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MANAGEMENT OF FOREIGN EXCHANGE: A PEEP INTO THE NEXT DECADE*

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In Nigeria, the term foreign exchange has become a household expression, no thanks to the street hawkers of this very essential commodity. In the life of a country, and in particular, a country is outward looking as Nigeria, foreign exchange plays a crucial role in the overall performance of the national economy. The practice of managing the foreign exchange resources has, therefore evolved broadly in line with the globalisation and liberalisation of economies and financial markets. This has spanned over such areas as risk management, active portfolio management, securitisation and use of derivatives.

To be able to take a good peep at management of the foreign exchange in the next decade, it is worthwhile also to examine the management strategies in the past and the current period. Accordingly this paper is structured into four main sections after these introductory remarks. Section 1 discusses some conceptual issues such as:- foreign exchange versus external reserves, objectives of reserve management, strategies employed in managing the reserves and techniques for reserve management.

Section (II) discusses tools of reserve management in Nigeria while the third section provides some thoughts as to the direction of foreign exchange management in the next decade. Section IV summarises and concludes the paper.

1.0 SOME CONCEPTUAL ISSUES

At the outset, it is necessary to make a number of clarifications. Foreign exchange is a financial asset usually denominated in foreign (convertible) currencies. It is an asset earned through exports of goods and services as well as inflows of foreign investment, external grants and loans. From the stock of foreign exchange that a country earns, it is able to meet its financial obligations to the outside world including payment for imports of goods and service, repayment of external loans and capital transfers. The quantum of foreign exchange available at any point in time constitutes foreign exchange resources or reserves. On the other hand, external reserves comprise the stock of financial assets available to the monetary authorities to finance temporary imbalances in the external payments position and to pursue other policy objectives. Such reserves consist of foreign exchange, monetary gold, reserve position in the IMF and holdings of Special Drawing Rights (SDRS). Thus, foreign exchange is a subset of external reserves, but typically, it constitutes the bulk of the reserves. It is also the component that is used on a daily basis for settlement of international transactions.

In the context of this paper, foreign exchange management refers to the technique of efficient and optimal holding and deployment of a nation's foreign exchange resources to meet its external obligations and other economic objectives. It is usually a function assigned to central banks. In this paper also, foreign exchange (reserves) and external reserves are used interchangeably without any loss in the senses the terms have been defined above.

1.1 OBJECTIVES OF FOREIGN EXCHANGE MANAGEMENT

Broadly, foreign exchange is held and managed to facilitate international transactions. Consequently, the objectives which management of the reserves seek to achieve include:- security, liquidity, profitability and; adequacy of the reserves. Since the assets are na-

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tional assets, it follows that management of the funds must ensure their safety; hence the need to keep the funds in high rated investment instruments and in stable financial markets.

The objective of keeping the reserves in liquid assets is to ensure that the reserves are available to meet payment settlements whenever required. This suggests that the bulk of the reserves be kept in cash or near cash instruments that are readily realisable. Safety of the foreign exchange resources is also emphasised to ensure that minimum cost arises when there is conversion from one asset to another. With this consideration in mind, the funds are held with highly rated banking and financial institutions abroad such that they are available for use at any time the need arises. However, earning of income is also becoming an important objective of reserve management. Another, major objective of foreign exchange management is to ensure that the reserves are maintained at an adequate level to serve as a cushion or buffer at times of temporary shortfalls in foreign exchange receipts. Such a respite enables the country to put its house in order, and adopt the necessary measures to deal with the external shock without distabilising the economy.

What constitutes an adequate level of reserves is not finely defined. However, a rule of the thumb measure of adequacy of reserves is the reserves/import ratio which states that external reserves available should be able to finance at least four months of imports at the current monthly rate of importation.

Another measure of adequacy of reserves commonly used is the reserves total demand liabilities ratio invested with maturities to match external payments as they fall due.

Yet another measure of reserve adequacy is the debt service ratio; in other words, the total external debt service due as a percentage of a country's earnings from exports of goods and nonfactor services. Using this measure as a broad guide, a debt service ratio below 20% is usually considered healthy while a ratio in excess of 20% impacts adversely on external reserves and external debt management.

1.2 STRATEGIES FOR RESERVE MANAGEMENT

As reserve management becomes more sophisticated, various strategies have evolved. One of such strategies is to split the function of managing the external reserves between in-house and external funds managers. Whether to use the services of external fund managers or not would involve weighing the associated costs and benefits.

Three main reasons would influence the use of external fund managers namely:- shortage of resources in terms of experienced professional staff, lack of office space and equipment; the need to tap from the invaluable views of professional fund managers and time zone considerations. On the other hand, there are issues of security and confidentiality which may not be assured when fund managers are employed. Even when external fund managers are employed, experience shows that the bulk of the reserves is still managed in-house because of the associated problems of tracking the overall positions and cost of monitoring the fund manager.

Whether or not external fund managers are employed, the current trend, arising from the growing sophistication of markets, is to focus not only on risks but also on returns in assessing performance. To this end, there is now the tendency for central banks to do both asset and liability management. This approach involves dividing the reserves into two namely hedge funds and net funds. Hedge funds are the reserves available for investment in the short-end of market instruments while net funds or core reserves comprise the portion of the reserves held by statute which could be invested in higher yielding instruments even if the maturities are mis-matched. In this regard, it is worth noting that there is no risk free investment alternative easily available to any fund manager, as reductions in one risk category can often be achieved at the expense of accepting other risks. Decisions about reserve investments are therefore made under conditions of uncertainty. This calls for the promotion of capacity building in reserves management and the adoption of generally accepted risks management principles for the different areas of resources management process.

1.3 TECHNIQUES FOR RESERVES MANAGEMENT

In discussing the techniques of reserve management a distinction is generally made between reserves as flows and reserves as a stock item. Historically reserve flows have been managed directly through the use of trade and exchange controls including foreign exchange budgeting and administrative controls. Under the category of indirect measures for reserve flows management are exchange rate, monetary, fiscal and external debt management policies as well as export and investment promotion measures. On the other hand, issues such as legal reserve requirements, asset diversification for risk management, profitability and constrained optimisation of returns are considered in management of the stock of a country's reserves. While the use of these various techniques will be considered at same length in section II, it is apt at this juncture to observe that developing countries generally adopt measures to enhance export earnings to enable them cope with their various payment obligations. Also, because of the relatively low level of their external reserves vis-a-vis demand, there is the growing need to rationalise the use of foreign exchange with a view to conserving the available resources. This has entailed the adoption of both demand side policies to rationalise and prioritise the use of foreign exchange, and salutary macro-economic policies to influence the supply side.

2.0 RESERVE MANAGEMENT IN NIGERIA

In this section, the practice of reserve management in Nigeria is discussed. It will be seen that reserve management in Nigeria has not deviated from the general principles outlined in section I.

One of the statutory functions of the CBN is "to maintain external reserves to safeguard the international value of the legal tender currency"[1/].

Towards this end, the Bank is required to use its best endeavours to maintain external reserves at levels considered (by the Bank) to be appropriate for the monetary system of Nigeria.

The active involvement of the Central Bank of Nigeria (CBN) in managing the country's external reserves dated back to 1962 when the government decided that all foreign exchange holdings by Nigerian residents were to be centralised in CBN. Prior to that, foreign exchange reserves were held by a number of institutions including federal and regional governments, their parastatals and local governments. With the decision to consolidate the reserves holding in the CBN, the holdings of the Bank increased progressively from less than 50% of the total at the end of 1961 to 61.1% by 1962 and currently constitutes almost 100% with the Federal and State Governments' balances accounting for a negligible proportion. It is also important to know that both commercial and merchant banks also hold working balances of foreign currencies with their correspondent banks abroad. However, such holdings are not available for official use when the need arises. As such foreign exchange reserves are considered in the context of what is held essentially by the CBN and used on a daily basis to settle international obligations as earlier indicated.

The consolidation of the external reserve holdings in the CBN has foisted on the Bank the challenges of adopting and sharpening management skills that would ensure that the reserves are not only conserved but also optimally deployed for essential needs. This has entailed over the years, designing ways of effectively monitoring the use of foreign exchange resources.

In line with the earlier discussion in section I, the instruments employed by the Bank in managing the foreign exchange resources shall now be discussed under two broad categories:- Management of reserve flows and management of reserve stock.

2.1.0 RESERVE FLOW MANAGEMENT TOOLS

2.1.1 TRADE AND FOREIGN EXCHANGE CONTROLS

The use of trade and exchange controls as tools of reserve management involves comprehensive restrictions on trade and other international transactions. The broad objective is to ensure that foreign exchange reserves are conserved and adequate to guarantee external stability and that the available resources are optimally used to promote domestic production. In Nigeria, the practice was to tighten the control measures during periods of severe pressures on the resources and to relax them when the reserves became more buoyant. At one time or the other, exchange control had the following features:-

i. Centralisation of foreign exchange holdings in the CBN. This ensured that all foreign exchange receipts were surrendered to the Bank and applications made through the commercial and merchant banks whenever the need arose for use of foreign exchange for any purpose whatsoever.

ii. Sectoral allocation of foreign exchange. To this end, given proportions of available foreign exchange were earmarked for the various sectors of the economy, namely:- industry (raw materials, spare parts, CKD and machinery for production), agriculture, finished goods and invisible trade including travels, educational remittances etc.

iii. Introduction of import licences

1/ Central Bank of Nigeria Decree No. 24 of 1991 which required that importers had to obtain specific import licence to enable them execute their import transactions. In principle, issuance of import licence was to be tied to the availability of foreign exchange. By implication, therefore, foreign exchange was not allocated for importation of goods without the grant of an import licence.

iv. Detailed documentation requirements.

While it is not necessary to go into detailed discussion of exchange control as practised in Nigeria, it is important to underscore the broad objectives, it sought to achieve as follows:-

i. Optimal utilisation of foreign exchange resources
ii. Maximisation of foreign exchange receipts
iii. Maintenance of adequate level of reserves consistent with external sector stability.
iv. Improvement of the overall balance of payments position
v. Enhancement of international community confidence in the ability of the country to manage its affairs.

Of course, because of its inadequacies, exchange control has been jettisoned effectively with the abrogation of the exchange control Act 1962 as amended and the promulgation in its place of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17 of 1995. However, some remnants of exchange control persist in the form of documentation requirements etc.

2.1.2 FOREIGN EXCHANGE BUDGETING

Simply defined, foreign exchange budget is a statement of government intentions and policies in the area of foreign exchange expenditure and receipts.

Foreign exchange budget was introduced in Nigeria during the 1971/72 fiscal year essentially to make foreign exchange control measures more effective through the re-ordering of the nation's priorities in the use of foreign exchange.

However, foreign exchange budget can also be adopted on its own as in the current practice to reinforce the strategies for reserve management. Foreign exchange budgeting involves the projection of all receivable foreign exchange resources and their allocation to various competing demands. During the exchange control regime, the exercise entailed a comprehensive allocation scheme with detailed sectoral and sub-sectoral classification. The use of foreign exchange budgeting even after the abrogation of the exchange control Act 1962 is predicated on the following considerations:- Foreign exchange is still scarce relative to the demand for its use. Therefore, there is still the need to make realistic estimates of expected earnings and disbursements to ensure that the available resources are optimally utilised. Secondly, the bulk of foreign exchange earnings is still derived from crude petroleum. At present such earnings accrue exclusively to the Federal government. Private sector earnings account for only a small proportion of total foreign exchange requirements of the sector. Thus, there is still the need to have in place a mechanism through which part of crude oil earnings will be channelled to the private sector. Above all, in a situation of scarcity, proper planning for harnessing and utilisation of the available resources cannot be over-emphasised.

2.1.3 ADMINISTRATIVE CONTROLS

Administrative controls involve various documentation and supervision requirements intended to monitor international transactions. Usually they are applied to reinforce exchange control measures. Thus, the system of Comprehensive Import Supervision Scheme (CISS) was introduced in 1979 ostensibly to ensure that the country gets value for the foreign exchange disbursed on imports. Under the scheme, pre-shipment inspection of imports was instituted such that all goods being imported into Nigeria, except specifically exempted, have to be inspected and verified in terms of price, quality, quantity and legality. In the process, various documentation requirements have to be satisfied before applications for foreign exchange remittance could be approved. For example, the Form 'M' was introduced in 1982 to serve as the basic application form for imports of goods while Form 'A' applies to invisible trade transactions including capital transfers. For commercial exports, Form NCD(3A) now rechristened, Form NXP came into use. The important thing to note here is that like exchange control, administrative controls cover both import and export of goods and services; to achieve the twin objectives of conserving and enhancing foreign exchange receipts.

Monitoring of utilisation of foreign exchange through regular rendition of specified returns to the CBN is another administrative device. This is to ensure that foreign exchange allocated for specific purposes has been duly utilised and accounted for. Another type of administrative control was the imposition of limits of foreign exchange that could be approved for certain transactions e.g. travels and the suspension on bills for collection and open account as mode of payment for import transactions. Although, the limits and suspension order have been lifted with effect from 1997, there is still a considerable air of uncertainty pervading as to the real intentions of the authorities on personal and business travel allowances as a result of the directive to banks to refund what was regarded as "excess" or injustified' use of PTA and BTA earlier this year.

2.1.4 EXCHANGE RATE POLICY

The requirement of a good external reserve management strategy usually compels a country to maintain realistic exchange rate. Thus, exchange rate policy as adopted for resource management aims at preserving the external value of our foreign exchange reserves as well as to stabilise the local currency. In order to maintain an adequate level of reserves, the exchange rate has to be right as an over-valued exchange rate for instance, puts pressure on the reserves as a result of the increased demand for imports while discouraging exports. Various techniques have been adopted to determine the exchange rate in Nigeria.

Without going into the details, the different approaches at different times are highlighted as follows:

i. Pre-independence and until November 1967; parity with the British pound sterling.
ii. November 1967 to March 1974; fixed parity with the U.S. dollar.
iii. April 1974 - 1978; with the general floating of exchange rates, an independent exchange rate policy was adopted which involved fixing the naira exchange rate independently in terms of the U.S. dollar and the pound sterling based on the relative strengths of two currencies.
iv. February 1978 - July 1986; the naira exchange rate was based on an import weighted basket of currencies of our major trading partners.

Such other factors as, level of resources, overall balance of payments position and relative rates of inflation also influence exchange rate determination. However, the actual rate arrived at depended largely on value judgement. For example, a policy of exchange rate appreciation was adopted whenever the level of foreign exchange reserves increased. On the other hand, when the reserves declined, exchange rate was not promptly devalued leading to the emergence of an over-valued naira exchange rate.

From 1984, the policy of progressive depreciation of the naira was adopted but this did not go far enough to fully correct the over-valuation. Thus, between end periods, 1984 and 1985, while an over-valuation of 50% was established, the naira exchange had a cumulative downward adjustment of about 20%.

v. July, 1986 to date; During this period, the interplay of market forces was emphasised in the determination of the exchange rate.

Although the techniques have been modified from the simple auction to Dutch auction systems and current CBN intervention (sale) sessions, the objective has remained basically the same, namely to achieve an appropriate, realistic exchange rate which would bring about external stability, remove or minimise the constraints imposed by balance of payments disequilibrium on macro-economic management.

In the past two years, a relative stability has been achieved in the Autonomous Foreign Exchange Market (AFEM). However, the issue of maintaining an official exchange rate of N22.0/U.S. $1.00 remains a nagging one.

2.1.5. EXPORT PROMOTION STRATEGIES

Various incentives have been introduced to enhance foreign exchange earnings from non-oil exports. Specifically, the CBN in an effort geared towards influencing the external reserve position has lent support to export promotion programmes such as export refinancing and the establishment of the Nigerian Export-Import Bank (NEXIM). Indirectly, the introduction of the Foreign Currency Domiciliary scheme in 1985 was aimed at encouraging exporters and corporate bodies and individuals with foreign currency balances to repatriate such funds into Nigeria and thereby boost the foreign exchange resources of the country.

2.1.6 EXTERNAL DEBT MANAGEMENT

External debt service represents a major use of the country's foreign exchange resources. It therefore constitutes a major constraint to the effort to maintain an adequate level of the reserves. In realisation of this, the CBN has designed policies conducive to management of external debt as an adjunct of reserve management.

The programmes employed in this regard include debt rescheduling, debt buy-back and debt conversion. Through these various schemes, a substantial reduction in the stock of debt is envisaged which in turn would reduce the amount of foreign exchange resources applied to service the debt.

2.2 MANAGEMENT OF RESERVE STOCKS

Efforts of the CBN in the management of the country's reserve stock concern the issues of liquidity, security and diversification of the reserves.

2.2.1 LIQUIDITY AND SECURITY

The reserve management strategy of the CBN is based on liquidity management and capital preservation as the level of foreign exchange fluctuates from year to year. Coupled with the unpredictable nature of payments, the Bank has endeavoured to place the reserves in assets that are sufficiently liquid to ensure prompt and timely settlement of our external obligations. To this end, the Bank has had to realise most of its foreign investments and to shorten the maturity profile in favour of more liquid assets. This has resulted in recent years, in a complete elimination of all bond investments from the portfolio. The present investment strategy of the CBN, therefore, is to hold the larger proportion of our reserves in secure, liquid (low yielding) assets principally in foreign government treasury bills and time deposits. Invariably such assets are held with reputable overseas institutions and Triple A rated banks with maturities, rarely exceeding one month. Largely as a result of this, the Bank has been able to meet international payment obligations in a timely and cost effective manner.

2.2.2. ASSET DIVERSIFICATION

An efficient portfolio of reserves requires that the assets be sufficiently diversified in a mix of convertible currencies to minimise geo-political risks as well as to even out risks associated with changes in the values of currencies thereby maintaining the overall value of the country's stock of reserves. Early enough, the CBN recognised the need for reserve diversification but was constrained by a number of factors from doing so among which was the fact that the United Kingdom continued to be our leading trading partner even after Nigeria's political independence. However, operating within the constraints and without also losing sight of the need to keep the country's foreign exchange reserves sufficiently liquid, the Bank embarked upon the policy of gradual diversification of its reserve holdings. To this end, an Investment Committee was constituted in 1974 following the multiple increase in the Bank's holdings of external reserves. The Investment Committee was charged with the task of selecting the right type of investments available in the various capital markets at reasonable prices.

To appreciate the achievement of the CBN Investment Committee it is instructive to note that in 1973, the bulk of the Bank's reserve holdings (59.1%) was held in British pound sterling with the U.S. dollar and Deutsche mark assets constituting only 20.4% and 0.3%, of the total, respectively. By 1978, the assets had been diversified into nine different convertible currencies. Currently, 18 different currencies are specified as instruments for transactions in the AFEM. The Bank's foreign exchange holdings were diversified into 15 different currencies as at the end of 1996, with holdings in the U.S. dollar accounting for 88.2% of the total. The other currencies are: Deutsche marks (9.1%), Pound sterling (1.2%) and French francs (0.7%). Holdings in these four currencies accounted for 99.2% of total foreign exchange holdings of the Bank as at the end of 1996. Thus, the combined share of the remaining 11 currencies in the foreign exchange portfolio was only 0.9%.

As earlier noted, liquidity and security criteria weigh more in the Bank's diversification policy. Also, the distribution of the reserve holdings reflects more the relative strength of the various currencies than the pattern of trade with our trading partners.

3.0 PROSPECTS FOR RESERVE MANAGEMENT

The level of the external reserves is currently estimated at over U.S$6 billion, sufficient to finance about 7 months of imports at the current monthly rate of importation. The reserves are also held in sufficiently liquid assets to ensure easy access (availability) at the time of need.

Using these broad yardsticks, the CBN could be said to have performed creditably in its reserve management efforts. However, this seemingly high performance rating notwithstanding there are still some disturbing features in the horizon. For example, there are still some lingering elements of exchange control with the pervasive documentation requirements. The burden of external debt service also remains excruciating. Actual debt service due in 1997, as a proportion of the existing level of external reserves is of the order of 67%. However, the debt service ratio has for years now been fixed at 30%. The implication is that the country is not meeting all payments that fall due. There remains, therefore, potential pressure on the external reserves. Also, as earlier indicated the reserve management strategy of the CBN has been rather cautious with little or no emphasis placed on profitability or yield of the investments.

The foreign exchange earning base has not been diversified as the oil sector remains the major source of foreign exchange earnings. As a result the reserves are still very prone to external shocks, especially developments in the international oil market. Above all, the CBN remains highly incapacitated in taking decisive independent policy initiatives in critical areas such as reserve management. Given the above scenario, what are the prospects for management of foreign exchange in the next decade? While not attempting to present a vision 2010 alternative, the following issues are highlighted as possible direction of effective reserve management in the next decade.

i. As reserves management is an important function of the Central Bank where mistakes and negligence can be very costly, there is the need for involvement of highly professional staff in the process. This calls for increased training and exposure for the operational staff to enhance returns on investments without unduly exposing the Bank to increasing risks. In this regard and in view of its initial achievements, the CBN Investment Committee, ought to be reconstituted to implement a more purposeful asset diversification strategy.

A strategy designed to provide diversification into four or more uncorrelated assets which would ensure that if the Bank has to raise cash suddenly, it does not face a liquidity crisis in anyone market. Alternatively, the Bank could consider appointing an external funds manger who, as earlier explained, would be charged with the responsibility of managing the core reserves (Net Funds) without compromising the criterion of confidentiality in the process. A corollary to this is the acquisition of better information technology. Thus, in its efforts to build capacity for more efficient management of the reserves, the CBN should acquire the best of modern financial management techniques and practices.

ii. Reserves must continue to be available to finance uncertain future outflows. It follows therefore that liquidity will continue to be an important consideration in reserves management strategy of the CBN. However, as financial markets and instruments have developed, liquidity and return considerations are no longer mutually exclusive. As the skills and knowledge of operational staff in overall risk management improves as envisaged above, the Bank should place some emphasis on returns so as to be able to take advantage of opportunities in the international financial markets. In other words, liquidity should be viewed in broader perspectives to mean everything (security) that can be sold for cash in secondary markets without incurring undue transaction costs and within a reasonably short period of time.

iii. For a more professional reserve management, there is the need to adopt the use of benchmarks, which ensures among other things that an objective yardstick exists for performance evaluation. This calls for setting relevant currency and investment benchmarks to discipline the reserves investment process. The setting of good benchmarks is the cornerstone of developing reserves instruments and establishing a coherent framework for managing and reporting risks.

iv. An important issue that will produce great impact on reserve management in the next decade is the convertibility of the naira. Currently, studies are being conducted to determine whether the naira is ripe enough for convertibility and what level of convertibility should be adopted.

There are various schools of thought on this issue; but there appears to be a consensus for naira convertibility even if only a limited one.

However, it is necessary to approach this issue with caution in view of the wider implications of naira convertibility.

Shed of all technical jargons, convertibility of the naira translates into making the naira freely exchangeable into any other (convertible) currency without any hassle. It further implies that foreigners (non-residents) can hold the naira and at their free will turn the naira over to us for any other currency. Of course, once the naira is convertible, most of the current documentation requirements for foreign exchange transactions would be dispensed with.

As earlier indicated, the current level of our external reserves remains precarious in view of the high stock of external debt.

There is therefore the need to plan very well before taking any decision to make the naira convertible.

v. Lastly, there is the issue of the autonomy of the CBN which because of its ramifications ought to have been considered first. The point of emphasis here is that without its autonomy assured, the CBN is handicapped in carrying out its statutory functions including management of the nation's external reserves. A situation, where the Bank cannot invest the reserves based on its own independent judgement or intervene appropriately in the AFEM as it deems fit, does not augur well for efficient and effective management of the nation's foreign exchange reserves.

Thus, in order to enable the Bank consolidate on its achievements and improve on its capacity for more efficient management of the foreign exchange reserves, there is the need to grant the CBN instrument autonomy. This would enable the Bank to select the appropriate instruments for achieving certain predetermined goal or mandate, acting promptly and decisively in the process.

In such a setting, the Bank would be free from executive or political pressure to act against its best judgement but at the same time accountable for its action or inaction.

4.0 SUMMARY AND CONCLUSION

This paper has briefly discussed a number of conceptual issues for proper understanding of foreign exchange management. The objectives of foreign exchange management strategies and techniques employed in the management process have been highlighted. The paper also discussed foreign exchange management practices in Nigeria and gave a personal insight into prospects for reserve management in the next decade.

I wish to conclude that although, at various fora, this topic has been discussed; it will continue to be a topical issue because of the macro-economic impact of foreign exchange in an economy such as Nigeria's. What is more, the world of reserves is a rapidly changing operative area in central banks. This implies that the CBN cannot afford to take a back seat and not move with the times. We have noted that inspite of obvious constraints, the Bank has managed the foreign exchange reserves in a way that ensures that external obligations are paid as they fall due. However, for the future, there is the need to redefine its reserve management strategy and for the Bank to follow the future directions in financial market innovations and innovations in risk management. The Bank should strive to look for the best practices in the reserve management process and adopt the best modern financial management techniques for this purpose. Above all, in an economic environment placing more emphasis on deregulation and institutional innovation, a rethink on defining the status of the Central Bank is called for to enable the Bank perform its functions without the associated encumbrances.