pan-African Bank Ltd.	1	1	-
14. Progress Bank of Nigeria Ltd.	1	1	-
15. Universal Trust Bank	2	2	-
16. Eko International Bank	2	2	-
17. Allied Bank of Nigeria	2	2	-
18. Bank of the North	2	2	-
19. National Bank of Nigeria	1	-	1
20. Crystal Bank of Nigeria	2	2	-
21. Gateway Bank of Nigeria	2	1	1
22. Habib Bank	2	1	1
23. Highland Bank	2	1	1
24. Inland Bank	2	2	-
25. Mercantil Bank	2	1	1
26. Nigeria-Arab Bank	1	1	-
27. North-South Bank Ltd.	1	-	1
28. Owema Bank (Nig) Ltd.	2	1	1
29. Nigeria International Bank	1	1	-
30. Chatered Banking Ltd.	1	1	-
TOTAL	67	61	6

SOURCE: Derived from Research Questionnaire

TABLE 24:
SUMMARY OF QUESTIONNAIRES COLLECTED

BANKS	SENT OUT	%	RECEIVED	%
Central Bank	30	20.00	22	17.00
Merchant Banks	53	25.00	46	36.50
Commercial Banks	67	45.00	61	47.00
TOTAL	**150**	**100.00**	**129**	**100.00**
Response Rate				86%

SOURCE: Derived from Research Questionnaire

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Merchant banks had complied more to the monetary policy circular than Commercial banks. From 1970 to 1990 Commercial banks complied 223% above MPC guidelines while Merchant banks complied 160% above MPC guidelines.

Regression analysis, percentage ratio, and compliance rate method analysis are used to test the hypothesis. There are six (6) hypothesis, in which we accepted H_0:4 and H_A:2 because of their inability to conform with the stated premise.

SUMMARY OF QUESTIONNAIRES COLLECTED

Based on Table 24 a total of 150 questionnaires were sent out as follows:

Central Bank - 30, Merchant Banks - 53 and Commercial Banks - 67 which represents 20%, 35% and 45% respectively. The ones completed and returned are as follows:

Central Bank - 22, Merchant Banks - 46 and Commercial Banks - 61 and they represent 17%, 36.5% and 47.0% respectively. Twenty three questionnaires which represents 14% were not returned. Therefore, the response rate for the research is 86% of the received questionnaires.

In Section A, we have the personality profile of CBN respondents. The highest age is 56 years while the lowest age is 30 years. The average age of respondents is 44 years while the average working experience is 13 years. The highest academic qualification is PhD while the lowest is HND.

There are 15 male respondents while 7 are female. Twenty-one are professional bankers while one is a non-banker.

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In Section B (Questions 7 and 8), all the CBN respondents (22) do agree that the organisation issues monetary policy represents 100%. They all agreed that the first one was issued in 1969.

TABLE 25
SECTION A
THE PERSONALITY PROFILE OF RESPONDENTS FROM CENTRAL BANK OF NIGERIA

Respondent	Post	Age (Years)	Sex	Experience (Years)	Educational Qualification	Professional Indication
1	Deputy Director	54	M	24	BSc,MBA	Banker
1	Deputy Director	48	M	22	MBA	Banker
1	Deputy Director	51	F	10	MBA	Non-Banker
1	Principal Economist	34	F	3	Ph.D	Banker
1	Deputy Director	55	M	24	MSc	Banker
1	Assistant Director	56	M	34	MBA	Banker
1	Principal Economist	44	F	14	MBA	Banker
1	Senior Bank Economist	50	M	15	MBA	Banker
1	Senior Bank Economist	51	M	16	MSc	Banker
1	Assistant Manager	34	M	5	MSc	Banker
1	Manager	40	F	12	BSc	Banker
1	Manager	44	M	14	MSc	Banker
1	Assistant Manager	30	M	5	MSc	Banker
1	Assistant Manager	32	M	6	MSc	Banker
1	Senior Manager	45	M	15	HND	Banker
1	Assistant Manager	43	F	13	BSc	Banker
1	Manager	43	F	13	BSc	Banker
1	Manager	45	M	14	BSc	Banker
1	Assistant Manager	43	M	14	BSc	Banker
1	Senior Supervisor	40	M	10	HND	Banker
1	Supervisor	41	M	11	HND	Banker
1	Assistant Manager	42	F	12	BSc	Banker
22	TOTAL	964		294		
	Average	44		13		

SOURCE: Derived from Research Questionnaire

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On the extent of compliance (Question 9) five (5) which is 23% feel that banks complied to Monetary Policy circulars and it had achieved their objectives. However, one (1) respondent which represents 5% feels that some banks pay penalty rather than

SECTION B
MONETARY POLICY CIRCULAR
CENTRAL BANK OF NIGERIA VIEWPOINT

Question 7			
Do you issue monetary policy circular? Respondents	Yes 22	% 100	No. 0
TOTAL	22	100	0

Question 8			
When was the first one issued? Respondents	1969 22	% 100	Others 0
TOTAL	22	100	0

Question 9 To what extent had banks complied to MPC?	Respondent	%
They had complied	5	23
They do pay penalties rather than comply	1	5
The monetary policy circular had not achieved its objectives	0	0
Monetary Policy Circulars had achieved their objectives	16	72
TOTAL	22	100

Question 10

Are the Monetary Policy Circular implementers (Banks) invited to discuss the policies to be adopted?

	Respondents	Yes	%	No	%	%
	13	13	59	0	0	59
	9	0	0	9	41	41
TOTAL	22	13	59	9	41	100

Question 11

If the answer to Question 10 is yes, what is the level of participation?

	Active	%	Inactive	Mild	%	None
Respondents	12	92	0	1	8	0
TOTAL	12	92	1	1	8	0

Question 12

Do the monetary policy circular guidelines have significant effect on the aggregate production?

	Yes	%	No	%
Respondents	22		0	0
TOTAL	22		0	0

Source: Derived from Research Questionnaire

comply to the monetary policy guidelines. The respondents feel that because of sanction the banks try as much as possible to comply to the guidelines.

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On the level of participation (Question 10) before the formulation of the policy, 13 respondents which represents 59% said "yes" while 9 respondents which is 41% say "no". The same respondents (Question 11) feel that they were actively involved in the discussion through Bankers Committee meeting.

On aggregate Production, (Question 12) twenty-two (22) which represents 100% feel that the monetary policy guidelines have significant effect on aggregate production through the granting of credit to the preferred sector in which production is the main focus.

Generally, the respondents feel that Monetary Policy Circular affects aggregate production and influence the structure of production.

As the monetary policy circular regulates interest rate structure it helps to increase production because it influences the banks' policy on lending.

COMMENTS ON MONETARY POLICY CIRCULAR

The respondents in CBN feel that Monetary Policy Circulars are used to moderate lending and the liquidity in the economy in a given fiscal year. It can be for moderate credit expansion or interest rate may be expansionist, restrictive to achieve monetary policy direction.

Furthermore, they stated that carefully worked out guidelines for the banks which is aimed at getting banks operate in a way that the economy could function with less distortions and the compliance with the monetary policy guidelines will help to achieve monetary stability in economy.

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They argued that monetary policy circulars are designed statement of measures to regulate the value, supply and cost of money in the economy in consonance with the level of economic activity. The circulars are issued to guide the behaviours of banks and banking operators early in the year as it effects credit, interest rate and sectoral allocation of credit.

PROBLEMS OF MONETARY POLICY CIRCULAR

The problem with monetary policy circular is that their objectives are not accomplished, because there is no harmony between the Federal government monetary policy and fiscal policy guidelines. They felt there should be a strong fiscal policy to complement the monetary policies. these are the views of respondents in their returned questionnaire. These views are supported by various fiscal policies like in 1960 - 1977 there was budget deficit of N5,004 million, there was increase of about N120 million capital expenditure. There was capital allowance which reduced government revenue. At the same time, government restricted banking sector credit expansion which increased the budget deficit.

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ADVANTAGES OF MONETARY POLICY CIRCULAR

The monetary policy circulars have helped to bring sanity in the economy be checking the excesses of bank practitioners. It has been able to do it in the way of setting direction of loans and advances, interest, interest rate, exchange rate and credit ceilings.

ORGANISATION STRUCTURE

All the respondents from Commercial banks sixty one(61) which represents

100% say they work in a Commercial bank.

Most of the banks 55 which represents 90%s work in a private Limited Liability Commercial banks while six (6) which represents 10% work in public Limited Commercial banks.

TABLE 26
COMMERCIAL BANKS
SECTION A
THE PERSONALITY PROFILE OF RESPONDENTS

Respondent	Age (Years)	Sex	Experience (Years)	Educational Qualification	Professional Indication
1	40	F	2	BSc, MSc	Banker
1	41	M	3	HND	Banker
1	33	M	3	PhD	Banker
1	43	M	12	BSc, MBA	Banker
1	54	M	14	BSc	Banker
1	48	M	14	BSc	Banker
1	56	M	15	MSc	Banker
1	49	M	11	MBA	Banker
1	35	M	8	BSc	Banker
1	30	M	5	BSc	Banker
1	58	M	30	PhD	Banker
1	54	M	20	BSc	Banker
1	53	M	18	MSc	Banker
1	46	M	13	BSc	Banker
1	30	F	5	MBA	Banker
1	35	M	6	MBA	Banker
1	37	M	8	BSc	Banker
1	33	F	4	BSc	Banker
1	47	M	18	BSc	Banker
1	41	M	14	BSc	Banker
1	46	M	29	BSc	Banker
1	46	M	25	BSc	Banker
1	44	F	22	BSc	Banker
1	43	F	18	BSc	Banker
1	39	F	10	BSc	Banker
1	44	M	11	HND, MSc	Banker
1	36	M	12	BSc, MSc	Banker
1	30	M	5	MSc	Banker
1	35	M	7	BSc	Banker
1	39	M	9	BSc	Banker
1	40	F	8	BSc	Banker
1	43	F	7	BSc	Banker
C/F 32	*1348*		*386*		

Respondent	Age (Years)	Sex	Experience (Years)	Educational Qualification	Professional Indication
B/F					
32	**1348**		*386*		
1	40	F	7	MSc	Banker
1	30	M	5	BSc	Banker
1	33	F	4	BSc	Banker
1	47	M	13	MBA	Banker
1	39	F	10	HND	Banker
1	30	F	5	HND	Banker
1	35	M	6	BSc	Banker
1	30	M	4	BSc	Banker
1	36	F	7	HND	Banker
1	40	M	5	BSc, ACA	Banker
1	42	M	9	HND	Banker
1	36	M	12	HND	Banker
1	39	F	10	MBA	Banker
1	45	M	15	BSc	Banker
1	43	M	11	HND, MSc	Banker
1	44	F	12	HND	Banker
1	46	M	30	BSc, MBA	Banker
1	44	F	25	BSc	Banker
1	47	F	18	BSc	Banker
1	49	M	21	BSc	Banker
1	50	M	21	BSc	Banker
1	30	F	5	MBA	Banker
1	52	M	30	BSc	Banker
1	48	F	23	BSc	Banker
1	36	M	14	MBA	Banker
1	44	M	12	BSc	Banker
1	43	F	11	BSc	Banker
1	36	M	12	BSc	Banker
1	30	M	2	BSc	Banker
61	2512		745		
Avg	42		13		

SOURCE: Derived from Research Questionnaire

CODESRIA - LIBRARY

Respondents who filled the questionnaire occupy posts ranging from officer to managing director. The highest response came from general managers with ten (10) which represents 17%. Deputy Managers are 9 which represents 15% (See Table 27).

The average age is 42 years while the average working experience is 13 years.

TABLE 27
SECTION C
ORGANISATION STRUCTURE OF COMMERCIAL BANK
TYPES OF BANKS

Respondents	Commercial	%	Merchant	%
61	61	100	0	0
TOTAL 61	**61**	**100**	**0**	**0**

TABLE 28

	Mode of registration			
Respondents	Private Ltd.	%	Public	%
55	55	90	-	-
6	-	-	6	10
TOTAL 61	**55**	**90**	**6**	**10**

TABLE 29
POST HELD BY RESPONDENT IN
COMMERCIAL BANKS

Officer	Supervisor	Assistant	Mgr.	D. Mgr.	AGM	GM	DMD	MD	Total
3	5	7	8	9	7	10	7	5	**61**
4%	8%	12%	13%	15%	12%	16%	12%	8%	**100%**

SOURCE: All Section C Derived from Research Questionnaire

Table 30 indicates that most of the respondents specialised in various aspects of business administration ranging from 24 in Banking and Finance, 15 in Economics, 10 in Accounting and 12 in Business Administration.

CODESRIA - LIBRARY

In table 31 shows that all 61 of the Commercial bank respondents have knowledge of monetary policy. they all agree that they all implement the stipulations in the monetary policy circular. However 42 respondents which represents 71% say

TABLE 30
RESPONDENTS AREA OF SPECIALISATION

Respondents	Banking & Finance	%	Economics	%	Accounting	%	Business Admin.	%	TOTAL	%
24	24	39	-	-	-	-	-	-	**24**	**39**
15	-	-	15	25	-	-	-	-	**15**	**25**
10	-	-	-	-	10	16	-	-	**10**	**16**
12	-	-	-	-	-	-	12	20	**12**	**20**
61	24	39%	15	25%	10	16%	12	20%	**61**	**100%**

SOURCE: Derived from Research Questionnaire

they did participate in establishing monetary policy guidelines which 19 respondents say they did not participate in such activities.

All the respondents agree that sectoral allocation and asset portfolio distribution are based on monetary policy guidelines.

GENERAL COMMENT ON MONETARY POLICY CIRCULAR BY COMMERCIAL BANK RESPONDENTS

Commercial bank respondent feel that the guidelines are fashioned to achieve a healthy and viable banking and financial system but fiscal indiscipline and central bank of Nigeria inefficient supervisory role had frustrated the well articulated policies. there had been series of excessive spending by government in terms of credit from the economic system.

CODESRIA - LIBRARY

TABLE 31

MONETARY POLICY CIRCULAR QUESTIONS

Have you read the Monetary Policy Circular?				
Respondents	Yes	%	No	%
61	61	100	0	0
Does your bank implement the stipulation in the Monetary Policy Circular?				
Respondents	Yes	%	No	%
61	61	100	0	0
Do you participate to establish Monetary Policy guidelines?				
Respondents	Yes	%	No	%
19	-	-	19	31
42	42	69	-	-
61	**42**	69%	**19**	**31%**
Are your Asset portfolio distribution based on the Monetary Policy guidelines?				
Respondents	Yes	%	No	%
61	61	100	0	0
Total 61	**61**	**100%**	**0**	**0%**
SOURCE: **Derived from Research Questionnaire**				

CODESRIA - LIBRARY

The monetary policy guidelines have helped to develop the banking industry but they had limited success in solving problem of monetary management, because some of the banks prefer to pay penalty rather than comply to policy guidelines.

Respondents feel that monetary policy circulars are inconsistent and the implementation is very difficult because of the policy conflict with fiscal policy measures. Respondents praise the objectives of the circulars but weak supervisory of Central Bank of Nigeria (CBN). CBN depends on the returns submitted by Banks without questioning the reliability of the data. The Central Bank of Nigeria had

TABLE 32
MODE OF REGISTRATION

Respondents	Private Ltd.	%	Public Company	%
4	-	-	4	9
42	42	91	-	-
Total 46	**42**	**91%**	**4**	**9%**

SOURCE: **Derived from Research Questionnaire**

suspended sixteen banks for filing false report to CBN.

In Table 32 it shows that 42 respondents which represents 91% work in private

TABLE 33.
MONETARY POLICY CIRCULAR QUESTIONS

	Yes	%	No	%
Have you read the Monetary Policy Circular?	46	100	0	0
Does your bank implement the stipulations in MPC?	46	100	0	0
Does your bank pay penalties?	8	17	36	83
Do you participate to establish MPC?	16	35	30	65
Are your asset portfolio distribution of MPC?	46	100	0	0

SOURCE: Derived from Research Questionnaire

limited companies while four (4) which represents 9% work in a public limited companies.

In Table 33 issues on Monetary Policy Circular indicates that all the respondents sixty-one (61) had read the monetary policy circulars and the stipulations in Monetary policy circular were implemented.

In terms of penalty, eight (8) respondents which represents 17% say their bank had paid penalty for non-compliance from one time to another, while thirty-eight (38) which represents 83% say their banks had not paid penalty to the Central Bank.

CODESRIA - LIBRARY

On the process of establishing Monetary Policy circular, sixteen (16) which represents 35% say their banks had participated to establish the Monetary Policy while thirty (30) which represents 65% say they had not participated in the process.

Forty-six (46) respondents which represents 100% say they had complied to loan portfolio distribution stipulated by the Monetary Policy Circular.

MERCHANT BANKS' COMMENT ON MONETARY POLICY CIRCULAR

An adherence to the monetary policy circular guidelines should be compulsory for banks. However, Central Bank of Nigeria should set up machinery to ensure that its conditions are complied with. there should be several returns to the Banking Supervision department of Central Bank and occasionally the Banking examination department of Central bank should visit banks to examine their activities.

The intentions of Monetary Policy circulars are good, but they are not practicable and they are usually a repetition of previous events which ignores the impact of inflation.

Some banks do not comply with some monetary policy guidelines, such as the sectoral allocation of credits, required spread above cost of funds in lending rates and other indirect cost on deposits because of extra cost on bank operating expenses.

The intentions of Monetary Policy Circular are good, but there is need for wider consultation with various sectors of the economy especially the banking and industrial sectors before decisions are taken.

The monetary policy since the introduction of Structural Adjustment Program

CODESRIA - LIBRARY

TABLE 34
PERSONALITY PROFILE OF RESPONDENTS FROM MERCHANT BANKS

Respondent	Specialisation	Post	Age	Sex	Working Experience	Educational Qualification	Professional Inclination
1	Public Administration	DMD	49	M	5	MSc, PhD	Non-Banker
1	Finance	Manager	47	M	12	MBA	Non-Banker
1	Banking	Officer	32	F	4	MBA	Non-Banker
1	Law	Supervisor	30	F	3	BSc	Non-Banker
1	Economics	Deputy Manager	40	M	8	BSc,MBA	Non-Banker
1	Accounting	Manager	39	M	8	BSc	Non-Banker
1	Marketing	Manager	41	M	7	MBA	Non-Banker
1	Advertising	Manager	43	M	8	MSc	Non-Banker
1	Accounting	Manager	42	M	6	BSc	Non-Banker
1	Public Relations	Asst. Manager	40	M	2	BSc	Non-Banker
1	Banking & Finance	General Manager	51	M	14	MBA	Non-Banker
1	Economics	Senior Manager	48	M	10	BSc	Non-Banker
1	Law	Senior Manager	34	M	9	BSc	Non-Banker
1	Accounting	Asst. Manager	33	M	2	BSc, ACA	Non-Banker
1	Economics	Deputy Manager	30	F	2	PhD	Non-Banker
1	Accounting	Supervisor	28	M	3	BSc	Banker
1	Banking	Manager	39	M	11	BSc	Banker
1	Mass Communications	Supervisor	35	M	2	HND	Banker
1	Advertising	Manager	34	M	2	HND	Banker
1	Accounting	Asst. Manager	36	M	4	BSc	Banker
1	Finance	Manager	38	F	5	BSc	Banker
1	Public Relations	Manager	40	M	6	BSc	Banker
1	Accounting	Asst. Manager	41	F	7	BSc	Banker
1	Marketing	Supervisor	31	F	3	BSc	Banker
1	Economics	Manager	32	M	4	BSc	Banker
1	Public Administration	DMD	49	M	5	MSc, PhD	Non-Banker
1	Economics	Senior Manager	41	M	6	MBA	Non-Banker
1	Banking & Finance	General Manager	48	M	14	MSc	Non-Banker
1	Banking	manager	42	M	6	BSc	Non-Banker
1	Public Relations	Supervisor	36	M	5	MSc	Non-Banker
1	Marketing	Manager	43	M	7	MBA	Banker
1	Finance	Manager	39	M	8	BSc	Banker
1	Accounting	Manager	41	M	8	BSc	Banker
1	Economics	Deputy Manager	42	M	8	MBA	Banker
1	Management	Manager	37	M	5	MBA	Banker
1	Management	Supervisor	40	F	6	BSc	Banker
1	Banking	Officer	37	M	3	BSc	Banker
1	Finance	Manager	48	M	12	MBA	Banker
1	Administration	DMD	49	M	6	MBA	Banker
1	Economics	Senior Manager	47	M	7	MBA	Banker
1	Management	Manager	42	M	8	MBA	Banker
1	Finance	Asst. Manager	40	M	6	MBA	Banker
1	Accounting	General Manager	49	M	15	MBA	Banker
1	Finance	Supervisor	40	M	4	MBA	Banker
1	Finance	Manager	43	M	7	MBA	Banker
46			1825		298		
	Average		**40yrs**		**6yrs.**		

SOURCE: Derived from Research Questionnaire

CODESRIA - LIBRARY

(SAP) seem to be too hard on Merchant banks. There is need to allow Merchant banks to accept deposits from customers without emphasis on the amount. The equipment leasing which was reserved for the Merchant banks, is now extended to Commercial banks. This action will reduce Merchant bank revenue base.

The Monetary Policy Circular is very good but it has to be complemented with good fiscal policy before it can work. Therefore, there should be necessary controls

TABLE 36
LIQUIDITY AND CASH RATIOS OF COMMERCIAL AND MERCHANT BANKS
(PERCENT) ROUNDED-UP

	Commercial Banks		Merchnt Banks
Year	Liquidity Ratio (%)	Cash Ratio (%)	Liquidity Ratio (%)
1970	95	5	
1971	74	5	-
1972	62	5	-
1973	64	5	-
1974	65	12	-
1975	69	26	-
1976	59	32	-
1977	53	16	-
1978	38	8	-
1979	45	12	-
1980	48	11	45
1981	39	10	42
1982	40	11	49
1983	63	8	81
1984	52	9	82
1985	68	5	94
1986	57	4	48
1987	49	5	42
1988	59	5	31
1989	60	5	25
1990	61	7	31

Note: Consolidation of Merchant Banks' returns had not started between 1970 - 1979. It started in 1980.

Source: CBN Statistical Bulletin, Vol. 1, Nos. 1 & 2, Dec. 1990, p. 33 & 41

CODESRIA - LIBRARY

on both fiscal and monetary policy implementations for the economy to achieve good results.

Monetary Policy Circular is expected to be one of the major policy guidelines of banks but the Central Bank of Nigeria does not allow implementers (banks) participation. Therefore, major issues affecting the banking industry are omitted and banks sometimes resent complete compliance of the monetary policy because of their non-participation in the monetary policy formulation.

The banks accuse Central of Bank of Nigeria of frequent changes in the monetary policy during the year, thereby CBN makes the implementation very difficult.

Liquidity ratio is the total asset of a bank as a proportion of total deposit liabilities. But the cash ratio show (table 36) available cash to perform cash functions in the bank. It is the cash balances as proportion of deposit liabilities.

In Table 36 we could observe that in 1970, we had only one Merchant bank and 14 Commercial banks. Competition of available fund was low, therefore the Commercial bank liquidity ratio was 95%. As the post independent era continued in early 1970s the liquidity ratio started decreasing as the number of competitors in the banking industry started increasing. (See table 36).

In 1978, the liquidity of Commercial banks decreased to 38% and the cash ratio decreased to 8% the money supplied decreased from 59.5% to 57.6% which represents 1.9% decrease in money supply.

CODESRIA - LIBRARY

TABLE 37

MONEY SUPPLY TO THE ECONOMY 1970 - 1990

(N Million)

Year/Quarter	Currency Outside Bank 2/	Demand Deposits	Money Supply (M1) 1/	Demand Supply (M1)/1 % of Money Supply (M1)	Quasi Money 3/	Money Supply (M2) 4/
1970	342.3	266.0	608.3	43.7	341.6	949.9
1971	354.5	274.4	628.9	43.6	376.4	1005.5
1972	385.2	314.9	700.1	45.0	461.4	1161.5
1973	435.9	391.2	827.1	47.3	586.9	1414.0
1974	569.8	608.5	1178.3	51.6	977.9	2156.2
1975	1030.7	1013.3	2044.0	49.6	1578.4	3622.4
1976	1540.0	1942.8	3294.4	59.0	1985.9	5278.9
1977	1940.0	2853.6	4794.4	59.5	2263.1	7057.5
1978	2157.2	2932.5	5089.7	57.6	2609.8	7699.5
1979	2350.8	3795.8	6146.8	61.8	3701.6	9857.4
1980	3185.9	6040.9	9226.8	65.5	5170.6	14397.4
1981	3861.9	5883.0	944.9	60.4	5845.4	15894.0
1982	4222.4	3826.2	10048.6	58.0	6845.4	16894.0
1983	4842.8	6439.6	11282.4	57.1	8086.5	19368.9
1984	4883.5	7320.6	12204.1	60.0	9396.4	21600.5
1985	4909.9	8357.9	13267.8	63.0	10550.8	23818.6
1986	5177.9	7927.1	13105.0	60.5	11487.7	24592.7
1987	6298.6	8607.3	14905.9	57.7	15088.7	29994.6
1988	9412.3	11736.3	21148.6	55.5	21631.7	42780.3
1989	11688.4	14009.2	25697.0	54.5	20525.3	46222.9
1990	14940.6	22293.1	37233.7	59.9	2769.9	64902.4

SOURCE: CBN Statistical Bulletin, Vol. 4, No. 2, Dec. 1993, p.6

CODESRIA - LIBRARY

In the years under review, Commercial banks' liquidity ratio had not been stable. It had fluctuated between 95% in 1970 to 48% in 1980 to 61% in 1990.

The cash ratio 5% from 1970 to 1973, increased to 32% in 1976 then it started to decrease to 16% in 1977 to 5% in 1978 to 7% in 1990. It is this cash ratio trend which

was observed by Central Bank that some Commercial banks were classified as distressed banks.

On the Merchant banks, the liquidity position in 1980 was 45% increased to 94% in 1985. In 1985 the banking system was over-liquid therefore, the preferred sector loan allocation was increased to 75% and the loans and advances was increased by 10% in 1986 Monetary Policy. From 1986 the liquidity ratio continued to decrease from 48% to 31% in 1990.

Merchant banks do not accept demand deposit, therefore, monetary policy does not require returns such as cash returns to determine cash ratio.

Table 38 compares the relationship between the deposits to the Commercial banking system and the total loans and advances extended to the economy from 1970 - 1990.

The composition of deposits are demand deposits, time deposits and savings. Loans and Advances embrace the loans to Banks in Nigeria, abroad, subsidiaries of banks in Nigeria, other customers, money at call outside CBN and Bill discounted.

The monetary policy circular issued in 1969/70 stipulated that the allocation of credit should decreased from 17.7% to 15.2%, so we can say that it is a period of moderate restraint policy. Government wanted to increase domestic production thereby reduce inflation. It is this policy that made loanable fund to increase fund 56% in 1970 to 77% in 1972 (see table 38) From 1973 to 1976 there had been gradual decline in the relationship between the ratio of deposit to Loans and Advances but in

CODESRIA - LIBRARY

TABLE 38

RATIO OF LOANS AND ADVANCES TO DEPOSITS OF COMMERCIAL BANKS 1970 - 1990

(N Million)

Years	Deposits N	Loans & Advances N	Net N	Ratio %
1970	625	351	274	56
1971	657	502	155	76
1972	794	619	175	77
1973	1013	754	259	74
1974	1693	983	710	58
1975	2839	1537	1302	54
1976	4164	2123	2041	50
1977	5235	3075	2160	58
1978	5303	4110	1193	77
1979	6968	4619	2349	66
1980	10009	6379	3630	63
1981	10677	8605	2072	80
1982	12019	10277	1742	85
1983	13939	11100	2839	79
1984	15735	11503	4232	73
1985	16776	12170	4606	72
1986	17771	15702	2069	88
1987	20422	17531	2891	85
1988	108273	73163	35110	67
1989	112282	85128	27154	75
1990	131685	98694	32991	74

Source: CBN: Statistical Bulletin, Vol. 1 and 2, December, 1990, p.27

Naira terms had been increasing. In 1975/76 CBN prescribed 56% for the productive sector,. but the bank has only 50% available for loan.

This was a major impact in August 1986, when CBN issued a monetary policy No. 20, when it required all Commercial banks to have non-interest bearing deposit account at Central Bank of Nigeria. This direct monetary policy caused about N4.2 billion to leave the vaults of Commercial banks into Central Bank thereby restrict the ability of Commercial banks to create money by 88% (See Table 36). The monetary

CODESRIA - LIBRARY

policy issued in 1986 and 1987, had resultant effect in 1988 when the ability of Commercial banks to create credit increased to 67% but decline in 1989 and 1990. We can conclude that the higher the ratio, the less the loanable funds available to the economy.

Table 39 shows Merchant bank sectoral loan allocation compliance rate from 1970 - 1990 Statistically, Nigeria had only one Merchant bank from 1960 - 1972 in the name of. NAL Merchant Bank Ltd. the number increased to 6 in 1980 and that is when central bank had to incorporate them to their sectoral allocation in the Monetary Policy circular

CODESRIA - LIBRARY

TABLE 39

MERCHANT BANK SECTORIAL LOAN ALLOCATION COMPLIANCE RATE DETERMINATION (1970 - 1990)

CATEGORY OF SECTORS (N Million)

	PRODUCTION 1					GENERAL COMMERCE 2					SERVICES 3					OTHER 4					TOTAL 5
Year	(A) Amount N A:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	(B) Amount N B:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	(C) Amount N C:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	(D) Amount N D:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	Total Loan to the Economy (E) N
1970	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a
1971	n/a	n/a	n/a	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a
1972	n/a	n/a	n/a	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a
1973	15	99	n/a	+99	+99	-	-	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	15
1974	21	99	n/a	+99	+99	-	-	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	21
1975	38	99	n/a	+99	+99	-	-	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	38729
1976	173	100	70	+30	+43	-	-	14	-14	-100	n/a	n/a	9	-9	-100	n/a	n/a	7	-7	-100	172893
1977	118	100	70	+30	+43	-	-	14	-14	-100	n/a	n/a	9	-9	-100	n/a	n/a	7	-7	-100	117880
1978	157	100	70	+30	+43	-	-	14	-14	-100	n/a	n/a	9	-9	-100	n/a	n/a	7	-7	-100	157393
1979	210	100	78	+22	+28	-	-	0	0	0	n/a	n/a	13	-13	-100	n/a	n/a	7	-7	-100	210004
1980	350	100	70	+30	+43	-	-	14	-14	-100	n/a	n/a	9	-9	-100	n/a	n/a	7	-7	-100	350492
1981	439	62	69	-7	-10	110	15	14	+1	+7	19	3	10	-7	-70	145	20	7	+13	+186	712
1982	677	66	70	-4	-6	153	15	14	+1	+7	30	3	9	-6	-67	167	16	7	+9	+129	1027
1983	793	67	40	+27	+7	183	15	14	+1	+7	42	4	9	-5	-56	168	14	7	+7	+100	1186
1984	950	59	40	+19	+4	228	14	14	0	100	52	3	9	-6	-67	457	27	7	+20	+286	1686
1985	1042	58	70	-12	-17	231	13	0	+13	-13	65	4	9	-5	-56	459	25	21	+4	+19	1803
1986	1615	58	70	-12	-17	288	14	0	+14	-14	100	4	9	-5	-56	668	24	21	+3	+14	2772
1987	2245	54	50	+4	+8	718	17	17	0	100	113	3	16	-13	-81	1090	26	17	+9	+53	4166
1988	10745	69	50	+19	+20	3536	23	17	+6	+35	553	4	16	-12	-75	741	5	17	-12	-71	15490
1989	13571	67	50	+17	+34	1306	6	17	-11	-64	569	3	16	-13	-81	1322	7	17	-10	-59	20336
1990	16975	67	50	+17	+34	1430	6	17	-11	-64	532	2	16	-14	-88	2379	9	17	-8	-47	2587
		627	559	544	546		138	124	-42	-299		33	168	-134	-1197		173	159	0	10	

Source: 1) Adewumi W., are from 25 Years of Merchant Banking in Nigeria, 1985, p.124 (Figures of 1973 to 1980)
2) CBN, Statistical Bulletin, Vol. 1, Nos. 1 and 2, December, 1990, p.38 (figures of 1981 - 1990)

Note: The formulae are developed by the Researcher:

a) $\text{Actual Rate} = \frac{\text{Sectoral Loan Amount in Naira}}{\text{Total Loans to the Economy in Naira}} = \frac{SLAN}{TLE}\ \%$

b) Rate Deviation = Actual MPR - Standard MPR = %

c) $\text{MPC Compliance Rate} = \frac{\text{Rate Deviation}}{\text{Standard Monetary Policy Rate}}$ or $\frac{RD}{SMPR} = \%$

prior to this, Merchant banks had granted credit based on general guidelines.

The Monetary policy circular incorporated Merchant bank credit guidelines in 1976. From 1976 to 1990 the compliance rate ranged from - 1272% to +162% below the standard rate stipulated by MPC. In the area of general commerce, services and others, Merchant banks did not comply at all because all the loans were diverted to the production sector. The monetary policy circular recommended 14% to general commerce, 9 - 15% for services and 7% for others from 1976 to 1980 but Merchant banks did not adhere to these credit guidelines

In table 39 the economic sector has been categorised into production as **sector 1**, General Commerce is **sector 2**, services in **sector 3** and others in **sector 4**. The production sector is made up of agriculture, forestry and fisheries, manufacturing Mining and Quarrying, real Estate and construction for Merchant banks.

We observed that from 1970 - 1975, CBN did not have credit guidelines for Merchant banks, but Merchant banks 99% of its loan portfolio went to production sector from 1970 - 1975. From 1976 to 1980, Merchant banks over complied to MPC by 43%.. But in over all from 1970 - 1990 Merchant banks complied 13% (559% - 546%) = 13% above stipulated credit guidelines.

In general commerce Merchant banks gave credit (-229% +124%) = -175% below the credit guidelines. From 1976 to 1980, they gave credit without CBN directives which had caused inflation.

The service sector is made up of public utilities, Transport and communications.

CODESRIA - LIBRARY

It shows that from 1976 to 1980, CBN recommended from 9% to 13% which Merchant banks ignored. From 1970 to 1990 Merchant banks did not,comply by (-1197 + 168%) = -1097% below the guidelines.

Other sectors are credit to financial institutions, Government and miscellaneous. From 1976 to 1980 Merchant banks did not comply to the stipulations of MPC, but from 1981 to 1987 they over complied. From 1988 to 1990 they over complied. The overall compliance level is (159% - 10%) =149% above the stipulated guidelines.

CODESRIA - LIBRARY

In table 40 we have used the CBN guidelines to divide the economic sector as follows:

1. *Production Sector*: which embraces Agriculture, Forestry and Fisheries, Manufacturing, Mining and Quarrying and Real Estate and Construction.

2. *General Commerce*: are the Bill discounted, Domestic trade, Exports and Imports.

3. *Services*: Public utilities, Transport and Communications

4. *Others*: are credit and financial institutions, Government Miscellaneous.

Column A shows the amount of sectoral loans Commercial banks allocated to the economy based on the monetary policy from 1970 - 1990.

The Actual rates are the rates achieved by Commercial banks in practical lending terms. The banks achieved high loans ability in 1988 at 63%, 1987 at 60% 1979 at 60%, 1980 and 1981 at 60%. If we observe these are periods of de-regulated

economy but money supply was high to combat the inflationary trends. From 1970 to 1990 the bank over loaned by 10% and the compliance rate level was 218% above MPC guidelines.

TABLE 40
COMMERCIAL BANK SECTORIAL LOAN ALLOCATION COMPLIANCE RATE DETERMINATION (1970 - 1990)

CATEGORY OF SECTORS (N Million)

	PRODUCTION 1					GENERAL COMMERCE 2					SERVICES 3					OTHER 4					5
Year	(A) Amount N A:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	(B) Amount N B:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	(C) Amount N C:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	(D) Amount N D:5	Actual Rate %	MPC Rate %	Deviation %	Compliance Rate %	Total Loan to the Economy (E) N
1970	116	33	32	+1	3	168	47	42	+5	+12	20	5	10	-5	-50	48	13	16	-3	-30	352
1971	178	35	32	+3	9	221	44	42	+2	+5	36	7	10	-3	-30	67	13	16	-3	-30	502
1972	223	35	45	-10	-22	222	35	45	-10	-22	50	8	10	-2	-20	125	20	0	+20	+20	620
1973	287	38	45	-7	-16	267	35	32	+3	+12	63	8	11	-3	-27	137	18	12	+6	+50	754
1974	396	42	45	-3	-7	286	40	32	+8	+9	73	7	11	-4	-36	183	19	12	+7	+58	938
1975	777	54	58	-4	-7	404	28	32	-4	-6	99	7	0	+7	+7	158	10	12	-2	-16	1438
1976	1116	52	48	+4	+8	431	20	30	-10	-13	202	9	10	-1	-10	374	17	12	+5	+42	2123
1977	1617	38	48	-10	-22	712	16	30	-14	-33	279	6	10	-4	-40	1646	38	12	+26	+200	4314
1978	2289	55	48	+7	+15	869	21	30	-9	-57	347	8	10	-2	-20	610	14	12	+2	+17	4115
1979	2788	60	59	-1	+2	764	16	18	-2	-3	392	8	11	-3	-27	686	14	12	+2	+17	4360
1980	3790	60	59	-1	+2	1209	19	18	+1	-11	573	9	11	-2	-18	772	12	12	0	+100	6349
1981	5089	60	59	-1	+2	1475	17	18	-1	-6	788	9	11	-2	-18	1231	14	12	+2	+17	8583
1982	6004	58	60	+2	3	1827	17	18	-1	-6	900	8	10	-2	-20	1544	15	12	+3	+25	10275
1983	6472	57	65	-3	-5	1727	15	18	-3	-6	900	8	10	-2	-20	2095	18	12	+6	+50	1094
1984	6675	60	65	-5	-8	1823	16	24	-8	17	939	8	13	-5	-38	2067	18	15	+3	+20	1054
1985	7272	59	56	+3	5	2051	16	16	0	100	988	8	11	-3	-27	1859	15	17	-2	-12	12170
1986	9354	59	59	0	100	2757	17	13	+4	+30	972	6	11	-5	-45	2619	16	17	-1	-6	15702
1987	1527	60	60	0	100	2937	11	11	0	100	1033	5	11	-6	-54	3935	22	18	+4	+22	17532
1988	46980	63	50	+13	26	13423	18	18	0	100	4366	5	16	-11	-69	8919	12	16	-4	-22	73688
1989	52646	62	50	+12	24	14491	19	18	+1	100	4417	5	16	-11	-69	11111	13	16	-3	-19	84665
1990	57000	53	50	+3	6	26564	24	18	+6	+33	4639	4	16	-12	-75	18459	17	16	+1	+6	106662
		1103	1093	10	218		491	523	-37	197		148	229	-81	-600		348	279	69	376	

Source: CBN, Statistical Bulletin, Vol. 1 and 2, Dec. 1990, p.29

Note:
1) Figures in A, B, C, D and E were compiled from CBN Statistical Bulletin, Vol. 1, Nos. 1 and 2, December, 1990, p.29
2) The formulae are developed by the Researcher:

a) Actual Rate = $\frac{\text{Sectoral Loan Amount in Naira}}{\text{Total Loans to the Economy in Naira}} = \frac{\text{SLAN}}{\text{TLE}}$ %

b) Rate Deviation = Actual MPR - Standard MPR = %

c) MPC Compliance Rate = $\frac{\text{Rate Deviation}}{\text{Standard Monetary Policy Rate}}$ or $\frac{\text{RD}}{\text{SMPR}}$ = %

The Standard Monetary Policy Rate (SMPR) are the rates stipulated by CBN Monetary Policy Circular to be achieved within the years. It shows negative deviation from the standard for ten (10) years while there are positive deviation for nine (9) years. The Monetary Policy Nos. 1 - 24 had laid emphasis on production sectors, but Commercial bank had over complied by 218%. In 1986 and 1987 it

CODESRIA - LIBRARY

complied 100% as compared to Merchant bank that over complied by 546%

Using the above analysis the banks had compliance rate above 50% in 1970, and even it complied 100% in 1970, 1986 respectively. For seven (7) years, the bank could not comply but the deviations were insignificant to have impact on the production sector of the economy.

On General Commerce, Commercial Banks performed creditably, because in 1970 it has a high positive deviation of 5%, 3% in 1973 and-8% in 1984. For eleven (11) years, there were negative deviations ranging from - 1% to - 17%. Commercial banks had positive deviation for 7 years ranging from + 1% to 8%.

In the services sector, there was - 5% negative compliance in 1970 and -3% in

TABLE 41

COMPARATIVE ANALYSIS OF COMPLIANCE RATE DEVIATIONS OF SECTORAL LOANS ALLOCATION IN THE BANKING INDUSTRY (1981 - 1990)

SECTORS

	Production		General Commerce		Services		Others	
Year	CB %	MB %	CB %	MB %	CB %	MB %	CB %	MB %
1981	+2	-10	-6	+7	-18	-70	+17	+185
1982	+3	-6	-6	+7	-20	-67	+25	+129
1983	-5	+7	-6	+7	-20	-56	+50	+100
1984	-8	+4	+17	+1[illegible]	-38	-67	+20	+286
1985	+5	+17	+100	[illegible]	-27	+56	-12	+19
1986	+100	-17	+30	[illegible]	-45	-56	-6	+14
1987	+100	+8	+100	[illegible]	-54	-81	+22	+53
1988	+26	+20	+100	[illegible]	-69	-75	-22	-71
1989	+24	+34	+100	[illegible]	-69	-81	-19	-59
1990	+6	+34	+33	-64	-75	-88	+6	-47
Total Compliance rate	231%	91%	346%	101%	-453%	-641%	81%	609%
Average Comliance rate	21%	8.3%	34.6%	14%	-43.5%	-58.27%	7.36%	55.36%

CB = Commercial banks

MB = Merchant banks

Source: The figures from 1981 to 1990 are derived from Tables 39 and 40 in this chapter.

CODESRIA - LIBRARY

1971 and for 19 years there had been negative deviation ranging from 10% to 75%. the net deviation is 81% which shows that Commercial banks did not comply 600% rate unlike Merchant bank which had - 1197% non-compliance. It shows banks are not interested in public utilities, transport and communications.

Others: There are negative deviation of -1% - 4% for seven (7) years while there are positive deviation from 1 to 26%, for thirteen (13) years. Commercial banks, complied to this sector 376% more than MPC stipulations.

Table 41 in the production sector, Commercial banks gave loan 231% above the standard while Merchant banks gave 8.3% above the standard. In General Commerce, banks gave credit of 346% and 101% above stipulated guidelines while in the Service sector, it was -435% and -641% below the guidelines. In Other sectors, it was 81% and

TABLE 42
NUMBER OF BANKS IN NIGERIA (1970 - 1990)

Year	Commercial Banks	Merchant Banks
1970	14	1
1971	16	1
1972	16	1
1973	16	2
1974	17	3
1975	17	5
1976	18	5
1977	19	5
1978	20	6
1979	20	6
1980	20	6
1981	20	6
1982	22	8
1983	25	10
1984	27	11
1985	28	12
1986	29	12
1987	34	16
1988	42	24
1989	47	34
1990	58	49

Source: CBN: Statistical Bulletin, Vol. 1, Nos. 1 and 2, December, 1990, pp. 35 & 42

CODESRIA - LIBRARY

69% above the guidelines. We can conclude that banks did not respect the stipulations in MPC's.

Generally, Commercial banks did not meet MPC guidelines from 1970 - 1990 with 223% credit to the sectors above the guidelines e.g (231+346-435+81) = 223%. Merchant banks failed to comply to MPC as follows:- (91+11101-641+609)=160% above MPC guidelines. Therefore Merchant banks had complied to MPC more than Commercial banks from 1970-1990.

CODESRIA - LIBRARY

In the Table 42 we can see the numerical strength of each sector of the bank within the industry. As at the end of 1990, we had a total of 107 banks within the industry out of this, fifty-eight (58) Commercial banks which represent 55% and forty-nine (49) Merchant banks which represents 45%.

In the Commercial bank sector, the growth rate was 15% from 1970 to 1971. It was static at 20 Commercial banks. The high growth rate started in 1986 because of the deregulation of the banking industry. The 24% growth rate from 1989 to 1990 had created problem for ill-prepared individuals infiltrated in industry and the problem manifested in 1994 when about 10 Commercial banks were declared distressed.

In the Merchant banking sector, it was static at one (1) Merchant bank from 1970 to 11973. It grew to three (3) in 1974, but from 1975 to 1977 it was static at 5 banks, then from 1978 to 1981 it grew to 6 banks. We can see that the growth was insignificant till 1987 when it grew from 16 to 24 Merchant banks which represents, 50% declined to 42% in 1987 then increased to 45% in 1990. The problem in this sector is that most of the Merchant banks were mismanaged by incompetent directors. In

1994, two Merchant banks were liquidated and nine were declared distressed. (See Daily Times 28/9/95, p.11)

We can conclude that Nigerians were better under regulated financial system than under de-regulated financial system. Hypothesis four (4) in this research supports this view.

Table 43 shows the financial position of thirteen (13) Commercial banks during bank regulation from 1980 - 1984

Table 44 shows the financial position of thirteen (13) Commercial banks during bank de-regulation from 1984 - 1988.

The purpose of the tables is to show how government economic and financial

TABLE 43

REGRESSION ANALYSIS OF SHAREHOLDERS FUNDS AND PROFIT AFTER TAX OF COMMERCIAL BANKS DURING BANK REGULATION 1980 -1984

Commercial Bank	X Share Holders N Million	Y Profit Net N Million	X^2	XY Variance
1. UBA LTD.	372	76	138484	28272
2. IBWA - AFRIBANK	21	8.5	441	168
3. SOCIETE GENERALE BANK	80	13	6400	1040
4. UNION BANK	452	124	204304	56048
5. ACB LTD.	13	(52)	169	(676)
6. OWEMA BANK LTD.	37	8	1369	296
7. NIGERIAN-ARAB BANK	33	10	1089	330
8. SAVANNAH BANK	121	31	14641	3751
9. FIRST BANK NIG. LTD.	538	140	289444	75320
10. PAN AFRICAN BANK	11	(8)	121	(88)
11. MERCHANTILE BANK	16	0	256	0
12. PROGRESS BANK	10	5	100	50
13. ALLIED BANK NIG.	27	13	729	351
	$\Sigma X = 1731$	$\Sigma Y = 368$	$\Sigma X^2 = 657447$	$\Sigma XY = 164862$

Source: X and Y complied from Annual Reports of the Banks (Adjusted), 1984 - 1986

CODESRIA - LIBRARY

TABLE 44

REGRESSION ANALYSIS OF SHAREHOLDERS FUNDS AND PROFIT AFTER TAX OF COMMERCIAL BANKS DURING BANK DE-REGULATION 1984 -1988

Commercial Bank	X Share Holders N Million	Y Profit Net N Million	X^2	XY Variance
1. UBA LTD.	881	193	7766161	1700033
2. IBWA - AFRIBANK	171	52	2241	8892
3. SOCIETE GENERALE BANK	42	0.5	1746	17
4. UNION BANK	1168	221	1359552	258128
5. ACB LTD.	13	(40)	169	-520.
6. OWEMA BANK LTD.	20	1.1	400	22
7. NIGERIAN-ARAB BANK	62	14	3844	868
8. SAVANNAH BANK	203	60	42849	12420
9. FIRST BANK NIG. LTD.	51	(105)	2061	-5355
10. PAN AFRICAN BANK	1342	248	1800964	332816
11. MERCHANTILE BANK	14	0	194	0
12. PROGRESS BANK	50	0.145	2500	700
13. ALLIED BANK NIG.	118	23	13924	2714
	$\Sigma X = 4139$	$\Sigma Y = 186$	$\Sigma X^2 = 60355$	$\Sigma XY = 780735$

Source: X and Y complied from Annual Reports of the Banks (Adjusted), 1984 - 1986

CODESRIA - LIBRARY

policies had affected shareholder's funds in relation to their profits. These bank are used because they experienced the bank regulation and de-regulation era. ' These tables were used to test hypothesis No. 6 of the research.

TEST OF HYPOTHESES

The data collected for the research were analysed and they are used to test hypotheses upon which the dissertation is based.

HYPOTHESIS I

H_o: Commercial Banks' Sectoral loan allocation compliance rate is above average (50%) $R > 0.50$

H_A: Commercial Banks' Sectoral loan allocation compliance rate is below average (50%) R < 0.50

DECISION RULE

The net compliance rate of the four sectors is 191. Therefore, on annual basis

TABLE 45
COMMERCIAL BANKS' COMPLIANCE RATE LEVEL OF DIFFERENT SECTORS 1970 -1990
(SEE TABLE 40)

Year 1970 - 1990	Production	General Commerce	Services	Others	Total
Compliance Rate (see Table 41)	218%	197%	-600%	376%	191%

$$\frac{191\%}{21 \text{ Years}} = 9.09\%$$

SOURCE: See Table 40 of this Chapter

the compliance rate is 9.09% which shows that the Commercial Bank Sectoral Loan Allocation rate is above average (50%). Therefore, the hypothesis is accepted, that is the Commercial banks' sectoral loan allocation compliance rate is above average (50%). Because they have given 9.09% above the standard required by monetary policy circulars. Therefore Accept H_o.

CODESRIA - LIBRARY

HYPOTHESIS II

H_o : Merchant banks' sectoral loan allocation compliance rate is above average (50%) R > 0.50.

TABLE 46A

MERCHANT BANKS' COMPLIANCE RATE LEVEL OF DIFFERENT SECTORS 1976 -1990

Year 1970 - 1990	Production	General Commerce	Services	Others	Total
Compliance Rate (see Table 41)	546%	-299%	-1197%	10%	-940%

$\frac{-940\%}{15\ \text{Years}} = -63\%$ Note: 15 years is used because CBN started MPC on Merchant BAnks in 1976.

SOURCE: See Table 39 of this Chapter

H_A : Merchant banks' sectoral loan allocation compliance rate is below average (50%) $R < 0.50$.

DECISION RULE

Prior to 1976 Merchant Banks were not required by monetary policy circular to render consolidated returns to CBN, that is why test of hypothesis is from 1976 to 1990.

The Merchant banks' compliance rate is below average (50%), because the average compliance rate for fifteen (15) years is -63%. Therefore, the H_A hypothesis should be accepted that Merchant bank sectoral loan allocation

TABLE 46B

Monetary Policy deviation formula:

AMPR	-	SMPR	=	DEVIATIONS
627	-	559	=	68% for production Sector
138	-	124	=	+14% for General Commerce Sector
33	-	168	=	-135% for Services
173	-	159	=	14% for Others
Total 971	-	1010	=	-39%

Note: (S = Standard, MP = Monetary Policy, R = Rate, A = Actual)

Source: See Table 41 of this Chapter

CODESRIA - LIBRARY

compliance rate is below average (50%). The banks had given loan -63% below the standard stipulated. Accept H_A .

HYPOTHESIS III

H_O: Merchant Banks had distributed their loan portfolio based on Monetary Policy guidelines.

H_A: Merchant Banks had not distributed their loan portfolio based on Monetary Policy guidelines.

DECISION RULE

Merchant banks had distributed their loan portfolio -39% below the standard stipulated in the monetary policy guidelines from 1976 - 1990. Therefore, the H_A hypothesis is accepted that Merchant Banks had not distributed their loan portfolio based on the Monetary Policy guidelines. Accept H_A.

CODESRIA - LIBRARY

HYPOTHESIS IV

H_O : Merchant Banks prefer to comply to MPC rather than pay penalties for defaulting policy guidelines.

H_A : Merchant Banks prefer not to comply to monetary policy guidelines but pay penalties.

Using Question No. 24 in the questionnaire (see Table 32), it shows that eight (8)

TABLE 47

REGRESSION ANALYSIS OF CAPITAL FUND AND NET PROFIT DURING BANK REGULATION (1980 - 1984)

We can use the line of regression to derive the contribution to profit per shareholders fund by using y = a + bx

Equation (1)	Y	=	Na	+	bx
	N368	=	13a	+	1731b
Equation (2)	XY	=	X	+	bx
	164862	=	1731a+	65744b	

To solve for b, we multiply equation (1) by 133.16 (1731÷ 13)

New equation (1)	49003	=	1731a	+	230500b
New equation (2)	164862	=	1731a	+	657447b
	-115859	=	0	-	426947b
	∴ b	=	115859 ÷ 426947		
	b	=	N0.27		

To substitute from equation (2)

	164862	=	1731a	+	178409
	1731a	=	164862	-	178409
	∴ a	=	-13547 ÷ 1731		
	a	=	N-7.83		

SOURCE: See Table 43 of this Chapter

CAPITAL FUND AND NET PROFIT DURING DE-REGULATION (1984 - 1988)

We can now use line of regreesion thus:

	Y	=	a	+	bx
Equation (1)	Y	=	Na	+	bx
	N186	=	13a	+	4139b
Equation (2)	ΣXY	=	Xa	+	bx
	780735	=	4139a	+	6035516b

To solve for b, we multiply equation (1) by 318.4 (413÷ 13)

New equation (1)	59148	=	4139a+	1316292b	
New equation (2)	780735	=	4139a+	6035516b	
	-721587	=	0	-	471931b
	∴ b	=	721587 ÷ 471931		
	b	=	N0.02		

To substitute from equation (2)

	780735	=	4139a	+	120710
	-4139a	=	-780735	-	120710
	∴ a	=	660025 ÷ 4139		
	a	=	N160		

SOURCE: See Table 44 of this Chapter

CODESRIA - LIBRARY

Merchant Banks which represents 17% had paid penalty for defaulting Monetary Policy guidelines. However, thirty-eight (38) Merchant Banks which represents 83% prefer to comply to Monetary Policy guidelines.

DECISION RULE

H_O hypothesis is accepted, that Commercial Banks comply to monetary policy circular guidelines rather than pay penalty. Accept H_O.

HYPOTHESIS V

H_O : Commercial Banks prefer to comply to MPC rather than pay penalties for defaulting policy guidelines.

H_A : Commercial Banks prefer not to comply to monetary policy guidelines but pay penalties.

DECISION RULE

H_O : Hypothesis is accepted that Commercial banks comply to Monetary Policy Circular rather than pay penalty.

CODESRIA - LIBRARY

HYPOTHESIS VI

H_O : Monetary Policy Circular do have significant effect on Commercial Banks' net profit and capital funds in a regulated economy.

H_A: Monetary Policy Circulars do not have significant effect on Commercial Banks' net profit and capital funds in de-regulated economy.

DECISION RULE

TABLE 48
MULTIPLE REGRESSION ANALYSIS OF CASH RESERVE RATIO, LIQUIDITY RATIO AND LOAN RATIO OF COMMERCIAL BANKS 1970 - 1990
(PERCENT)

Year	Cash Reserve Ratio X_1	Liquidity Ratio X_2	Loan to Deposit Ratio Y	X_1Y	X_2Y	X_2X_1	Y^2	X^2_1	X_2^2	$(X_1-\overline{X}_1)$	$(X_2-\overline{X_2})$
1970	5.2	94.5	53.3	266.76	4899.15	491.40	2631.69	27.04	8930.25	14.0	39.9
1971	5.2	73.7	68.2	354.64	5026.34	383.24	4651.24	27.04	5431.64	14.0	19.1
1972	5.4	61.8	74.2	400.68	4585.56	333.72	5505.64	29.16	3819.24	13.0	7.2
1973	5.4	63.8	69.8	376.92	4453.24	344.52	4872.04	29.16	4070.44	13.0	9.2
1974	11.5	65.0	61.6	708.40	4004.00	747.50	3794.56	132.25	4225.00	6.0	10.4
1975	26.3	68.5	51.1	1343.93	3500.35	1891.55	2611.20	691.69	4692.25	289.0	13.9
1976	32.0	59.1	48.3	1546.60	2854.53	1891.20	2332.89	1024..00	3593.81	529.0	4.5
1977	16.0	52.7	53.0	853.30	2793.10	848.47	2809.00	259.21	2777.29	49.0	-1.9
1978	8.0	38.4	68.6	548.80	2634.24	307.20	4651.24	64.00	1474.56	1.0	-16.2
1979	12.4	45.1	70.3	871.82	3170.53	559.24	4942.09	153.76	2043.01	12.0	-9.5
1980	10.6	47.6	66.7	707.02	3174.92	504.56	4448.89	112.36	2265.76	3.0	-7.0
1981	9.5	38.5	74.5	707.75	2868.25	365.75	5550.25	90.25	1482.25	0.3	-16.1
1982	10.7	40.5	84.6	905.22	3426.30	443.35	7757.16	144.49	1540.25	3.0	-14.1
1983	7.1	54.7	83.8	338.37	4583.86	388.97	7022.44	50.41	2992.08	4.0	0.1
1984	4.7	65.1	81.9	384.93	5331.69	305.34	6707.61	22.09	4238.01	19.0	10.5
1985	1.8	65.0	66.9	120.42	4348.50	1171.00	4476.61	3.24	4238.00	52.0	10.4
1986	1.7	36.4	83.2	141.44	3028.48	61.88	6922.24	2.23	1324.96	53.0	-18.2
1987	1.4	46.5	72.9	102.06	3419.01	65.10	5314.41	1.96	2152.25	58.0	-8.1
1988	2.1	54.0	66.9	140.49	3010.50	94.50	4475.61	4.41	2025.00	48.0	-9.6
1989	4.9	44.3	66.5	66.5	192.85	128.47	4422.25	8.41	1962.49	37.0	-14.3
1990	2.9	40.3	80.4	233.16	3240.12	116.87	6464.16	8.41	1962.49	37.0	-14.3
TOTAL	182.90	1146.50	1444.70	11294.46	77298.62	107806	102362.29	2886.57	6879.58	1254.3	16.81

Means : $X_1 = 8.71$; $X_2 = 54.60$; $Y = 68.80$

SOURCE: X1, X2 and Y - CBN Statistical Bulletin, Vol. 4, No. 2, December 1993, p. 29

We should accept H_o hypothesis and reject H_A; that is, Monetary Policy Circulars do have significant effect on profit and shareholders' funds

CODESRIA - LIBRARY

because it could only attract N0.02 (2 kobo) per one Naira of Capital fund. But during regulated economy, it attracted N0.27 (27 kobo). In 1987, there was 8% ceiling on Commercial Banks' credit expansion which affected their revenue base and ultimate effect on production. Accept H_o.

In this multiple regression, we can calculate the coefficient of b_1 (liquidity ratio), b_2 (cash reserves ratio) and Y(loan to deposit ratio) using this formula, thus (see table 48):--

$$
\begin{aligned}
b_1 &= [(\Sigma YX_1) - (\Sigma X_2^2) - (\Sigma YX_2)(\Sigma X_1X_2)] / [(\Sigma X_1^2)(\Sigma X_2^2) - (\Sigma X_1X_2)^2] \\
b_1 &= [(1445)(183)(6878) - (1445)(1147)(1080)] / [(183)(6878) - 1166400] \\
b_1 &= [1818783930 - 1790008200] / [1258674 - 1166400] \\
b_1 &= 28775730 / 92274 \quad = \quad 312\% \\
b_2 &= [(\Sigma YX_2) - (\Sigma X_1^2) - (\Sigma YX_1)(\Sigma X_1X_2)] / [(\Sigma X_1^2)(\Sigma X_2^2) - (\Sigma X_1X_2)^2] \\
b_2 &= [(1445)(1147)(2886) - (1445)(183)(1080)] / [(2886)(6878) - 1166400] \\
b_2 &= (4783299690 - 285589800) / (19849908 - 1166400) \\
b_2 &= 4497708990 / 18683508 \quad = \quad 240\%
\end{aligned}
$$

$$
\begin{aligned}
a &= Y - X_1X_1 - X_2X_2 \\
a &= 69 - (183)(9) - (1147)(55) \\
a &= 69 - 1647 - 63085 \\
a &= 69 - 64732 \quad = \quad -64663
\end{aligned}
$$

We can now use the three coefficients to get regression equation as

$$
\begin{aligned}
Yp &= a + b_1X_1 + b_2X_2 \\
Yp &= -64663 + 312X_1 + 240X_2 \\
Yp &= -64663 + 312(183) + 240(1147) \\
&= -64663 + 57096 + 275280 \\
&= -64663 + 332376 \\
Yp &= 267713 / 100{,}000 \quad = \quad 0.27
\end{aligned}
$$

It indicates that we can predict the dependent variable (Cash Reserve) 27%

From the above equation, we can say that one fiscal year increase in liquidity ratio (X_1), is associated with an average loan to deposit ratio decrease by 312%. This action increases the cash reserve ratio by 240%.

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TABLE 49

REGRESSION ANALYSIS LOANS AND ADVANCES TO INTEREST RATE OF COMMERCIAL BANKS (1970 - 1990)

YEAR	LOANS & ADVANCES Y N Million	INTEREST RATE X %	$(Y - \bar{Y})$	$(X-\bar{X})$	(XY)
1970	251.4	0.42	-8200.34	-0.36	148
1971	502.0	0.43	-8049.74	0.35	216
1972	619.5	0.48	-7932.24	-0.30	297
1973	753.5	0.48	-7798.24	-0.30	362
1974	938.1	0.48	-7613.64	-0.30	450
1975	1537.3	0.46	-7014.44	-0.32	707
1976	2177.9	0.45	-6373.84	-0.33	980
1977	3074.6	0.38	-5477.14	-0.40	1168
1978	4109.7	0.60	-4442.04	-0.18	2466
1979	4624.4	0.61	-3927.34	-0.17	2820
1980	6349.1	0.62	-2202.64	-0.16	3936
1981	8582.9	0.64	31.16	-0.14	5493
1982	10275.3	0.76	1723.56	-0.02	7809
1983	11093.9	0.78	2542.16	0.00	8653
1984	11503.9	0.82	2952.16	0.04	9433
1985	12170.3	0.87	3618.56	0.09	10588
1986	15701.6	0.91	7149.86	0.13	14288
1987	17531.9	1.42	8980.16	0.64	24895
1988	19461.2	1.20	10909.46	0.42	23353
1989	22229.9	1.72	13678.16	0.94	38235
1990	26000.1	1.83	17448.36	1.05	47580
TOTAL	179587.50	16.36	1.96	0.02	203877

$\bar{Y} = 8551.74$; $\bar{X} = 0.78$; $[\Sigma(Y - \bar{Y})]^2 = 3.84$; $[\Sigma(X - \bar{X})]^2 = 0.0004$; $(\Sigma Y)^2 = 32251849744$

SOURCE: X, Y : Annual Abstract of Statistics, Fed. Office of Statistics, Lagos, 1993 Edition, pp. 155, 194 & 310

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We can now test the level of significance by $t = X_1 / s(X_1)$

$$s(X_1) = \sqrt{\{(Y - Yp)^2 / [(X_1 - X_1)(1 - R^2)(n - k - 1)]\}}$$
$$s(X_1) = \sqrt{\{(1445 - 267713)^2 / [(1218)(1 - .04)(21 - 2\ 1)]\}}$$
$$s(X_1) = \sqrt{[70898647824 / 21047]}$$
$$= 1835.4$$

Does your bank implement stipulations in Monetary Policy Circulars?

Yes	%	No	%
61	100	0	0

$s(X_1) = (Yp - Y)^2 / (Y - Y)^2 = (267713 - 69)^2 / (1445 - 69)^2$
$= 71633310736 / 1893376 = 37834 / 1000000$
$R^2 = 0.04$

The R^2 for multiple regression equation indicates the proportion of variation in Deposit ratio (Y) as explained by all the independent variables, such as liquidity ratios and cash reserve ratios. $R^2 = 0.04$ indicates that liquidity ratio and cash reserve ratio together account for 4% variability in Deposit ratio

$b_2 = X_1 / s(X_1) = 312 / 1835 = 0.17$

The calculated t value is 0.17, but critical value at 19 degree of freedom and 0.05 level of significance is 2.09, therefore, X_1 is statistically not significant.

$s(X_1) = \sqrt{\{(Y - Y)^2 / [(X_2 - X_2)(1 - R^2)(n - k - 2)]\}}$
$= \sqrt{\{(1445 - 267713)^2 / [(0.01)(0.96)(21 - 2 - 2)]\}}$
$= \sqrt{[70898647824 / 0.17]}$
$s(X_1) = 645{,}794$
$t = X_2 / s(X_1) = 240 / 645{,}794 = 0.00...$

The calculated "t" = 0.00... and the critical "t" is 2. 09, therefore X_2 is not statistically significant.

It is the objective of this research to determine if sample variance differ significantly between liquidity ratio, cash reserve ratio and loan to deposit ratio. We have to use F-test based on the data obtained from Table 42, thus:

$SSTO = \Sigma X^2 - [(\Sigma X)^2] / n$
$= \Sigma X_1^2 X_2^2 Y^2 - [(\Sigma X_1 X_2 Y)^2] / n$
$= 2887 + 6879 + 102362 - (183 + 1147 + 1445)^2 / 63$
$= 112128 - 7700625/63$
$= 112128 - 122232$
$SSTO = -10104$
$SSb = [(\Sigma X_1)^2 / n] + [(\Sigma X_2)^2 / n] + [(Y)^2 / n] - [(\Sigma X)^2 / n]$
$=[33489/21]+[1315609/21]-[2088025/21]-[183+1147+1445]/63$
$= 1595 + 62648 + 99430 - 122232$
$SSb = 127673 - 122232 = 5441$

CODESRIA - LIBRARY

$SSw = SSTO - SSb$
$= 10104 - 5441$
$SSw = 4663$

$MSb = SSb/df = 5441/2 = 2721$
$MSw = SSw/df_w = 4663/60 \quad 78$
$F\text{-ratio} = MSb/MSw = 2721/78 = 34.89 \text{ or } 35$

The calculated F-ratio is 34.89 while the critical F-test value is 4.98 which shows that the level of variance between liquidity ratio, cash reserve ratio and loan to deposit ratio. differ significantly.

We have to use Pearson Product-Moment coefficient to estimate the b and a coefficient of loans and advances to interest rate thus:

$Y = a + bX$
$b = [n(\Sigma XY) - (\Sigma Y) \cdot (\Sigma X)]/[n(\Sigma X^2) - (\Sigma X)^2]$
$= [21(203877) - (179588) - (17)]/[21(289) - (289)]$
$= [4281417 - 3052996]/[6069 - 289]$
$b = 1228421/5780 = 213$

$a = Y - bX$
$= 8552 - 213(0.78) = 8552 - 166$
$a = 8386$

The b coefficient of 213 indicates that for each percentage increase in interest rate there is predicted positive and significant increase in loans and advances to about N12,007.00

$\therefore Yp = a + bX$
$= 8396 + (213)(17) = N12007.$

Therefore, to ascertain the coefficient of determination, we have to calculate R^2 in order to know the level of variation between the two variables.

$R^2 = [n(\Sigma XY) - (\Sigma X)(\Sigma Y)]/\sqrt{\{[n(\Sigma X^2) - (\Sigma X)^2][(n\Sigma Y^2) - (\Sigma Y)^2]\}}$
$=[21(203877)-17)(179588)]/\sqrt{\{[21(289)-289][21(32251849744-32251849744]\}}$
$= [4281417 - 3052996]/\sqrt{[5780(645036994880)]}$
$= 1228421/[1932 \text{ billion}] = 0.01/1.94$
$R^2 = 0.006$

The above shows a variation of 0.006 between loans and advances and interest rate. There is very low percentage change in loan and advances in response to changes in interest rates, this change in interest rate appears not to explain changes in loans and advances.

To confirm this observation there is need to test the statistical significance of the response coefficient of loans and advances to interest rates, we can now test the significance of R^2 through the use of "t" test.

$$
\begin{aligned}
t &= [R^2 \sqrt{(n-2)}]/\sqrt{[1 - R^2]} \\
&= [0.0006\sqrt{(19)}]/\sqrt{[1 - 0.0006]} \\
&= [0.0006(4.4)]/\sqrt{[0.9994]} \\
t &= 0.0026
\end{aligned}
$$

The calculated "t" is 0.0026 (less than the critical t = 2.09). Therefore, there is no significant relationship between loans and advances and interest rate changes.

The composite price index average for eleven years is 125.45 while the average liquidity ratio is 51.82. This is an outcome of increase in prices which had reduced the savings ability of the general public and corporate bodies (see table 50).

In 1980, monetary policy guidelines (MPC No. 12) established a policy that the minimum loan share of the manufacturing sub-sector was increased from 32% to 36% while the agro-allied was increased to 3%. Merchant Banks experienced difficulties in observing the modified stipulations in their loans and advances.

From 1985 to 1990, the monetary authority had a policy to adopt appropriate pricing policy to curb inflation. But if we analyse Table 50, as the composite price index continues to increase, the liquidity ratios continue to decrease because the policy objective was to restructure the economy by increased credit base, during the years

CODESRIA - LIBRARY

under review. Therefore, as Merchant banks expanded their credit base, their liquidity position decreased. This action conforms with the idea that there had not been meaningful investment in the economy because the public purchasing power had been eroded because of high prices as seen in Figure 5.5 and 5.6. the major problem started in 1985, (see Figure 5.6).

To get the regression equation we have to estimate Merchant banks' coefficient as follows: $Y = a + bX$

$$b = [n(\Sigma XY) - (\Sigma X)(\Sigma Y)]/\{[n(\Sigma X^2) - (\Sigma X)^2]$$
$$=[11(6088.6)-(570)(1379.9)]/[119248797.53)-(248797.53)]$$ (see Table 50)
$$= [669752.6 - 786543]/[2736772.83 - 248797.53]$$
$$b = 116790.4/2487975.3 = -0.05$$

$$a = Y - bX$$
$$= 51.82 - (-0.05)(125.45)$$
$$a = 51.82 + 6.27 = 58$$

$$Yp = 58 + (-0.05)(1380)$$
$$Yp = 58 - 69 = -11$$

The Yp calculation is as follows:

	Yp	=	a + bX		%
1980	Yp	=	58 + (-0.05)(42.3)	=	56
1981	Yp	=	58 + (-0.05)(51.1)	=	55
1982	Yp	=	58 + (-0.05)(55.1)	=	55
1983	Yp	=	58 + (-0.05)(67.91)	=	53
1984	Yp	=	58 + (-0.05)(94.8)	=	53
1985	Yp	=	58 + (-0.05)(100.0)	=	53
1986	Yp	=	58 + (-0.05)(105.4)	=	52
1987	Yp	=	58 + (-0.05)(116.1	=	52
1988	Yp	=	58 + (-0.05)(181.2)	=	49
1989	Yp	=	58 + (-0.05)(272.7)	=	44
1990	Yp	=	58 + (-0.05)(293.2)	=	43

In the above equation, the b coefficient indicates that for each increase in composite

CODESRIA - LIBRARY

price index, the liquidity ratio (the level % cash in the Merchant banks) is predicted to decrease by -0.05.

Therefore, to evaluate how the regression equation explains the variation observed in the dependent variable Y (liquidity ratio), we have to calculate the coefficient of determination . This is the proportionate reduction of the total variation associated with the use of the independent variable Composite price Index (X).

We can use Table 50 to show that Yp is used to predict the value of the dependent variable by calculating R^2 thus:

$$R = [n(XY) - (X)(Y)]/\sqrt{\{[n(X^2) - (X)^2][(nY^2) - (Y)^2]\}}$$
$$= [11(60887) - (1380)(570)]/\sqrt{\{[11(248798) - (248798)][11(34526)-(570)2]\}}$$
$$= [669757 - 786500]/\sqrt{\{[27367728 - 248798][380886 - 324900]\}}$$
$$= [116843]/\sqrt{\{[2487980][55986]\}}$$
$$= [116843]/[373218] = 0.31$$
$$R^2 = 9.6\% \text{ or } 0.10$$

The coefficient of correlation (R^2) reveals that there is a low relationship between the composite price index and the liquidity ratio of Merchant banks between 1980 and 1990. We have been able to establish a low relationship between the dependent variable (Y) and independent variable (X). We can now test if the relationship is significant by the use of t-test. The t-test is elected because $n < 30$.

$$t = [R\sqrt{(n-2)}]/[\sqrt{(1 - R^2)}]$$
$$= [-0.31(19)]/\{\sqrt{[1 - (-0.31)^2]}\}$$
$$= (-0.93)/\sqrt{(0.904)}$$
$$t = -0.98$$

The computed t-value of - 0.98 is less than the critical t-value of 2.26 at 0.05 level of significance degree of freedom 5%. We can conclude that there is no significant relationship between the composite price index and liquidity ratio of Merchant banks.

Figure 5.1 shows the percentage relationship of liquidity ratio (X^2) cash reserve

CODESRIA - LIBRARY

ratio and loan to deposit ration(v). We can observe that highest demand of cash reserve was 1976 at 32% followed by 1975 at 26.3%. The cash reserve ratio is the ratio of cash reserve required by CBN to the total current liabilities of Commercial banks. We should say that from 1970 to 1973 CBN was very moderate on cash reserve ratio. From 1970 to 1984, we had a policy of regulated financial system, therefore the cash ratio was higher but from, 1985 to 1989 we had de-regulated financial system therefore we had low cash reserve ratio from 1.8% in 1985 to 2.9% in 1989. On the graph, the Y-axis represents the percentage while the X-axis represents the years of the study 1970 to 1990

CODESRIA - LIBRARY

TABLE 50

REGRESSION ANALYSIS OF LIQUIDITY RATIO OF MERCHANT BANKS TO COMPOSITE CONSUMER PRICE INDEX (1980 - 1990)

		% Liquidity ratio							
Year	(1990 =100) Comm. Price Index X (%)	Yp	Y	XY	$X - \bar{X}$	$Y - \bar{Y}$	X^2	Y^2	$(Y - Yp)^2$
1980	42.3	56	45	1903.5	-83.15	-6.82	1789.29	2025	-121
1981	51.2	55	42	2150.4	-74.25	-9.20	2621.44	17644	-169
1982	55.1	55	49	2699.9	-70.35	-2.82	3036.01	2001	-36
1983	67.9	53	81	5499.9	-57.55	29.18	4610.41	6561	784
1984	94.8	53	82	7773.6	-30.65	30.18	8987.04	6724	841
1985	100.0	53	94	4900.0	-25.45	42.18	10000.00	8836	1681
1986	105.4	52	48	5059.2	-20.05	-3.82	11109.16	2304	-16
1987	116.1	52	42	4876.2	-9.35	-9.82	13479.21	1764	-49
1988	181.2	44	31	5617.2	55.75	-20.82	32833.44	961	-169
1989	272.0	44	25	6810.5	147.25	-26.82	74365.29	625	-361
1990	293.2	43	31	1989.2	167.75	-20.82	85966.24	961	-144

$\Sigma X = 1379.90$; $\Sigma Y = 570$; $\Sigma(X - \bar{X}) = -0.04$; $\Sigma(Y - \bar{Y}) = 0.80$;
$\Sigma X^2 = 248797.53$; $\Sigma Y^2 = 34526$; $\Sigma X = 125.45$; $\Sigma Y = 5182$

SOURCE: X from CBN Statistical Bulletin, Vol. 1, No. 2, Dec. 1993, p. 126
Y from CBN Statistical Bulletin, Vol. 1, No. 2, Dec. 1990, p.26

We can conclude that there is no correlation between the behaviour of liquidity ratio, cash reserve ratio and Loans to Deposit ratio of Commercial banks.

The liquidity ratio is the ratio of total specialised liquid assets to total current liabilities. The highest liquidity ratio may be the out come of high liquid assets because the first MPC was issued in 1969/70 which emphasised on production and credit rather than liquidity of Commercial banks. We can say that the liquidity ratio position of. Commercial banks was higher during regulated economy 1970 to 1985 than deregulated economy 1985 - 1989.

Loan-to Deposit ratio is the ratio of total loans and advances to total deposit liabilities. the graph on page 173 and 174, in fig.5.1 and 5.2 respectively show that there were higher loan to deposit ratio during de-regulation (1985 to 1989) than regulated economy 1970 to 1984.

Graphs (fig. 5.3- 5.5) shows the relationship of loan and Advances to interest rate charged by Commercial banks. The figures are derived from the multiple regression page 153 & 54.

The X-axis represents the years and the Y-axis shows the percentage interest rate charged. The graphs show that as the interest rate charge increases the demand for loan and advances increases at a faster rate which violates economic principles.

Graph (figure 5.6) shows the relationship between liquidity ration and composite price index of Merchant banks from 1980 to 1990. The figures are derived from table 46. The X-axis shows the years while the Y-axis shows the composite price index. The graph show that as the liquidity ratio of Merchant banks increases faster therefore erode the

CODESRIA - LIBRARY

TABLE 51

SUMMARY OF STATISTICAL TEST OF SIGNIFICANCE

Variable	Coefficient	Level of Significance	df	Calculated t-value	Critical t-value	Remark
Loan and Advances to Interest rate (see Table 49)	b = 213 a = 8386	0.05	19	0.02	2.09	Not Significant
Composite Price Index/ Liquidity ratio (see Table 50)	a = 58 b = -0.05	0.05	9	-0.98	2.26	Not Significant

SOURCE: See Tables 49 and 50 of this Chapter

TABLE 52

SUMMARY OF STATISTICAL TEST OF VARIATIONS

Variable	Level of Significance	df	Calculated R^2	Critical R^2	Remark
Liquidity ratio/Cash Reserve ratio/Loan to Deposit ratio	0.05	19	0.04	0.433	Not Significant
Loan and Advances to Interest rate	0.05	19	0.01	0.433	Not Significant
Liquidity ratio to Composite Price Index	0.05	9	0.10	0.602	Not Significant

SOURCE: See Tables 48, 49 and 50 of this Chapter

CODESRIA - LIBRARY

TABLE 53

SUMMARY OF STATISTICAL TEST OF % SIGNIFICANCE USING MULTIPLE REGRESSION

Variable	df	Coefficient	Calculated F-test	Level of Signif.	Calculated t-value	Critical t-value	Critical F-test	Remark
Liquidity ratio	(b_1) 19	312		0.05	0.17	2.09		Not Significant
Cash reserve ratio	(b_2) 19	240		0.05	0.00	2.09		Not Significant
Loan to deposit ratio	(a) 19	-64663		0.05	0.27	2.09		Not Significant
F-test	60		34.89	0.05	-	-	4.98	Significant

SOURCE: See Pages 182 and 185 of this Chapter

Figure 5.1

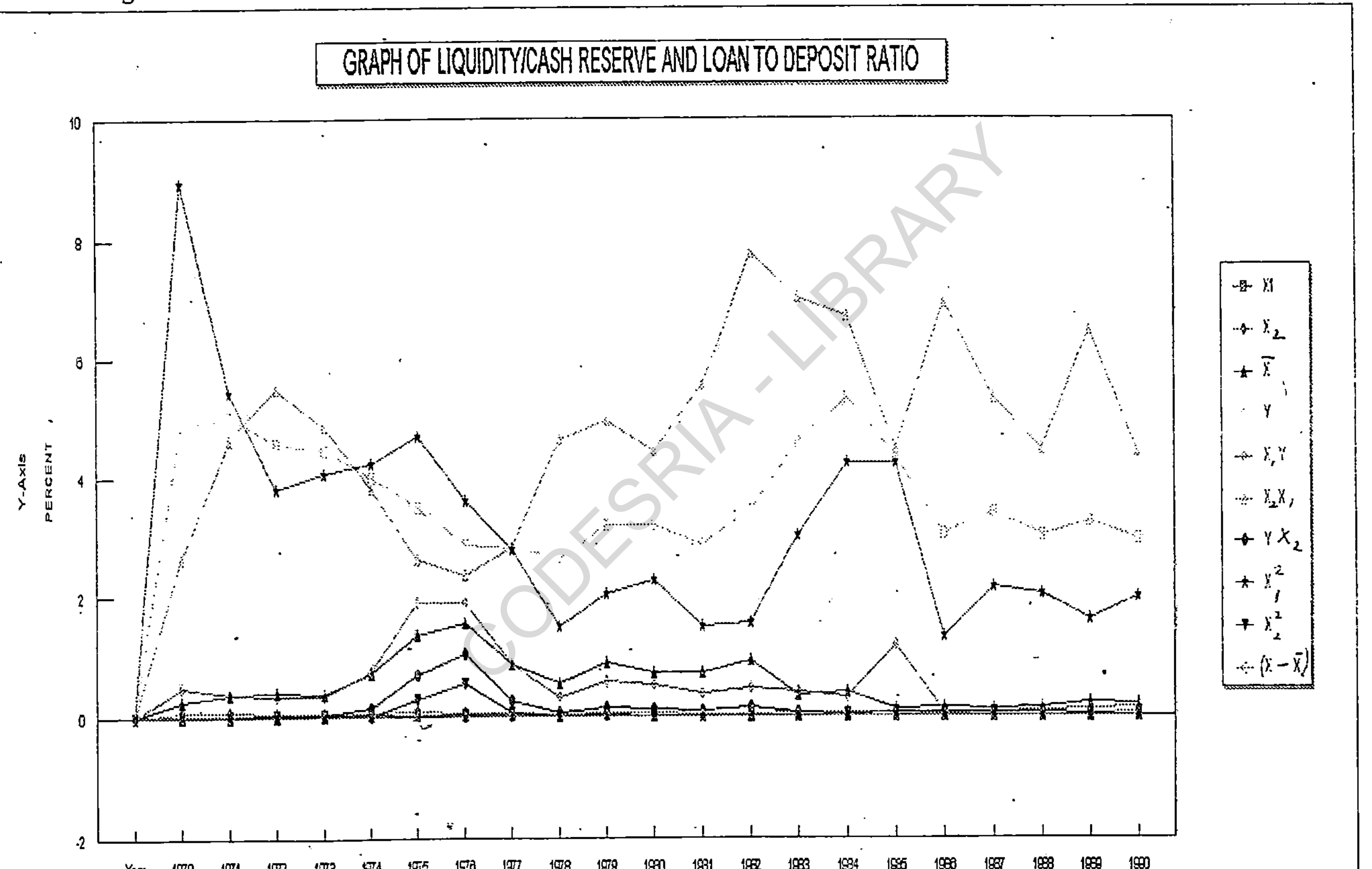

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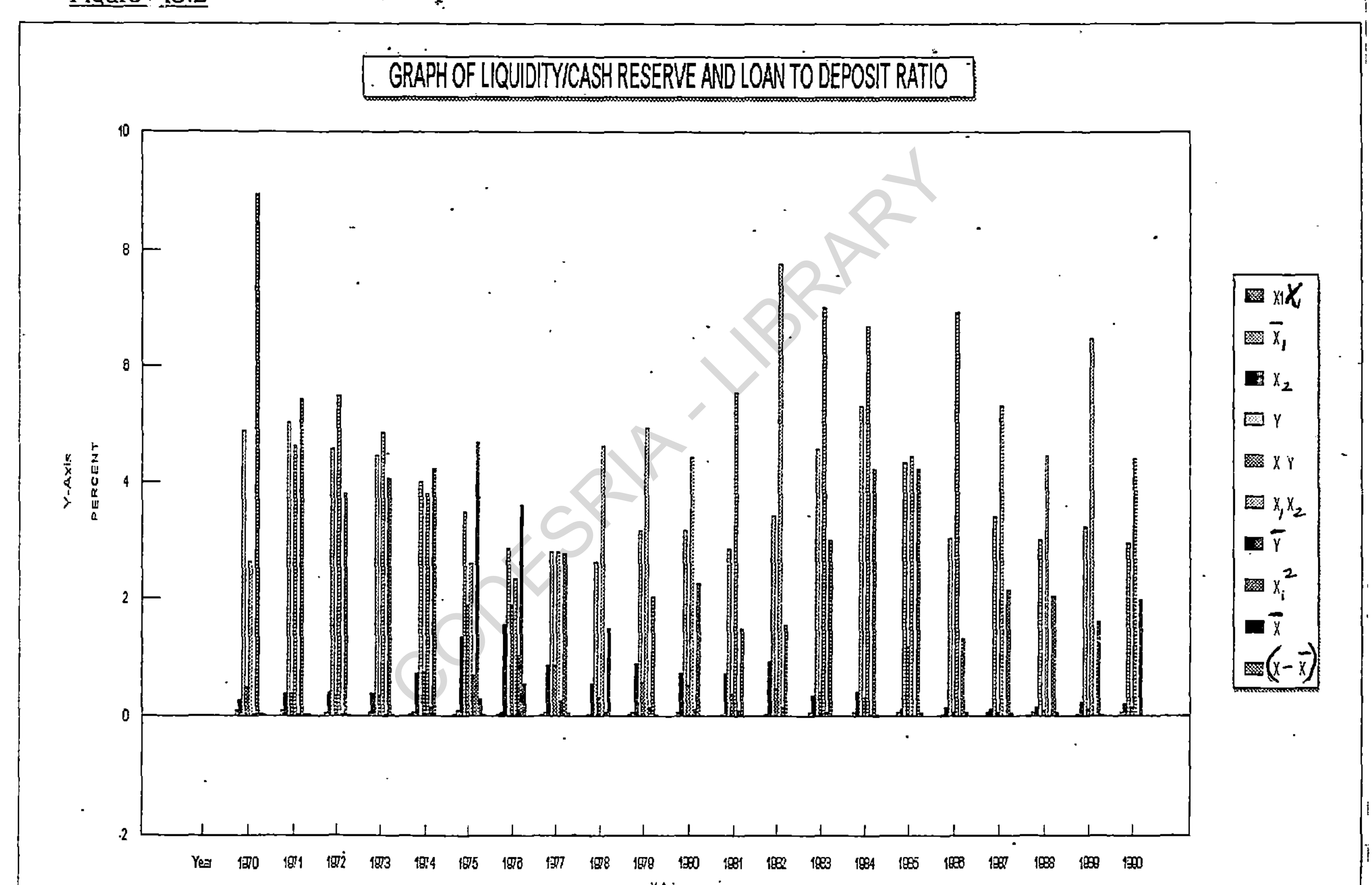
Figure .5.2



CODESRIA - LIBRARY

5.3

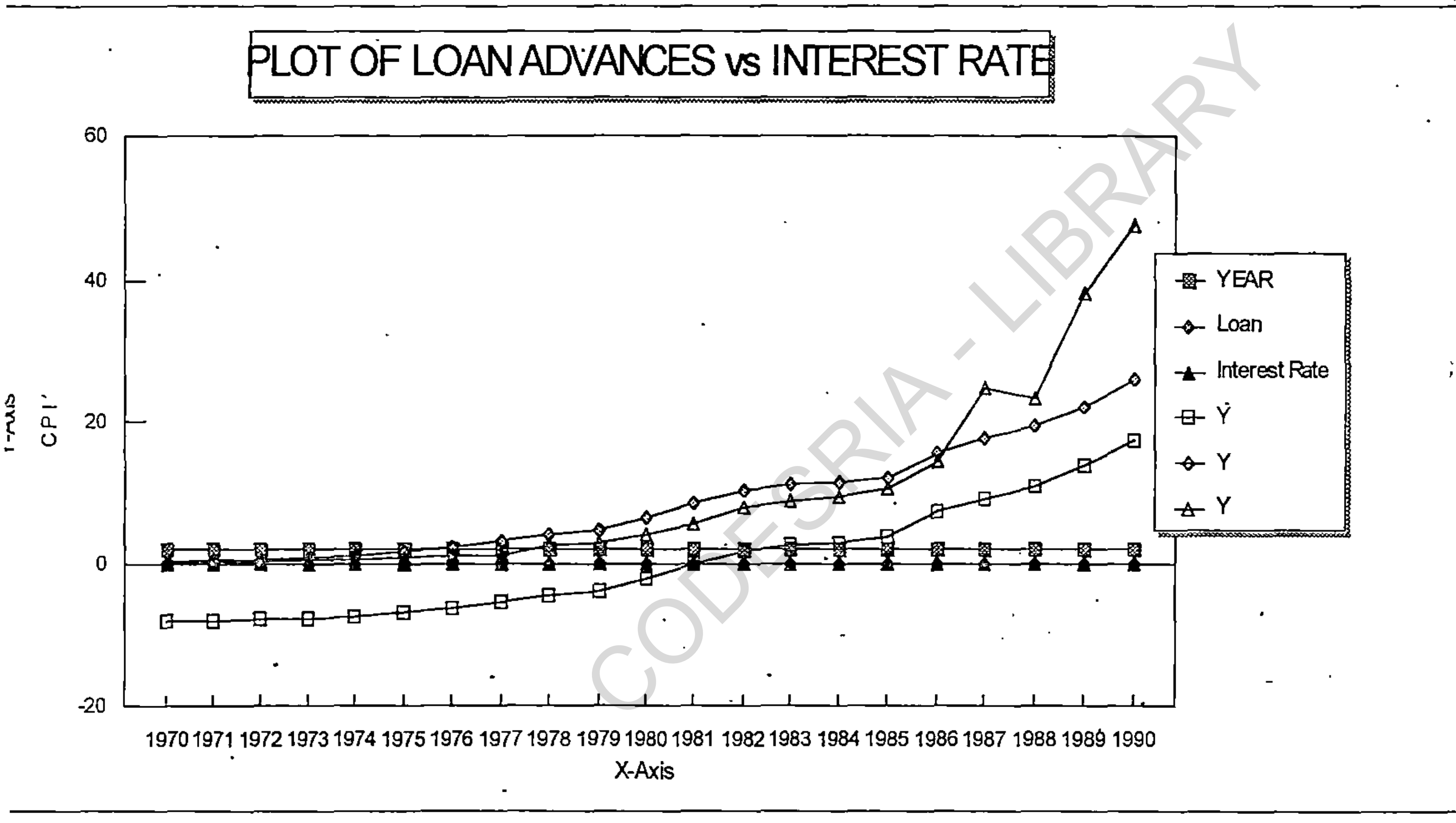


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Fig. 5.4

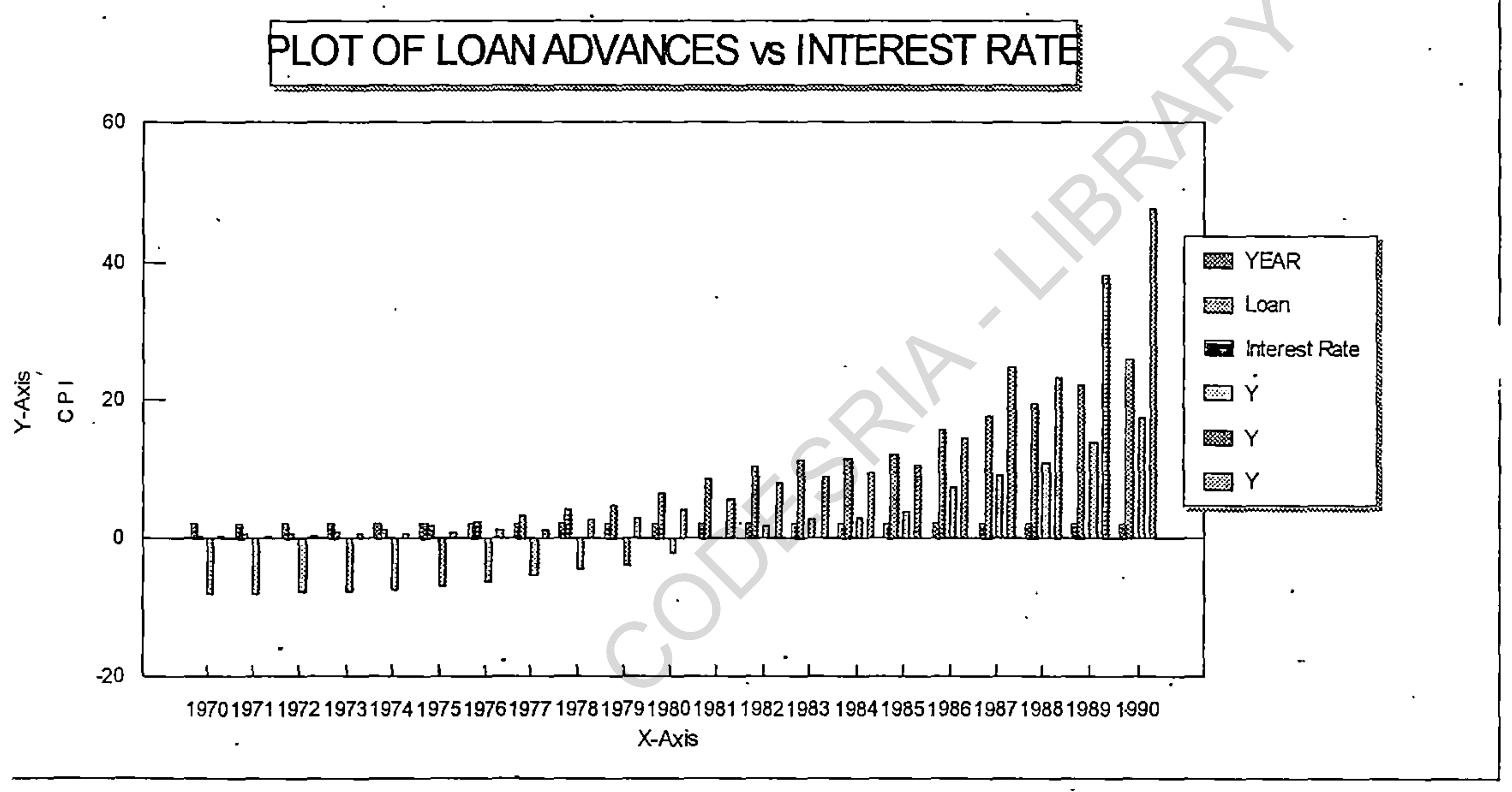

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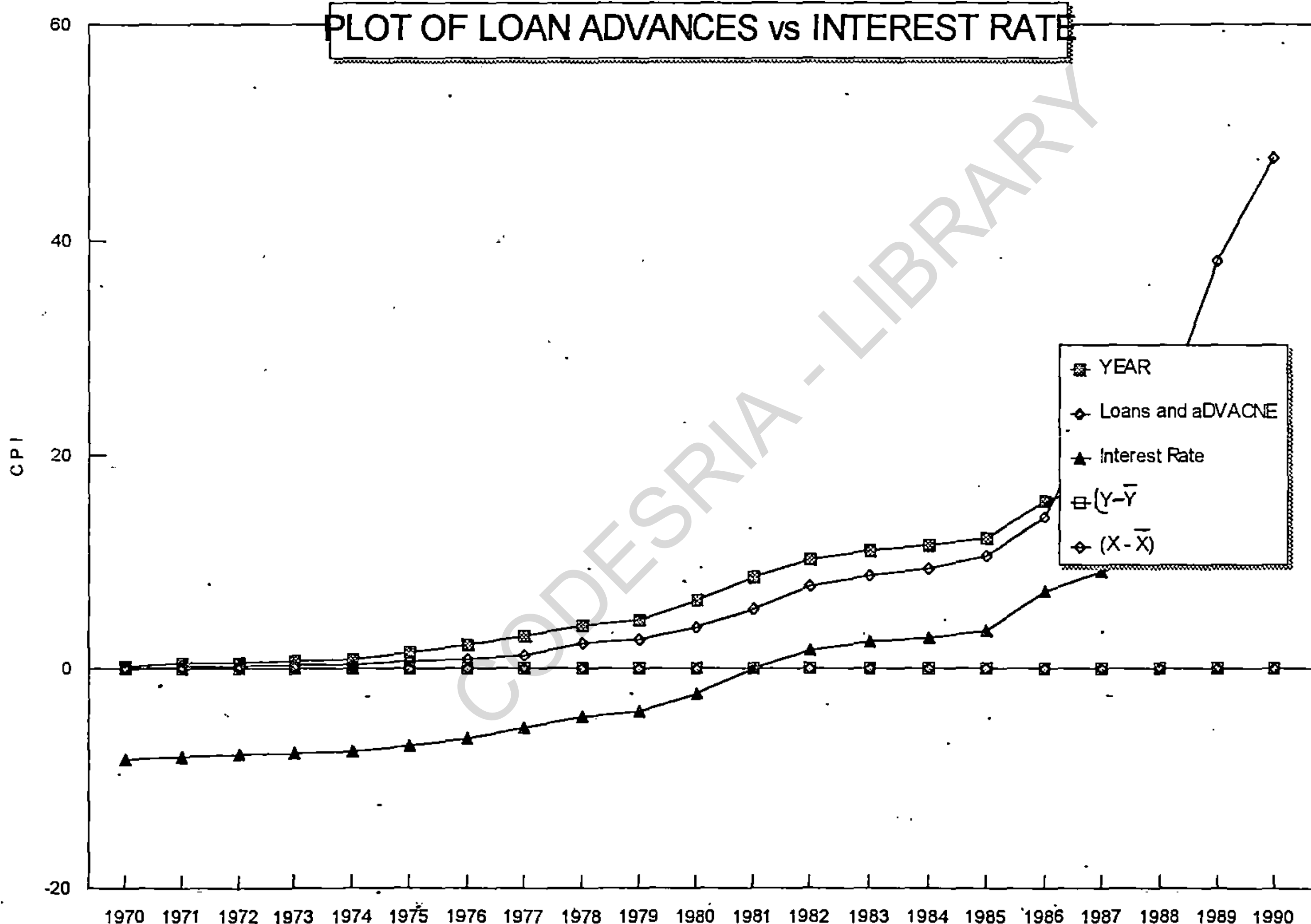
Fig. 5.5



CODESRIA - LIBRARY

Fig. 5.6

PLOT OF LIQUDITY RATIO vs CPI

Y-Axis
Thousands

100
80
60
40
20
0
-20

Year 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990

X-Axis

Year
CPI
Liqui. Ratio
$(X - X)$
xY
x^2
Y
$Y\beta$
x

CODESRIA - LIBRARY

bank's and public ability to have liquid cash in their possession.

CODESRIA - LIBRARY

SUMMARY

Chapter IV gives the detail analysis of the data used in the research. Primary and secondary data were used to arrive at various conclusions in the research. Table 24 gives the analysis of research questionnaire sent and returned by respondents. The Central Bank of Nigeria (CBN), twenty-one (21) Merchant banks and thirty (30) Commercial banks participated in the research process. The average age of respondents from CBN is forty-four (44) years and their average experience is the thirteen (13) years.

Respondents from CBN feel that monetary policy circulars (MPC's) had achieved their objectives. Their view points are positive to the activities of the banking industry towards MPC's. However, the respondents stated that the problem with economic distortion in Nigeria is the lack of harmony between the monetary policy and fiscal policy guidelines.

The Commercial bank respondents are sixty-one (61), their average age is forty-two (42) years and their average experience in the banking industry is thirteen years. they have various levels of academic qualifications ranging from HND to MBA. Generally, Commercial bank respondents feel that Monetary Policy Circulars (MPC's) were designed to achieve economic goals but the fiscal indiscipline and Central Bank weak supervisory role had frustrated the well articulated policies.

Merchant Bank respondents are forty-six (46). their average age is 40 years and average experience is six (6) years. All the respondents had read the MPC's, some of them were implemented while penalties were paid for the ones not implemented.

CODESRIA - LIBRARY

The respondents feel that CBN has responsibility to ensure that banks comply to the stipulations of the monetary policy circulars (MPC's).

The liquidity and cash ratios are used to determine the stability of organisations ins the short-term. during the post independent era from 1970 the liquidity ratio of Commercial banks started decreasing while the cash ratio was static at 5%.

On the level of compliance to the monetary policy circulars (MPC's), the economics sector has been divided into production, General Commerce, Services and others. The research has been able to use Actual Rate (AR) to determine the actual compliance level. The Standard Monetary Policy rate (SMPR) are the rates stipulated by CBN Monetary Policy which should be achieved in a given year.

Generally, Commercial banks had failed to adhere to monetary policy circular for 85% while Merchant banks had failed at 19% rate. Therefore, Merchant banks had complied to monetary circular more than Commercial banks. The monetary policy circular compliance rate is

MPCC Rate = Rate Deviation/Standard Monetary Policy Rate = %

The Research tested six (6) hypothèsis in which we accepted four (4) H_O: and accepted two (2) H_A: We have used simple and multiple regression analysis to test the relationship between shareholders fund and the bank's profit. As the cost starts to increase, the shareholders funds starts to attract low profit margin.

The student "t" test has been used to determine the relationship ratio of banks. We are able to regress Loans and Advances and interest rates of commercial and Merchant banks. there is indirect relationship between the movement of interest rate

CODESRIA - LIBRARY

and loan and advances.

The relationship between composite price index and liquidity ratio had been found to be statistically not significant. There is also significant variation between liquidity ratio, cash reserve ratio and loan to deposit ratio. (see Table 48). In table 49, the statistical variability is not significant. The use of multiple regression has shown that the independent and dependent variables are significant by the use of F-test (see Table 50).

CODESRIA - LIBRARY

CHAPTER SIX

DISCUSSION OF RESEARCH FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

This chapter discusses the findings of the research. The respondents are derived from Central Bank of Nigeria, 30 Commercial banks and 21 Merchant banks. They are of various age groups but the average age of Central Bank is in the forties. They have various industrial experiences with different academic backgrounds.

CODESRIA - LIBRARY

One hundred and fifty (150) questionnaires were distributed. One hundred and twenty nine (129) were returned completed which were used for the research. It represents 86% response rate. The response rate is high because of the personal distribution of the questionnaires to the various zones.

Organisationally, fifty five (55) respondents of the Commercial banks indicated that they work in private registered banks while six (6) work in public liability company banks.

In Merchant banks, forty two (42) work in a private limited company bank while four (4) work in a public limited liability bank.

Respondents expressed opinions on Monetary Policy Circular. Generally, they have read the document, they feel it is a well articulated objective but the monetary

policy should be complemented by good fiscal policy.

Liquidity ratio is used to analyse the relationship between money supplied and the various phases of monetary policy issued from 1970 to 1990. We could find on the table that we had a low liquidity ratio because of high prices.

The compliance rate model is used to determine the level of compliance to the various Monetary Policy Circulars by both Commercial and Merchant banks.

We could observe that three (3) bank sectors are used in the research (see Table 21). In Central Bank, three departments are used, such as Research Department that returned all the (12) questionnaires which shows the level of exposure to research activities. The bank operation (Supervision) and Bank Examination could not complete four questionnaires each despite my frequent visits to the departments. We can say that the percentage of returned questionnaire to the ones distributed to the CBN is 73%. In terms of posts, the lowest post is Senior Supervisor while Deputy Director is the highest. The highest academic qualification is PhD while the lowest qualification is HND. These low qualifications are from Bank Supervision and Bank Examinations Department of the organisation.

On Merchant banks' respondents, among the twenty one that participated, fifty three (53) questionnaires were sent out but forty six (46) were returned completed while seven were not returned (see Table 23).

The average age is 42 years while the average working experience is 13 years. Thirty eight are male while twenty one are female. This conforms with Merchant

CODESRIA - LIBRARY

banks' personnel and recruitment policy of youthful employees.

Educationally, nine (9) respondents have masters degree, two with PhD who are non-bankers while forty-eight (48) respondents have BSc or less.

Thirty eight (38) of the respondents have their degree in Business Administration related areas, while eight (8) are in non-Business Administration related areas.

The respondents occupied various posts ranging from Deputy Managing Director to Officer in the various banks. It is the position they occupy that enable them to understand the stipulations and policy implications of Monetary Policy Circulars.

Commercial banks' respondents came from thirty registered Commercial banks in Nigeria (see Table 24) that received sixty seven (67) questionnaires of which sixty one (61) were returned which represents 91% of the total distributed.

There are thirty eight (38) male and twenty one (21) female who returned the questionnaires. Their average age is 41 years while the average working experience in the banking industry is 13 years. Ten (10) of the respondents have masters degrees which is the highest qualification while the others are BSc and HND (see Table 25).

In summary, one hundred and twenty nine respondents are used in the research (see Table 22). Out of this, twenty two (22) which represents 17% are from Central Bank, forty six (46) which represents 36.5% from Merchant banks and sixty one (61) which represents 47% from Commercial banks. There is a high response rate 86%

CODESRIA - LIBRARY

because of the questionnaire distribution and collection techniques used.

ORGANISATIONAL STRUCTURE - COMMERCIAL BANKS

Among the sixty one (61) respondents, fifty five (55) which represents 90% said that their banks are registered as private limited company while six (6) which represents 10% said they work in public limited company (see Table 27).

The Commercial banks are registered and licensed by the Registrar of Companies and Central Bank of Nigeria which empowers them to accept deposits from the public in accordance with the Banking Act of 1969 as amended by BOFID 1991.

The mode of registration in Merchant banks is that forty two (42) which represents 91% are in a private limited company while four (4) which represents 9% are in a public limited company (see Table 28).

OPINION OF RESPONDENTS ON MONETARY POLICY CIRCULAR

All respondents in Central Bank do accept that they issue Monetary Policy Circular. All respondents in both Merchant and Commercial banks indicated they had read the Monetary Policy Circular (see Table 31).

Majority of Central Bank respondents (see Section B) feel that the objectives of Monetary Policy Circular were achieved but five (5) which represents 23% admitted that banks had complied to the Monetary Policy stipulations

CBN respondents feel that banks were invited to participate in establishment of

CODESRIA - LIBRARY

Monetary Policy Circular through Bankers Committee Meetings. To the best of their knowledge, their participation were active (see Section B).

Generally, the respondents feel that Monetary Policy Circular (MPC's) are good designed statement of measures to regulate the value, supply and cost of money in the economy. They feel that there should be harmony between the Monetary Policy and fiscal policy before the objective can be achieved.

Commercial banks' respondents (see Table 31) had all read the Monetary Policy Circular (MPC) and they had implemented their stipulations. However, forty two (42) say they had participated in the establishment of the circulars while nineteen say that they have not participated. In terms of Sectoral Loan Allocation, the respondents say they have performed above average (50%) but hypothesis I agrees with this view because the compliance rate is 9.09% which is above the standard.

The respondents feel that the inefficient supervisory role of Central Bank of Nigeria had frustrated most of the well articulated monetary policies in Nigeria.

Merchant banks' respondents had all read the Monetary Policy Circulars and the stipulations were implemented (see Table 35). Merchant banks had complied with the monetary policy more than Commercial banks because the Sectoral Allocation is -63% below standard while Commercial banks is 9.09% below the recommended standard by MPC.

LIQUIDITY RATIOS

The liquidity ratio and cash ratios of Commercial banks are analysed from 1970

CODESRIA - LIBRARY

to 1990 (see table 36). But the consolidation of Merchant banks' returns did not start till 1980, this is the reason we used 1980 to 1990. Merchant banks by law are not allowed to accept demand deposits, so their cash ratio cannot be used to assess their performance.

From 1976 to 1981 is a phase in the monetary policy which can be called Moderate Restraint Policy. The Monetary Policy Circulars Nos. 6 to 13 issued were to reduce excess liquidity of banks.

The instrument used were direct credit ceiling, cash reserve requirements, stabilisation securities, exclusion of deposits against letters of credit from eligible liquid assets and interest rate changes.

The liquidity ratio of Commercial banks decreased from 59% in 1976 to 39% in 1981 (see Table 33) while that of Merchant banks decreased from 45% in 1980 to 42% in 1981 (see Table 33). 1970 to 1972 is a period of moderate monetary policy. The war had just ended and government wanted to increase production.

The instruments used are selective credit control, moral suasion and upward revision of interest rates. Within this period, the liquidity ratio of Commercial banks decreased from 95% in 1970 to 62% in 1972 (see Table 36). The cash ratio remained constant at 5% in these periods.

From 1973 to 1975 was easy monetary policy in which the policy was to expand domestic production in which sectoral credit allocation instrument was used. The liquidity ratio of Commercial banks increased from 64% in 1973 to 69% in 1975 while

CODESRIA - LIBRARY

the cash ratio increased from 5% in 1973 to 26% in 1975.

1982 to 1984 was the period of stringent Monetary Restraint Policy which is geared towards conserving our foreign exchange. Some of the measures was to re-introduce pre-shipment inspection of raw materials and spare parts, pre-import deposit ranging from 10% to 25%, outright ban on some goods and reduction in travelling allowances. This measure made the liquidity of the banks to increase from 40% in 1982 to 63% in 1983 and decreased to 52% in 1984.

From 1985 to 1990, the stringent measures had continued. The 1985 monetary policy fixed liquidity ratio at 25% but Commercial banks had 68% and Merchant banks 94% (see Table 36) resulting to excess liquidity in 1985. The 1986 Monetary policy required banks to have non-interest bearing deposits with Central Bank of Nigeria. This directive made 4.2 billion Naira to leave the vaults of Commercial banks to Central Bank of Nigeria, thereby restricting their ability to create credit. The Merchant banks liquidity position had started to decrease from 48% in 1986 to 31% in 1990.

CODESRIA - LIBRARY

THE RATIO OF LOAN AND ADVANCES TO DEPOSITS OF COMMERCIAL BANKS

This ratio expressed the relationship between Loans and Advances of Commercial banks and customers deposits (see Table 35). In 1970, there was moderate monetary policy and 56% of the total deposits were loaned out, but as the policy of easy money continued, the ratio increased to 76%, 77% in 1971 and 1972 respectively and continues to decrease to 50% in 1976. The lowest was in 1976 because the Monetary Policy Circular had recommended the contraction of money supply in

order to reduce the ability of banks to create credit. In 1986, the ratio was 88% because of the excess liquidity in the banking system.

COMPLIANCE RATE FORMULA

The compliance rate formula is used to assess the standard established by the Monetary Policy Circular against the Actual Rate achieved by banks.

(1) Actual Rate = $\frac{\text{Sectoral Amount of Loan in Naira}}{\text{Total loan to the economy in Naira}} \times \frac{100}{1} = \%$

This can be summarised thus:

$$AR = \frac{SAN}{TLE} = \%$$

(2) To calculate the rate of deviation is:

Actual Monetary Policy rate - Standard Monetary Policy rate= %

which is, AMPR - SMPR = %

(3) The Compliance Rate = $\frac{\text{Rate Deviation}}{\text{SMPR}} = \frac{RD}{SMPR}$ %

The stated formula has been used to determine the percentage of compliance of Commercial and Merchant banks to the established monetary policy guidelines, in the area of Sectoral Loan Allocation to the economy. We were able to establish that Commercial banks complied 231% above the standard which means more loans were given out than required. This action can fuel inflationary trends in the economy which is noticed in the ratio of deposits to loans and advances (see table 38).

On the Merchant banks, they complied (-)63% below the standard established by Monetary Policy Circular (see Hypothesis II). This means they gave out loans (-)63% below the stipulations of the Monetary Policy Circular.

CODESRIA - LIBRARY

Bank claims on government sector increased by N1.2 billion or 4.2% to N28.5 billion. Comparatively, there was increase of N2.2 billion or 8.8% in third quarter of 1988 while there was N3.3 billion or 17.5% in the fourth quarter of 1987.

The total bank credit to the economy increased by N2.6 million to N56.5 billion during the quarter in contrast to a decline of N813.4 million or 1.4% in the first quarter of 1989.

In the second quarter of 1988, an increase of N950.3 million or 2.1% was recorded. However, at the end of 1988, aggregate bank credit outstanding at the end of June, 1989 declined by 1.4% as against standard expansion rate of 9.5% as at December, 1989. there was an observation that there was rise in credit to the private sector which can be used to offset the fall in net claims on the government sector.

The decline in outstanding credit can be attributed to the ability of the banking system to collect its outstanding debts. The main objectives of Monetary Policy Circular was to reduce liquidity of the banking system. there was excess cash in the economy, therefore, ability to pay was not questionable because of excess money in the economy.

MONETARY POLICIES AND FINANCIAL SYSTEM

In order to reduce the ability of the Commercial banks to grant credit for trading on the second-tier foreign exchange market, CBN in 1986 introduced an important aspect of the Nigeria's Structural Adjustment Programme to evolve a realistic and market determined exchange rate for the Naira. The Central Bank of Nigeria used special deposit account at the Central Bank of Nigeria, the Naira counterpart of all outstanding external payments in arrears (see MPC No.20). this direct monetary policy caused about

CODESRIA - LIBRARY

N4.2 billion to leave the vaults of Commercial Banks into the CBN, thus restricting the ability of the Commercial Banks to create money. Also the reduction from 10% to 8% of the rate of credit expansion by the medium size Commercial Banks reduced the volume of credit creation.

The August 1986 circular also fixed a floor of $8^{1/2}$% as interest rate payable on time deposits of varying maturities. Bank lending rate was raised from 13% to 15%. Other rate were adjusted upwards accordingly.

In August, 1987, the policy circular No. 21 introduced the following changes: the 8.0% ceiling on commercial Bank's credit expansion, that would have kept for the whole year was revised to 7.4 for the last three quarters of 1987. Quarterly targets were also set to facilitate monitoring of the banks performance.

CODESRIA - LIBRARY

In the case of Merchant Banks, the ratio of their total loans and advances to total assets (less contingent liabilities) was reduced from 55.0% to 37.0% for the remaining third quarter of 1987. It was earlier been raised from 50% to 55% in January, 1987 (See MPC No. 21).

New and small banks with total loans and advances not more than N100 million as at end of December, 1986 were allowed to increase their lending up to 15.0% in 1987.

Banks granting credit in excess of the permissible rate of expansion were required to deposit an amount equivalent to the excess in non-interest bearing account with the Central Bank of Nigeria.

All controls on interest rate were removed in line with the emphasis on deregulation of the economy under the Structural Adjustment Programme. The

The M_2 increased by N599.8 million or 1.3% to N47.3 billion due to the substantial rise in M_1. The rise is comparable with the increase of N3.9 billion or 9.1% in the first quarter of 1988 and 2.3 billion or 6.9% in corresponding quarter of 1988.

There were upward trend in the level of money supply (M_1). The total supply was N24 billion at the end of June 1989 in which M_1 was N1.4 billion or 6.1% during the quarter compared with the increase of N1.5 billion or 7.1% in the preceding quarter. in second quarter 1988,the money supply was N993.3 million or 6.3%. The monetary expansion in M_1 at the end of June was 13.7%. this can be compared with the lower increase of N485.3 million or 1.4% in November 1988 and it increased higher than N4 billion which is comparable with N34 billion in the third quarter of 1988 and N28.4 billion in the fourth quarter of 1987.

As it was stated, the Monetary Policy Circular adopted in 1988 called for expansionary monetary policy. In the fourth quarter, M_1 rose by 16.8% which is comparable with the 1.6% increase in the third quarter of same year. the increase was due to the rapid expansion of banks credit to the economic system. Broad money, M_2 rose by 8.6% and money market recorded modest increase in money supply.

CREDIT IN THE BANKING SYSTEM

CBN (1988) contends that the aggregate bank credit to the domestic economy rose by N2.7 billion or 5.4% to N51.6 billion (see 1988 Annual Report, p.3). there was an increase of N3.2 billion or 7% in third quarter of 1988 and N4.6 billion or 12.7% in fourth quarter of 1987. Both the government sector and private sector accounted for the increase, but private sector contributed 56.6% of the increase.

CODESRIA - LIBRARY

1989.

MONEY SUPPLY

The monetary policy had not categorically emphasised on money supply till 1984, when the Federal Military Government continued with stringent monetary policy measures. The money supplied was moderate from 1970 to 1974 (see table 37). As the high rate of expansion increased from N2,156 million in 1974 to N3,622 million in 1975, N5,378 million in 1976 and 1977 and it continued at increasing rate. This high rate of monetary expansion which had persisted from 1975 to 1980 (see Table 37) was the basis of 1980 monetary policy formulation. Government spending was financed from its expanded oil revenue and borrowing from banking system was the main cause of the expansion of this money supply.

Monetary aggregate rose in the fourth quarter because M_1 rose by N2.9 million or 1.6% to N20.1 billion. The increase was higher than the rise of N269.1 million or 1.6% in the third quarter of 1988. The monthly average increase in M_1 amounted to N18.7 billion as compared with N14.0 billion in the third quarter of 1987. The factors which must have influenced the growth in money supply were the increase in net bank credit to the domestic economy (see Table 37).

The increase in M_1 backed up by the lower increase in quasi-money stimulated the growth in broad money (M2) as against a target of 14.65% for the whole year. There was a shortfall of 0.95% which may be considered insignificant. The major economic variables which influenced the expansion of M_1 were the increase of N543.6 billion in other assets of the banking system and the N787.6 million decrease in quasi-money.

CODESRIA - LIBRARY

(SFEM) as customers struggled to take advantage of the First-Tier Exchange rate. The CBN Annual report as at December 31st, 1986 stated that customers were interested to meet the high cost of financing economic activities under the SFEM programme. Banks had to grant involuntary advances to meet the high cost from the increased Naira required to back up the letters of credit opened before the SFEM became operative. The Banking industry experienced growth with an entry of ten new banks comprising six (6) Commercial and four (4) Merchant banks during the fourth quarter. The new Commercial banks were Inland Bank Nigeria Ltd., Commercial Trust Bank Ltd., Chattered Bank Ltd. and North-South Bank Ltd. With these, the number of Commercial banks operating in the country rose from 36 to 42. The Merchant banks are Rims Merchant Bank, Prime Merchant Bank, Century Merchant Bank and Centre Point Merchant Bank. this brought the number of Merchant banks from 20 o 24 during the quarter (see Table 42).

CODESRIA - LIBRARY

The Monetary Policy Circular No. 23 adopted in 1989 was to reduce the liquidity of the banking system thereby combat the inflationary pressure in the economy. The general strengthening of the squeeze on liquidity was accomplished by liquidity crisis among some banks towards the end of second quarter.

The above policy expanded the banking industry with the entry of nine new banks comprising seven Merchant and two Commercial banks. The new Merchant banks were Metropolitan, Leads, Nation-wide, Kapital, Ivory, Cititrust and Devcom Merchant Banks limited. This new development increased the number of Merchant banks from 26 to 33 (see table 42). The new Commercial banks were Ecobank and Access bank Nigeria Limited; this brought the total number of Commercial banks to 47 at the end of June,

and 1990. While Hypothesis II compliance rate for Merchant banks is -63% below the standard established between 1976 to 1990. Therefore H_A is accepted.

To test hypothesis III, he monetary policy deviation (MPD) formula is used which is AMPR - SMPR. The researcher used MPD to find out that Merchant banks' loan portfolio distribution is -39% below the recommended standard. Therefore H_A hypothesis is accepted.

The researcher used question No. 24 to test hypothesis IV and found out that Merchant banks prefer to comply than pay penalties. therefore, we accepted H_o hypothesis.

Penalties came into effect in 1976 to force banks to comply to credit guidelines.

In hypothesis V, we accepted H_o; that Commercial banks comply to MPC guidelines rather than pay penalties.

The researcher used regression coefficient to test hypothesis VI, the relationship between Commercial banks' capital fund and net profit between 1984 and 1990, because these were the periods the economy was regulated and deregulated. The H_A hypothesis is rejected because the Monetary Policy Circulars issued within these periods had increased capital fund cost from N0.02 to N0.27 per Naira.

BANKING INDUSTRY

The banking system experienced a 29% expansion in Commercial banks' loans and advances which exceeded 10% limit by MPC No. 20 in 1986. The high rate of increase in bank credit was caused by the introduction of the Second-Tier Foreign Exchange Market

CODESRIA - LIBRARY

The actions of Merchant banks had been less inflationary than Commercial banks as regards to monetary policy compliance. Though Merchant banks did not comply to the MPC guidelines but their action did not generate inflationary activities.

COMMERCIAL BANK SHAREHOLDERS' FUNDS

During the era of regulation, (see Hypothesis VI), Commercial banks' variable profit per shareholders' fund was N0.27 which shows that each shareholder's fund attracted N0.27 per one Naira of their fund. But in terms of fixed cost, it was N7.83 per shareholders' fund. During these period, there were twenty eight (28) registered Commercial banks (see Table 28) and competition was not as tense as during the period of deregulation.

CODESRIA - LIBRARY

The profit growth rate was low maybe because of the economic environment at the time, when there was keen competition in the banking industry.

The analysis shows that shareholders' fund now attract N0.02 during the period of deregulation as compared to N0.27 during regulated economy. There is a high fixed cost of N160 per shareholder's fund. It shows that each shareholder's fund attracted N160 to maintain top management team during the period of deregulation. The proliferation of Commercial banks from 28 in 1985 to 58 in 1990 (see Table 42) must have contributed to this competition in the banking industry.

TEST OF HYPOTHESES

The researcher tested six (6) hypotheses which are the premises of the research. Hypothesis I H_0 was accepted and the alternative, H_A, hypothesis rejected because the compliance rate is 9.09% above the standard established by the hypothesis between 1970

To a considerable extent, therefore, the above factors do influence the choice of a particular policy measure or a combination of measures, due regard being given to the probability of such measures being able to achieve the desired goals.

As a stabilisation measure, monetary policy aims at achieving some specific objectives by influencing the quantity of money or the financial system's liquidity. Such objectives may be the consequences of the cyclical fluctuations to which the economy would be subjected to as was said earlier.

Therefore, a discussion of monetary policy as an instrument of stabilisation involves, primarily a clear identification of its objectives, as well as the policy instruments available to the authorities for implementing it, in pursuance of the objectives.

The predominant objectives of monetary policy are the maintenance of balance of payments equilibrium, maintenance of price stability, promotion of economic growth and full-employment.

The objectives are always touched in optimisation terms, but this may be too idealistic as experience has shown that instruments used may not achieve the stated objectives. Therefore, confronted with the real world realities such optimisation ideals give way to the satisfying behaviours by the authorities as they seek to attain one level of the objectives which are considered good enough for the economic situation.

Conceptually an instrument of monetary policy is any economic variable over which the monetary authorities have complete or near complete control in their efforts to achieve specific policy objectives. Such policy variables must be capable of changing in

CODESRIA - LIBRARY

Nigeria by relating the Treasury Bill rate to the rate prevailing in the London Money Market. (See MPC No.1). Statistically, this monetary policy achieved the following successes, such as the 1959 and 1962, Commercial Banks' investments abroad declined from N3,2 million in 1960 to N23.9 million in 1962 (See MPC No.1).

However, the Interest Rate Policy in 1990 was geared towards the interest rate deregulation, which means that banks' deposit and lending rates were subjected to the forces of supply and demand for funds. This policy forced banks to compete for existing funds, embark on some meaningful research and adopt some sophisticated marketing strategies. When aggregate credit was raised from 12.2%, it shows a.7% increase in the credit facilities to consumers. If this policy is judiciously adhered to, it means more money will be pushed into the economy by Commercial and Merchant Banks for industrial development, investment, leasing of assets and advances.

MONETARY POLICY MEASURE CONTROVERSIES

There are controversies bordering on the relative efficiency of monetary polices as instruments of economic stabilisation. However, such controversies are the points where the monetary and fiscal policy measures complement each other. Conceivably, one policy measure may prove more effective than the other one in an economy therefore, it becomes a more reliable tool in the hands of the monetary authorities concerned.

In fact, the effectiveness of a policy measure depends on t[illegible] eculiarities of the environment in which it is applied - the institutional arrangen[illegible] nts, the level of development, the existence of certain requisite habits and attitudes.

CODESRIA - LIBRARY

The period 1984-85 Military Government was installed in which expansionary monetary circular was issued to finance budget deficit. This government was headed by Major General Buhari/Idiagbon who felt that consumption must be moderated and money to be invested in productive activities.

The period 1986-90- These were the periods of restrictive Monetary Policy. The country was heavily indebted to external creditors. There was need for sufficient liquidity to be available to the preferred sector of the economy. These Major General Babangida/Real Admiral Ukiwe/Abacha's Military Governments embarked on wasteful programmes such as National Directorate of Employment (NDE), Peoples' Bank etc which are economic waste. We could conclude that wasteful expenditure and unplanned programs were the characteristics of both military and civilian administration in Nigeria which weakened our monetary policy.

CODESRIA - LIBRARY

THE ROLE OF MONETARY POLICY INSTRUMENTS

The monetary policy so far adopted in Nigeria can be examined in line with the financial set up. The role of monetary policy in Nigeria is limited because of lack of confidence in the various monetary instruments. This explains why the Open Market Operation (OMO) which had been effectively used in developed countries was to be introduced in 1991, however, the legislative and institutional changes to be worked out.

The rediscount rate and interest rate structure had been used since 1959. The Central Bank of Nigeria (CBN) (1985), (See MPC No.19) used the rediscount rate and Treasury Bill rate to attract the banks short-term investments abroad to Nigeria by relating the Treasury Bill rate to attract the banks short-term investm[illegible]s abroad into

transfer their deposits from the Commercial Banks to the Central Bank of Nigeria. This action was to mop up excess liquidity in the banking system and hence stemming inflationary pressures. There was another in the series of measures aimed at sustaining the status quo of tight monetary policy. By the time the exercise was completed about N13 billion left the vaults of the Commercial Banks. This exercise had many effects on the economy because many banks had discontinued overdrafts to customers, and issuing of bills to raise cash and stay afloat was stopped. Loans and advances are even recalled in some cases.

CLASSIFICATION OF MONETARY POLICY CIRCULAR PERIODS

CODESRIA - LIBRARY

This dissertation classified Monetary Policy Circulars (MPC) issued in Nigeria in terms of the various government activities that influence the monetary policy circulars. In Nigeria we had military governments and civilian governments. These governments have influenced my classification.

We could say that from 1970 to 1979, we had major General Mohammed/Obasanjo administration in which they issued nine (9) monetary policies. These MPC's are easy Monetary Policy because these were oil-boom MPC's. At these periods Nigeria had excess reserve fund in her SDR up to the tune of $4.1 billion. there was no need to restrict credit expansion.

The period 1980 - 83 was a civilian government which adopted restrictive monetary policy circulars. They were issued to regulate huge expenditure by the military regime. In 1981, the preferred sectors credit allocation was red[illegible] from 75% to 69.7% while the less preferred section was reduced from 30% to 25%.

periods, there was a continued growth of monetary aggregates for the greater part of the period in question. thus money supply narrowly defined (M1) increased considerably for most of the quarters of those three years. Major factors responsible for the growth in M1) during these quarters were increases in foreign debt and other assets (net) of the banking system. this growth is manifested in the cumulative growth of 23.2% of credit during the first eleven months of 1988 compared with the prescribed ceiling of 15.0% set for the year. However, the expansionary effects of these monetary aggregates are always partially offset by the contractionary impact of the rise in quasi money and the fall in other (net) of the banking system. The increase in M1 reinforced by the growth in quasi-money defined (M2) during these periods. The (M2) maintained an upward movement due largely to the substantial growth in Commercial Banks time and savings deposit and liabilities following the enhanced yield on these deposits.

Thus it became necessary that a series of credit squeeze-oriented measures were introduced to block these loopholes. The necessary action was taken in the 2nd quarter of 1989, when the minimum rediscount rate which was lowered to 12.75% was raised to 13.25% thus, increasing the cost of borrowing. The attempt was to stem the inflationary spiral and reduce the excess liquidity within the economy.

Another directive was given a month later prohibiting foreign guaranteed loans. Banks were equally directed to recall such loans within a period of one month. N1.2 billion left the volts of 13 defaulting banks at the end of the exercise. This exercise blocked an important avenue for making easy money through granting of Naira denominated loans, based on the security of foreign guarantee. (See MPC No,23).

The May 26th, 1989 directive, requiring all government agencies and parastatals to

CODESRIA - LIBRARY

minimum re-discount rate of the CBN was fixed at 15.0%.

In order to encourage the private sector, non-bank public to invest in government securities, the treasury bill rate was raised from 10% to 14%. The minimum liquidity ratio for Commercial Banks was raised from 25% to 30%.

In January, 1988, in line with the need to reflect the economy, the following changes, targets and performance criteria were prescribed for the 1988 fiscal year with comparative figures for 1987 in parenthesis (See MPC No.22).

Signals from key macro-economic indicators up to the end of the first half of 1988 showed that the economy was getting overheated and measures had to be designed to reduce aggregate demand. Consequently, the monetary authorities in August, 1988 revised the credit policy guidelines.

Before we introduce some policy measures adopted in 1989, an attempt at evaluating the 1986/87/88 policy measures already enumerated show that they were largely restrictive. The 1987 policy resultant effect of curtailing growth in money supply was 11.8% and placing a ceiling of 4.4% on the expansion of aggregate bank credit bears out this restrictive posture of the policy. While deficit financing remains a problem, the size of government budget deficit has been reduced. The target was to bring government budget deficit down to 3.0% of the Gross Domestic Product from 4.4% in 1986.

Although during the period under review, there were occasional declines in money supply as evidenced in the second quarter of 1986 and 1987, apparently reflecting some down-ward-credit-policy developments in the financial sector at these

CODESRIA - LIBRARY

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CODESRIA - LIBRARY

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CODESRIA - LIBRARY

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In fact, the effectiveness of a policy measure depends on the peculiarities of the environment in which it is applied - the institutional arrangements, the level of development, the existence of certain requisite habits and attitudes.

CODESRIA - LIBRARY

To a considerable extent, therefore, the above factors do influence the choice of a particular policy measure or a combination of measures, due regard being given to the probability of such measures being able to achieve the desired goals.

As a stabilisation measure, monetary policy aims at achieving some specific objectives by influencing the quantity of money or the financial system's liquidity. Such objectives may be the consequences of the cyclical fluctuations to which the economy would be subjected to as was said earlier.

Therefore, a discussion of monetary policy as an instrument of stabilisation involves, primarily a clear identification of its objectives, as well as the policy instruments available to the authorities for implementing it, in pursuance of the objectives.

The predominant objectives of monetary policy are the maintenance of balance of payments equilibrium, maintenance of price stability, promotion of economic growth and full-employment.

The objectives are always touched in optimisation terms, but this may be too idealistic as experience has shown that instruments used may not achieve the stated objectives. Therefore, confronted with the real world realities such optimisation ideals give way to the satisfying behaviours by the authorities as they seek to attain one level of the objectives which are considered good enough for the economic situation.

Conceptually an instrument of monetary policy is any economic variable over which the monetary authorities have complete or near complete control in their efforts to achieve specific policy objectives. Such policy variables must be capable of changing in

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clear identifiable ways, in response to policy actions. Such changes must be able to influence some variables in the real sector of the economy.

There are target variables which the authorities wish to influence in order to achieve the ultimate objectives and indicator variables through the changes in which the direction, relation and relevance of monetary policy can be gauged at a given time. These targets variables may be interest rate, credit expansion or money supply.

The choice of an indicator variable which is a sort of intermediate variable, is made necessary by the fact that stabilisation measures always have a time leg between the time action is taken and the time when the results are felt. This is made more difficult by the fact that because of the dynamic nature of economic variables a perceived state of affairs in response to which action is taken may change completely, by the time when the measure beings to yield the desired effect.

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Such lags between cause and effect make short-term predictions difficult. The consequence is that a measure aimed at stabilisation could turn out to be destabilising, thereby throw the economy more out of shape. This is the basis of some people's opposition to short-term discretionary measures by governments. Such measures in more cases were based on short-time predictions.

The most favoured target variable is the money supply. In fact, the monetarists insist that the variable include interest rates. banking system's credit to the economy, as well as the prescribed reserved ratios. Various ways are used to achieve desired change in the chosen target variables.

The Central Bank of Nigeria had featured all these instruments in the conduct of its

monetary policy. However, it is not sufficient for an economic variable to serve as instrument of policy. Such variable must be seen to be changing over time in response to change in the economy to be able to adequately steam these changes.

COMPARATIVE ANALYSIS OF MONETARY AND FISCAL POLICIES

Fiscal policy is the policy pursued by a government to influence spending and economic activities in an economy. This policy may be used to change the size and content of taxation, expenditure and public debt. The fiscal policy adopted in 1970 after the Nigerian Civil War was the capital allowance in which reconstruction investment allowance was introduced. This accelerated depreciation system was to apply to qualifying assets destroyed during the war by the Military. In the 1970, the MPC No.1 was issued which directed banking sector to expand credit to private sector and reduce government borrowing from the banking sector.

It is this policy conflict that created the budget deficit in 1970, because there was increase in capital expenditure from N120 million in 1960 to N5004.6 million in 1977. There was capital allowance which reduced government revenue base and credit restriction from the banking sector expanded the budget deficit.

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Further fiscal changes were made in rates and type of capital expenditure in 1977 and 1985. In 1977, initial allowances of 5% and 10% were introduced in building ;expenditure. When MPC No.8 was issued in 1976/77, it directed that 48% of banking system's loan and advances should go to the productive sector and manufacturing should have lion share of 30% when the MPC's were reviewed for four years, it was observed that the credit expansion to private sector made inflation to rise from 13.4% in

1973 to 33.9% in 1974. In 1973, the fiscal policy introduced a tariff measure which abolished export duties on marketing boards products while machinery and equipment used exclusively in agriculture had been imported duty free. It was the view of government to encourage agriculture in 1973/74 when it issued MPC No.4 and 9, but sectoral distribution of loans and advances gave 4% to agriculture while manufacturing was given 30% (See table 1). It is the view of the researcher that government would have stimulated the agricultural sector if the loans and advances had been increased.

In 1975 - 76, the MPC No.7 increased sectoral loans and advances to agriculture to 16% while manufacturing was 30% (See table 3). The policy guideline was to encourage indigenous entrepreneurial initiatives. This 1975/76 monetary policy was to stimulate domestic production and create employment. The fiscal policy measure in 1975 adjusted company income tax rate. In 1975, profits less than N6,000.00 were tax free while profits in excess of N6,000 but less than N10,000 was to be taxed 45% in 1975. In 1974, agricultural sector was allocated 4% of the total credit but 1975, it was increased to 16%, but the manufacturing sector was restricted to 30% but the government monetary policy was to stimulate domestic production. The tax rate was increased from 40% to 45%. The researcher observes conflict in policy issue because government makes loan and advances to manufacturing constant at 30%, increase tax base to 45% but it wants to stimulate domestic production and increase employment. These are part of the contradiction that had been observed by the researchers and respondents.

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INCOME TAX RELIEF

In 1978, the fiscal policy introduced income tax relief measure in which the focus was on agricultural sector. This policy allowed companies engaged in agriculture to

carry forward indefinitely any losses incurred and to write them off against future profits. The policy further stated that lenders to agriculture were granted graduated tax incentives which ranged from 100% exemption on loans maturing after 7 years to 100% tax liability on loans maturing in less than 2 years.

The objectives of monetary policy in 1978, was to contain the inflationary pressure in the economy, therefore, it re-imposed a 40% ceiling on the expansion of loans and advances in an effort to minimise the growth of money stock.

The researcher feels that there was no relationship between fiscal and monetary policies in 1978. The government wanted to encourage banks to give loans for agricultural development, but at the same time, imposed 40% ceiling on loan expansion. Therefore, the fiscal policy and monetary policy are not complementary, because of the various tax policy changes.

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INFLATIONARY TREND

From 1979 to 1983 were the periods of instability in the business cycle. The inflation rate of 11.8% in 1979 to 20.9% in 1981 and 23.2% in 1983 (See Federal Office of Statistics Report) the monetary authority was pre-occupied on how to curb inflation. The monetary policy abolished stabilisation securities, imposed cash reserve and required deposit for imports. There was restriction on loanable funds to the public sector.

Based on the above monetary policies, the import duty relief Act of 1957 was amended in 1984 which approved users scheme and general concessionary rates on raw materials and other intermediate products imported by designated manufacturers for

producing import-substitute products were abolished and replaced with rates ranging form 10 to 75%. this fiscal policy measure was to encourage industrial development.

CAPITAL ALLOWANCES

In 1985, the fiscal policy amended the tax law. There were two major changes in respect to building expenditure and agricultural plant expenditure. The annual capital allowances were expanded to include major vehicle, housing estate and plantations with initial allowance ranging from 20% and 25% respectively. This policy classified the economic sector into two, such as manufacturing was given capital allowance of 75% of assessable profits while the service sector was to get 662/3 deduction of assessable profit.

The objective of MPC No. 19 issued in 1985, was to achieve the socio-economic objectives of the Federal Military Government. The policies were to stimulate and increase agricultural production, basic raw materials, increase production and to decrease the rate of inflation. The sectoral allocation of loan to industrial enterprises was increased to 44%. In this major fiscal and monetary policy changes made two policies complementary because as government reduced taxes, the capital allowances created incentive for future investment and job creation.

In 1986, the objective of fiscal policy was to reduce the overall deficit of the government. There was a deficit of N3,580.2 million in 1985 but it declined to N2,666.8 million in 1986 which showed N913.4 million decrease or 25%.

The monetary policy in 1986 was designed to restructure the economy. The MPC No.20 called for increase in bank credit during the year. In order to accommodate the

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expected increase in bank credit, mostly in agricultural production, the circular raised the ceiling on bank credit expansion from 7% to 10%.

Government fiscal policy improved because of additional revenue from import surcharge and reduction in petroleum subsidy which were used to offset the decrease in revenue from crude oil. The researcher feels that the fiscal and monetary policy this year were complementary. The monetary policy measures in the 1988 were to stimulate growth in national output, create employment, enhance savings and improve balance of payment position of the country. The monetary authority projected 15% growth in money supply and 12.5% credit expansion for Commercial Merchant Banks.

However, the fiscal policy measures were designed to reflate the economy because it provided for the reflationary package of N2,500 million and in-built deficit of N6000 million Naira. We could observe that the growth performance in M1 in 1978, was 11.8% so the estimated growth in 1988 would have been 15%, but the monetary authority did not achieve its target because the percentage increase is 1%. It brought the money supply to a total of 12.8% in 1988 which is 1.2% (15% -12.8) shorter than projected M1 supply. In 1988 credit expanded by 11.5% instead of projected 12.5%, so we can see that the monetary objectives were not achieved which had affected the fiscal policy of reflationary economy of N8,500 million (2500 + 6000) because the economy was reflected by N6100 million (27.5-21.4)

Monetary policy measures in 1989 and 1990 were more restrictive. In 1989, the growth in M1 was 14.6% but it was scaled down to 13% in 1990. The aggregate bank credit was 9.5% in 1989 was increased to 13.5% in 1990. Growth in credit to government was 8.3% in 1989 which was increased to 10.9% in 1990 while credit growth to the

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private sector increased from 10.7% to 15.8% in 1990.

The projected bank credit by MPC No. 23 in 1989 was 10% but actual was 9.5% which has decreased by .5% point. The inability of the banking system to meet the required target can decrease investment and retard economic progress. In 1990, the projected credit was 12.5% by MPC No. 24 but the actual was 15.8% which has inflated the economy by 3.3%. This action can increase investment and employment, but the monetary authority objective of restrictive economy may not be achieved. However, the fiscal policy objective of promotion of export of manufactured goods, creation of employment opportunities may be achieved because of increase in investment.

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THE POLICY IMPLICATION OF THE STUDY

The policy implications of this study can be analysed on two perspectives that of the monetary policy formulators (CBN) and the monetary policy implementers. (Banks) It can make the policy formulator to quantitatively assess the banks on their level of compliance to the monetary policy guidelines. In 1976/77 when the Central Bank reviewed MPC's No.1 to 7, it concluded that their objectives were not achieved. The policy formulators realised that inflation rate rose from 13.4% in 1974 to 33.9% in 1978. As this study indicates, the commercial banks expanded credit to private sector thereby inflated the economy.

If compliance rate theory were in existence at the time the policy formulators would have used it to monitor the commercial banks on their excess credit expansion above the monetary policy guidelines. This study has shown that the banks were not adequately monitored on their level of compliance to the monetary policy circular

(MPC).

Comparatively, table 41 shows that in the area of production, commercial bank over loaned by 231% above the credit guidelines while merchant banks loaned by 91% above MPC guidelines.

In the areas of general commerce, commercial bank over loaned by 346% above MPC guideline while merchant bank over loaned by 101% above MPC guidelines.

The service sector show commercial banks under complied by - 435% while merchant bank under complied by -641%. The service sector suppose to finance and improve public utilities, transportation and communication in the country. The compliance rate model has shown that banks ignored this sector thereby encourage poor communication network in Nigeria to day. We should note that banks attitude towards discriminative lending created a high level of inflation.

In other sectors are credit to financial institutions and government. It shows that commercial banks over loaned by 81% while Merchant banks over loaned by 609%. The policy issue is that in 1985 the government de-regulated the economy in which many financial institutions were formed. Government borrowed money to finance N5.3 billion budget deficit in 1983 therefore increase inflation from 7.7% to 23.2% in 1983. Prior to this study, there was no proper tools of assessing banks compliance rate.

On the implementers points of views the compliance rate model will enable them to monitor themselves on their level of compliance to MPC. The compliance rate. deviation model can be used to assess bank level of non-compliance. The finding of the research can make the policy formulators to monitor the money supply and the overall

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level of credit expansion.

CONCLUSION:

The inconsistencies in the monetary policy circulars coupled with the inability of Central Bank of Nigeria to complement monetary policy with sound fiscal policy has made the policies not to achieve their objectives.

The liquidity position of banks had been unstable because of the distortions in the monetary policy issued by Central Bank. This can be substantiated in the computation of coefficient correlation which shows that as composite price index increases the cash available (liquidity) continues to decrease.

Money supply had been increasing despite the stringent monetary measure which had been articulated by monetary policy circular. The money supply had to increase because the government wanted to curb the illiquidity which was prevalent at the time.

On the ratio of loans and advances to deposits of Commercial Banks we could observe that the higher the ratio the more the loanable fund in the banking system

The compliance rate formula has revealed that the more deviation from the standard stipulated by the monetary policy circular, the more the inflation in the economy. This is substantiated by table 44 which has ascertained that there is significant relationship between composite price index and liquidity.

Though, the various monetary policies had been used from 1970 to 1990. It started with tight money policy to easy money policy but credit control was the most instrument used. There had been distortions in implementing the policies because of

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our unplanned economy, the inefficiency of the Central Bank supervisory role and lack of adequate knowledge on the part of monetary policy implementers (Banks) on how to interpret the monetary policies.

There had been extreme views by Keynes who feels that monetary authority should rely on interest rate as source of control. Friedman recommends money supply as source of control. But Nigeria Monetary Authority had used both interest rate and money supply as basis of economic control. These controls should be complemented by sound fiscal policies to stabilise the economy. There is no standard monetary policy procedure and execution method that has been universally accepted to experts.

The level of response rate which is 86% has shown significant enlightenment on the part of the respondents who personally returned the questionnaire. Researchers can attribute this action to the fact that the respondents have attained an educational level to embrace such behaviour.

Researchers used Osiegbu's Compliance rate model rate (OCM Rate) to determine the level of compliance to monetary policy circulars. This basis of assessment can enable the monetary policy formulators (Central Banks) and monetary policy circular implementer (banks) to determine their level of conformity to the standard monetary policy circular stipulations.

It is interesting to note that the high response rate of 73% from Research Department of Central Bank of Nigeria has shown that academic qualification in the department can be associated with such response to research questions.

There had been communication problem between the Central Bank and the

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monetary policy circular implementations (banks) because (banks) and CBN respondents say the banks are invited to deliberate on monetary policy circular formulation through bankers Committee.. Researchers were able to find out that the Managing Directors of banks attend the meetings. This action is inadequate because most of the Managing Director are not well informed in the area of Finance, Economics, Business Administration, Accounting etc to be able to analyse the business and economic trends which can help in MPC formation process.

The significant relationship between the ratio of loans and advances to Deposit is a sign of low standard of living among Nigerians. The high interest rate from 1970 to 1990 supported by high inflation rate made the available cash (liquidity) to the public to be eroded thereby an average Nigeria's purchasing power reduced thereby creating sub-standard lifestyle.

In hypotheses II we found out that Merchant banks loan portfolio distribution is - 63% which shows that Merchant Banks under loaned the stipulated standard within the period under review. If CBN had adopted compliance rate model, it would have been able to caution Merchant Banks on such deviations. Therefore, it is advisable for the monetary policy circular compliance rate model to be adopted so that bank's performance can be monitored.

CBN had traded - off achieving economic objectives in favour of monetary reward, because in 1976, its monetary policy circular gave banks option to conform to monetary policy circulars or pay penalties. Some banks elected the cheaper options between monetary policy stipulations and cash expenditure. Therefore, the cost/benefit analysis was used to elect the cheaper option. It is the researchers view that the penalty option

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should be eliminated, but all banks must conform to the monetary policy circular stipulations to achieve the country's economic objectives.

The research has shown that Central Bank of Nigeria (CBN) has contributed so much to get the banks distressed. such policies are the 1986 MPC No.20 which reduced banking system ability to create credit by N4.2 billion backed up by various mop programme in 1988. The Structural Adjustment Programme (SAP) which deregulated the economy. Many incompetent director incorporated banks which created stiff competition in the industry. This competition decreased shareholders' fund from N0.27 to N0.02 per capital contribution. The cost increased fixed cost from N7.83 to N160 per owners fund. Therefore, in 1991 CBN would have restricted licensing of banks till further notice. CBN lacked the various monitoring tools to dictate upsurge in the financial and economic system.

In the comparative analysis of monetary and fiscal policies there had been policy conflict that created budget deficit in 1970, 1977,1985 and 1986. The government made various policies to reduce taxes at the same time increased the allocated loan and advance to the public.

In table 48, we have used multiple regression equation to establish the relationship and level of significance between liquidity ratio, cash reserve ratio and loan to deposit ratio of commercial banks from 1970 - 1990.

The mean for liquidity ratio is 9% which means that the ability of commercial banks to meet their maturing obligations and stable position is about 9% chances. This action led to what we experienced in 1990s when some of the banks were declared

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distressed by Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC).

The cash reserve ratio (X_2) has a means of 55% which means that CBN had requested heavy deposit or high cash reserve from commercial banks. This action makes the researcher to conclude that CBN contributed to the cash squeeze problem in the banking industry.

The loan to Deposit ratio (Y) is 69% which means high contribution of commercial banks to the economic development. The researcher is of the view that Nigeria society has developed banking culture, but cash mop up by CBN on various periods such as 1986 and 1988 had contributed to low liquidity ratio of banking system.

We have used the Pearson Product correlation coefficient to find the strength of the relationship between liquidity ratio (X_1); cash reserve ratio (X_2) and loan to deposit ratio (Y). The liquidity ratio (X_1) has a high coefficient of 312% and the cash reserve ratio (X_2) has a lower coefficient of 240%. The researcher concludes that the higher the coefficient of variation, the higher the risk associated with an activity. Therefore, the low cash position of commercial banks made their ability to give loan to decrease by 64%.

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ANALYSIS OF THE GRAPHS

In figure 5.1, we have used graph to find the relationship between three variables which are liquidity ratio, cash reserve ratio and loan to deposit ratio. We could observe that from 1970 to 1972 cash reserve ratio had been stable at about 5% rate, but the liquidity ratio decreased in 1971 to about 70%, this was the time monetary policy circular emphasised to curb inflation and increase production. In 1975, the loan to

deposit ratio rose to 51%, this was oil boom era and there was excess cash in circulation. We can see that from 1977 the liquidity position of commercial banks started dwindling up to 1988 when it increased to 10%. As the Deposit started to increase from 1980, the cash reserve ratio increased to 48% then the liquidity ratio decreased 1.7% in 1986. This analysis shows why the banking industry had cash and liquidity problem in the 1990s.

In Table 50 (figure 5.2) the Pearson Product-moment coefficient has been sued to. estimate the strength of association between two variables such as loans and advances (Y) and interest rate (X). We could observe that the average (Y) loan and advances is N8552 while the average (X) interest rate charged by commercial banks within the twenty-one years is 78%. The high charge is outcome of interest rate deregulation between 1986 - 1990 when market forced determined the interest rate charged by commercial banks.

The coefficient has shown that as the interest rate increases there is positive and significant increase in loan and advances. This practice did not conform with the economic theory which states that when interest rate increases the general public and business community resent borrowing, therefore, there is no incentive to invest because of high cost of capital.

Statistically, we tested r^2 to get the coefficient of determination. The equation has revealed a variation of $r^2 = 0.1$ is statistically not significant.

We could conclude that the percentage negative positive change in interest rate do not change the publics demand for loans and advances.

In figure 5.3, we graphed the loan and advances to interest rate and we observed

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that in 1977 the interest rate decreased from 42% in 1970 to 38% in 1977. In 1976/77 MPC No.8 the maximum loan and advances was curbed at 10% for all banks in 1976/77, but interest rate decreased to 38% and demand for loan increased to N3074 million.

In 1983, there was an equilibrium between the interest rate and loan and advances and it is after this point that Nigeria economic problems unfolded e.g high exchange rate, debt burden and high inflation rate.

Interest rate increased in 1987 because of the mop up exercise in 1986 of N4.2 billion from the banking system, there was liquidity problem therefore the interest rate rose to 1.42%. The interest rate rose to 1.83% in 1990 and loan and advance rose by 17% from 1987 to 1990, we can see that high interest rate does not discouraged borrowing and investment.

In Table 50 (figure 5.6) researchers used the Pearson Correlation coefficient to measure the strength of relationship between the dependent variable liquidity ratio (Y) and independent variable composite price index (X) of Merchant Banks from 1980 - 1990. the average of composite price index (X) is 125.45% while that of liquidity ratio (X) is 52% therefore, the high price increase deprived the general public the needed cash to service or achieve good standard of living.

The coefficient of determination (r^2) of .10 shows a negative relationship between the dependent variable [liquidity ratio (Y)] and independent variable [Composite Price Index (X)].

We have used "t" test to find out the relationship is not significant. There are other test that can be used such as Z-test, but "t" test is elected because N< 30. The computed

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t = -.98 while the critical "t" value at .05 level of significance is 2.26, therefore the test is statistically not significant.

When we compare the two variables graphically, (See fig. 5.5 and 5.6 we found out that the liquidity problem started in 1985, but the variation widened in 1986 when CBN mopped up N4.2 billion Naira when MPC No.20 was issued. The equilibrium was in 1983, but the adverse effect started in 1985.

RECOMMENDATION:

We can recommend some actions based on the research activities thus;

-Banks should be required to have a functional research department instead of allowing Corporate Affairs Department to perform such functions. Because it will ensure strong reliability on the data collected.

- The Bankers Committee meeting should be expanded to include people from academics and industrial sector with good knowledge of economics, Finance, Business Administration etc. The present composition of Managing Directors is inadequate for the economy, therefore participation should be expanded.
- Compliance rate formula should be adopted to monitor banks' level of compliance to the Monetary Policy Circular guidelines.
- Monetary authority (CBN) should stop licensing new banks because the relationship between capital fund and profit is not favourable.
- Monetary policy should be complemented by good fiscal policy to achieve

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healthy economy.

- A monetary policy compliance department should be established in the Central Bank of Nigeria

- The idea of penalty on non-compliance to MPC's should be stopped because it causes economic distortion. But banks should be forced to comply if we want to achieve monetary policy objectives.

- Central Bank of Nigeria examiners should occasionally visit banks to examine their activities.

RECOMMENDATION FOR FURTHER RESEARCH

This work focuses on the Banking Industry. Future researchers in the area of Monetary Policy can narrow the study into Commercial Banks, Merchant Banks and other Financial Institutions such as Insurance Industry. The periods can be sub-divided every five years

The Monetary Policy impacts from 1970 - 1990 have been well articulated, but from 1991 to date has not been addressed.

A researcher can look into the Monetary Policy impact on each class of portfolio in banks. These impact can be in the area of credit, cash reserve, interest rate, asset base, ability to create credit and bank liability.

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APPENDIX

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1. Name of your organisation is MANUFACTURERS MERCH LTD

2. Age: 42 YEARS.

Name of Organisation /__/ CBN /__/ Commercial bank /✓/ Merchant bank

3. Sex: /✓/ Male /__/ Female

4. Are you a banker /✓/ Yes /__/ No

5. How long have you worked in the Banking Industry? Six Y

6. Educational Qualification

/__/ WASC/GCE /✓/ BSc /__/ HND /__/ OND /__/ MBA/MSC /__/ PhD

SECTION B - CENTRAL BANK OF NIGERIA

7. Do you issue monetary policy circular?

Yes /__/ No /__/

8. When was the first one issued in Nigeria ______

9. To what extent had Banks complied to the policy circulars?

/__/ they had complied

/__/ they do pay penalties rather than comply

/__/ the monetary policy circulars had not achieved their objectives.

/__/ monetary policy circulars had achieved their objectives.

10. Are monetary policy circular implementers (Banks) invited to discuss the policies to be adopted?

/__/ Yes /__/ No

11. If the answer to q 10 is yes

What is the level of their participation?

/__/ active /__/ inactive /__/ mild /__/ None

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What are the possible reaction of Banks to

(a) lending policy

(b) Granting of credit

(c) Money supply

(d) Interest on loans

(e) Bank liquidity

(f) Production level

(g) Volume of Productivity

(h) Volume of money demanded?

13. Do the monetary policy circular guidelines have significant effect on the aggregate production?

[ ] Yes [ ] No

Specify ________________________________

Please can you comment on the monetary policy circular?

____

____

____

____

SECTION C - BANKS

14. What type of bank do you operate?

[ ] Commercial [✓] Merchant [ ] others

Specify ________________________________

15. What year did your bank commence banking business 1990

Age: Sex [✓] Male [ ] Female

16. What is the mode of registration

[✓] private Ltd. Company

[ ] Public Limited Company Plc.

[ ] Others specify ________________________________

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[ ] Asst. General Manager

[ ] General Manager [ ]

[✓] Deputy Managing Director

[ ] Managing Director.

18. How many years experience in the Banking Industry

Six years.

19. What is your highest qualification?

[ ] WASC/GCE [ ] OND [ ] HND [✓] BSc

[ ] MBA [ ] MSC [ ] PhD.

20. Area of specialisation: Accounting ; Banking.

21 Have you read the monetary policy circular?

[✓] Yes. [ ] No

22. If the answer to question 21 is yes

23. Does your bank implement the stipulations in the monetary policy circular? [✓] YES [ ] NO

24. If the answer to question 21 is NO do you pay the stipulated penalty? [ ] yes [ ] No

25 Do you participate to establish monetary policy guidelines? [✓] Yes [ ] No

26. How do you access your sectoral loan compliance rate? [✓] Above 50% [ ] Below 50%

27. Are your Asset portfolio distribution based on the monetary policy guidelines?

[✓] YES [ ] No

28. Please can you express personal opinion on the monetary policy circular (MPC) guidelines.

The Monetary policy Circular in Nigeria is very Good. But it has to be Complimented with the fiscal policy

Thanks.

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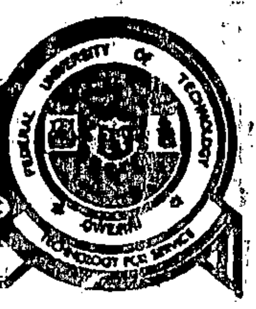
APPEDIX B



FEDERAL UNIVERSITY OF TECHNOLOGY

Vice Chancellor: Engr-Prof. C.O.G. Obeh,
B.Sc (Eng.), DUCL,M.Sc,Ph.D,FNSE, CEEng, MIEEE,C.Eng.

P.M.B. 1526
Owerri, Nigeria.
Phone: 083 - 230974
083 - 233456
Telegrams:

chool /Department

our Ref:

ur Ref:

Date 15th October 19 93

TO WHOM IT MAY CONCERN

The bearer Mr. Patrick Osiegbu is a graduate student in the School of Management Technology, Federal University of Technology, Owerri. He is writing a Ph.D dissertation on "The Impact of Central Bank Monetary Policy Circular (MPC) on the Banking Industry in Nigeria, (1970-1990)."

Could you please assist him in getting the necessary information to enable him complete the research. Be assured that all the information given would be treated in confidence.

Your co-operation will be highly appreciated.

Sincerely,

Dr. C. C. Ntamere
Dean and Supervisor

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APPENDIX E

COST OF FIELD WORK

	($)
Transportation (Local)	100
Travelling within Nigeria	250
Lodging	225
Feeding	220
Academic Assistance	420
Expert Assistance	526
Stationery	655
Type-Setting	384
Printing and Binding	175
Photocopying	435
Miscellaneous	450
	$3,840

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APPENDIX D

Swedish Agency for Research Cooperation
with Developing Countries

Anna Ericson

Datum/Date
1993–12–23

Dnr/Reg. No:

Patrick Osiegbu
P.M.B 5323
Port Harcourt
NIGERIA

Ref.

SARECref.

Ärende/Re

Thank you for your letter from 16th November 1993.

Regrettably, SAREC cannot grant you your application.
We only give sponsorships to research students enlisted to either Swedish universities or to other research institutions in Sweden.

Hope that you will be fortunate in applying elsewhere.

Yours sincerely

Anna Erickson
Assistent,
Svensk ansökan

CODESRIA - LIBRARY

Postal address: P O Box 16140
S-103 23 STOCKHOLM, SWEDEN
Telephone: 08–791 21 00
Telegram: sarec stockholm
Telex: 11911 SAREC–S
Telefax: 08–791 21 99
Postgiro: 446 50 88–5

Continental

Continental Merchant Bank Nigeria Plc
One Kingsway Road, Ikoyi,
Private Mail Bag 12035
Lagos, Nigeria.
Phone: 2690501 - 18, 2690479 - 80,
603050 - 9, 603310 - 9
Fax: 2690900.
Telex: 21585, 23700 CONTBK. NG.

June 29, 1993

Mr. Patrick Osiegbu
Dept. of Project Management
SCHOOL OF MANAGEMENT TECHNOLOGY
Federal University of Technology
Owerri, Nigeria.

Dear Sir:

REQUEST FOR FINANCIAL ASSISTANCE

With reference to the above.

This is to acknowledge the receipt of your letter.

We regret our inability to sponsor your research due to earlier commitment.

However we do hope to be of help in the nearest future.

Warmest Regards.

Yours faithfully,

REBECCA T. BALAT
PUBLIC AFFAIRS DEPARTMENT

RTB:ts

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Appendix (4)(F)

IMB

INTERNATIONAL MERCHANT BANK (NIGERIA) LIMITED
1, Akin Adesola Street, Victoria Island, P. M. B. 12028, Lagos, Nigeria
Tel: 612204, 613000, 614634, Telex: 21169, Cable Address: Beach Plaza
Fax: 616792, 616795
(RC 13, 042)

June 11, 1993

Patrick Osiegbu
Department of Project Management
School of Management Technology
Federal University of Technology
OWERRI

Dear Mr. Osiegbu,

We acknowledge with thanks, your letter dated April 26, 1993, in which you were requesting for doctoral research grant from us in respect of your Ph.D dissertation in Banking and Finance. The relevance and usefulness of your topic: "The impact of CBN Monetary Policy Circular on The Banking Industry in Nigeria", cannot be over-emphasised.

However, we regret to inform you that we cannot finance such projects for now. Nevertheless we wish you success in your research programme.

Yours sincerely

M. I. Ojo
Deputy Manager
Corporate Development Department

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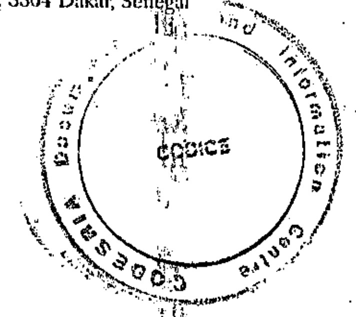
APPENDIX G

CODESRIA

Council for the Development of Social Science Research in Africa. / Conseil pour le Développement de la Recherche en Sciences sociales en Afrique

Tel: (221)-259522-3 Tlx: 61339 Codes SG Fax: 241289 CODESRIA, B.P. 3304 Dakar, Senegal


Centre de Documentation et d'Information CODESRIA
CODICE

SMALL GRANTS PROGRAMME FOR THESIS WRITING

Date: February 2, 1994
No. 098 /T94

Patrick Osiegbu
Dpt of Project Manager
School of Management Technology
Federal University of Technology
Owerri
NIGERIA

Dear Madam, Sir,

CODESRIA is pleased to inform you that your application was positively reviewed by the Selection Committee which met in Septembe 1993. You will soon receive a contract which should be duly signed and returned to CODESRIA in order to disburse the first instalment of your fellowship.

The delay in the publication of the list of grantees was due to logistical problems beyond our control. We hope that you will bear with us.

Congratulations! CODESRIA wishes you success in your research endeavour.

Sincerely yours,

The Deputy Executive Secretary
Moriba TOURE

CODESRIA - LIBRARY

Executive Committee/Comité Executif. Président: Ernest WAMBA-dia-WAMBA Eastern Africa; Vice-Président: Mahmoud Ben ROMDHANE North Africa