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The Control of the monetary and Banking System by the Central Bank of Nigeria*

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Distinguished Ladies and Gentlemen,

I am most delighted to be here today to give you some insights into the CBN's role in the control of the monetary and banking system, a subject which is undoubtedly of great public interest. The reason for this widespread interest is to be found in the unusual degree of uncertainty and pessimism generated by the turbulent macroeconomic environment which has prevailed in the country in the last few years. As should be expected, the highly volatile atmosphere has provoked the search for some anchor for the economy and attention, not surprisingly, has been focused on the Central Bank of Nigeria (CBN). The Bank is, after all, entrusted with the responsibility for ensuring stability in the value of the national currency, as well as the safety and soundness of the financial system. Moreover, the close attention paid to the actions and even pronouncements of the CBN is, by no means, unusual. In the industrial countries and various other countries, especially those that have undertaken substantial financial liberalization, the influence of the central banks in such countries sometimes tend to overshadow that of the executive arm of government.

2. Given the current unhealthy state of the Nigerian economy, most of the public reactions to the policies and actions of the CBN have tended to be overly critical. The Bank is often unfairly blamed for the spiralling inflation, high market interest rates, sluggish economic growth and persistent weakness of the Naira exchange rate. Only the more understanding observers these days are willing to acknowledge the difficult policy choices created for the Bank by other policies. In this regard, while the main tasks of the Bank may appear well defined, in the real world, the pursuit of the goals of domestic and external sector stability very often clashes with other objectives of public policy such as economic growth and full employment. Moreover, the stage of development of the country's financial system places significant limitations on the options available to the CBN for successfully carrying out its functions.

3. However, there have been significant advances in recent years toward establishing a much more enduring and effective framework of instruments and institutions for the Bank's intervention Admittedly, progress has not been even

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and the environment for the development of stable and competitive financial markets has so far proved difficult to attain.

4. I will elaborate on these vital issues in the rest of this paper which is in four parts. Part I reviews very briefly, the concept of monetary policy and the role of the Central Bank. In Part II, I will focus on the conduct of monetary policy in Nigeria. Part III reviews the Central Bank's experience in recent years, while Part IV contains some concluding observations.

PART I

THE CONCEPTUAL BASIS OF MONETARY POLICY AND THE ROLE OF THE CENTRAL BANK OF NIGERIA

Money, Output and Prices

5. I should like to begin by examining briefly the relationship between money, output and prices in order to provide the conceptual basis for appreciating the need for monetary control. Although economists appear to be divided on this relationship, there is a fair amount of consensus on a number of broad issues relevant for policy. It is generally agreed that changes in the money stock impact on nominal and real rates of interest as well as output and prices in the short-run, hence money supply and interest rates constitute the main channels through which actions taken in the financial sector are transmitted to the productive sectors. Monetary expansion, therefore, is expected to stimulate aggregate spending and consequently output expansion, provided there are idle resources. However, in the face of technological limitations, foreign exchange constraints or low productivity, monetary stimulus would tend to generate inflationary pressures. Besides, an increase in aggregate demand stimulates the demand for imports and puts pressure on both the exchange rate and balance of payments. Conversely, the inability of monetary expansion to keep pace with output growth would exert a recessionary impact on the growth of output.

6. A major policy issue that arises from the foregoing is the link between inflation, on the one hand, and market interest rate and the exchange rate, on the other. Persistent inflation gives rise to expectations about the course of future prices and thus raises interest rates as lenders seek to protect the real value of their savings while inflationary expectations induce speculative activity against a currency and cause its depreciation ahead of the actual rise in the price level. This demand-based analysis, however, does not imply that inflation is due only to monetary factors as indeed there are non-monetary causes. It merely emphasizes the potential role of money in the inflationary process. Thus, the main long-term effect of excessive money stock growth appears to be a sustained rise in the price level. In other words, the maintenance of price stability is necessary for long-term growth. With a relatively low inflation rate, real interest rates could be maintained at relatively

low and positive level conducive to both savings and investment as well as stable exchange rates.

Central Bank Control of the Money Supply

7. The conduct of monetary policy is predicated on the ability the Central Bank to control the supply of money and/or influence the cost of credit. In this regard, it is helpful to distinguish between primary money which originates from the Central Bank and secondary money or bank deposits which reflect the activities of banks. Primary money is ultimately the base on which banks create secondary money. Consequently, the effectiveness of Central Bank control of money supply depends on its control of primary money and/or its power to influence the extension of credit by banks. The Central Bank creates primary money through its management of its assets and liabilities, in particular through the granting of credit to government and the bank and the purchase of foreign assets. Its influence over the bank operates through the imposition of cash reserve requirement compulsory holding of specialised securities such as stabilisation securities and treasury bills, interest rate controls and credit ceiling

The Demand for Money

8. The Bank's control of money supply by itself is not sufficient for achieving the objectives of monetary policy such as the control of inflation. While the Bank may supply a given level of money stock it is up to the public, including the banks, to determine how much of the supply they wish to hold in their portfolio of assets. If the public for example, desires less real money balances than supplied by the Central Bank, they would seek to adjust their portfolios by spending the excess, thereby raising prices and reducing their real money balances to the level they desire to hold. For this reason, the public's demand for money must be stable and therefore predictable if monetary policy is to serve well as an instrument of macroeconomic management.

PART II
THE CONDUCT OF MONETARY- POLICY

9. Let me now turn to the conduct of monetary policy in Nigeria. Specifically, I will discuss the formulation of policies, use of policy instruments and issues of implementation.

Formulation of Monetary Policy

10. The formulation of monetary policy may be represented as three-part process. The first consists in determining the current state of the economy. This involves the assembly and analysis of a wide range of data on the economy and the appraisal of current policies. The next stage embraces the development of forecasts aimed at determining the future course of the economy in the absence of policy changes. From the results , the problems and priorities for corrective action are identified. The final stage consists in developing and evaluating policy options for overcoming the likely problems in the short and medium-term. In specific terms, the policy

formulation exercise involves developing a consistent set of targets for the growth of output or GDP, rate of inflation, the fiscal deficit of the Federal Government and its financing, the outcome of the balance of payments and the demand for money. Also embraced by the exercise are profiles of market interest rates and the exchange rate. The details on the framework employed for this highly technical activity are beyond the scope of this paper. Suffice it to say that the well known data problems in the country continue to pose serious constraints in undertaking a rigorous financial programing exercises along the lines indicated above.

Instruments of Monetary Policy

II. From the third quarter of 1992, the Central Bank began to de-emphasise the use of direct instruments of monetary control and move cautiously but steadily towards fuller dependence on the use of indirect instruments. With effect from the first of September of that year, the Bank lifted credit ceilings on all banks which met the specified performance criteria. The Bank, however, maintained the use of stabilisation securities, the level of which was raised progressively- until March 1993 as part of the effort to contain the large net injections of liquidity arising from the Central Bank' financing of the deficits of the Federal Government.

12. It is important to stress here that the direct and indirect approaches to monetary control have one feature in common. Both seek to influence the growth of money supply and the direction of interest rates through regulating the rate at which banks create credit. As indicated earlier, banks create secondary money from the primary money which originates in the Central Bank and credit is the means by which banks create secondary money. Consequently, the effectiveness of Central Bank control over money supply and interest rates depends on how much the Bank is able to control or influence the lending activities of banks.

13. For over two decades, the Central Bank sought to control bank lending directly through ceilings on credit growth. However, as the years went by, credit ceilings as an instrument of control became increasingly inefficient as well as ineffective. Among other things their use limited competition among banks and hampered the emergence of competitive and efficient financial markets. Their effectiveness, furthermore, was seriously weakened by the activities of finance companies which became a significant alternative source of credit but were outside the purview of CBN's regulatory a supervisory powers. Moreover, with the constant surge in liquidity arising from the entrenched fiscal deficits financed almost entirely by borrowing from the Central Bank, control of bank credit was no longer the only intermediate target of policy. It had also become necessary for the Central Bank to mop up excess liquidity in order to control the demand pressure on the Naira exchange rate. It was to this end that the Bank re-introduced the issuance of stabilisation securities to banks from 1990. The Bank had also come to the realisation that a much more enduring approach to the problem of inflationary financing of government deficits would be the development of an active secondary market in government securities. Such a market would ultimately pave the way for

the Central Bank to undertake less, and the private sector more, of the financing of government.

Open Market Operations. (OMO)

14. Open Market Operations, in one form or another is the main instrument of monetary control under the indirect or market-based system of monetary management. The use of OMO is typically supported by reserve requirements and discount window operations by the Central Bank. Reserve requirements are prescribed for commercial and merchant banks which are presently required to maintain non-interest bearing deposits at the Central Bank equivalent to 6 per cent of their total deposit liabilities. The main aim is to limit the levels of reserve balances freely available to the banks and thereby, the volume of credit that banks could extend on any given level of primary money. An increase in the cash reserve ratio could have a potentially significant contractionary impact on bank reserve balances and hence bank credit. However, its frequent use would result in undesirable swings in the money market. Hence upward adjustments in the reserve requirement could be done only infrequently. The Bank's discount window has so far acted as safety valve which helps to moderate the impact of OMO on banks reserve balances and need not occupy us unduly at this stage. Let me now return to open market operations which were introduced at the end of June 1993 and which the CBN expects to become the main instrument of policy in the years ahead.

15. OMO essentially is the sale or purchase of eligible bills or securities in the open market by the Central Bank for the purpose altering the supply of bank reserve balances, the level of primary money and consequently monetary and financial conditions. By allowing the prices of the securities offered in the market to move in line with prevailing conditions, the Central Bank tries to elicit the voluntary response of the banks and other institutions which participate in OMO. In the open market sale for example, bank subscribing to the offers draw on their reserve balances at the CBN thereby reducing the overall liquidity of the banking system and the ability of the system to create credit. At the OMO the banks, which currently are the biggest investors in government treasury bills, make their subscriptions through the Discount Houses which have been active in promoting a secondary market in these securities. Following the modest initial offering of N250 million at the maiden OMO session in June, 1993, twenty subsequent sessions were conducted in 1993 at which a total of N44,950 million Federal Government Treasury Bills were offered for sale and a total of N49,265 million were sold to subscribers. All but two of the 21 offerings were over subscribed, most times by substantial margins.

16. Two other instruments of policy continue to be important in economic and financial environment. These are sectoral credit guidelines and moral suasion. The sectoral guidelines, which prescribe the proportions of total credit to be allocated to various sectors, are intended to support the objectives of transforming basic structure of the economy, still dominated by commerce and services and

overly dependent on imports, into a more balanced and more internally integrated production structure. The guidelines are also intended to check the highly speculative and short-term activity that may be highly profitable to individual economic agents but little value to the economy as a whole.

17. Moral suasion is also an important instrument whose value in clarifying the intentions and motivations of the CBN to the banks which are the key agents in the transmission of Central Bank actions. Though the importance of the instrument cannot be readily quantified there is little doubt that the two-way communication between bank and the Central Bank creates a better environment for decision-making by the banks and consequently the effectiveness of policy. The main avenue for contact is the Bankers' Committee which meets several times each year.

Implementation of Monetary Policy

18. The implementation of policy in the context of OMO involves developing quarterly and monthly forecasts of primary money and reserve market's demand and supply conditions, determining the level of weekly interventions in the market for government securities, initiating the sale or purchase of such securities and appraising short-term impact. All these call for the timely preparation of Central Bank's daily trial balances, estimates of weekly balance sheet of the Bank and actual end-of-month balance sheets. These need to be supported by weekly estimates of the vault cash of the banks, deposit liabilities and information on short-term interest rates over a longer interval of three months, the effective monitoring of policy calls for broad-based data on the performance of output in the economy, domestic inflation rate and the fundamental course of Naira exchange rate. The essential elements of this implementation framework are in place although they need to be strengthened and further developed in the light of the Bank's experience over coming years.

19. As regards the sectoral credit allocation guidelines, implementation and enforcement on the face of it are relatively straightforward. For the purpose of monitoring compliance, banks are required to submit monthly data to the Central Bank and these are carefully reviewed by the Bank's Banking Supervision Department. Banks in violation of the guidelines are sanctioned as appropriate. Let me add that the off-site monitoring of the banks' returns are supplemented by on-site inspection as considered necessary, and in any event, in the course of the periodic examination of the bank.

PART III
A REVIEW OF EXPERIENCES IN RECENT YEARS

20. I should now like to review our experience in the last few years in the conduct of policy in order to further articulate the issues so outlined. In the process, I hope to underscore the underlying factors that have been at work. To put the performance of monetary other macroeconomic policies pursued in recent years

into perspective, I wish to acknowledge that the ultimate goal of macroeconomic stability have so far remained elusive. Inflation has been high and unstable and the balance of payments, at best, has been barely sustainable. In addition, the nominal Naira exchange rate has been highly unstable as have been market and real interest rates. Economic growth which was impressive in the period 1988 to 1991 has since slackened in the face of extremely low rates of capital formation.

21. Inflation had been moderate in 1986 and 1987 despite the sizeable upward price adjustments that accompanied the take-off the Structural Adjustment Programme. It also came down sharply to single digit level in 1990 and was perhaps, within acceptable limit in 1991. However, for the period as a whole, inflation was on the rise It averaged 7.8 per cent a year between 1986 and 1987, 30.8 per cent from 1988 to 1992 and 56.2 per cent in November 1993.

22. The current account of the balance of payments recorded surplus only in 1990, while the overall balance of payments deficit which was as low as 2 per cent of GDP in 1990 rose *to* an unprecedented 21.8 per cent of GDP in 1992. The provisional data for 1993, however, indicate a 4.3 per cent surplus.

23. The fiscal deficit of the Federal Government which averaged 10.5 per cent of GDP in the three years ended 1992 reached unprecedented 12.4 per cent of GDP in 1992. It might exceed 15 per cent in 1993.

24. Growth in GDP was brisk during 1988 through 1990. It was 9.9 per cent in 1988, 7.3 per cent in 1989 and 8.3 per cent in 1990. The pace slackened to 4.8 per cent in 1991, 3.9 per cent in 1992 and an estimated 2.9 per cent in 1993.

25. The objective of reasonable exchange rate stability was not achieved. Although the relatively large depreciations of the Naira exchange rate in 1986 and 1987 were to some extent expected (given the evident over-valuation of the currency before then) the subsequent sizeable downward movements could not be attributed to pre-SAP overvaluation but largely to increased demand relative to supply of foreign exchange. The official central rate depreciated by 12.6 and 38.0 per cent in 1988 and 1989, but was much less unstable in 1990 and 1991. However, in 1992, it dropped by 48.0 per cent against US dollar and by another 20.6 per cent in 1993.

Monetary Developments

26. The highly unstable environment portrayed by the developments highlighted above were consistent with the excessive growth in monetary aggregates which occurred in the period contrary to the consistently restrictive intentions of policy. The growth of Ml which over the period, was the intermediate target of policy, diverged substantially from target especially since 1988. Between 1985 and 1987 MI grew at moderate pace. Indeed, MI fell by 4.1 per in 1986 while the rise of 8.7 per cent in 1987 was only 2.5percentage points above the target rate. The

moderation continued in 1987 even though the deviation from target was larger than in the preceding year. The worst years in terms of policy slippages were1988, 1990 and 1992 when the divergences between the targeted growth rate and actual performance were 26.9, 31.9 and 42.1 percentage points, respectively.

27. In two of those years, 1988 and 1992, Central Bank credit to Government comprised the main driving force, pushing MI growth by 50.1 and 105.1 percentage points, respectively. In the third years (1990), the main source of MI growth was net foreign assets whose monetization by Government pushed the growth of Ml by 83.8 percentage points. The growth of MI was also high in 1991, pushed mainly by both Central Bank's credit to Government (49.5 per cent and by the monetisation of net foreign assets. Foreign assets monetization was also the dominant influence on money supply growth in 1989, with credit acting as a moderating influence on that occasion. In 1993 credit to government and net foreign assets were the major expansionary factors.

28. Although bank credit to the private sector was always a significant expansionary factor, large enough in every year, except 1989, to drive money supply beyond the MI target, the dominance of Government either through its monetization of oil receipts or borrowing from the Bank was overwhelming.

Interest Rates

29. Market interest rates rose steeply in the environment of high inflation rate and as a result of actions taken by the Monetary Authorities to counter large injections of liquidity arising from the financing of government deficits. As Table 2 shows, interest rates rose steeply in 1989. The sharp rise in interest rates in that year followed the mandatory transfer of public sector deposits from commercial and merchant banks to the Central Bank as part of concerted efforts to mop up excess liquidity in the system. The rise in nominal interest rates continued in 1990. Rates generally declined the following year as the banks sought to comply with Central Bank's mandatory 21 per cent ceiling on lending rates, but resumed their upward trend following the lifting of the interest rate ceiling from January 1992.

30. The average savings deposit rates rose from 9.5 per cent in 1985 and 1986 to 12.2 per cent in 1987 and reached 16.7 per cent at end of 1993. Time deposit rates went from about 13.1 per cent in 1987 to 23.6 per cent in 1993 for commercial banks and from 14.5 per cent to 37.7 per cent for merchant banks. The lending rates rose even more steeply. By 1993, the maximum lending rates, the rate that applies to most credit by banks, averaged 39.1 per cent for commercial banks and 61.5 per cent for merchant banks, as against the respective levels of 17.3 and 17.6 per cent in 1988. The inter-bank rate, the most sensitive rate in the market moved from an average of 23.6 per cent in 1990 to 1 1 0. 0 per cent in mid-December 1993.

31. Real interest rates, however, have not moved up so consistently. They were generally positive between 1985 and 1987 but became negative in 1988 and 1989. As inflation dropped to relatively low levels in 1990 and 1991, interest rates again

became positive. With the resumption of inflationary pressures since 1992, most rates again became generally negative. The fluctuating level of real interest has had noticeable adverse effects on financial development. Broad money in relation to GDP, a common measure of financial deepening was higher in 1985 and 1986 than it was in 1992. It was 29.7 per cent at the end of 1992 compared with 32.9 and 33.1 per cent in 1985 and 1986, respectively.

Early Experience With OMO

32. Let me review briefly the Central Bank's experience thus far in the use of OMO and underline what I consider to be of value in the shift to the market-based system of monetary control. As I indicated earlier, the banks' response to the Central Bank offers of Treasury Bills were considerable. In fact, by year-end in 1993, the monthly volume of securities offered and bought by the banks and Discount Houses had reached N17,OOO million and N16,525 million, respectively. As a result, Central Bank holdings of outstanding Treasury Bills fell by N41,213.8 million or 52.1 per cent in the six month period. Correspondingly, holdings by commercial and merchant banks rose as desired from N6,339.6 and N2,202.9 million at the end of May, the month prior to the commencement of OMO to N21,477million and N9,110.3million respectively at the end of December. As a proportion of total Bills outstanding, the combined holdings of both classes of banks rose from 8.2 per cent to 29.6 cent. Holdings by the non-bank investing public rose at a comparable rate, from 15.2 per cent of the total outstanding at the end of May to 28.2 per cent at the end of December. Discount Houses, the principal intermediaries under the current procedures for OMO, held N5, million or 5.5 per cent of total outstanding Treasury Bills at the end the year.

33. The substantial response of banks to OMO as indicated by these figures helped to drain significant amounts of excess reserve balances in the banking system and put some break on the growth of monetary aggregates. OMO also brought about a significant volume of secondary trading in government securities, thereby opening the way for the development of an active government securities market. Such a market is expected ultimately to move the financing of government from the Central Bank to the private sector. However the operations had only a moderating influence on the excessive growth of monetary aggregates. The underlying growth in primary money arising from Government borrowing from the CBN to finance deficit could not be completely offset by the volumes of OMO attained during the period. As a result, MI grew by 39.6 per cent against the target rate of 20 per cent for the fiscal year. Furthermore most of the growth in MI occurred in the second half of the year, the period during which the Bank conducted the open market sales of securities.

PART IV
CONCLUDING OBSERVATIONS

34. 1 have in this presentation articulated various aspects of institutional and organisational arrangements within which monetary policy is formulated and implemented in Nigeria. Among others I tried to underscore the role of the CBN

and the banks in the conduct of policy and touched on the factors behind the persistent setbacks in monetary policy over the years. I also indicated the potential that OMO offers for improvement in the effectiveness of monetary policy as well as its limitations.

35. Let me underscore some of the lessons from the experience of the recent past. First, the highly expansionary fiscal deficits in recent years have been associated with mounting macroeconomic instability and a perceptible slow-down in output growth and investment. Second, it has also become abundantly clear that monetary policy alone cannot be relied upon to anchor the economy on a path sustainable growth and development and that much closer coordination of policies is necessary. The pursuit of a highly expansionary fiscal policy counterbalanced by a restrictive monetary policy tends to put an upward pressure on interest rates and crowd out the private sector. The above situation calls for the co-ordination of policies which requires a clearer appreciation of the responsibility of the Government and the Central Bank for maintaining an acceptable rate of inflation. This, in turn, requires that both the Government the Bank must work towards attaining the fiscal and monetary targets that are consistent with the attainment of the inflation target. It is also essential within this framework that the Central Bank be allowed the freedom necessary to act in such ways and employ such instruments as it considers best to achieve the desired monetary targets. Third, the Bank's initial success in the use of OMO has been in part to the flexible posture adopted towards the pricing of government securities. It is my belief that the initial success can be sustained and enhanced and that the market-based approach to monetary control offers considerable prospects for evolving a less inflationary mechanism for managing the borrowing requirements of government.

In conclusion, I would like to express the hope that the modifications in policy in fiscal 1994 and the commitment to policy of fiscal restraint will contribute to the restoration of macroeconomic stability and usher in a period of recovery and sustainable growth of the economy.

Thank you for your attention.

TABLE 1

FACTORS AFFECTING MONEY SUPPLY. 1985 - 1993

(N'Million unless otherwise stated)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
CREDIT TO THE ECONOMY	32,680.3	36,820.3	46,926.5	57,326.3	49,259.1	57,674.9	83,823.7	145,516.8	243,644.0
Credit to private sector	13,700.2	17,365.0	25,476.1	29,773.6	30,942.8	36,631.0	45,352.2	59,327.4	70,574.3
Credit to Government (net)	18,980.1	19,455.3	21,450.3	27,552.7	18,316.3	21,043.9	38,498.5	86,189.4	173,069.7
By Central Bank (net)	8,841.7	14,884.4	14,293.5	21,767.2	15,189.8	13,691.8	32,122.7	84,026.0	135,833.7
Commercial & Merchant Banks									
Claims on private sector	12,276.6	15,738.6	23,558.8	27,365.1	29,440.6	35,230.9	43,033.9	57,095.3	66,518.9
FOREIGN ASSETS (net)	1,831.1	5,018.8	8,064.7	10,267.0	23,290.0	44,832.2	58,794.9	39,585.7	62,354.6
OTHER ASSETS (net)	(10,692.8)	(17,623.0)	(22,898.3)	(24,813.0)	(26,326.2)	(37,604.4)	(56,446.1)	49,822.4)	(111,551.0)
BROAD MONEY SUPPLY (M2)	23,818.6	24,216.1	32,092.9	42,780.3	46,222.9	64,902.7	86,172.5	135,280.1	194,447.6
QUASI - MONEY	10,550.8	11,487.7	17,186.9	21,631.7	20,525.3	27,669.0	36,788.0	53,115.1	79,724.8
MONEY SUPPLY (M1)	13,267.8	12,728.4	14,906.0	21,148.6	25,697.6	37,233.7	49,384.5	82,165.0	114,722.8
(Contribution to growth in M1 in per cent)									
CREDIT TO THE ECONOMY	12.6	31.2	79.4	69.8	-38.1	32.7	70.2	124.9	119.4
Credit to private sector	6.2	27.6	63.7	28.8	5.5	22.1	23.4	28.3	13.7
Credit to Government	6.4	3.6	15.7	40.9	-43.7	10.6	46.9	96.6	105.7
By Central Bank (net)	4.7	45.5	-4.6	50.1	-31.1	-5.8	49.5	105.1	63.1
Comm. & Merch. Banks									
on private sector	5.2	26.1	61.4	25.5	9.8	22.5	21.0	28.5	11.5
FOREIGN ASSETS (NET)	2.7	24.0	23.9	14.8	61.6	83.8	37.5	-38.9	27.7
OTHER ASSETS (NET)	2.8	-52.2	-41.4	-12.8	-7.2	-43.9	-50.6	13.4	-75.1
QUASI - MONEY	-9.5	-7.1	-44.8	-29.8	5.2	-27.8	-24.5	-33.1	-32.4
MONEY SUPPLY (M1)	8.7	-4.1	17.1	41.9	21.5	44.9	32.6	66.4	39.6
M1 Target growth rates (%)	6.2	6.4	11.8	15.0	14.65	13.0	14.6	24.3	20.0

SOURCE: Basic data from CBN

TABLE 2
NIGERIA: SELECTED MARKET & REAL INTEREST RATES
(per cent per annum)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
AVERAGE MARKET INTEREST RATES (end of period)									
Inter-Bank call rate							18.5	68.5	57.5
SAVINGS deposits	9.5	9.5	12.2	12.4	16.5	18.0	14.0	16.1	16.7
TIME deposits (90 days)									
Commercial Banks	9.5	9.5	12.8	13.1	19.5	19.7	15.2	20.8	23.6
Merchant Banks				14.5	25.2	22.5	18.2	38.0	37.7
PRIME lending rate									
Commercial Banks				16.3	25.5	25.3	20.2	29.8	36.1
Merchant Banks	-			16.5	29.8	29.1	20.9	44.4	59.1
HIGHEST lending rate									
Commercial Banks	13.0	14.0	15.0	17.3	25.7	27.3	21.0	31.2	39.1
Merchant Banks				17.6	29.2	28.7	21.0	48.1	61.5
TREASURY Bill issue rate	8.00	8.50	11.90	11.75	12.25	17.50	14.50	21.00	28.00
AVERAGE REAL INTEREST RATES									
SAVINGS Deposits	6.5	6.5	2	-25.9	-34.0	10.6	1.0	-28.5	-39.5
TIME Deposits (90 days)									
Commercial Banks	6.5	6.5	2.6	-25.2	-31.1	12.3	2.2	-23.8	-32.6
Merchant Banks				-38.3	-36.0	17.8	9.5	-26.4	-18.2
PRIME lending rate									
Commercial Banks				-22.0	-25.0	17.9	7.2	-14.8	-20.1
Merchant Banks				-21.8	-20.7	21.7	7.9	-0.2	2.9
MAXIMUM lending rate									
Commercial Banks	10.0	11.0	4.8	-21.0	-24.8	19.9	8.0	-13.4	-17.1
Merchant Banks				-20.7	-21.3	21.3	8.0	3.5	5.3
YIELD on issue of Treasury Bills									
INFLATION RATE	3.0	3.0	10.2	38.3	50.5	7.4	13.0	44.6	56.2 (NOV)

SOURCE: Basic data from CBN

TABLE 3

MOVEMENT IN PRICES AND THE NAIRA-DOLLAR EXCHANGE RATE

1985 - 1993

	1985	1986	1987	1988	1989	1990	1991	1992	1993
PRICE LEVEL									
Consumer price indicies (1985=100)	100.0	105.4	116.1	181.2	272.7	292.8	330.9	478.4	[1] 741.0
GDP deflator	114.8	115.3	176.0	185.0	267.0	296.0	340.0	445.0	[2] 501.0
Inflation rate									
CPI (%)	3.0	5.4	10.2	38.3	50.5	7.4	13.0	44.6	[1] 56.2
GDP Deflator (%)	1.4	0.4	52.7	5.1	44.3	10.9	14.9	30.9	12.6
NAIRA-US DOLLAR EXCHANGE RATE (period average)									
Official central rate	0.8924	1.7323	3.9868	4.5637	7.3647	8.0374	9.0290	17.3760	22.0468
Bureaux rate	-	NA	4.1856	6.0364	10.5166	9.5975	13.3500	20.2833	36.1594
Weighted average	-	NA	4.0564	5.0616	8.4679	8.5835	11.1263	18.3935	26.9862
(percentage changes in Naira/Dollar exchange rate)									
Official central rate	-14.0	-48.5	-56.5	-12.6	-38.0	-8.4	-11.0	-48.0	-21.2
Bureaux rate	-	-	-	-30.7	-42.6	9.6	-28.1	034.2	-43.9
Weighted average	-	-	-	-19.9	-40.2	-1.3	-22.9	-39.5	-31.8
Average parallel market premium	NA	NA	4.87	32.73	42.74	19.42	34.54	21.26	64.30

SOURCE: Basic data from CBN 1/November 2/ National Commission Estimate.

TABLE 4
OPEN MARKET TRANSACTIONS AT WEEKLY OMO SESSIONS
JUNE 30 - DEC. 1993

DATE	AMOUNT OFFERED N'MILL	TOTAL BIDS N'MILL	AMOUNT SOLD N'MILL	AVERAGE TENOR (DAYS)
Jun	250	452	250	57
Jul	1,300	3,135	1,300	50
Aug	1,700	2,575	2,020	27
Sept.	4,700	9,505	9,608	34
Oct.	10,000	13,393	9,853	41
Nov.	10,000	14,804	11,709	46
Dec.	17,000	17,826	16,525	47
TOTAL	44,950	61,690	49,265	302

TABLE 5

TRANSACTIONS IN AND HOLDINGS OF TREASURY BILLS

(N'MILLION unless otherwise stated)

	1992	1993											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
HOLDING OF TREASURY BILLS (end of month)													
Central Bank	81,143.1	81,126.8	79,658.4	86,408.3	80,653.3	79,110.6	74,674.9	64,856.3	70,758.3	59,223.7	45,284.8	39,661.3	43,939.6
Commercial Banks	5,181.0	6,077.5	9,653.3	4,508.4	4,262.4	6,339.2	8,557.8	12,263.4	14,550.2	18,583.8	22,541.4	23,306.1	28,851.7
Merchant Banks	1,004.8	1,008.9	1,753.6	1,229.5	1,483.4	2,202.9	2,835.6	5,251.0	4,762.6	7,198.9	12,108.5	12,538.1	9,393.8
Discount Houses	0.0	0.0	0.0	0.0	0.0	0.0	369.7	590.3	1,440.0	2,865.9	3,536.9	4,903.2	5,710.0
Other	15,997.6	15,113.3	12,261.2	11,180.3	16,927.4	15,673.8	16,888.5	20,365.5	11,815.4	15,454.2	19,854.9	22,917.8	15,431.4
TOTAL outstand.	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5	103,326.5
ISSUES, SALES & REDISCOUNTS													
Primary Issue	92,117.5	5,600.0	50,798.2	14,276.0	83,450.5	5,600.0	92,126.5	5,600.0	5,600.0	92,126.5	74,050.5	45,000.0	55,326.5
CBN take-up	83,658.4	3,161.2	48,844.5	10,990.3	81,076.5	4,268.4	87,840.5	2,887.6	4,334.6	87,199.9	67,296.3	42,052.3	48,186.4
Sales (OMO)	0.0	0.0	0.0	0.0	0.0	0.0	250.0	1,300.0	1,700.0	4,700.0	10,000.0	10,000.0	17,000.0
Other sales	na	na	na	na	na	na	na	na	na	na	na	na	na
Rediscounts	1,793.5	2,004.0	5,897.8	6,576.7	1,475.5	686.2	5,686.3	3,739.7	3,552.0	638.9	397.4	115.7	1,923.2
(Percentage distribution of Treasury Bill holdings)													
HOLDERS													
Central Bank	78.5	78.5	77.1	83.6	78.1	76.6	72.3	62.8	68.5	57.3	43.8	38.4	42.5
Commercial Banks	5.0	5.9	9.3	4.4	4.1	6.1	8.3	11.9	14.1	18.0	21.8	22.6	27.9
Merchant Banks	1.0	1.0	1.7	1.2	1.4	2.1	2.7	5.1	4.6	7.0	11.7	12.1	9.1
Discount Houses	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.6	1.4	2.8	3.4	4.7	5.5
Other	15.5	14.6	11.9	10.8	16.4	15.2	16.3	19.7	11.4	15.0	19.2	22.2	14.9
CBN, Take-up of Primary Issues (as % of total)	90.8	56.5	96.2	77.0	97.2	76.2	95.3	51.6	77.4	94.7	90.9	93.4	87.1

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