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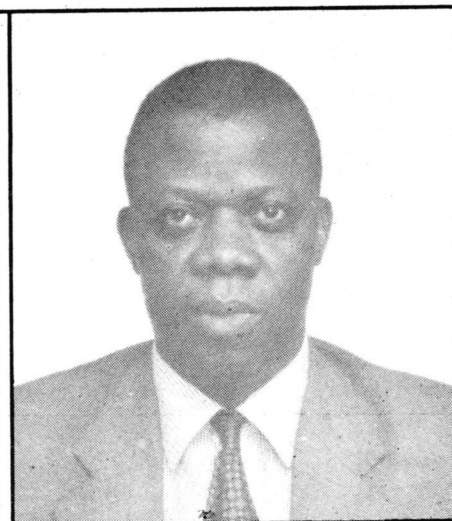
MONETARY AND BANKING POLICIES IN THE 1995 FEDERAL GOVERNMENT BUDGET*

By Dr. M. O. Ojo, Director of Research, Central Bank of Nigeria

INTRODUCTION

The central feature of a government budget is the specification of a programme of fiscal operations during a given fiscal year. Such a programme has a profound impact on the economy, reflecting the size and structure of revenues and expenditures, as well as the magnitude and financing of the budget deficit. Fiscal operations are often used explicitly to influence the level and growth of economic activity, the allocation of resources between different uses and the distribution of income. However, government fiscal operations usually induce a rapid growth in aggregate demand which has adverse consequences on domestic prices and the balance of payments position. As a result, the fiscal programme in the budget is usually supported by other tools of macroeconomic policy such as monetary and exchange rate policies.

The focus of this paper is on the role of monetary policy in the budget. Essentially, the aim of monetary policy is to ensure that the expansion in domestic liquidity during a fiscal year is consistent with the targets for growth, inflation and the balance of payments. To achieve this broad goal, monetary policy in a budget attempts to stabilize the economy, as well as influence the efficiency of resource use in the economy through the mobilization and allocation of financial resources. As expected, monetary policy is a cornerstone of the Federal Government Budget for 1995. The main objective in this paper is to outline and analyse the monetary programme which forms part of the macroeconomic policy framework of the Budget. An attempt will be made to explain the background to the programme framework, how it is expected to operate and the likely future policy direction. Following this introduction, we shall review the recent experience in monetary management, outline the monetary policy measures in the Budget and explain the modalities for achieving the monetary policy objectives. In the conclusion, we shall touch on the factors that are considered critical for the success of the monetary programme in 1995.



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RECENT EXPERIENCE IN MONETARY MANAGEMENT

It is instructive to discuss briefly our recent experience in monetary management in order to appreciate the expectations from the monetary programme in 1995. The most appropriate starting point of such a review is 1988 when the so-called reflationary package was introduced to stem the sagging morale of the populace after two years of austerity measures. In the two years preceding 1988, the stance of monetary policy had been tight as required under the adjustment programme. Monetary and credit expansion was modest while the average inflation rate was under 10 per cent (see Tables 1-3). Following the reflation package in 1988, monetary growth became excessive. With the exception of 1989, the growth of broad money (M2) was above 30 per cent in each year up to 1993. In 1993, there was indeed a record increase in M2 of 52.8 per cent. In 1994, the increase in M2 is estimated to be about 32 per cent. The growth in M2 since 1988 has largely been a reflection of the movement in narrow money

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(M1), the target variable. The growth of M1 ranged between a low of 21.2 per cent in 1989 and a peak of 66.4 per cent in 1992. During the six years ending in 1993, M1 grew at an annual average of 43.7 per cent compared with the target of 16.9 per cent a year. In 1994, preliminary estimates show that the increase in M1 was 39.2 per cent which was almost double the target rate of 21.4 per cent. The major factor in the rapid monetary expansion since 1988 has been the excessive growth in aggregate domestic credit. It grew excessively in 1988 and 1991–1994 when it recorded an average increase of 49.9 per cent compared with the target rate of 11.8 per cent. The upsurge in credit to the economy in recent years has been due largely to the rapid increases in government borrowing from the banking system. Of the total increase in credit to the economy in recent years, the government sector had absorbed not less than 75 per cent. As a consequence, credit to the government sector had more often exceeded the targets by wide margins. The bulk of the credit to the government sector was extended by the CBN which on the average accounted for roughly 80 per cent of total credit to the government. Bank credit to the private sector had also grown significantly, but by lesser magnitudes. Even then, this could be linked with the excessive government spending which had enhanced the growth of bank deposits and reserve balances.

The monetary authorities had, for the greater part of the period, relied on the imposition of credit ceilings on banks to check the excessive growth of domestic liquidity, but, as it is well-known, this monetary policy instrument had become virtually irrelevant and its gradual abrogation began on 1st September, 1992. The authorities tried another instrument - issue of stabilization securities - which, as will be discussed later, has not been an ideal tool in the existing environment. The CBN finally moved to the modest application of Open Market Operations (OMO) from June 30, 1993.

The CBN's experience in the conduct of OMO in 1993 to manage domestic liquidity was a useful one in-spite of the prevailing economic turbulence. The banks responded adequately to CBN's offerings partly because of the contraction in the volume of activities in the inter-bank funds market and partly because of the system of foreign exchange allocation which encouraged banks to accumulate high levels of liquidity in short-dated Treasury Bills to back up their demand for foreign exchange. But of greater significance was the relatively attractive yields on the securities. In 1994, however, the pegged interest rate regime constrained the conduct of OMO and the weekly primary Treasury Bill auction, resulting in the failure to sell the appropriate amounts of the Bills to drain the excess liquidity in the system.

One consequence of the disequilibrium in the monetary sector has been the high volatility in interest rate movements. Interest rates moved upwards under the influence of several shocks. The first was in 1987 when all interest rates were deregulated. The rates which hitherto were administratively fixed moved up voluntarily, but the resultant interest rate levels were still relatively low and generally positive in real terms. Expectedly, the deregulation of interest rates engendered competition among banks to attract deposits. Subsequent movements in interest rates were largely influenced by the increasing level of macroeconomic instability and distortions. In 1989, following the withdrawal of public sector deposits from the banks to the CBN, there emerged a relative scarcity of funds which induced dramatic increases in interest rates. Maximum lending rates moved above the 30 per cent level. The high rates persisted until 1993 with an interruption in 1991 when an upper limit of 21 per cent was imposed on lending rates by the authorities. As the actions to control interest rates in 1991 were largely unsuccessful, the interest rate regime was again deregulated in 1992 and 1993 when maximum lending rates climbed to about 40-60 per cent. Inter-bank funds rates climbed to over 120 per cent. These high rates induced the reimposition of controls in 1994.

As indicated earlier, macroeconomic distortions and the response of the authorities to these distortions helped to sustain the high levels of interest rates since 1987. Among the factors involved were:

(i) the crowding out of the private sector in credit allocation arising from the huge government deficits financed largely by the

banking system;

(ii) the use of stabilization securities to mop up excess liquidity;

(iii) the increase in the number of insolvent banks which engaged in distress borrowing to stay afloat;

(iv) the skewed distribution of bank reserves and the reluctance of liquid banks to lend to banks with doubtful credit rating;

(v) the large incidence of arbitraging, resulting in layers of interest rate spreads; and

(vi) the foreign exchange market arrangement which encouraged the tying up of funds for market transactions.

The overall effects of fiscal imbalances, high monetary expansion and volatile interest rate movements on the real sectors were unsatisfactory. The increasing ratio of fiscal deficit to GDP initiated the distortions since 1988. The rising fixing deficit was financed by high-powered money which induced rapid monetary expansion. This was a source of high inflationary pressures during the period. The persistent exchange rate depreciation which emanated from the high monetary expansion, as well as high levels of interest rates were other sources of inflationary pressures. Under these conditions, real economic indicators were below targets and failed to engender the stability needed for sustainable growth. For instance, the growth of domestic output began to decline rapidly after 1990 under the adverse influence of excessive demand pressures. These affected also the external sector as the balance of payments position deteriorated further.

On the whole, monetary management has been a nightmare for the monetary authorities since 1988. Most of the time, intermediate monetary and ultimate objectives could not be attained. Monetary management was to move to the market-based approach whose implementation was systematically phased out. However, the apparent instability and frequent policy reversals constrained significant progress in that direction as an unusually large burden was imposed on monetary control to achieve below market indicative targets. The economic environment at the end of 1994 has, thus, made the demand on monetary management in 1995 rather stringent. Among other things, monetary and banking policies in 1995 should:

(i) reduce drastically the excess liquidity in the system;

(ii) prevent the emergence of a new round of excess liquidity;

(iii) reduce drastically the rate of inflation to a more acceptable level;

(iv) reduce pressures on the external sector generally; and

(v) maintain a stable and acceptable exchange rate regime.

THE MONETARY PROGRAMME FOR 1995

The monetary programme for 1995 is based on an alternative that is less than ideal, but much better than the continuation of the unsatisfactory situation of 1994. The ideal monetary programme would have been built on assumptions such as a rate of inflation that is below 5 per cent, a balanced budget and a growth rate above 5 per cent. Given the poor state of the economy in the past several years, this would be unrealisable in the immediate future. It is considered more realistic to build the programme on the following assumptions: an inflation rate of 15 per cent, a growth rate of at least 3 per cent and a modest accretion to external reserves. This alternative assumes that the undesirable trends of recent years would be gradually reversed through the implementation of relevant policy measures. Following from the choice of this option, the targets of monetary policy in 1995 include:

(i) an increase in narrow money (M1) of 10.0 per cent;

(ii) an increase in broad money (M2) of 10.4 per cent;

(iii) an increase in aggregate domestic credit (net) of 16.2 per cent;

(iv) an increase in credit to the private sector of 20.0 per cent; and

(v) an increase in credit (net) to government of 14.2 per cent.

To achieve these targets, the CBN will, as in 1994, use as its main instrument the conduct of open market operations to be coordinated with discount window and reserve requirement policies. As will be explained later, the use of stabilization securities will continue although the instrument is still regarded as a temporary one by the monetary authorities. Other

instruments of monetary policy in 1995 are:

(i) a more flexible interest rate policy which allows financial institutions to maintain only a maximum spread of $7^1/_2$ percentage points between their deposit and lending rates subject to a maximum lending rate of 21 per cent;

(ii) the continuation of efforts to deal with defaults and distress in the financial system;

(iii) the continued use of credit ceilings for banks which do not meet the criteria specified since 1992; and

(iv) the continuation of the sectoral allocation of credit.

Most other monetary policy measures in force in 1994 are also retained in 1995 as outlined in Monetary Policy Circular No. 29.

OPERATIONAL MODALITIES FOR MONETARY AND BANKING POLICIES

After the review of the background to the present situation of excess liquidity in the economy and the expectations from the monetary programme in 1995, as well as the analysis of the thrust, direction of the targets and the instruments of the programme, what remains is to articulate the modalities for ensuring that the various monetary targets are achieved. In this regard, we shall touch on four main activity areas for the monetary authorities: dealing with the liquidity overhang, day-to-day liquidity management, interest rate management and dealing with financial distress.

Liquidity Overhang

As indicated earlier, as a result of the expansionary policies of the last few years, an excess liquidity now exits in the economy. To start off the fiscal year without further increasing inflationary expectations and particularly to support the new foreign exchange market mechanism, there is need to reduce this liquidity overhang to the barest minimum level possible. The hub of the new exchange rate regime is the autonomous inter-bank foreign exchange market (IFEM) which is to be the market for all transactions except those of selected government transactions. The exchange rate in the IFEM is to be determined by market factors. The CBN is, however, to intervene in the market with the aim of achieving an exchange rate which is considered realistic in the light of the prevailing market fundamentals. Initially, the aim will be to prevent a precipitous depreciation of the naira exchange rate in the IFEM vis-a-vis the official rate through demand management and supply-side initiatives. It is clear that the CBN will, at this point, not be able to intervene very effectively on the supply side because of the prevailing shortage of foreign exchange. Much will depend on effective demand management by the CBN. The monetary programme for 1995 has thus taken action to reduce the liquidity overhang through the issue of stabilization securities of N10 billion. This will be in addition to the continuing roll over of the existing stock of about N25 billion.

This latest action of the CBN has no doubt renewed the controversies as to the appropriateness of this instrument. Indeed, the CBN had suspended the active use of the instrument since March 1993 in readiness for the introduction of OMO and the recognition of its adverse side effects. The phased repayment of the outstanding stabilization securities which have been rolled over at maturity was to be considered in 1994, but the problem of excessive domestic liquidity throughout the fiscal year prevented action in that regard. The intended phased repayment of the securities outstanding will continue to be kept in view in the light of developments in the system's liquidity during 1995. The CBN has, however, continued to pay appropriate interest rates on the outstanding securities. The issue of stabilisation securities is very effective in sterilizing banks' excess reserves, but banks don't favour the instrument for the following reasons:

(i) Stabilisation securities are illiquid, unmarketable among banks and undiscountable at the CBN;

(ii) New issues tend to destabilize banks' portfolios;

(iii) The liquidity shocks produced by the issue of stabilization securities cause distortions in the interest rate structure and interbank operations; and

(iv) The allocation of the securities to banks on the basis of their liquidity positions may be inequitable and could create liquidity crisis for borderline banks.

The CBN itself has not been comfortable with the use of the instrument. However, it should

be made known that many central banks, including those of developed countries apply the same instrument in various guises or at least reserve its use for emergency purposes. Perhaps, the challenge posed to the CBN in this regard is how to make the instrument acceptable t banks while using it to achieve the same objective. For instance, stabilisation securities can be turned into a proper money market instrument with the attributes of statutory liquidity and marketability in both the primary market and the inter-bank secondary market. They could also be rediscountable or pledgeable for discount window operations. The issue rate would be at the discretion of the CBN, attractive and market oriented. These conditions would be feasible as soon as the interest rate regime becomes more appropriate and sustainable. If we envisage a period when treasury securities will become scarce as fiscal deficits reduce, the development of a CBN instrument, as this reform points to, will enhance the use of OMO in the system. However, the appeal of the CBN is for cooperation to restore economic stability which will make it unnecessary to continue to apply the instrument in its present form.

Open market Operations

If the liquidity overhang in the economy can be eliminated or reduced to the barest minimum as indicated above, what is left is to check the unnecessary growth of liquidity in the course of the year. From mid-1993, the CBN has applied OMO as an instrument for managing domestic liquidity on a weekly basis. This will continue in 1995 and will be conducted largely in government securities a large proportion of which is held by the CBN. OMO will be coordinated with discount window and reserve requirement policies to ensure the attainment of monetary targets. Discount Houses will also continue to be the main intermediaries for the conduct of OMO while they in turn will as before engage in secondary market dealings with other dealers in the market.

It may be informative to explain in very simple terms what the CBN tries to do in the conduct of OMO. OMO by the CBN involves the buying and selling of treasury securities in the secondary market with a view to influencing the movement in bank reserves which would in turn impact on the other monetary aggregates, especially interest rates, domestic credit and the money supply. There are three elements in the conduct of OMO. First is the determination of the optimal demand for bank reserves for meeting the cash reserve requirement, penalty deposits, vault cash and cheque clearing purposes. This optimal level of reserves is determined in relation to the broad objectives of macroeconomic policy as revealed in the model of demand/supply for money. Second is the determination of the supply of total bank reserves involving the examination of the CBN balance sheet regarding changes in its foreign asset holdings, credit to the government and private sector and other assets (net). Third is the determination of the OMO target which is the difference between the supply and demand for total bank reserves. If the difference is positive, that is, the optimal demand for reserves exceeds the observed supply of reserves, reserves must be injected into the system by buying securities. If the difference is negative, that is, the observed supply of reserves exceeds the optimal demand for reserves, reserves must be sterilized by selling securities. As principal intermediaries through which the CBN conducts OMO, Discount Houses maintain current accounts with the CBN through which their transactions with the CBN are either credited or debited. Similarly, the banks keep part of their reserves with the Discount Houses for the purpose of participation in CBN OMO.

It should be observed that the CBN has waited patiently for an opportunity to effectively use OMO to achieve simultaneously some intermediate objectives for stabilizing the economy. If the situation is stable, OMO will tend to maintain the money stock, interest rates and exchange rates at sustainable levels that will achieve price stability, desirable output growth and acceptable balance of payments position.

First and foremost, OMO, as shown earlier, will aim at influencing reserves in such a way as to maintain the desired growth path for the money supply. OMO will also attempt to keep short-term interest rates within some desirable band. As soon as the inter-bank funds market becomes stable, the inter-bank rate could be an acceptable bench mark for such rates and would be appropriate if other rates in the system

move in close sympathy with it and if the demand for credit is responsive to the movement in interest rates. Also, OMO will attempt to stabilize the naira exchange rate by ensuring that the liquidity in the economy is brought to a level compatible with the equilibrium exchange rate. Of course, the equilibrium exchange rate is one that is also compatible with a certain level of inflation, output and external reserves. To sustain the equilibrium exchange rate, the monetary authorities will also undertake sales and purchases of foreign exchange in the foreign exchange market.

Ultimately, the efficacy of OMO in the control of liquidity in 1995 would depend to a large extent on the success of interest rate management. The need to avoid an abrupt deregulation of interest rates as in the past and as implied in the Budget would suggest that the demand for credit would remain strong for the first few months of the fiscal year, especially to cover the larger naira amounts needed to purchase the appreciated foreign currencies. The situation would change if fiscal and monetary conditions permit the interest rate regime to be sustainable and in alignment with developments in the foreign exchange market which could then witness an appreciating naira exchange rate. All these revolve around commitment to macroeconomic stability.

Interest Rate Management

Government faced a difficult choice regarding the direction of interest rate policy in 1995. With the macroeconomic distortions in 1992/1993 and the ensuing hikes in interest rates, there was justification for some kind of intervention to normalise the interest rate structure in 1994. In the event, however, the monetary authorities experienced difficulties implementing the administratively fixed interest rate regime. The private sector demand for credit became excessive and in combination with the overvalued exchange rate increased the demand for foreign exchange. Underlying pressures on the already weak balance of payments position also intensified. Furthermore, the pegging of the treasury bills issue rate made it difficult for the CBN to effectively apply OMO, which was supposed to be the major instrument of monetary management.

In consequence, one option for interest rate management in 1995 would have been to allow interest rates to be fully market-determined. If this had been done in the midst of the distortions that induced the substantial increases in interest rates observed in 1992 and 1993, another round of increases in the rate would probably take place with all the adverse effects. With the experience of hindsight, the choice of the interest rate policy for 1995 based on the fixing of a maximum lending rate and specification of a maximum spread between the maximum lending rate and deposit rate is predicated on the need to free interest rates gradually pending the emergence of the necessary conditions for total deregulation. However, to sustain the policy direction for 1995, concerted efforts should be made to restore macroeconomic stability as underlined by the fiscal and monetary programmes in the 1995 Budget. In particular, there is need to:

(i) effectively control the growth of domestic liquidity to bring down the rate of inflation;
(ii) reduce the banking system's financing of the fiscal deficit to prevent the crowing out of the private sector;
(iii) review developments so as to achieve greater synchronisation between interest and exchange rates; and
(iv) apply moral suasion, effective monitoring and appropriate penalties for non-compliance with guidelines.

In the medium to long-term, the monetary authorities should adopt a dynamic approach to interest rate management. As the financial markets are likely to be imperfect for sometime to come and given also the important role of interest rates in increasing savings and investment we should get used to the idea of some minimum intervention to influence interest rate movements. But the aim will be to progressively deregulate interest rate determination. One approach that was adopted by the CBN in the past is to specify a maximum spread between the average cost of funds to a bank and its lending rate, leaving it to determine the levels of other rates in the structure. This approach is largely market-related, but it may be difficult to monitor as the operators may find it difficult to calculate the costs of funds as

required. In the final analysis when optimum conditions prevail in the economy and the financial markets in particular, the most acceptable approach is to apply relevant monetary policy instruments to influence interest rates indirectly. As indicated earlier, since the interest rate is an important intermediate variable which affects savings and investment, it should, as much as possible be free of encumbrances.

Checking Financial Sector Distress

The issue of financial sector distress has become rather delicate. But it is clear that dealing with this problem will contribute immensely to the success of monetary and banking policies in the 1995 Budget. One is aware that the CBN and NDIC take this matter seriously. With regard to banks, the two institutions have determined the financial condition of each distressed bank and appropriate actions have been agreed on the modality for dealing with defaults and distress in the system to enhance general confidence. At present, some proposals by the two institutions are being considered by the government. Indicative of the solutions to be considered by the CBN and NDIC were the actions taken in 1994 which included take over, restructuring and outright liquidation of terminally distressed banks. Recently, the issue of sanctions against directors, officers and borrowers whose actions resulted in the plight of banks had been addressed in a new decree whose provisions will be resolutely implemented in 1995.

Similarly, the CBN has continued to study the peculiar problems of the finance companies and taken some actions pending the finalisation of the design of a comprehensive framework for more effective supervision and optimal resolution of the problems of distressed finance companies. This framework is to be applied in 1995. It may be of interest to note that the number of finance companies declined from 752 in 1993 to 722 in 1994. During 1994, 19 finance companies had their licences revoked while 11 had their Approvals in Principle cancelled. Consequently, there are now 291 finance companies with full licences and 431 with Approvals in Principle. In December 1994, the CBN made some amendments to the revised guidelines for finance companies. These were:

(a) the reduction, with effect from January 1, 195 of the Minimum Borrowing Limit for finance companies from N100,000.00 to N50,000.00; and

(b) the granting of forbearance to finance companies in the implementation of the Prudential Guidelines. Finance companies are now granted a four-year period to write-off shortfalls in provisioning for risk assets, subject to the conditions that (i) accumulated under-provising as at December 31, 1994 shall be amortised over a maximum period of 4 years and (ii) pro-rated accumulated shortfalls in provisioning shall be charged together with the current year's provisions to the profit and loss account for the year before any appropriation is made to statutory reserves, dividends for share bonus issue.

CONCLUSION

The paper has discussed the role of monetary and banking policies in the achievement of the objectives of the 1995 Federal Government Budget. On the basis of the objectives of the Budget and recent experience in monetary management, the expectations from the monetary programme for 1995 are rather stringent and include the elimination of excess liquidity and effective control of domestic liquidity so as to reduce the inflation rate significantly and the pressures on the external sector to engender exchange rate stability. The monetary policy measures and their modalities were also examined.

The monetary programme for 1995 is relatively more grounded than in 1994 and can effectively support the Budget. However, the fiscal programme should also be a support to the monetary programme with particular regard to ensuring that the Federal Government borrowing requirement from the banking system is strictly adhered to. The capability of the Federal Government to implement the fiscal and monetary programmes appears greater, but effective monitoring is necessary to allow for appropriate fine-tuning in the course of the fiscal year.

TABLE 1

MONETARY AND CREDIT TARGETS AND ACHIEVEMENTS (PERCENT)

	1984		1985		1986		1987		1988		1989		1990		1991		1992		1993		1994 2/	
	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A
Money Supply (M1)		8.2	6.5	8.7	7.8	(4.5)	11.8	17.3	15.0	42.3	14.6	21.2	13.0	44.7	14.6	32.8	24.3	66.4	20.0	54.6	21.4	39.2
Credit to Domestic Economy		10.5	7.2	4.9	8.7	12.5	4.4	27.4	8.1	22.2	9.5	(14.1)	13.1	17.3	10.6	46.3	13.2	73.0	17.5	75.9	9.4	54.5
Credit to Private Sector		4.8	7.4	5.9	12.8	27.0	8.4	14.1	13.3	16.9	10.7	3.7	15.8	18.4	16.4	23.7	17.7	34.7	20.0	16.6	32.6	88.0
Credit to Government		15.0	7.1	4.3	5.9	2.1	1.5	10.3	2.5	28.5	8.3	(33.1)	10.9	18.3	0.0	82.5	7.7	109.6	14.6	120.7	0.0	41.2
Banks' Loans & Advances by Purpose																						
Commercial banks																						
Highly Priority Sectors:	75.0	68.2	75.0	68.4	78.0	69.2	50.0	41.9	50.0	45.4	50.0	46.0	50.0	46.2	50.0	48.6	50.0	47.4	50.0	53.2	70.0	60.0
Agriculture	10.0	8.8	12.0	10.0	15.0	11.8	15.0	12.9	15.0	15.3	15.0	15.3	15.0	15.9	15.0	15.7	15.0	14.8	15.0	16.4	18.0	16.3
Manufacturing	36.0	27.5	35.0	26.3	44.0	41.6	35.0	29.1	35.0	30.1	35.0	30.7	35.0	30.3	35.0	32.9	35.0	32.6	35.0	36.8	42.0	36.3
Other Sectors	250	31.8	25.0	31.6	22.0	30.8	50.0	58.1	50.0	54.6	50.0	54.0	50.0	53.8	50.0	51.4	50.0	52.6	50.0	46.8	30.0	40.0
Exports 1/																					10.0	7.4
Merchant banks																						
High Priority Sectors:	79.0	59.1	79.0	61.5	79.0	62.1	50.0	45.7	50.0	57.8	50.0	54.8	50.0	57.3	50.0	58.1	50.0	61.3	50.0	59.7	70.0	69.8
Agriculture	5.0	4.4	6.0	5.7	8.0	7.2	10.0	7.7	10.0	11.5	10.0	14.3	10.0	14.6	10.0	14.7	10.0	15.1	10.0	14.7	13.0	14.5
Manufacturing	41.0	31.9	41.0	31.6	56.0	45.3	40.0	38.0	40.0	46.3	40.0	40.5	40.0	42.7	40.0	43.4	40.0	46.2	40.0	45.0	45.0	44.4
Other Sectors	21.0	40.9	21.0	38.5	21.0	37.9	50.0	54.3	50.0	42.2	50.0	45.2	50.0	42.7	50.0	41.9	50.0	38.7	50.0	40.3	30.0	30.2
Exports																					12.0	10.9

Note: Data in brackets are negative numbers
T = Target
A = Achievement
1/ Exports are classified under High Priority Sectors
2/ Provisional

Central Bank of Nigeria LIBRARY

TABLE 2

SELECTED INTEREST RATES (END – DECEMBER) (PERCENT)

	1984	1985	1986	1987	1988 1/	1989	1990	1991	1992	1993	1994 2/
Treasury Bills Issue Rate	8.5	8.5	8.5	11.8	11.8	16.4	17.5	14.5	21.0	28.0	12.5
Treasury Certificates Rate (one year)	9.0	9.0	9.0	12.3	12.3	16.4	18.2	15.0	22.0	28.3	13.0
Treasury Certificates Rate (two years)	9.5	9.5	9.5	12.8	12.8	17.3	18.5	15.5	22.5	28.3	
Minimum Rediscount Rate	10.0	10.0	10.0	12.8	12.8	18.5	18.5	15.5	17.5	26.0	13.5
Commercial Banks (Deposit Rates)											
Savings	9.5	9.5	9.5	14.0	14.5	16.5	17.8	14.0	16.1	16.7	12.2
Time Deposits Maturing in											
3 months	9.8	9.3	9.3	14.9	13.4	19.5	19.8	15.2	20.8	23.6	13.2
6 months	9.5	9.5	9.5	15.3	12.1	20.3	20.4	16.1	22.3	23.3	13.4
12 months	9.8	9.8	9.8	15.8	14.3	20.8	20.9	16.5	22.1	24.0	13.8
over 12 months	10.0	10.0	10.0	15.8	14.3	20.8	21.9	16.5	20.5	28.0	13.8
Merchant Banks (Deposit Rates)											
Time Deposits Maturing in											
3 months					14.5	25.2	21.9	18.2	38.8	37.7	14.0
6 months					15.0	26.6	23.1	18.8	38.6	38.6	14.4
12 months					15.5	27.2	24.4	19.0	36.6	39.1	14.7
over 12 months					15.5	27.2	25.4	19.4	35.1	39.8	14.8
Commercial Banks (Lending Rates)											
Prime	12.5	9.3	10.5	17.5	16.5	25.5	26.0	20.2	29.8	36.1	20.2
Maximum	13.0	11.8	12.0	19.2	17.6	25.7	26.5	21.0	31.2	39.1	21.0
Merchant Banks (Lending Rates)											
Prime					16.5	29.8	28.5	20.9	44.4	59.1	20.8
Maximum					17.6	29.8	29.0	21.0	48.1	61.5	21.0

1/ Computation of deposit and lending rates for merchant banks started in 1988.
2/ Provisional

TABLE 3
MACROECONOMIC INDICATORS
(PERCENT)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 1/
Fiscal Deficit/GDP Ratio	4.2	4.3	10.3	4.2	8.5	7.9	8.3	11.2	10.1	12.3	9.8
CBN Financing of Deficit	0.0	27.0	75.1	24.5	75.3	70.1	82.4	91.6	85.2	61.7	83.4
Growth of Broad Money (M2)	11.3	10.3	1.3	33.2	33.3	8.2	40.5	32.8	49.1	52.8	32.3
Growth of GDP	-5.1	9.4	3.1	-0.5	9.9	7.4	8.2	4.7	3.6	2.6	1.8
Inflation Rate	39.6	5.5	5.4	10.2	38.3	50.5	7.4	13.0	44.6	57.2	60.0
Average (N/$1.00) Exchange Rate Depreciation	2.2	14.0	48.5	56.4	12.5	38.4	11.8	15.8	42.7	21.8	0.6
Balance of Payments Position: Surplus (+)/Deficit (-)(=N= billion)	0.4	0.3	(5.7)	(18.3)	(20.8)	(23.0)	(5.8)	(15.8)	(101.4)	(42.1)	(27.3)

Note: Data in brackets are negative numbers

1/ Provisional

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** Most of the CBN materials are not available to the members of the public.*