Bullion

Volume 24 | Number 3 Article 6

7-2000

The CBN as a catalyst to national economic policy and development.

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THE CBN AS A CATALYST TO NATIONAL ECONOMIC POLICY AND DEVELOPMENT

1. I am indeed delighted to be here today to exchange views with you on the contributions of the Central Bank of Nigeria (CBN) to national economic policy and development. The subject is, no doubt, relevant in light of the instrument autonomy recently granted to CBN in the conduct of monetary policy. It is also noteworthy that this lecture is coming up against the backdrop of the commitment by the present administration to chart a new course of economic policy to revamp and diversify Nigeria's ailing economy. While the achievement of these goals would require the collective efforts of all the stakeholders, the unique role of the CBN in this endeavour is no doubt, critical. Indeed, it is the recognition of the important contribution, which an effective Central Bank can make to strong economic performance that most developing countries have embraced the culture of strengthening their Central Banks.

2. Activities of the CBN in shaping national economic policy derives from its statutory mandate as enshrined in the Act establishing the Bank, the core of which is to promote and maintain monetary stability and a sound and efficient financial system. It is pertinent to note at the outset that, the role of the CBN has evolved over the years in response to the needs of the domestic economy and changes in international economic environment.

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3. Specifically, in the first two and half decades of its establishment, emphasis was placed on the promotion and development of money and capital markets as the fundamental requirements for the conduct of monetary policy and domestic resource mobilization for investment, growth and development. In recent years, however, emphasis has shifted to the establishment of monetary conditions conducive to price stability which has proved, in other places, as the most effective way of promoting good economic performance in the long run. Indeed, a stable financial and price environment provides the most effective way for a Central Bank to promote economic growth over time. Moreover, consistent with the global trend, the technique of monetary policy formulation and implementation has shifted from administrative control of interest rates, aggregate credit ceilings and mandatory allocation of banks' loans and advances to the use of market-based instruments because the former have proved grossly inefficient and ineffective as a mechanism for resource mobilization and utilization.

4. This lecture will provide me an opportunity to bring activities of the Bank into perspective, particularly with the often-misconstrued belief that the CBN should be held accountable for all the woes of the Nigerian economy. More importantly, it will enable me to review and appraise the performance of the CBN in the effort to meet its statutory mandate and adapt to the circumstances of the new global trend in Central Banking in which the maintenance of price stability supercedes all other objectives of monetary policy. In that context, I will outline the challenges facing the CBN in the years ahead.

5. Against the foregoing, the rest of the paper is structured as follows. Immediately following this introduction, Part II, briefly presents an overview of the mandate and responsibilities of the CBN, while Part III discusses the conduct of monetary policy by the CBN. Part IV reviews and appraises the performance of the Bank in the conduct of monetary policy. In Part V, I will focus on CBN's response to the evolving role of Central Banks. Part VI of the paper articulates the emerging problems and challenges facing the CBN, while I make my concluding remarks in Part VII.

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A lecture delivered at the National Institute for Policy and Strategic Studies (NIPSS) Kuru, on July 31, 2000

PART II

Mandate and Responsibilities of the CBN

6. Distinguished participants, it is not my intention to bore you with the details of the mandate and responsibilities of the CBN, given your work experience, excellent academic and professional backgrounds. Indeed some of you may have contributed in one way or another in shaping this mandate and may therefore have the facts on your fingertips. Suffice it to say that a few highlights at this point will serve as a guide to what follows in subsequent sections of this paper. Moreover, it is important to note the diversity in the activities of Central Banks throughout the world and the clear dichotomy between the developed and developing economies in terms of the emphasis placed on developmental functions. In specific terms, the factors influencing the choice and emphasis of a Central Bank's activities include: the degree of openness and structure of the economy; the stage of development of the financial sector; the extent of fiscal dominance; as well as level of the professional base and autonomy of the Central Bank. In the context of these criteria, we should admit that most Central Banks in developing countries face various limitations among which is, the large size of the economy outside the realms of money,[1] which has serious implications for their performances. More specifically, most economies of developing nations, particularly in Africa, are cash-based with the result that the main mode of payments for financial transactions is cash as opposed to the use of cheques or other payments instruments. This creates leakages in the transmission channels of monetary policy in the economy. Also, the money and capital markets are narrow and shallow, thereby constraining the choice of policy instruments available in the conduct of monetary policy. Finally, the fiscal operations of the government and movements in foreign assets dominate short run changes in the quality of money, with Central Banks having little or no control over the former while the scope for sterilization of foreign inflows is limited.

[1] This phenomenon has been variously described in the economic literature as the "informal sector" or the "underground economy", etc.

7. The CBN was established by an Act of Parliament in 1958. Since then, the Act has been amended many times in consonance with changing economic conditions. Nevertheless, the core mandate of the CBN as espoused in the Central Bank of Nigeria Decree 24 of 1991, as amended through 1999, has remained largely unchanged, as follows:

i. to issue legal tender currency notes and coins throughout Nigeria;
ii. to maintain Nigeria's external reserves to safeguard the international value of the legal tender currency;
iii. to promote and maintain monetary stability and a sound and efficient financial system in Nigeria;
iv. to act as banker and financial adviser to the federal government; and
v. to act as the lender of last resort.

8. Over time, the functions of the CBN have been broadened, so also are the instruments of monetary control. In particular, Amendment No.38 of 1998, brought all the development finance institutions (DFIs), Federal Mortgage Bank of Nigeria (FMBN) and all the primary mortgage institutions (PMIs), community banks, the Peoples Bank of Nigeria (PBN), bureaux de change and discount houses into the supervisory purview of the Bank. The CBN has also been entrusted with the responsibility to administer the Banks and Other Financial Institutions (BOFI) Decree 25 of 1991, as amended, as part of its functions to promote a sound banking structure, efficient payments and settlement system, as well as money and capital markets development. All these activities are fundamental to the effective conduct of monetary policy and domestic resource mobilization to support investment, growth and economic development in Nigeria. As banker and financial adviser to the federal government and in recognition of the central role that fiscal policy plays in the ability of the CBN to pursue its objectives, the Bank advocates fiscal prudence and advises on expenditure restructuring and tax efficiency. In this context, the CBN plays a critical role in the coordination of monetary, fiscal and other policies, in order to maintain macroeconomic stability, which is a sine qua non for sustainable growth and external sector viability.

PART III

The Conduct of Monetary Policy by the CBN

9. The major channel in which the CBN influences economic growth and development in Nigeria is through the conduct of monetary policy. Before delving into the subject matter of the section, it is pertinent to pose two closely related questions as a guide to the discussions that follow later in this section: What is monetary policy and how does it operate to achieve its set primary goal of price stability overtime?

10. Simply put, monetary policy is about money, how much of it is issued, how to maintain its value and the health of the financial system. The reason why central banks attach much importance to the quantity of money in circulation is that the higher the quantity of money supplied above the absorptive capacity of any economy for productive purposes, the higher the level of inflation. In the words of Milton Friedman "Inflation is always anywhere, a monetary phenomenon". In other words, the more the quantity of money in people's hands, the greater the demand for goods and services which invariably results in upward pressure on their prices. This is the reason for the popular saying that inflation occurs when "too much money is chasing too few goods." This background forms the theoretical basis for the quantity theory of money and the reason why central banks devote lot of the resources in the continuous search for the optimal quantity of money to be supplied in the economy at any given point in time so as to ensure price stability. When there is disequilibrium between the quantity of money supplied and the demand for goods, inflation occurs, the pricing system becomes distorted, and misallocation of resources follows at a great cost to the economy.

11. Price stability here connotes minimal fluctuations in all prices in the economy such as consumer prices, interest rates and the exchange rate of the domestic currency. The pursuit of price stability as the major aim of monetary policy has been accepted by many central banks around the world, including the CBN, primarily because central banks have reasonable control over money supply which, as I have already highlighted above, is the major cause of price instability.

12. The CBN conducts the day to day management of monetary policy under the guidance of the Monetary Policy Committee (MPC) made up of the Governor, as the Chairman, the Deputy Governors and Directors of Research, Governor's Office, Banking Operations, Banking Supervision, Bank Examination and Foreign Operations Departments. The MPC meets weekly to review monetary and banking system conditions and take necessary measures to ensure the smooth running of the economy.

13. Usually, the Bank prepares an annual policy paper to Government as part of its contribution to the National Annual Budget, in which it outlines its framework to attain certain monetary growth targets consistent with those set by Government for economic output and inflation. Some of the monetary aggregates targeted include narrow money (M1), broad money (M2), credit to the private sector and credit to government. The implementation of the monetary policy of the Bank is exercised principally through the use Open Market Operations (OMO) conducted by the Banking Operations Department and complemented by changes in the rediscount rate, reserve requirement and liquidity ratios. It now actively employs the sale and purchase of government securities (Treasury Bills and Certificates) and repurchase agreements (repos) in the market as instruments in its open market operations. These are generally referred to as indirect instruments of monetary policy. In addition, the Bank also has the power to make use of direct policy measures such as changes in the maximum interest rates on bank deposits and loans, directed credit and imposition of ceilings on bank credits in periods of excessive monetary expansion to curb liquidity in the economy. The Bank seldom uses these direct measures since it changed its monetary strategy to market-based measures. The Bank also actively uses moral suasion to bring sanity to the financial market.

14. Perhaps, I should at this juncture highlight how monetary policy action affects the economy and how long it takes to filter through the economic system. This is known as the transmission mechanism of monetary policy in the economic literature and refers to the channels and mechanisms by which the actions of the monetary authorities affect the ultimate targets of monetary policy. The transmission of monetary policy occurs as changes in the monetary conditions affect the de-

mand for goods and services as well as other asset values. In theory, when the central bank raises or lowers the bank rate, in our case, the Minimum Rediscount Rate (MRR), it sets in motion a chain of reactions that influences the financial and goods markets through its effect on the exchange and interest rates.

15. Precisely how this works in practice is not yet clearly understood and has been the subject of extensive empirical investigation. However, the extent and timing of the response depend on the expectation of investors, borrowers, consumers and producers, the level of development and degree of sophistication of the financial system and institutional structures of the economy. This means that monetary policy must always be forward-looking and devoid of political considerations. As much as possible, it must be able to anticipate the monetary conditions needed today to help keep the economy on track for future growth and development.

PART IV

Review and Appraisal of CBN's Performance in the Conduct of Monetary Policy

16. For ease of exposition, the appraisal will be presented in two phases, viz. – The Pre-SAP Phase and Post-1986 Phase

Pre-SAP Phase: 1959-1986

17. The establishment and coming into operations of the Central Bank of Nigeria in 1959 albeit with limited autonomy, represented an important landmark in the history of financial sector development in Nigeria. In order to create an appropriate environment for its operations, the Bank embarked on the building of the rudimentary financial structure necessary for the development of functional payment system and money/capital markets for mobilizing and allocating financial resources.

18. Charged with the responsibility to maintain monetary stability and promote growth and external sector viability, but without the appropriate monetary policy instruments and a conducive financial environment, the CBN relied mainly on direct control mechanism in the conduct of its monetary policy. This was prevalent particularly in the 1970s after the economy experienced price shocks in the international oil market. Thus, emphasis was placed on quantitative ceilings on bank credit expansion and selective sectoral and regional allocation of such credit. Interest rate policy was generally repressed and administratively determined, ostensibly to provide cheap credit for investments. As regards statutory reserves requirements, the use of statutory liquidity ratio which was fixed at 25 per cent over a long period of time played mainly a prudential role rather than serve as an effective instrument of monetary management. Reflecting this situation, the actual ratio observed by the banking system as a whole was persistently much higher than the statutory minimum, by wide margins.

Appraisal of Monetary Condition

19. Influenced largely by the expansionary impact of government monetization of large oil export receipts and monetary financing of its large fiscal deficits, the pre-reform era was characterized by excessive monetary growth and concomitantly, high and persistent inflationary rate. In general, monetary policy was largely ineffective and often the CBN had to resort to extra-ordinary policy measures, such as call for special deposits, including pre-import deposits, to deal with the recurrent problem of monetary instability. The era of administrative control of bank credit and interest rates resulted largely in financial sector repression and gross inefficiency in resource allocation.

20. The fixed and administratively determined interest rates regime was not particularly successful, as it introduced all forms of distortions in the financial markets and permitted ineffective and inefficient mobilization and utilization of financial resources. As returns on financial assets turned negative in real terms savings and financial intermediation were discouraged while the propensity to consume and import was stimulated. This exerted undue pressures on key external sector variables, particularly the naira exchange rate and the level of external reserves. It also encouraged corruption, inefficient investment and in most cases lured banks into unproductive lending and non-performing loan portfolio holdings. The negative real interest rates that resulted from interest rate ceilings undermined the allocative of the financial system and encouraged capital flight. Moreover, the artificially low lending rates resulted in excess demand for credit, which led to credit rationing sometimes in favour of borrowers with projects with low rates of returns. Overall, the interest rate regime was such that

the macroeconomic stability that was desired to promote sustainable economic growth was compromised, hence the introduction of SAP in 1986 made interest rates deregulation a major component of the reform package.

SAP and Post SAP Phase: 1986 – Date

21. The adoption of Structural Adjustment Programme (SAP) in 1986, with structural reform as an important element of the programme inspired a more aggressive approach to financial sector reforms and a new orientation in the conduct of monetary policy in Nigeria. The goal was to liberalize the financial sector and move toward a more market-oriented system, designed to facilitate adequate savings mobilization and encourage efficiency in the allocation of financial resources. Indeed, the central focus of the CBN's effort from the inception of SAP has been movement toward market-based technique of monetary policy. Thus, reforms were concentrated on the establishment of necessary macroeconomic framework and financial environment for the planned transition. Although, policy implementation since the SAP has not been consistent or sustained, particularly when one takes into account the policy reversal of 1994, nevertheless, appreciable progress has been made in the financial sector reform process in Nigeria.

22. Consistent with the mandate of the Bank, CBN's foreign exchange management policy seeks to maintain adequate level of foreign exchange reserves and an appropriate naira exchange rate consistent with allocative efficiency. Prior to September 1986, the exchange rate of the naira was generally fixed. The prolonged regime of fixed or administratively determined exchange rate, engendered significant distortions and proved unsuccessful in establishing an appropriate exchange rate for the naira that was consistent with the underlying economic fundamentals at that time. Arbitrageurs and rent-seekers exploited the situation causing a misalignment of the exchange rate as well as distortions in production and consumption. The misalignment arising from maintenance of over-valued naira, proved detrimental to the productive sectors of the economy, created a bias toward import dependency and encouraged capital flight in some cases. Indeed, this misalignment was largely responsible for the emergence of debt overhang, which today continues as a serious drain on the country's resources. Perhaps it needs to be emphasized that the strength of a currency depends very much on the productivity of the economy and the viability of the external sector, which itself determines the level of imports and exports and, hence, the net flow of foreign exchange. These considerations were factors that informed the deregulation of exchange rate regime when SAP was introduced in 1986.

23. Following the adoption of SAP in 1986, the determination of the naira exchange rate has been driven by market principles to reflect underlying economic fundamentals of the Nigerian economy. In this connection, the exchange rate policy has gone through various metamorphoses. Specifically, the Second-tier Foreign Exchange Market (SFEM) was introduced with SAP in 1986, which culminated in dual exchange rates operating side-by-side. The second-tier rate, which was largely market determined, was for all transactions, except debt service payments, embassy expenses, subscriptions to international organizations and settlement of transitional transactions, which were financed at the first-tier rates. The Dutch auction system was introduced in April 1987 to reduce high demand pressure for foreign exchange and introduce greater professionalism into the system of biding as well as reflect economic fundamentals. The dual exchange rate system was, however, abolished in July 1987 when all transactions were brought under the SFEM exchange rate in a bid to eliminate the implicit subsidy on transactions under the first-tier rate.

24. In 1988, the Autonomous Foreign Exchange Market (AFEM) was introduced for banks to sell foreign exchange acquired by them at market-determined rates. The objective was to encourage non-oil foreign exchange inflow into the country and reduce the pressure on the foreign exchange market. The AFEM has since October 1999 been replaced with the Inter-bank Foreign Exchange Market (IFEM), which is aimed at reducing the distortions in the AFEM, enhancing transparency, deepening the market and reducing speculative dealings. Under the IFEM, the CBN, like any other

participant in the market buys and sells foreign exchange on a daily basis. I should acknowledge, however, that the market is still evolving, as the CBN remains the major supplier of foreign exchange to the market and the diversification and much expected stability in the market in the market is yet to materialise.

PART V

CBN Response to the Changing Role of Central Banks

25. There is increased global awareness of the need to strengthen competitive forces and promote soundness in the financial system in order to be better placed to achieve the goals of economic policy. Under this dispensation, monetary policy has taken on a greater significance and central banks are expected to play a more crucial role in economic management. In many countries, particularly the major industrial nations, central banks have been more assertive in dealing with emerging economic problems and the results have been less inflation and a long period of sustained output and employment growth. The gains from increased autonomy for central banks are obvious and salutary.

26. In line with this, the Bank initiated the banking system reform, which was aimed at ensuring that banks are reasonably sound, competitive and able to respond quickly and flexibly to monetary conditions to facilitate effective transmission of the impact of monetary policy to the real sector. In this regard, the CBN introduced a number of regulatory measures designed to enhance the capital base of commercial/merchant banks and promote a more professional approach to bank lending and provisioning for non-performing loans. The risk-weighted measure of capital adequacy ratio recommended by the Basle Committee of the Bank for International Settlements (BIS) was adopted and enforced. To complement this, the Bank introduced a set of prudential guidelines and mandatory uniform accounting standards for all licensed banks. Furthermore, the minimum capital base for commercial and merchant banks was raised to a uniform N500 million, with December 1998 fixed as the deadline for full compliance. Moreover, effective January 2000, a minimum paid-up capital of N1 billion was stipulated for a new bank. In 1999, the regulatory powers of the CBN, was further strengthened with the restoration of its administrative autonomy and the granting of instrument autonomy in the conduct of monetary and banking policy.

27. The Nigerian payments system is largely cash based as indicated in the high currency ratio (over 48 per cent) of narrow money (M_1) stock. The implication is that a large proportion of financial transactions is not channeled through the banking system, thereby constituting leakages that reduce the effectiveness of monetary policy. Efforts aimed at promoting chequing habit in the country, including the promulgation of dud cheque decree have however, yielded less than satisfactory results owing to difficulties with enforcement and the distress in the financial sector which eroded public confidence in the system. To facilitate timely clearing of cheques nationwide, the number of Bankers Clearing Houses was increased to 22 as at June 2000. The institutional structures for the operation of inter-bank settlement system were estalished in 1992 to facilitate the settlement of inter-bank claims arising from overnight and other inter-bank fund placements, while efforts to introduce Automated Clearing System under the auspices of the Banker's Committee has reached an advanced stage of implementation.

28. The CBN has also placed increased emphasis on financial market development to broaden and deepen the markets. In 1992, the CBN established a securities transfer facility for inter-bank trading in treasury bills and certificates to promote the development of a secondary market in government securities. The Abuja Stock Exchange Plc. is being established to foster competition in the securities market.

29. The CBN in responding to its changing role is considering refocusing the procedure for monetary policy away from monetary targeting to the adoption of inflation targeting framework in line with the trends in a number of central banks. The main attractions of this framework are that it is transparent and easily understood and comprehended by the general public. It is easy to hold the central bank accountable for its actions in the attainment or

non-attainment of the specified inflation target, and it helps to enhance the credibility of the central bank in the pursuit of monetary policy. This will, however, required a high degree of autonomy for the CBN, absence of fiscal dominance, improved technology and professionalism of CBN operations, availability of basic infrastructure that will facilitate timely and adequate rendition of information from the banks to the CBN, amongst others.

PART VI

Problems and Challenges

30. Given the fact that the core mandate of the CBN is the maintenance of price stability, the success in achieving this rests largely on the extent to which it is insulated in its operational decision making from short-term political interference. The instrument autonomy granted the Bank in 1999, which is in line with the global trend is going to be judiciously guarded by the Bank and in fact all Nigerians to ensure its optimum contribution to the effectiveness and efficiency of the Bank. Secondly, there is the problem of ensuring compatibility of fiscal stance with that of price stability. The fiscal restraint exercised thus far since the present Administration took over office a year ago, should be sustained and when financing gaps emerge in government budgetary operations, this should be financed from the financial market without recourse to CBN. The CBN will support governments primary concern with growth and employment creation and will endeavour to ensure low inflation rate and competitiveness of the financial sector and would facilitate low but positive real interest rates level. The danger of recourse to lowering interest rates administratively should be recognised not to be in the long-run interest of the economy. Investment growth is influenced by other important factors such as reliable infrastructural facilities, conducive social and political environment and availability of trained manpower among others. Interest rate is only an element of production costs. Thirdly, managing excess liquidity in the economy is a major problem, which the CBN will continuously need to address, as government fiscal operations and large inflows of short-term capital funds could threaten monetary stability in the economy. In this regard, coordiantion between monetary and fiscal policies will continue to receive priority attention. The clearing and settlement system also requires marked improvement to reduce the large and variable floats, which constrain the effective conduct of open market operations. Efficient telecommunication and transportation facilities, complemented by private sector initiatives are being considered by the Bank to redress these problems. The unresponsiveness of financial institutions to policy actions is a product of uncompetitiveness in the financial sector and the weakness of financial institutions that make them vulnerable to distress. In this regard, the CBN will intensify efforts aimed at improving the competitiveness and stability of the financial system.

31. As you may all recall, the issue of banking system distress, which ravaged the financial sector in the late 1980s to early 1990s, remains a challenge to the CBN. The remote and immediate causes of the distress situation could be traced to the rapid expansion of the sector, following the liberalization of banks' licencing requirements, poor assets quality of banks, low earnings, weak management, insider abuses, portfolio mismatch, overtrading and political interference. All these were compounded by poor regulatory and supervisory framework, as well as undue delay in taking appropriate actions on the part of the regulatory and supervisory authorities. However, various failure resolution options have been adopted to deal with cases of bank distress, including the imposition of withholding actions, mergers, acquisition, takeover, suspension of licences and outright liquidation. Measures have also been taken by the CBN to guide against future reoccurrence as enumerated earlier in my presentation.

32. Although the banking distress is virtually behind us, the circumstances that led to the distress and the lessons learnt from the experience must not be lost. In this regard, the CBN has developed an early warning system to detect symptoms of distress in banks and appropriate correct measures to deal with the situation in order to prevent the risk of systemic distress and bunching of bank liquidation. It must also be able to deal promptly with any sign of distress and should not hesitate to liquidate any bank that becomes insolvent and incapable of being rescued.

33. The major challenges facing the CBN rest in its ability to ensure the effectiveness of monetary policy based on market-oriented instruments and a mature sound and efficient financial sys-

tem. The current commitment to financial sector reform and fiscal discipline should be sustained. In an increasingly deregulated and globalized financial environment, improved information and communication technology has influenced the development of new financial products, derivatives and free flow of capital funds, which have complicated the conduct of monetary policy. The ability of CBN to cope with these challenges would be determined by the operational efficiency of the Bank. Specifically, the on-going efforts to sanitize and eliminate distress in the banking system should be sustained taking into consideration that effective transmission mechanism of monetary policy action can only be ensured where there is a sound banking system. The effectiveness of monetary policy also depends to a large extent on the quality and timeliness of information available to the Bank.

34. In response to these challenges, the CBN has embarked on a comprehensive restructuring and re-engineering exercise code-named "Project EAGLES": aimed at refocusing the Banks operational capabilities. Project EAGLES is expected to engender a change in the work culture of staff through the adoption of appropriate work incentives, acquisition of skills and modern technology that will yield efficiency gains and enhance productivity growth.

PART VII

Concluding Remarks

35. I have in the last several minutes attempted to take you through a guided tour of the CBN's role in national economic policy and development. At the risk of repeating myself, let me briefly summarize the high points of the lecture. First, the mandate and responsibilities assigned to the CBN when it was established in 1958, require it to promote and maintain monetary stability and a sound and efficient financial and payments systems in Nigeria. This mandate, to my mind, is the most important mandate and is consistent with the mandate of central banks worldwide. The CBN has made conscious effort, over the years, to meet this mandate through its conduct of monetary and banking policies subject to the constraints imposed by the operating environment. While significant progress has been made, the presence of fiscal dominance and the underdeveloped nature of the financial markets have constituted constraining factors in recording the much-desired success.

36. Second, in addition to the traditional role of maintaining price stability, the CBN has also been compelled by the developmental needs of our economy to perform some ancillary roles that are not characteristic of central banks in the advanced economies. Such roles include the development and nurturing of development finance institutions to provide credit to key sectors of the economy to complement the stabilization objectives. This emphasis appears to be waning due to increased prominence given to stabilization objectives.

37. Indeed, in response to the changing roles of central banks the world over, the Bank has shifted the focus of monetary policy from growth to stabilization, because experience has shown that a stable macroeconomic environment is an essential ingredient for sustainable growth and development. In the same vein, the monetary control framework has been changed from direct controls to market-based mechanism.

38. Fourth, the CBN has adopted various measures in line with internationally accepted standards that would engender competitiveness of the financial sector, ensure banking soundness and efficient financial system. Efforts are still on going to enhance the efficiency of payments and settlements systems without which the effectiveness of monetary policy will be weakened and delayed.

39. Finally, the challenges facing the Bank are enormous, but not insurmountable. Efforts are already being made to confront these challenges. The instrument autonomy recently granted to the Bank has enhanced its ability to conduct monetary policy, although there is still room for improvement. For example, the perennial problem of managing excess liquidity largely induced by the government spending will require a more innovative approach on the part of the CBN to deal with it. This is already receiving the attention of the Management of the Bank. A further challenge that the Bank is presently exploring is the shift from monetary targeting to inflation targeting, which is becoming popular among central banks because of its simplicity and the fact that it enhances central banks credibility.

40. I thank you for your attention.