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COMPARATIVE USE OF MONETARY POLICY TOOLS IN AFRICAN ECONOMIES WITH PARTICULAR REFERENCE TO NIGERIA, ZIMBABWE AND KENYA*

Introduction

The economies of Nigeria, Kenya and Zimbabwe have generally been considered as being in the forefront of African countries. Their monetary systems in particular have been included among the most sophisticated in the developing countries and hence have attracted the greatest interest from students of comparative banking and financial systems. Thus, there have been, in the last several years, a number of studies on the financial systems of the three economies.[1] These studies are, however, often focused on the institutional features of the financial systems rather than on the actual behavioral characteristics of the systems themselves. This paper intends to fill that gap to some extent by examining monetary policy activities in the three countries, with emphasis on the comparative use of various monetary policy instruments.

The paper is divided into three parts and begins in part I with a brief summary of the institutional features of the Nigerian, Zimbabwean and Kenyan financial systems. Part II is a comparative discussion of the various techniques of monetary policy in Nigeria, Zimbabwe and Kenya. Part III is a brief summary and conclusion.

*This paper is based substantially on the report of an attachment programme I had with the Reserve Bank of Zimbabwe and the Central Bank of Kenya in 1982. The programme was organised under the auspices of the African Centre for Monetary Studies Dakar, Senegal and sponsored by the Central Bank of Nigeria. In this connection, I am indebted to a number of individuals for the production of this paper. I should like, particularly, to acknowledge the debt to the Director of Research and management of the Central Bank of Nigeria for making it possible for me to conduct the study upon which this paper is based. I am also grateful to the heads of the economic research units at the Reserve Bank of Zimbabwe and the Central Bank of Kenya for their useful assistance. The interpretation and choice of emphasis in the paper are mine and I, therefore, take full responsibility for any errors or omissions.

[1]See, for example, Edward A. Arowolo "The Development of Capital Markets in Africa, with particular Reference to Kenya and Nigeria". *IMF Staff Papers* Vol.18, July 1971, pp 420-472. Also see, D. C. Rowan, *Money and Banking in British Colonial Africa*, Oxford: Clarendon Press 1954 and W. T. Newlyn "An African Monetary Perspective," in *Essays in Money and Banking in Honour of R. S. Sayers*, eds. C. R. Whittlesey and J. S. G. Wilson, Oxford: Clarendon Press, 1968.

PART 1

The Financial Systems: Basic Features

The basic features of the three financial systems present a general outlook of sophistication both in terms of the number of financial institutions available in the countries as well as the various types of institutions operating in them. The Nigerian financial system, for example, consists of the Central Bank of Nigeria which was established in 1958, 22 commercial banks (with about 1,000 branches) and 8 merchant banks. The system also has four specialized banking institutions (the so-called development banks), a stock exchange, 13 stock brokerage houses, and about 80 insurance companies. Available as well as the National Provident Fund which is contributory pension scheme for both the public and private sectors and the Federal Savings Bank (formerly the post office savings bank) designed, essentially, for small savers . In the last two decades, the Nigerian financial system has developed at a relatively rapid rate from the rudimentary system in existence at the time of independence from Great Britain in 1960.

At the apex of the system is the Central Bank of Nigeria which though established in 1958, did not begin operations until July 1, 1959. Prior to its formation, the West African Currency Board system was in existence in the country. The activities of the Currency Board extended to all the then British West African colonies: Nigeria, Ghana, Sierra Leone, and the Gambia. At that time, Nigeria's currency was backed one hundred per cent by sterling reserve, and "the monetary system was neutral, that is, it did not exercise discretionary control over the economy or on the availability of foreign exchange". [2] Thus, the West African Currency Board could hardly be regarded as a monetary authority since "it was simply a passive money changer."[3]

At the time of its establishment, the Central Bank of Nigeria was given wide powers with regards to the formulation and implementation of monetary policy. These powers were, however, somewhat curtailed following some amendments to the Central Bank Act in 1968[4]. While the Bank still enjoys a relatively good degree of autonomy in monetary policy formulation and execution, the final authority with regards to the overall policy rests with the Federal Government. It has, therefore, become traditional to announce the Central Bank.s monetary policy as part of the Government's annual budget message.

Along with its discretional monetary control power, the Bank is also entrusted with some other traditional central banking functions including that of the issue of the national currency and the maintenance of external reserves in order to safeguard the international value of that currency. The Bank is also charged with the role of banker and financial adviser to the Federal Government.

Since 1977, it has become mandatory for all financial institutions in Nigeria to have majority Nigerian equity participation. This regulation which is enforced under the Nigerian Enterprises Promotion Act is designed to promote the Nigerianisation of the economy. Thus, along with the four specialized financial institutions that are Government-owned and operated[5], every commercial and merchant bank as well as all insurance companies in the country have majority Nigerian ownership. Compared to the other two countries discussed in this paper, the Nigerian financial system is, undoubtedly, the most indigenised.

The Zimbabwean financial system is made up of the Reserve Bank of Zimbabwe (the country's central bank), two discount houses, five commercial banks, three merchant banks, six finance houses, three building societies, a privately-owned industrial finance corporation, a publicly-owned industrial development corporation, a stock exchange, a post office savings-bank and a number of insurance companies. Unlike in Nigeria, however, most of the private financial institutions have majority foreign equity participation.[6]

The general impression one has of the Zimbabwean

financial system is that it possesses a level of sophistication greater than what one normally finds in a small economy of its size. One reason that has been credited for this is the fact that Harare (formerly Salisbury) was, for a number of years, the financial capital of the defunct Federation of Rhodesia and Nyasaland. Indeed, the Reserve Bank of Zimbabwe was established in 1956 as the Bank of Rhodesia and Nyasaland and, following the dissolution of the Central African Federation in 1964, it became the reserve Bank of Rhodesia. The Bank was renamed the Reserve Bank of Zimbabwe in 1980 following the country's attainment of independence from Great Britain.

The Reserve Bank of Zimbabwe is, like the Central Bank of Nigeria and most other central banks, at the apex of the Zimbabwean financial system. While fully-owned by the Government, it has, almost from its establishment, enjoyed a relatively greater degree of autonomy from Government control than is normally found in most other developing countries. Although the Reserve Bank does consult with the Treasury from time to time, there is a convention that the Bank must be as autonomous as possible. Thus, monetary policy is solely the Bank's responsibility and tbe annual Government's budget message only contains summary of Reserves Bank's policies in the previous year. The Government accepts the fact that the Reserve Bank provides a check and balance function to the Treasury. The Bank thus performs most of those functions normally associated with central banking. It has the sole right to issue notes and coins, controls the country's gold and foreign exchange reserves and, the related function of marketing of the country's gold production. It is of course, the banker to the government and the banking system. Most importantly, it has the sole responsibility of administering monetary policy. It is mainly through the formulation and execution of this monetary policy that the reserve bank exerts its influence on the financial system as a whole, an influence which on most occasions has a direct and substantial impact on the behaviour of the various institutions within the system.

Like the Nigerian and Zimbabwean financial systems, the Kenyan financial structure possesses an impressive degree of sophistication for an African country.

A major similarity between the financial structures of Kenya and Zimbabwe, however, stems from the fact that Nairobi (like Harare) was for several years the financial headquarters of the then British East Africa. The major difference between the two systems include the relatively larger size of the Kenyan financial system and the absence of discount houses in Kenya.

At the apex of the Kenyan financial system is the Central Bank of Kenya which was established in 1966 by an Act of the Kenyan Parliament to, among others, take over the functions of the then East African Currency Board within Kenyan territory. The East African Currency Board was similar in most respects to the defunct West African Currency Board, and played the role of a passive money changer devoid of any influence on the monetary expansion in the economy.

From its establishment, the Central Bank of Kenya has always been a Government Bank and, in that respect, whatever degree of autonomy it possesses is strictly at the discretion of the Government. Thus, monetary policy while it originates from the Central Bank is, as in Nigeria, generally part of the Government's annual budget message and it is left to the discretion of the Government to accept any or all of the Central Bank's recommendations. The Central Bank of Kenya also performs most other functions generally associated with a central bank. Thus, it is the sole issuer of notes and coins in the Kenyan economy. It also administers the country's external reserves and exchange control regulations. In addition, it is the banker to the government and the banking system. The Central Bank of Kenya is also charged with the responsibility of supervising and controlling the Kenyan banking institutions. Finally, the Bank has the authority to administer monetary policy through the utilization of the various policy instruments available to it.

The Kenyan financial system includes in addition to the Central Bank eighteen commercial banks most of which are foreign-controlled or fully foreign-owned. There are three indigenous commercial banks; two of which are fully owned by the kenyan Government while the third, the Co-operative Bank of Kenya, is owned by the various co-operative societieis in Kenya.

There are also 28 institutions that are licensed and involved in financial intermediation and are known as "specified financial institutions". These institutions include a privately-owned building society, three hire purchase companies, three merchant banks and several business finance companies that concentrate their activities in financing business investments. There are, in addition, 32 life insurance companies as well as the National Social Security Fund (NSSF). The National Social Security Fund is similar in many respects to the Nigeria's National Provident Fund (NPF) and it is adminstered by the Kenyan Government as a contributory pension scheme for employers and employees in the private and public sectors. There is also an active post-office savings bank and a stock exchange. For the development of the local money and capital markets the Government has set up 10 specialised financial institutions which include the Kenyan Industrial Development Bank and a National Housing Corporation.

PART II

Formulation and execution of Monetary Policy

As in Nigeria, monetary policy in Zimbabwe and Kenya is pursued with the aim of ensuring optimum and balanced real growth of the economy as well as achieving a healthy balance of payments position. In pursuance of their monetary policy objectives, the central banks in Kenya, Zimbabwe and Nigeria apply the tools of monetary policy that are considered relevant to the peculiar characteristics

[2] Adebayo adedeji. *Nigeria's Federal Finance,* New York, Africana Publishing Corporation 1969. p.209.

[3] W. T. Newlyn. *Theory of Money,* Oxford, Clarendon Press, 1982.' p.24

[4] See section 3 of CBN Act (Amendment) Decree No. 3, 1968. The major features of the amendment is discussed in part II below.

[5] The four banks are: The Nigerian Industrial Development Bank Ltd; The Nigerian Bank for Commerce and Industry Ltd.; The Nigerian Agricultural and Co-operative Bank Ltd.; The Federal Mortgage Bank of Nigeria Ltd.

[6] Indeed only one of the eight banking institutions has a majority local ownership and it is mainly in the form of Government equity participation.

of their respective economies at the given point in time.

In formulating their monetary policies, the monetary authorities considered in this paper employ a somewhat different definition of the money supply. The Nigerian monetary authority uses the M1 defined as currency outside banks plus privately held demand deposits in the commercial banks and the Central Bank. The Kenyan Central Bank uses M2 i.e. M1 plus time and savings deposits in commercial banks while Zimbabwe relies on a variant of M1 defined to include currency in circulation plus the demand and very short-term time deposits held by the private sector with the monetary banks - the Reserve Bank, commercial banks, discount houses and the merchant banks.

In some respects, the formulation of monetary policy in Kenya is similar to that of Nigeria but somewhat different from what obtains in Zimbabwe. In Nigeria, for example, the Central Bank is the recognised monetary authority with responsibilities for monetary policy. The Central Bank of Nigeria formulates the monetary policy proposals in a memorandum which is sent to the Government through the Minister of Finance for approval. In preparing this memorandum, the Bank takes into consideration the views and suggestions of the banking and other business community and interested public groups and individuals. More importantly, the Bank reviews the prevailing economic and financial conditions in the country and makes reasonable predictions regarding the future prospects of the economy. It then outlines the specific objectives of monetary policy to be pursued in the immediate year ahead and select the relevant monetary policy tools it intends to utilize to achieve these objectives. The proposals are discussed first by the management of the Bank and then finalized by the Board of Directors of the Bank. The proposals are later forwarded to the Minister of Finance who usually invites the Bank for discussion on the proposals before presenting them to the Government. The Governor of the Central Bank is also invited to and participates in the discussion of the country's draft Annual Budget by the President-in-council (i.e. the President and his Council of Ministers). The final decision of the Government is embodied in a *Monetary Policy Circular* issued by the Bank to all commercial and merchant banks as well as insurance companies.

In the Bank's Monetary Policy Circulars, the annual rate of bank credit expansion and the sectoral distribution of bank credit are indicated and banks are requested to grant specified proportion of their total credit to the various sectors of the economy.

The share of total credit that should be allocated to indigenous borrowers is also specified. The Circulars also stipulate the interest rate structure for the economy as well as the required minimum cash and liquidity ratios.

As was mentioned earlier, except for a few minor differences, Monetary policy is formulated in Kenya in about the same manner as in Nigeria. Prior to the annual budget announcement, the Central Bank of Kenya produces a paper in which it expresses its views and makes suggestions on the overall stance of the proposed budget, given the prevailing circumstances in the economy. These views and suggestions are usually in the form of monetary policy proposals and sent to the Treasury via a memorandum called "Budget Advise Letter To The Minister of Finance". As the name suggests the memorandum is strictly advisory and whichever proposals are accepted by the Minister of Finance are incorporated in the latter's budget proposals presented to the Government. Unlike in Nigeria, the Minister does not necessarily have to present the Central Bank's views directly to the Government although he attempts to do that as occasion demands. As far as monetary policy proposals are concerned, they are the prerogatives of the Treasury and the Central of Kenya merely plays an advisory role to the Treasury in this regard. The Government's final decisions are incorporated in the annual budget message.

The process of monetary policy formulation in Zimbabwe is substantially different from those of Nigeria and Kenya. Unlike in the latter two countries where monetary policy formulation is usually an annual event, it is carried out on a continous basis in Zimbabwe. The Reserve Bank of Zimbabwe meets regularly with the financial community (except insurance companies) to discuss the prevailing economic and financial conditions in the country. The Bank takes advantage of these meetings to get a feel of the reaction of the financial community to any intended policy proposals. The proposals are also discussed in advance with the Treasury which makes its views known on the Bank's proposed policy.

Unlike in Kenya where the Treasury only takes central bank's proposals merely as advisory, the proposals are discussed with the Treasury in Zimbabwe merely to get the views of the Government before the proposed policy is finalised. Where the Treasury disagrees with the Reserve Bank a reasonable compromise might be reached, otherwise the Reserve Bank's views prevails. Furthermore, the Reserve Bank of Zimbabwe's policy proposals are not incorporated in the Government's annual budget message but are announced at the appropriate time by the Reserve Bank itself. The Government's budget message only contains a summary of policies pursued by the Reserve Bank in the preceding year.

The vital authority in monetary policy formulation in Zimbabwe is the Board of Directors of the Reserve Bank. Based on the Bank's reports on the prevailing economic conditions as well as views and suggestions gathered from the financial and business community in general, the Board decides from time to time, on a particular policy or combination of policies to be pursued by the Bank. These proposed policies are then discussed with the Government in a way described earlier. The Reserve Bank's final decision is then announced to the general public by the Bank itself.

As with its formulation, the execution of monetary policy, in Kenya, is similar to that of Nigeria and, except for the extensive use of moral suasion, is remarkably different from that of Zimbabwe where interest rate serves as the key target variable. The most popular tools of monetary policy in Kenya, besides moral suasion, are reserve requirements and selective credit control. Interest rates, as in Nigeria, are fixed by the Central Bank of Kenya and are not, therefore, necessarily sensitive to the supply and demand for loanable funds. While cash reserve requirements as a variable tool of monetary policy was introduced in Nigeria in 1976, it has never been used as a tool of credit restraint. Although it has been used in the past in Kenya to restrain credit expansion, it is not currently used.

The Reserve Bank of Zimbabwe uses the traditional tools of control of monetary expansion in a manner more prevalent in an advanced economy than a developing one. The monetary policy tools in Zimbabwe are used mainly to influence private sector borrowing through their effects on available loanable funds as well as the interest rates since all interest rates, except the bank rate are market-determined. In addition, open market operations have recently been introduced as a policy instrument in Zimbabwe while the selective credit control which is the most popular tool in Nigeria and Kenya has never been used in Zimbabwe. As in Kenya, moral suasion has proved to be a very powerful and effective tool of monetary policy in Zimbabwe. A more detailed comparative analysis of the various tools of monetary policy in use in Zimbabwe, Kenya and Nigeria is given below:

The Bank or Minimum Rediscount Rate

This is the minimum rate at which the Central Bank will discount commercial and merchant banks' first class bills, mainly Treasury Bills. Since other rates are tied to it, any change in this rate will lead to changes in other interest rates as well. This will influence borrowing and, therefore, help to curb or expand it if needs be.

In Kenya and Nigeria, the bank rate, as with other interest rates, is determined by the respective central banks. The minimum rediscount rate or bank rate along with other rates are changed as occasion demands by the two central banks in pursuance of some set monetary policy objectives. Since these rates are insulated from the forces of the market they are insensitive to any unexpected changes in the availability of loanable funds in the financial markets. Until July 1980, non-bank financial institutions in Kenya were free to determine their deposit and lending rates. Since then, their maximum lending rate has been set by the Central Bank to be at par with that stipulated for the commercial banks. The deposit rates of these institutions, are, however, still free of Central Bank's control, although they have tended to be in line with those of commercial banks.

In Zimbabwe, on the other hand, the bank rate as well as all other rates change from time to time, depending on the dictates of the financial market and the Reserve Bank's policy objectives, particularly with regards to the use of open market operations. Unlike in Kenya and Nigeria, however, only the bank rate is determined by the Reserve Bank while other interest rates are determined to a greater degree by the liquidity situation in the financial markets.

Thus, in a period of very tight liquidity situation such as the one withnessed between early 1981 and mid-1982, tbe bank rate as well as all other interest rates were pushed up. (See Table 8) In general, the Reserve Bank of Zimbabwe varies the bank rate in order to influence credit activities in the financial markets.

Open-Markets Operations

Perhaps the most distinguishing feature in the formulation and execution of monetary policy between Zimbabwe on the one hand and Kenya and Nigeria, on the other hand, is the occasional use of traditional open-market operations as a tool of monetary policy in the former. While open-market operations as a policy instrument is yet to be employed in Nigeria and Kenya, it has been used successfully by the Reserve Bank of Zimbabwe, particularly in the last few years. The major factor responsible for the relative success of open-market operations in Zimbabwe is that the economy posesses a well-developed money and capital market.

The mechanics of open market operations in Zimbabwe is not in any way different from that in a more economically advanced country in that it involves the sale and purchase by the Reserve Bank of securities in the open market. In the case of a sale of securities, for example, the purchasers of these securities pay for them with cheques drawn on the commercial banks and in factor of the Reserve Bank. This reduces the cash reserves of the banks and consequently their ability to expand credit. The reverse is the case when the Reserve Bank purchases securities.

In addition to their immediate effects upon monetary aggregates, open-market operations, have a secondary effects on the interest rates in the financial markets. This secondary impact occurs because open market operations, being conducted in government securities, affect the market prices of the securities. An open market purchase by the Reserve Bank of Zimbabwe, for example, tends to increase the demand for the securities and, with supply assumed to remain unchanged, raises the market prices of these securities. An increase in market prices is equivalent to a decrease in the effective yields (or interest rates) of these securities. The reverse holds true with open market sales. The degree to which interest rates (or yields) are affected is determined largely by the magnitude of the open market operation and the maturity class of the securities.

The conduct of open market operations in Zimbabwe is mainly through the discount and stockbrokerage houses. The magnitude of the open market purchases or sale is determined by the extent to which the Reserve Bank's management wants to expand or contract credit in the system.

The Liquidity Ratio Requirements

The liquidity ration expressed as a ration of a bank's total liquid assets to its total deposit liabilities is a tool of monetary policy available in all the countries under review. There are, however, some slight variations among the three countries in the use and the definition of the liquid assets allowed for the purpose of meeting the liquidity ration requirement. Furthermore, while the ratio has remained unchanged at 25.0 per cent. in Nigeria since its inception, it has been varied a number of times since its introduction in Zimbabwe and Kenya, mainly to correct maladjustments in the domestic money markets and the balance of payments as well as reduce domestic pressure on prices. The ratio which is currently 15.0 per cent. in Kenya was once as low as 12.5 per cent. and as high as 20.0 per cent.

Similarly, in Zimbabwe, the ratio which had remained at 25.0 per cent. for several years following its introduction was increased to 35.0 per cent. in 1979 because the Reserve Bank of Zimbabwe wanted to reduce an overhang of excess liquidity in the financial system and the excessive lending capacity which this implied.

While the prescription of minimum liquid asset ratio is limited only to commercial banks in Nigeria, the specification of this ratio is extended to merchant banks, building societies and finance companies in both Zimbabwe

and Kenya, although the minimum ratio required of these institutions in both countries is, in general, lower than that required of commercial banks.

The Cash Reserve Requirement

The cash ratio has never been used as a restraining instrument of monetary expansion in Nigeria as the prescribed ratios have always remained below the observed. It is also not currently used by the Central Bank of Kenya and was only recently introduced in Zimbabwe. It should be mentioned, however, that the cash ratio had been used occasionally in the past 1970s in Kenya mainly to supplement the effects of the liquidity ratio and only ceased to be used as a tool of monetary policy in 1981.

Selective Credit Controls

As a result of the extensive use of the traditional tools, direct credit control has never been found necessary for monetary regulation in Zimbabwe. The situation is different in the case of Nigeria and Kenya. In those countries it is used to channel credit to the priority sectors, particularly agriculture, manufacturing, mining and services sectors in addition to setting a ceiling on aggregate credit expansion.

Unlike what obtains iu Nigeria, however, the application of selective credit control in Kenya does not always involve the setting of detailed sectoral guidelines. There appears to be a greater emphasis on moral suasion to make banks direct their credit to some specific sectors of the economy. While credit ceiling for imports has been introduced almost from the inception of direct credit controls in Nigeria, it was only introduced in Kenya in 1980.

To complement the effect of the credit ceiling on imports, the Central Bank of Kenya currently requires consumer finance companies to demand a minimum deposit of 40.0 per cent of the cost of purchasing cars and other imported consumer durables. A limit is also placed on total hire purchase credit. These measures were introduced in Kenya with the aim of discouraging the importation of non-essential goods and to diverting the utilization of financial institutions, limited resources from the less-productive sectors to the more productive sectors of the economy.

The latter objective was further enhanced when in 1980/81 the Central bank of Kenya extended the granting of minimum credit allocation to agriculture to cover non-bank financial institutions as defined under the Central Bank Act (i.e. excluding insurance companies). The minimum credit to agriculture currently required of these institutions is 10.0 per cent.

6. *Moral Suasion*

The effectiveness of moral suasion, as with all other policy instruments, varies from country to country. In Nigeria, for example, the major channel for implementing the Central Bank's moral suasive power on the banks is the Bankers' Committee meeting which is presided over by the representative of the Central Bank and reviews from time to time the monetary and credit conditions as well as policies being pursued. The exchange of views has proved beneficial for ensuring the co-operation of the banks with the monetary authorities.

In Zimbabwe and Kenya, moral suasion is also used to influence the banks compliance with the respective central bank's regulations and guidelines. While this policy instrument has proved relatively effective in Kenya, its effectiveness is even more pronounced in Zimbabwe. As was mentioned earlier, there are no specific statutory guidelines for credit policy in Zimbabwe since the Reserve Bank realises that moral suasion is quite capable by itself of making banks respect official priorities in their credit operations.

For example, the Reserve Bank of Zimbabwe has relied solely on moral suasion to make banks (commercial and merchant banks) provide adequate funds for the credit needs of the Agricultural Marketing Authority (AMA).

The effectiveness of moral suasion in Zimbabwe and Kenya may be attributed to the relative smallness of the two economies along with the fact that every major financial institution in both countries has its head office and most of its operations in the national headquarters Harare and Nairobi, respectively. Furthermore, in Kenya the financial institutions have traditionally found co-operation with the Central Bank to be in their best interest, especially since the Bank has had a reputation of being an active participant in the rapid growth of the financial system. In Zimbabwe, the long period of international sanction against her following the Unilateral Declaration of Independence (UDI) in 1965 had a side effect of enhancing the effectiveness of moral suasion by the Reserve Bank of Zimbabwe. During the period which lasted about fifteen years, it was generally quite easy for the Reserve Bank to appeal to the sense of patriotism of the Zimbabwean financial community to follow some approved principles. Ever since, the Reserve Bank of Zimbabwe has held a firm grip on the financial community.

7. *Summary and Concluding Remarks*

This paper has briefly examined the financial systems and the various monetary policy instruments employed by the Reserve Bank of Zimbabwe and the Central Banks of Kenya and Nigeria. It has been observed that the three financial systems discussed in this paper have acquired a good degree of sophistication. In the case of Zimbabwe, the level of sophistication of its financial system as well as the limited government interference in the affairs of the Reserve Bank, has enhanced the Bank's ability to effectively perform its various roles as a central bank.

While policy tools such as the reserve requirements, variable bank rate and even open-market operations are used from time to time, the Reserve Bank has also found moral suasion quite an effective policy tool in making banks and most of the other financial institutions to toe its policy lines. By comparison, the Central Bank of Kenya does not possess the necessary grip on the domestic financial system as the Reserve Bank of Zimbabwe does largely because of Government influence on the Bank and partly because of the relatively larger size of the Kenyan financial system. Similarly in Nigeria, while the use of various instruments of monetary policy continues to yield reasonable results, monetary policy has proved less effective for economic stabilization because of its subservience to fiscal and other government policy. Government fiscal operations particularly its increasing dependence on the banking system to finance its deficit is also beginning to threaten the effectiveness of monetary policy in Zimbabwe. This has been so, particularly, since 1979/80, when the contribution of the Zimbabwean banking system to the finance of

government budget deficit has been increasing substantially.

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TABLE 1

NIGERIA: MONEY SUPPLY 1970-1981

(₦ Million)

End of Year	Currency Outside Banks	Demand Deposits[1]	Money Supply (M_1[2])	Demand Deposits as percentage of M_1	Quasi Money (QM)	M_2[3]
1970	342.3	266.0	608.4	43.7	336.7	945.1
1971	354.5	274.4	628.9	43.6	371.8	1,000.7
1972	385.2	315.0	700.2	45.0	456.9	1,157.1
1973	435.9	391.3	827.2	47.3	582.3	1,409.5
1974	569.8	608.5	1,178.4	51.6	973.4	2,151.8
1975	1,030.7	1,013.4	2,044.1	49.6	1,572.4	3,616.5
1976	1,540.0	1,941.8	3,481.8	59.0	1,979.2	5,461.0
1977	1,593.5	2,453.9	4,047.4	60.0	2,255.1	6,302.5
1978	2,157.2	2,628.6	4,785.8	54.9	2,601.7	7,387.5
1979	2,350.8	3,795.8	6,146.6	61.8	3,702.1	9,848.7
1980	3,185.9	6,040.9	9,226.8	65.5	5,163.2	14,390.0
1981	3,861.9	5,883.0	9,744.9	60.4	5,796.1	15,541.0

Source: Central Bank of Nigeria *Economic and Financial Review;* various issues

[1] Demand (current) deposits with the banking system net of government (Federal) deposit.

[2] Money supply is defined as currency outside banks plus private demand deposits with the Central Bank and commercial banks less Federal Government deposits at Central Bank and commercial banks.

[3] $M_2 = M_1 + QM$

TABLE 2

ZIMBABWE: MONEY SUPPLY (1975-1981)

Z $ Million

End of Year	Money (M1[1])							Near Money[2]			Total Money and Near Money (M_2)
		Demand Deposits with									
	Notes and coin in Circulation	Reserve Bank	Discount Houses	Commercial Bank	Accepting Houses	Total	Total	Savings	Fixed	Total	
1975............	66.9	6.8	15.8	195.5	39.1	257.2	324.1	92.6	23.9	116.5	440.6
1976............	79.2	3.6	21.9	202.1	45.2	272.8	352.0	120.5	45.5	166.0	518.0
1977............	83.9	2.5	23.5	215.7	48.9	290.6	374.5	147.4	30.2	177.6	552.1
1978............	95.2	3.0	21.3	249.1	46.4	319.8	415.0	169.7	41.1	210.8	625.9
1979............	107.6	2.0	19.4	283.7	50.5	355.6	463.2	200.7	45.6	246.3	709.5
1980............	157.2	2.8	26.9	394.8	51.1	475.6	632.8	260.5	58.6	319.1	951.9
1981............	198.5	2.5	14.0	421.2	42.5	480.2	678.7	273.1	83.0	356.1	1,034.8

Source: Reserve Bank of Zimbabwe: *Quarterly Economic and Financial Review* various issues

[1] The money supply (M_1) is defined as notes and coin in circulation plus demand deposits with the monetary banking sector.

[2] Near money is defined as savings plus fixed deposits of less than 30 days to maturity held with commercial banks.

TABLE 1(a)

CENTRAL BANKING: CENTRAL BANK OF NIGERIA STATEMENT OF ASSETS & LIABILITIES (₦ million) – ASSETS

End of Year and Month	FOREIGN ASSETS						DOMESTIC ASSETS											
	External Reserves				Others		Government Securities				Rediscounts							
	Gold	Foreign Treasury Bills and Bank Balances	Foreign Government Securities	Total	Foreign Bank Balances and Securities	Total	Treasury Bills	Treasury Certificates	Others	Total	Treasury Bills	Treasury Certificates	Commercial Bills	Total	Advances	Investment	Other Assets	Total Assets
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
December 1977	99.1	572.5	230.4	902.0	1,619.0	2,521.0	78.2	75.5	216.3	370.0	82.8	4.1	84.3	171.2	1,536.1	92.5	107.8	4,798.6
December 1978	154.6	753.4	34.5	942.5	136.0	1,078.5	12.2	1,160.3	826.6	1,999.1	15.1	16.7	77.1	108.8	1,590.5	29.2	323.0	5,129.1
December 1979	166.4	2,606.3	118.6	2,891.3	172.4	3,063.7	0.2	1,072.8	1,410.8	2,483.8	23.1	13.9	79.2	116.3	467.9	187.2	245.5	6,564.4
December 1980	244.2	4,207.3	869.4	5,320.9	148.2	5,469.1	—	1,590.9	1,268.4	2,859.3	1.1	0.4	79.2	80.7	450.3	226.8	271.2	9,357.4
December 1981	428.0	540.0	1,357.2	2,325.2	115.8	2,441.0	3,404.9	1,112.5	1,529.1	6,046.5	5.0	1.2	79.2	85.4	565.7	265.5	305.3	9,709.4
1982																		
January	428.0	−200.9	1,336.4	1,563.5	115.8	1,679.3	3,289.2	896.0	1,508.5	5,693.7	20.9	1.2	79.2	101.3	1,396.1	265.5	348.0	9,483.9
February	428.0	160.0	1,042.5	1,630.5	95.5	1,726.0	2,982.0	698.1	1,501.7	5,181.8	100.3	8.9	79.2	188.4	1304.5	265.5	265.7	8,931.9
March	425.0	39.6	417.5	882.1	94.5	976.6	3,019.2	698.1	1,518.3	5,235.6	206.4	10.8	79.2	296.4	1,593.3	265.5	221.7	8,589.1
April	20.3	536.0	201.1	757.4	15.7	773.1	3,255.2	885.1	1,487.8	5,628.1	157.1	10.8	79.2	247.1	1,445.9	265.5	395.3	8,755.0
May	19.0	525.3	195.6	739.9	16.2	756.1	3,172.9	885.1	1,470.5	5,528.5	340.5	10.8	79.2	430.5	1,822.2	265.5	400.1	9,202.9
June	19.0	631.3	191.3	841.6	16.2	857.8	2,874.5	885.1	1,450.0	5,209.6	98.6	10.8	79.2	188.6	2,025.9	265.9	418.7	8,966.5
July	19.0	634.4	187.1	840.6	16.2	856.7	2,481.1	891.0	1,453.4	4,825.5	86.9	63.2	79.2	229.3	2,482.3	273.7	390.7	9,058.2
August	19.0	582.6	186.1	787.7	16.2	803.9	2,132.1	908.3	1,798.5	4,838.9	138.6	93.0	79.2	310.8	3,342.5	273.7	454.5	10,024.3
September	27.3	638.6	188.9	854.8	15.9	870.7	1,824.0	802.6	1,691.2	4,317.8	16.8	41.5	79.2	137.5	4,123.6	273.7	430.2	10,153.5
October	48.9	818.5	188.7	1,056.1	15.9	1,072.0	1,305.4	842.3	1,679.5	3,827.2	321.2	60.2	79.2	460.6	4,307.1	273.7	480.9	10,421.5
November	48.9	648.5	188.0	885.4	15.8	901.2	1,050.3	810.0	1,681.3	3,541.6	536.7	60.0	79.2	675.9	4,349.4	273.7	501.3	10,243.1
December	48.9	780.9	196.6	1,026.4	15.1	1,041.5	5,463.7	900.3	1,658.5	8,022.5	89.2	35.7	79.2	204.1	565.4	273.4	551.2	10,658.1
1983																		
January	48.9	931.4	196.5	1,176.8	14.7	1,191.5	5,321.9	895.3	1,637.9	7,855.1	311.6	35.7	79.2	426.5	1,326.3	273.4	400.9	11,473.7
February	48.9	894.0	202.8	1,145.7	14.7	1,160.4	5,334.2	895.3	1,630.6	7,860.1	630.9	35.7	79.2	745.8	875.0	273.4	453.2	11,367.9
March	48.9	625.0	202.6	876.5	14.7	891.2	2,911.8	1,057.2	1,613.6	5,582.6	28.4	35.7	79.2	143.3	3,843.8	273.4	411.7	11,146.0
April	49.8	546.8	202.6	799.2	14.7	813.9	3,656.6	1,042.8	1,609.9	6,309.3	292.3	35.7	79.2	407.2	3,217.8	275.8	391.9	11,415.9
May	49.8	581.2	201.6	832.6	14.7	847.3	3,956.3	1,088.1	1,594.3	6,638.7	313.9	35.7	79.2	428.8	2,853.6	275.8	415.1	11,459.3
June	48.5	535.5	189.5	773.5	14.7	788.2	4,304.9	1,088.1	1,573.7	6,966.7	49.0	35.7	79.2	163.9	2,708.6	285.2	310.7	11,223.3

[1] Includes I.M.F. Gold Tranche and Special Drawing Rights (SDRs)

TABLE 3

KENYA: MONEY SUPPLY (1970-1980)
(K Shs Million)

End of Year	Money Supply M_1	Quasi Money	M_1 + Quasi Money (M_2)
1970	2410.9	1094.5	3505.5
1971	2588.8	1180.7	3769.5
1972	3029.7	1265.4	4295.1
1973	3861.7	1494.4	5356.0
1974	4016.0	1803.3	5819.3
1975	4539.9	2274.2	6814.1
1976	5674.3	2780.4	8454.7
1977	8427.4	3985.7	12413.1
1978	9301.1	4816.7	14117.8
1979	10636.9	5759.3	16396.2
1980	9899.5	6308.5	16208.0

Source: Central Bank of Kenya: *Annual report* 1981
[1] M_1 = Currency outside banks plus private demand deposits in commercial banks.

TABLE 4

NIGERIA: COMMERCIAL BANKS' MONTHLY AVERAGE LIQUIDITY RATIOS (IN PER CENT) 1970-1981

YEAR	STATUTORY LIQUIDITY REQUIREMENT	LIQUIDITY RATIOS	EXCESS LIQUIDITY RATIOS
1970	25.0	94.5	69.5
1971	,,	73.7	48.7
1972	,,	61.8	36.8
1973	,,	63.8	38.8
1974	,,	65.0	40.0
1975	,,	68.5	43.5
1976	,,	59.1	34.1
1977	,,	52.7	27.7
1978	,,	38.4	13.4
1979	,,	45.1	20.1
1980	,,	47.6	22.6
1981	,,	38.5	13.5

(Source: Central Bank of Nigeria)

TABLE 5

ZIMBABWE: LIQUIDITY RATIOS OF MONETARY BANKS AND OTHER FINANCIAL INSTITUTIONS 1975-1981

(Z$ million)

	Commercial Banks		Accepting Houses		Finance Houses		Building Societies	
End of Year	Liabilities to the Public	Liquid Asset Ratio %	Liabilities to the Public	Liquid Assets Ratio %	Liabilities to the Public	Liquid Assets Ratio %	Liabilities to the Public	Liquid Assets Ratio %
1975....	523.2	40	112.3	61	117.4	22	336.8	18
1976....	574.5	37	125.2	60	115.2	20	363.1	19
1977....	629.7	35	135.4	49	99.6	22	395.0	20
1978....	635.7	41	153.2	63	88.9	22	447.5	21
1979....	661.8	53	156.1	64	87.9	22	506.8	25
1980....	532.9	48	204.8	60	114.0	21	572.1	25
1981....	1089.9	42	190.0	52	164.2	26	570.6	23

Source: Reserve Bank of Zimbabwe: *Quarterly Economic and Financial Review*. Various issues

[1] Commercial Banks are required to hold liquid assets equal to 35% of their Liabilities to the public as at the end of the previous month. Prior to May 1979, this ratio was 25%.

[2] Prescribed liquid assets ratio for accepting houses is 30%. Prior to May 1979, it was 20%.

[3] The minimum liquidity ratio for finance houses is 20%. It was 15% before April 1981.

[4] Building Societies are required to hold a minimum liquidity ratio of 20%. Before May 1979, this ratio was 15%.

TABLE 6

KENYA: COMMERCIAL BANKS' LIQUIDITY RATIOS 1971-1981

(KSHS million)

End of Year	Deposit Liabilities	Required Ratios	Liquidity Ratios	Excess Liquidity Ratios
1971................	3139	12.0	17.4	5.4
1972................	3226	15.0	22.2	7.2
1973................	4114	15.0	25.2	10.2
1974................	4180	16.0	20.8	4.8
1975................	5326	15.0	18.9	3.9
1976................	6862	18.0	24.6	6.6
1977................	10199	18.0	28.4	10.4
1978................	11064	18.0	22.7	4.7
1979................	12542	16.0	23.4	7.4
1980................	12104	16.0	18.2	2.2
1981................	13440	15.0	19.3	4.3

Source: Central Bank of Kenya: Annual Report 1981.

Table 7

NIGERIA: SELECTED PREDOMINANT INTEREST RATES 1970-1981

(Per cent Per Annum)

	Commercial Bank Deposit Rates					Money Market Rates		
	Time Deposits				Savings	CBN Minimum Rediscount	Treasury Bill Rate	Commercial Bank's Minimum Lending
End of Year	3 Months	3-6 Months	6-12 Months	Over 12 Months		Rates		Rates
1970	3.00	3.00	4.50	3.50	3.00	4.50	4.00	7.00
1971	3.00	3.00	3.50	4.00	3.00	4.50	4.00	7.00
1972	3.00	3.50	4.00	4.00	3.00	4.50	4.00	7.00
1973	3.00	3.50	3.50	4.00	3.00	4.50	4.00	7.00
1974	3.00	3.50	3.50	4.00	3.00	4.50	4.00	7.00
1975	3.00	3.00	3.00	4.00	4.00	3.50	2.50	9.00
1976	2.50	2.50	3.50	3.50	4.00	3.50	2.50	6.00
1977	3.00	3.00	3.00	2.00	4.00	4.00	3.00	6.00
1978	4.75	5.00	5.25	5.50	5.00	5.00	4.00	7.00
1979	5.50	5.50	6.00	6.50	5.00	5.00	4.00	7.50
1980	5.75	6.00	6.25	6.50	6.00	6.00	5.00	7.50
1981	5.75	6.00	6.25	6.50	6.00	6.00	5.00	9.50

Table 8

ZIMBABWE: SELECTED PREDOMINANT INTEREST RATES (1975-1981)

(In per cent)

	Commercial Bank Deposit Rates[1]			Money Market Rates		
	Time Deposit Rates					
End of Year	Up to 3 Months	Up to 12 Months	Up to 24 Months	Bank Rate	Treasury Bill Rate	Minimum Lending Rate
1975	3.25- 4.00	4.00- 5.00	5.00- 6.00	4.50	3.55	7.5
1976	3.25- 3.75	4.00- 5.75	5.00- 5.75	4.50	3.60	7.5
1977	3.00- 3.50	3.75- 4.60	4.75- 5.50	4.50	3.55	7.5
1978	3.25	3.90- 4.25	5.00- 5.25	4.50	3.61	7.5
1979	3.00- 3.25	4.00- 4.25	5.00- 5.15	4.50	3.57	7.5
1980	3.20- 3.50	4.00- 4.40	5.00- 5.25	4.50	3.30	7.5
1981	8.25-14.50	8.25-12.00	9.25-12.50	9.00	8.18	13.0

Source: Reserve Bank of Zimbabwe: Quarterly Economic and Statistical Review, various issues.

[1] Institutions of the same type quote different rates.