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Promoting money market development in Nigeria (1960-1985)

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PROMOTING MONEY MARKET DEVELOPMENT IN NIGERIA (1960–1985)

Abstract

This presentation reviews attempts on the part of the monetary authorities to promote a money market in Nigeria. It discusses conceptual issues of definition, structure and role of the market, idealising the working of the system under normal conditions. An examination of the evolution of the market in Nigeria is also carried out with a view to ascertaining the extent to which it approximates reality. In the process, both successes and failures of the market are highlighted. The study ends with suggestions as to how the scope of the market could be enlarged to enable it to meet the economic challenges of the times.

Introduction

The rapid industrialisation and modernisation of any economy depends among other things, on ready access to adequate financial resources. However, capital scarcity has been identified as a fundamental problem facing the developing countries of the world, of which Nigeria is typical. It, therefore, behoves the capital-deficient countries to establish the institutional framework necessary for the mobilisation of the savings of the public for productive investment, for the upliftment of the general living standards of their teeming population.

The Nigerian monetary authorities, in appreciation of the role of capital in a nation's economic growth process have, since the attainment of political independence in 1960, committed themselves to the reorganisation of the country's financial system, so as to re-orient it to the needs and aspirations of the domestic economy. Thus, they have nurtured the financial markets, namely money and capital markets, in order to facilitate the mobilisation of both short and long-term funds necessary for the country's economic growth.

The scope of this paper, however, is limited to money market development in Nigeria. For this purpose, the paper has been divided into four parts. Part I deals with the theoretical basis for a money market, while Part II focuses on the historical development of the market from 1960 to 1985. In Part III, the market is appraised while Part IV reviews prospects for its future growth.

PART I
CONCEPTUAL BACKGROUND

It might be appropriate to begin by drawing a distinction between financial and commodity markets. While the latter describes a place where tangible goods are bought and sold, the former describes a relationship involving the transference at a profit and acquisition at a cost of purchasing power or finances.

Financial markets are a complex of institutional arrangements through which financial resources accumulated by savers of funds are transferred to ultimate borrowers who may be individuals, corporate bodies or governments, for investment in economic activities which include both production and distribution. They deal in both short and long-term finance.The money market, which is the main focus of this paper, is the short-term end of the financial market whereas the capital market deals in longer-term loanable funds.

The Money Market:

An anatomy of this market would reveal the following component parts, viz:– financial instruments, financial institutions, and their interrelationships.

Money market instruments are readily marketable or convertible into cash, and their maturities range between a few days and one or two years. Examples of these are treasury bills, treasury certificates, promissory notes, money at call, commercial paper and certificates of deposit (CDS). They are the evidences of debt originating in financial transactions in which purchasing power is transferred from surplus spending units (buyers) to deficit spending units (sellers) (Chandler & Goldfield, 1977, p. 58). These claims constitute a liability to those units issuing them and an asset to the holders who can dispose of them before or at maturity in order to finance consumable goods.

Financial institutions, or intermediaries as they are often called, act as middlemen in transferring funds from original lenders to ultimate borrowers for productive investments. They acquire loanable funds from surplus spending units who do not spend all of their income by issuing their own liabilities to the public and then round and lend to deficit units who can now spend more than their income by purchasing financial assets or instruments. Thus, the institutions mobilize the savings of small savers and package them for the highest bidders (Ritter & Silber, 1977, p. 10). This is called indirect finance, unlike a situation in which the ultimate borrowers and lenders are directly matched. Financial institutions include commercial banks which, by virtue of their position, control the largest proportion of the assets of the financial system and play a dominant role. Others are merchant banks, mutual funds and loans associations, savings-type institutions such as the savings banks and insurance companies.

The roles of the Central Bank in the money market are distinct. Not only does the Bank create money that services the system; it acts as the ultimate source of credit or lender of last resort to the market through the provision of rediscount facilities.

The price paid by the borrower for loanable funds is the interest rate which represents an income or inducement for the supplier such funds and a cost to the borrower. In a free enterprise system, economic freedom allows for the determination of the rate of interest through the interaction of the forces of supply and demand.

Having discussed the structure of the market, it remains to add that the fostering of an efficient money market would, all things being equal, depend on the following assumptions, viz:—

(i) Sufficient instruments in terms of volume and range;

(ii) Institutions of various types including building societies, loans and mutual associations, as well as institutional and individual investors; and

(iii) Realistic interest rates to encourage suppliers of credit to part with their savings to investors of funds.

In this way, the market serves as a potent tool for the efficient allocation of resources necessary for economic growth as well as provide the basis for the operation and execution of an effective monetary policy.

With the establishment of a money market in Nigeria, therefore, opportunities are provided for the mobilization of liquid funds to meet the temporary credit requirements of both public and private sectors of the economy. Banks can also economise on their cash holdings and adjust their liquidity positions as conveniently as possible. Besides, market facilities would provide the monetary authorities the basis for affective and smoother monetary management.

PART II
REVIEW OF HISTORICAL DEVELOPMENT

Prior to the establishment of the Central Bank, Nigeria had no organised domestic money market. What existed as one was linked to the London Money Market which, in effect, meant that short-term funds of the banks operating in the country were usually transferred overseas for investment in foreign treasury bills. This was due largely to the seasonality of demand for credit to which the banks were subjected. For example, demand for bank credit was highest during the produce season, usually between October and January. During the slack business periods (February to September), the banks remitted their huge accumulated funds overseas for employment. Thus, this resulted in a net outflow of capital at a time when the country needed all the capital it could lay hands upon for development.

Developments during the period, 1960–1985, can be subdivided into three phases, viz: the decade ended 1970, during which period the credit base was domesticated and government borrowing grew rather rapidly; the decade ended 1980, which could be described as the oil boom phase with its attendant excess liquidity and the consequent threat to the survival of the market; and the current period (1981–85) during which time the market was most active, following declines in government revenue brought about by the glut in the world petroleum market.

Developments between 1960 and 1970

This decade 1960–70 witnessed efforts on the part of the monetary authorities to encourage the growth of the money market in Nigeria. In April 1960, treasury bills were first issued to the tune of ₦18.0 million. The permissible limit of issues of this particular instrument was initially set at 10 per cent of estimated Federal Government Revenue (CBN, March–June 1977, p.11). It was the over-riding interest of the government to encourage the growth of the market that persuaded it to issue treasury bills in excess of its own immediate financial needs, particularly during the formative years of the treasury bill market. After three successive amendments to the provisions limiting the permissible limit of total treasury bill issues between 1968 and 1970, the ratio was raised from 10 to 150 per cent. Thus, by the end of the decade, the amount of treasury bills outstanding had risen to ₦556.0 million (see table 1).

In 1962, the Call Money Fund Scheme was introduced. The Scheme provided banks with a temporary investment outlet for their surplus funds. By law, financial institutions were required to maintain minimum balances with the Central Bank for clearing purposes. Any excess over these balances were lent to the Fund for investment in Treasury bills. By 1970, investments in treaury bills under the Call Money Fund Scheme had averaged ₦12.7 million monthly.

Commercial bills also became an important money market asset when the Produce Bills Finance Scheme was introduced in 1962. Prior to this date, the commercial banking system had tended to draw on overseas centres for a major portion of credit required to finance the marketing of agricultural produce. Under this scheme, the purchases of Nigeria's main agricultural export crops by Marketing Boards were financed by a consortium of commercial banks and acceptance houses in Nigeria, which discounted the 90-day produce bills drawn on and accepted by the Nigerian Produce Marketing Company (NPMC). The bills, apart from being made rediscountable at the Central Bank, were made eligible assets for the purpose of satisfying the liquidity ratio requirement for commercial banks, as a further encouragement for the scheme.

In May 1968, however, the produce bill finance arrangement was abolished following the refusal of banks to discount cocoa and cotton bills in 1964 and 1967, respectively, because of sales uncertainties in those years. As a result, commercial paper nearly got dried up as the amount of this instrument outstanding fell drastically from ₦36.4 million at the end of 1967 to ₦5.1 million in 1968 (see table 1). From then on, the Central Bank became directly responsible for produce financing. What remains today of the commercial paper market, following the disappearance of produce bills, are import and domestic trade bills.

Another major money market development was the introduction in 1968 of the treasury certificate – a medium-term government debt instrument. Intended to bridge the maturity gap between the treasury bill and development stock, the introduction of this instrument was prompted by two major factors. The first had to do with the shortage of money market instruments following the demise of the produce bill scheme. Its introduction helped to broaden the scope of the money market as well as diversify the assets portfolio of the banks. The other reason was found in the increasing need by government for new sources of funds for the purpose of financing a war-economy. The introduction of treasury certificates made up of two tranches – one and two-year maturities – thus increased the borrowing capacity of the then Federal Military Government. The maiden issue of this instrument amounting to ₦20.0 million was over-subscribed by the commercial banks by ₦24.0 million. At the end of 1970, treasury certificates outstanding had risen to ₦236.0 million (see table 1).

Summarising developments in the Nigerian money market during the decade 1960–70, two issues stand out. First, was the localisation of the credit base and the gradual growth of the market through the introduction of treasury bills, Call Money Fund Scheme, Produce Bill Finance Scheme, and Treasury Certificates. So far, events had been experimental as instruments traded, by type, remained scanty. Secondly, there had been a rapid growth in government borrowing resulting from the need to finance the prosecution of the Nigerian civil war and the post-war reconstructions. Consequently, government short-term borrowing became the dominant factor during this period influencing the expansion of the two main government debt instruments – treasury bills and treasury certificates. The treasury bill Act, for example, had to be amended accordingly to accommodate the substantial increase in short-term borrowing need of the Federal government. Thus, the statutory limit on this instrument was raised in 1968, 1969 and March 1970 to 85 per cent, 100 per cent and 150 per cent, respectively, of the estimated revenue retained by the Federal Government and the gross revenue of the states (CBN, 1979, p.110). Thus on annual average basis, government short-term debt instruments accounted for about 98.8 per cent of total money market assets in Nigeria between 1968 and 1970.

The historical development of the market in the decade since political independence in 1960 would not be complete without a brief review of the evolution of the institutions themselves. From 12 banks and a total of 160 offices and branches in 1960, the number of bank branches in the country increased to 297 in 1970. By the end of the review period, total assets/liabilities of the commercial banking system had hit the one billion naira mark (₦1,152.0 million) from a mere ₦238.5 million in 1960. Only one institution (Nigerian Acceptances Limited), however, carried on merchant banking business during the period under review. By 1970, its assets/liabilities stood at ₦7.8 million. The Central Bank of Nigeria, apart from its head office in Lagos, had by 1970 established six full-fledged branches with clearing facilities in some parts of the Federation. The branches are Kano (1963), Port Harcourt (1964), Ibadan and Enugu (1966), Benin (1967) and Kaduna (1969).

Developments between 1970 and 1980

Bank credit to government sector (through investments in government debt instruments) remained the major source of government finance until 1973 when oil took over. The dominance of the oil sector meant that government had no need for further accumulations of short-term debts as its earnings from oil were sufficient to meet its immediate financial needs. Consequently, government debt instruments outstanding stagnated up till the end of 1976, at the 1972 levels. New issues were made just to replace maturing ones in order to keep the market alive. After 1976, however, new issues of government-debt instruments were resumed following the downturn in government revenue from oil.

Between 1973 and 1977, the government turned from being a large net borrower into a net lender to the banking system – a situation of excess liquidity created mainly through the monetisation of the naira counterpart of government revenue from oil. The decision of the government to stop borrowing from the system led to the relative scarcity of its major borrowing instruments. Thus, in 1974, the Call Money Scheme had to be abolished due to the relative scarcity of treasury bill in which the Fund invested. Besides, the Central Bank had to resort to rationing existing supply of treasury bills and certificates which fell short of demand from the financial institutions. The situation of excess demand for government short-term debt instruments was even aggravated in 1975 by the retirement of ₦58.0 million worth of treasury certificates as they matured. Meanwhile, the cash ratio of the commercial banking system kept rising.

Steps were taken by the authorities to remedy the situation of supply shortage of money market instruments in relation to existing level of liquidity. The first measure was that the Central Bank released to the market the Federal Government holdings of both treasury bills and treasury certificates. By October 1974, Federal Government's entire holdings of treasury bills which amounted to ₦237.2 million in the preceding January had been released to the market (CBN, 1974, p.51).

In 1975, the Central Bank introduced into the market two new instruments – the Certificates of Deposits (CD) and Bankers' Unit Fund (BUF).

An inter-bank debt instrument, the CD's were to provide investment outlet for the commercial banks' surplus funds. It was also expected to open up a new source of funds for the merchant banks who are the principal issuers. Two types of CD's are distinguishable – the negotiable and non-negotiable certificates of deposit. Negotiable CDs (NCD) have a maturity range of between 3 and 36 months and wholesale unit issue of not less than ₦50,000. Those maturing within 18 months are classified as liquid assets and are eligible for the purpose of satisfying the liquidity ratio requirements. They are also rediscountable at the Central Bank. The non-negotiable certificates of deposit (NNCDs) on the other hand, are issued in denominations ranging between ₦1,000 and ₦50,000 and are normally held till maturity. Whereas interest charges on NCD's are by negotiation, rates on NNCD's comply with the rate of interest on deposits as stipulated from time to time by the Central Bank (CBN, 1975, p.60).

The Bankers' Unit Fund was intended to provide avenue for the commercial and merchant banks as well as other financial institutions to invest part of their liquid funds in a money market asset linked to Federal Government Stocks. Participants in this scheme invest in multiples of ₦10,000 and the Fund is in turn invested in available Government Stocks of various maturities. The operation of the scheme was subject to the availability of stocks. Any bank's investment in the Fund counts as part of its liquid assets. The whole or part of an investment in the Fund by any participant is repayable on demand provided calls are made in multiples of ₦10,000 and the Fund is in turn invested in available Government Stocks of various maturities. The operation of the scheme was subject to the availability of stocks. Any bank's investment in the Fund counts as part of its liquid assets. The whole or part of an investment in the Fund by any participant is repayable on demand provided calls are made in multiples of ₦10,000. Interest is payable every twelve months from the date of initial investment of funds in the scheme (CBN, 1975, p.60). Under the BUF, Federal Government Stocks of not more than three years to maturity were designated "eligible development stock" for the purpose of meeting the banks' specified liquid assets requirements (CBN, 1979, p.136).

In spite of the release to the market of Federal Government-held treasury bills, as well as the introduction of additional instruments the market supply did not improve significantly as at the end of December 1975. In fact, the cash ratio of the commercial banking system had risen even faster than ever before. For example, the cash ratio of the banking system that year averaged 26.3 per cent – 14.8 percentage points higher than the average level for 1974 (see Table 3). At the end of December 1975, total certificates of deposit, bankers' unit fund and eligible development stocks outstanding stood at ₦49.8 million, and constituted only 5.1 per cent of total money market assets (see Table 1). Their minimal contribution to the solution of the problem that faced the market at the time was due largely to the fact that they were introduced during the later part of the year, and therefore did not have sufficient time to make any meaningful impact on the system.

From 1976, however, it was a different story. The new instruments together rose to ₦175.4 million in 1976 and ₦437.4 million in 1977 – constituting 11.9 and 21.3 per cent, respectively, of total money market assets. Also, increased issues of government debt instruments (namely treasury bills and certificates) were made to meet government's budgetary deficits, following a decline in revenues from crude petroleum exports. Consequently, total money market assets outstanding increased significantly by ₦486.2 million or 49.4 per cent to ₦1,470.4 million at the end of December 1976, and rose further to ₦2,054.6 million in 1977. By the end of December 1980, total money market assets outstanding stood at ₦5,075.6 million.

Due largely to the availability of new market instruments, the cash ratio of the commercial banking system declined sharply. From 32.0 per cent in 1976, the banks' cash ratio averaged 16.1 per cent monthly in 1977. By 1980, it had declined further to 10.6 per cent, on a monthly average basis.

There was a remarkable improvement in physical bank expansion between 1970 and 1980. By the end of the decade, for example, the number of commercial banks in the country had risen to 20 with about 740 offices and branches. Their assets/liabilities also grew significantly from ₦1,152.0 to ₦16,340.5 million. The growth in bank facilities, particularly during the second half of the decade ended 1980 owed to the Rural Banking Scheme established in 1977 and designed to inculcate banking habits in the rural population as well as promote the economic transformation of the rural areas. Under the first phase which terminated in 1980, commercial banks in the country were expected to have opened 200 rural branches.

The number of merchant banks in the country increased from one in 1970 to six with a total of 15 branches in 1980. Total assets/liabilities also increased from a mere ₦7.8 to ₦1,008.2 million during the same period.

Central Bank branches and currency centres (excluding the Head Office) had by the end of the review period, totalled fifteen.

Developments from 1981–85: The most active demand for loanable funds in the money market occurred during this period, following the oil glut in the world market that set in by the first quarter of 1981, which put severe pressure on government finances. The Federal Government was thus compelled to make increased use of short-term borrowing instruments, mainly "Ways and Means" advances and treasury bills, to bridge budgetary gaps. For example, treasury bills outstanding, which stood at ₦2,119.0 million in 1980, had by the end of 1985 increased 8 times to ₦16,976.0 million. Treasury certificates outstanding also rose from, ₦2,727.6 to ₦6,644.1 million during the same period, while the value of total money market assets outstanding rose from ₦5,075.6 to ₦24,017.3 million.

However, while the share of government debt instruments rose steadily from 95.4 to 98.3 per cent; the proportion of certificates of deposit, bankers' unit fund and eligible development stocks declined from 3.6 to 1.1 per cent. The share of commercial paper also declined due to declining economic activities which adversely affected import trade. Institutional investors' preference switched to treasury bills and certificates as alternative investment outlets because of their relative attractiveness, in the wake of weak demand for bank credit.

Central Bank assistance to the market by way of rediscounts increased from ₦231.8 million in 1980 to ₦7.2 billion in 1985.

The slowdown in general economic activities during the review period appeared not to have constrained the physical expansion of banking facilities. As at the end of 1985, for example, commercial banks in the country numbered 28 with a total of 1,284 offices and branches, and the rural banking programme had entered its third phase (1985–89) during which period 300 rural branches are expected to be opened. Merchant banks totalled 12 with 26 branches, while the Central Bank had established offices and branches in all the state capitals of the Federation.

PART III
APPRAISAL OF THE NIGERIAN MONEY MARKET

It is worth recalling that the reasons for setting up a money market in the country were to:-

(i) indigenise the credit base;
(ii) meet the temporary financial needs of the government;
(iii) enhance the effectiveness of monetary management.

It is therefore pertinent to evaluate the development of the market in terms ofthe achievement of those objectives.

Indigenising the credit base:

The domestic money market has in no small measure succeeded in providing facilities for the retention of funds in the Nigerian economy. By generating short-term financial assets, the market has thus created investment outlets for financial institutions in the country to hold their idle cash balances that would have probably been transferred abroad.

The achievement of this objective, particularly during the formative years of the market (July 1959 to March 1962), was made possible through the adoption of competitive and flexible interest rate policy. Domestic rates which were linked with overseas rates, were revised periodically as they varied in the London money market in such a way as to make it more favourable for banks to invest their short-term funds in Nigeria. This devise was also aimed at encouraging those banks to repatriate their short-term funds from London and hold them in Nigeria (CBN, April–June 1978, p.16).

Thus between January 1960 and March 1962, commercial banks' investments in thecountry increased from ₦1.4 million to ₦12.6 million - a reflection of the tendency for banks to retain and invest their surplus funds in Nigeria.

That the cash ratio of the banking system maintained a reasonably low level over the years, except during the oil boom era when it rose rather sharply, is attributable to the fact that there exist avenues for the banks to invest their short-term surplus funds.

However, one major problem facing the market generally (since its formative years, and to which the author shall return later), is that of low interest rate structure which makes investment in financial assets by non-bank public non-competitive with comparable investment channels.

Meeting government's financial needs:

The money market has been active in the mobilization of funds from saver-lenders and the transmission of such funds to borrower-investors, particularly the government sector, as illustrated by the share of government debt instruments in the market (Table 1: Column 6). In other words, the most active demand for loanable funds in the money market has always come from the government sector.

In January 1963, for example, treasury bills which were formerly issued fortnightly began to be issued weekly so as to enhance government's borrowing capacity at a time when the Second National Development Plan (1962-68) was just taking off, and a substantial part of domestic financing was expected to be generated within the banking system. By 1968, treasury bills outstanding had risen to ₦240.0 million, compared with ₦48.0 million in 1962 (Table 1).

As mentioned earlier, the need to finance the prosecution of the civil war and post-war reconstructions led to increased government borrowing between 1967 and 1970, through increased issues of the traditional money market instrument, namely treasury bill, as well as the introduction of treasury certificates into the market. Consequently, the share of government debt instruments in the market increased from 82.2 per cent in 1967 to 99.2 per cent at the end of 1970. Government debt instruments, outstanding, also increased during the same period from a mere ₦168.0 to ₦792.0 million (see Table 1).

After 1976, new issues of treasury bills and certificates were resumed to strengthen government's financial position, following shortfalls in revenue from oil. In fact, in 1981, due largely to the glut in the world petroleum market, the Federal Government had to be compelled to make increased use of short-term borrowing, mainly through treasury bills, to bridge budgetary gaps. In that year, treasury bill outstanding increased significantly by ₦3,663.0 million or 172 per cent over the preceding year's level. This trend persists today. As at the end of 1985, for example, the share of government debt instruments in the money market was 98.3 per cent.

But the dominance of government debt instruments in the market should in no way be viewed as a healthy development, especially when investments in them come mainly from the banking system, as this trend could generate inflationary pressures in the economy. In addition, the relative relegation to the background of the private sector generally, as evidenced by the low amount of private sector instruments in the market (Table 1), coupled with the poor level of individual investors' participation, constitute a major factor limiting the attainment of desired results.

Enhancing Monetary Management:

The role of the money market in enhancing the effectiveness of monetary management in Nigerian has been negligible. Although the market now provides facilities for the banking system in the efficient management of the system's liquidity, the market is still narrow, shallow and not fully integrated. "The paucity of the institutions that can reach the rural areas; the lack of expertise in the money market mechanism outside of the main centre – Lagos area, the prevalence of face-to-face lending even in the urban areas, and therefore, the slow development of the technique for the distribution of financial assets – these tend to militate against the rapid development of the market. It is this lack of integration of the financial system that induces the monetary authorities to depend more, for the control of the system, on direct action - minimum reserve requirements, prescribed credit ceilings and administered interest rates – all reflecting the immature status of the Nigerian money market" (Okigbo, 1981, pp.273–274). Thus, the use of open market operations and other traditional tools of monetary policy are indeed not very relevant to the Nigerian situation, at least for now.

A serious problem facing the market has to do with the character of interest rates. The Nigerian experience reveals that interest rates are administered and insulated from the forces of supply and demand in the credit market, and thereby kept relatively low compared to those of the developed countries. In other words, the prevailing low interest rate structure in Nigeria does not sufficiently reflect the true opportunity cost of capital. The observed absence of competitive rates of interest has serious implications for the development and growth of the market, and its influence on the country's rapid economic growth. Thus, "the maintenance of nominal rates below their true economic level in the face of galloping inflation might result in the attrition of organised finance, thereby fuelling direct investment in the unorganised sector, the concomitant effect of which are increased consumption, a slump in investment and savings, misallocation of savings to investment, and inefficient use of resources" (Chandavarkar, March 1971, p.72).

PART IV
PROSPECTS FOR THE FUTURE

So far, experiences have shown that developments in our money market, at any point in time, are dependent on government's financial position. The implication of this phenomenon is that normal course of market operations is disturbed and the very foundation of the market itself is even threatened by developments in the crude petroleum market which directly affect government revenue. In 1974, for example, the "oil boom" and the attendant excess liquidity caused the Call Money Fund Scheme to be abolished, following the dearth of market instruments in which to invest the resources of the Fund. The downturn in government finances after 1976, however, seemed to have been the reviving factor for the moribund money market as new issues of treasury bills and certificates were resumed.

A change of attitude is required of managers of Nigeria's financial system. The market should not only be seen as an arrangement merely for the mobilization of funds for government; rather it should be made to assume additional roles which would broaden its scope and thereby enable the monetary authorities to discharge their traditional functions of monetary management.

For example, Nigeria needs more banks, more branches, and more non-bank financial institutions like building socieities, savings and loan institutions for mobilizing rural and near rural savings in order that closer integration is forged with the urban central market.

Although Nigeria today still remains under-banked compared to other developed countries, our financial system has not fared badly with regard to bank expansion. From 12 banks and a total of about 160 offices and branches in scattered locations in 1960, the number of commercial banks had risen to 19 with well over 500 branches in 1977 when the on-going

Rural Banking Programme was launched. Meanwhile, the programme has entered its third phase under which 300 rural branches are expected to commence business, compared with 200 and 266 branches respectively under the first and second phases. By the end of 1985, there were 28 commercial banks with about 1,284 offices and branches. These developments, no doubt, would go some length in strengthening the foundation of a modern financial system.

However, the current policy compelling existing banks to branch into the rural areas is not enough in forging the desired integration of the financial sector, for branches could still proliferate without making any appreciable impact on both the rural community and the economy generally. What is important is the education of the rural population and the general public on the need to save in banks. Equally necesssary is an attractive interest rate to stimulate increased savings. The savings thus generated could then be invested in financial assets. At present, the level of participation in the money market by individual investors remains very poor due partly to their lack of sufficient knowledge about market facilities.

Complementary to intensified public enlightenment efforts in improving the investment habit of the people, is the role that improved communication channels can play in the integration of the rural and urban markets. With the enhancement of free flow of information, people at opposite ends of the country could engage in market transactions as quickly as possible.

Interest rates, which over the years have remained under direct government regulation, should be made competitive to reflect market trends. An increase in the level of interest rates, for example, would all things being equal, raise savings as well as increase investment in financial assets. Also, with attractive interest rates, government instruments offered to the public would be substantially subscribed without the Central Bank having to absorb the bulk. Apart from this, the role that a realistic interest rate structure can play in the efficient use of a country's real resources can hardly be over-emphasized, especially in a period of galloping inflation such as the one we are witnessing today.

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Table 1

MONEY MARKET ASSETS

YEAR*	₦ MILLION: Treasury Bills Outstanding (1)	Treasury Certificates Outstanding (2)	Commercial Papers Outstanding (3)	CDS, BUF and EDS[1] (4)	Total Outstanding (5)	PER CENT: Govt. Instruments[2] as % of Total (6)	CDS, BUF and EDS[1] as % of Total (7)	Commercial Paper as % of Total (8)
1960	18.0	—	2.3	—	20.3	88.7	—	11.3
1961	34.0	—	2.2	—	36.2	93.9	—	6.1
1962	48.0	—	6.2	—	54.2	88.6	—	11.4
1963	60.0	—	14.8	—	74.8	80.2	—	19.8
1964	68.0	—	30.1	—	98.1	69.3	—	30.7
1965	80.0	—	42.0	—	122.0	65.6	—	34.4
1966	128.0	—	60.1	—	188.1	68.0	—	32.0
1967	168.0	—	36.4	—	204.4	82.2	—	17.8
1968	240.0	20.0	5.1	—	265.1	98.1	—	1.9
1969	340.0	142.0	4.5	—	486.5	99.1	—	0.9
1970	556.0	236.0	6.0	—	798.0	99.2	—	0.8
1971	616.0	256.0	11.2	—	883.2	98.7	—	1.3
1972	616.0	286.0	9.3	—	911.3	99.0	—	1.0
1973	616.0	286.0	7.9	—	909.9	99.1	—	0.9
1974	616.0	286.0	15.4	—	917.4	98.3	—	1.7
1975	616.0	286.0	32.4	49.8	984.2	91.6	5.1	3.3
1976	616.0	652.0	27.0	175.4	1,470.4	86.2	11.9	1.8
1977	619.0	900.0	26.3	437.3	2,054.6	77.4	21.3	1.3
1978	816.0	1,700.0	45.6	248.2	2,809.8	89.5	8.8	1.6
1979	2,119.0	2,210.0	24.3	247.1	4,600.4	94.1	5.4	0.5
1980	2,119.0	2,727.6	48.1	180.9	5,075.6	95.4	3.6	0.9
1981	5,619.0	2,307.6	73.0	286.8	8,286.4	95.7	3.4	0.9
1982	9,619.0	1,668.6	110.4	461.0	11,859.0	95.2	3.9	0.9
1983	13,476.0	4,894.4	153.3	527.4	19,051.1	96.4	2.8	0.8
1984	15,476.0	6,413.1	156.7	366.6	22,412.4	97.7	1.6	0.7
1985	16,976.0	6,644.1	139.0	258.2	24,017.3	98.3	1.1	0.6

*End of Year (December). [1] CD = Certificate of Deposit; BUF = Bankers' Unit Fund; EDS = Eligible Development Stocks.
[2] Treasury bills and certificates
Source: Central Bank of Nigeria.

Table 2

HOLDINGS OF TREASURY BILLS AND TREASURY CERTIFICATES OUTSTANDING

(Holdings Per cent)

December	Central Bank	Call Money Fund	Commercial Banks	Merchant Banks	Governments	Others
1960	15.2	—	20.5	—	—	64.3
1961	39.2	—	17.5	—	—	43.3
1962	19.5	14.2	14.0	—	—	52.3
1963	52.3	11.6	3.9	—	5.4	26.8
1964	19.4	14.3	15.8	—	19.1	31.4
1965	31.2	8.1	16.1	—	12.6	32.0
1966	45.3	5.3	17.5	—	10.2	21.7
1967	56.4	3.5	17.0	—	9.5	13.6
1968	3.3	3.4	75.3	0.2	3.2	14.6
1969	4.9	2.5	69.4	0.5	2.4	20.3
1970	12.8	3.6	63.2	0.5	4.7	15.2
1971	17.2	2.8	33.3	0.3	33.6	12.8
1972	4.1	3.8	41.7	0.5	38.0	11.9
1973	11.7	4.5	42.4	0.8	27.1	13.5
1974	2.2	—	83.7	0.4	3.7	10.0
1975	0.5	—	87.5	0.2	3.1	8.7
1976	0.7	—	83.2	1.1	1.2	13.8
1977	15.1	—	69.4	2.0	1.5	12.0
1978	47.9	—	37.8	0.6	1.4	12.3
1979	24.8	—	49.5	1.4	1.8	22.5
1980	32.8	—	50.2	1.2	0.8	15.0
1981	55.8	—	21.9	0.9	0.2	21.2
1982	56.4	—	25.0	1.5	0.0	17.1
1983	52.1	—	28.0	2.1	0.1	17.7
1984	41.9	—	39.9	4.1	0.0	14.1
1985	41.9	—	43.4	4.8	0.1	9.8

Source: Central Bank of Nigeria.

Table 3

LIQUIDITY AND CASH RATIOS OF THE COMMERCIAL BANKING SYSTEM

(Per cent)

Year	Liquidity Ratio[1]	Cash Ratio[1]
1971	73.7	5.2
1972	61.8	5.4
1973	63.8	5.4
1974	65.0	11.5
1975	68.5	26.3
1976	59.1	32.0
1977	52.7	16.1
1978	38.4	8.0
1979	45.1	12.4
1980	47.6	10.6
1981	38.5	9.5
1982	40.5	10.7
1983	52.1	8.5
1984	63.4	8.4
1985	67.5	4.7

[1] Monthly Average.
Source: Central Bank of Nigeria.

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