**TITLE PAGE**

**MONETARY POLICY AND INFLATION IN NIGERIA ECONOMY**

**(A CASE STUDY CENTRAL BANK OF NIGERIA (CBN) KADUNA)**

**ABSTRACT**

This research work is an attempt to examine the role of Central Bank of Nigeria in the monetary policy and inflation of Nigeria Economy. The research work provide a background to the origin and formation of Monetary policy in fighting inflation and highlighted the major functions and activities performed by the Central Bank of Nigeria in order to achieve their main objectives.

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**CHAPTER ONE**

1. **INTRODUCTION**

Monetary policy entails the government policies aimed at changing the quantity of money or credit condition. In every economy, after fiscal policy, the next most powerful macro-economic stabilization is monetary policy.

In fact Monetary and fiscal policies are expected to work together as complements to achieve one goals of a sound macro economic management that include amongst other domestic price stability external sector viability as well as enhance efficiency in resource allocation, distribution and utilization.

Monetary policy is therefore measure designed to regulate and control the volume, cost, availability and direction of money and credit in an economy to achieve some specifically micro-economic objectives. It is one policy that seeks to influence economic activities using the tools available to the central bank i.e. money supply (MS) interest rates and exchange rates. It can also mean the deliberate attempt by the authorities to either control the supply of money or to control interest rates or to ration the amount of credit granted by banks.

1.1 **HISTORICAL BACKGROUND OF THE STUDY**

The history of economic growth shows that, economic transformation started in England in the Late eighteen century and gradually spread to other parts of Europe and North America. Economic transformations did not get to other parts of thee world until in the 1950s when Japan transformed to become one of world’s major industrial giants. This economic transformation has spread far and wide in the recent times but its spread is highly limited in Africa. It is only South Africa that has experienced it so far. This is clearly demonstrated by the World Bank report of (2001) which states that out of the 46 poorest countries in the World, 35 of them are in Africa.

Nigeria with it’s vast resources of both human and material nature is not left out of the club of poverty stricken countries. This poverty is illustrated by the recent World bank report (2005), which says that more than 70% of Nigerians are living below poverty line.

It is against this background that this study is being undertaken. This poverty can be tackled using both fiscal and monetary policies to help solve this problem and growing poverty. So far, removing the country from poverty trap that seems almost impossible to be solved using variety of macro-economic policy measures.

* 1. **STATEMENT OF THE PROBLEM**

The problem of inflation in Nigeria has been confronted in variety of ways by the government of the country using different macro-economic policies. The government introduced several measures e.g. National Development Structural adjustment Programmes (SAPs). Guided Deregulation etc. to combat this problem. Despite all these measures, we still experience inflation in the country.

The question now is, why we still experience inflationary conditions after all these variety of measures adopted by the government to control it or reduce it intensity?

Moreover, the issue of monetary policy has its objectives one of which is tackling the problem of inflation. The Central Bank applied all measures to control it still every effort seem to be fruitless.

The nest question is why have all these measures failed in combating the problem of inflation?

* 1. **SPECIFIC OBJECTIVE**

I’m specifically writing this project in partial fulfilment towards the award of Higher National Diploma (HND) in accountancy.

Other genera objectives of the study include the following among others:

To provide the readers with broad knowledge of the different activities carried out by the Central Bank of Nigeria in Nigeria’s macro-economic stabilization process.

Enlighten students, readers and researchers on the significance of Central Bank of Nigeria and it’s role in the process of Nigeria economic development.

To highlight the relevance of monetary policy in combating inflation.

Try to explain the various types of monetary policy that can be used to combat inflation and other macro-economic problems.

Identify and discuss the monetary policy problems with particular reference to Nigeria.

To explain the various instruments of monetary policy that can be used to combat inflation especially in less developed Countries (LDCS) such as Nigeria.

* 1. **RESEARCH HYPOTHESIS**

The following hypothesis have been put forward to guide research work

Ho1: Monetary Policy is not an effective tool of macro-economic stabilization of an economy.

Hi1: Monetary Policy is a very effective tool of macro-economic stabilization of an economy.

Ho2: Money supply has no impact on the Level of economic activities and growth.

Hi2: Money supply has an impact on the level of economic activities and rate of growth.

Ho3: Central Bank of Nigeria’s monetary and credit Policy guidelines and money supply do not have impact on the level of outputs.

Hi3: Central Bank of Nigeria’s monetary and credit Policy guidelines and money supply do have impact on the level of outputs.

* 1. **SIGNIFICANCE OF THE STUDY**

However, this research work will assist the economy to derive possible solution to the research problem e.g. control of inflation using monetary policy measures as adopted by the monetary authorities of the Central Bank.

Furthermore, the research ex-rays the various types of monetary policy measures, which can be used to combat the problem of unstable economy and prices, and as a result will be a kind of research materials to those in various fields may be of immense use of future researchers.

Government will benefit immensely from this research works as the topic is very relevant in the field of macro-economic policy formulation.

* 1. **SCOPE AND LIMITATIONS OF THE STUDY**

This project covers the role of monetary policy and it’s controlling inflation in the Nigeria economy. A general overview of monetary policy and inflation in the Nigerian economy is the foundation upon which the project is developed.

However, study of this nature is known to be subject to a number of problems or constrains, which are peculiar to the Nigerian society such as financial constraints. This research work was not an exception the problem of visiting the Central Bank of Nigerian and some other places for data collection involved spending a lot of money or transport expenses.

Hence, the predicament of the overage students can therefore be imagined.

Furthermore, the issue of office protocols time limit, secrecy inadequate research materials also were some setbacks to the researchers in carrying out this research.

1.7 **ORGANIZATIONAL STRUCTURE OF THE STUDY**

A Central Bank is a financial institution owned by the government of a nations run by Board of Directors, Chaired by Governor appointed by the government and charged with the responsibility of managing the expansion and contraction of the volume, cost and availability of money in the interest of public welfare. It is primarily a non- profit entity in U.S. it is called the Federal Leisure while in the U.K. it is the bank of England.

1.8 **DEFINITION OF TERMS**

1. **Expansionary Monetary Policy:** Is a monetary policy that seeks to increase the size and volume of money supply, it can be increase by buy bonds in exchange for hard currency payment to adds that amount of currency to the money supply.
2. **Contractionary Monetary Policy:** This is the policy that can be implemented by reducing the size and volume of monetary base by the way of sell bonds in exchange for hard currency, by so doing it removes that amount of currency from the economy.
3. **Reserve Requirement:** Commercial banks are required to maintain certain reserve requirement in order to control their liquidity and influence their credit operations, these are usually expressed as a percentage of customers deposits.
4. **Discount Rate:** The discount rate is the rate of interest the monetary authorities charge the commercial banks on loans extended to them. If the Central Bank wishes to increased liquidity and investment, it reduces the discount rate, and on the other hand if the Central Bank wishes to reduce liquidity in economy, it raises the discount rate.
5. **Liquidity Ration:** The Central Bank imposes upon the bank a minimum liquidity ratio, being vary to the needs of the situation. It is designed to enhance the ability of bank to meet cash withdrawals in them by their customers. Such liquidity ratio stands for the proportion of specified assets.
6. **Open Market Operation (OMO):** This involves the Central Bank Discretionary power to sell or purchase securities in the financial market in order to influence the volume of credit and interest rate which consequently affect money supply. The securities include treasury certificates, treasury bill and development stock
7. **Moral Suasion:** Is the act of public pronouncements or outright appeal on the apart of monetary authorities to the banks requesting them to operate in a particular direction for the realization of specified government objectives.
8. **Economic Growth:** This is a process whereby the real per-capital income of a country increases over a long period of time. Economic growth is measured by the increase in the amount of goods services produced deposits are savings and currents account of deposits in a commercial bank.
9. **Money Supply:** Is a currency with the public and demand deposits with commercial banks. Demand deposits are savings and current account of depositors in a commercial bank.
10. **Economic Life Cycle:** This refers to a view of product design, each stages of the product’s life is assessed in terms of cost, at each stage of this life cycle choice have to be made.

**CHAPTER TWO**

1. **LITERATURE REVIEW**

The essence of the review of the literature on existing research works or issues concerning the evaluation of monetary and fiscal policies and their impact on the Nigerian economy, is to adopt the salient features already established as well as identified and address the crucial issues that have not be adequately or properly resolved so far. Consider the limited resources of government finances especially in view of the crucial role money has been recognized to play in the process of economic growth and development in developing economies like Nigeria.

The acceleration of the peace of economic development normally leads to urgent and huge financial requirements of funds over and above revenue (budget deficit), which is financed by borrowing from financial system (banks and non-banks), the private sector and from abroad. Since the financial market is relatively under-developed much of the borrowing is made from either the banks (Central and Commercials) and from abroad. For all these, money supply would be affected by the implementation for the budgetary decisions, hence monetary and fiscal policy would be compounded and monetary-fiscal policy mix would be prevalent.

Government aspiration towards the achievement of abroad economic objectives enumerated earlier could be pursued using the means of monetary, fiscal or monetary –fiscal policy –mix strategies. However, the relative effectiveness of monetary and fiscal policies and the lags with which they affect economic activities have been controversial issue among economists and the debate forms one of the major areas on which monetarists and Keynesians continue the study in monetary economics.

Theoretical macrostatic analysis of monetary and fiscal policies is done within the framework where money supply and government expenditure are crucial variables and LS and LM represent fiscal and monetary policy equilibrium situation respectively.

2.1 **RELEVANT CONCEPTS AND THEORIES**

A lot has been written about monetary policy and inflation in Nigerian economy. Such written materials are in the form of articles published in journals and textbooks by both local and foreign authors.

According to S. B Falegan (1978) his definition of monetary policy is this. Policy which deals with the discretionary control of money supply by the monetary authorities in order to achieve stated or desired economic goals.

Sam A. A. (1986) an authority in Economics and Finance was of the opinion that “monetary policy is the attitude of thee political authority towards the monetary system of the country. It embraces such subdivisions as currency and credit management discount or interest rates, debt management and foreign exchange rate prices and income policies and foreign exchange rates prices and incomes policies”.

Also argued that monetary policy would include measures dealing with rent, physical controls, budgets, expert derives, import restrictions and employment measures in so far as their primary aim is to influence the volume of money supply in the economy.

In E.D.C. Mgbojikwe’s (1988) (area office manager A.C.B. Ltd Enugu) view: Monetary policy as the management of the expansion and contraction of the volume of money in circulation for the specific purpose of achieving certain declared national objectives.

He further stated that monetary policy is easily recognizable where the monetary authorities have clearly defined objectives such as domestic price stability maintenance of healthy balance of payments position and the application of instruments of monetary and credit control to regulate the quantity of money in order to achieve the desired objectives.

E.D.C. Mgbojikwe (1988) a paper he presented at the seminar enunciated that monetary policy is designed to achieve the following:

* 1. To reduce the excess liquidity in the economy so as to moderate price increase thus combating inflation.
	2. To cut down on the importation of luxury commodities thereby reducing the pressures on the balance of payments.
	3. To encourage more efficient use of money through a more realistic interest rate structure which encourages the mobilization of savings.

Ojo and Ajayi (1981:135) also added that monetary policy suffers from some defects and equally changes according to periods. Uzoaga quoting extensively from Albert G. Hart Submits that monetary policy as a stabilization measures suffers from a number of defects. There is the uncertainty about the exact effectiveness of the monetary authorities, ability to tighten or liberalize credit conditions through general monetary controls. The uncertainty is supported by the availability of close substitutes for money such as highly liquid assets in the form of government securities and savings accounts. The availability of such close substitutes makes the demand for money more elastic and tends to cushion the impact of a change in the quantity of money.

Ojo and Ajayi (1981:137) Money and Banking analysis and Policy in Nigeria context page 171 and 172, there is also the uncertainty about the effect of tightening or loosening credit on aggregate demand.

Afolabi (1993:223) defines Monetary policy as those measures taken by the monetary authorities to control the cost quantity and direction of credit to achieve national objectives”.

Oresotu (193:160) argues that monetary policy is a package of actions designed to manage the growth of money supply during a period to its centivan target which when successful the level of money becomes compactable with the rate of growths of output, inflation and interest rate.

* 1. **DEFINITIONS OF MONETARY POLICY**

Generally, monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in an economy in consonance with the level of economic activities. An excess supply of money, which will cause rising price or a deterioration of the balance of payments position. On the other hand, an inadequate supply of money could include stagnation in the economy and thereby retard growth and development of thee economy. Consequently, the Central Bank or Monetary authority must attempt to keep the money supply to grow at a desirable rate to ensure sustainable economic growth and to maintain exchange rate stability of the national currency.

Furthermore, Johnson (1962:70) defines monetary policy as a policy employing the Central Bank’s control of the money supply as an instrument for achieving the objectives of economic policy.

Similarly, from the synthesis of most of the literature and in the context of the Nigerian situation, Ubogu (1985:35) defines monetary policy as an attempt by the monetary authorities to influence the level of aggregate economic activities controlling the quantity direction of money and credit availability. While Asogu (1998:32) defines Fiscal Policy as the use of government expenditure, taxes borrowing and financial administration to further rational economic objectives.

Looking at the above definitions, it had been noted that money supply and government expenditure the two key instruments of monetary and fiscal policies significantly affect economic activities. The point to note is that government expenditure, however defined plays cardinal role in fiscal policy. Besides, money supply changes may result from fiscal actions depending on the method that government uses to finance its expenditure. Fiscal policy is a powerful instrument of stabilization. By fiscal policy, we refer to government actions effecting its receipts and expenditures which we ordinarily takes as measures on the government’s net receipt, its surplus or deficit.

* 1. **DEFINITION OF INFLATIONS**

Solow (1979) defines inflation as going on when one needs more and more to buy some representative bundle of goods and services, or a sustainable fall in the purchasing power of money. As Johnson (1972) notes, and for most purposes, inflation is generally trend in the general price level of the economy. When prices are rising rapidly, the picture becomes obscured and out of focus, decision maker cannot see clearly, e.g. business accounting is done in naira terms. When there is rapid inflation, some business accounting systems may report profits when on a more accurate calculation might be suffering losses.

* 1. **INSTRUMENTS OF MONETARY POLICY**

These refer to the tools used by monetary authorities to control the amount of money supply in the economy. In order to understand these tools properly it will be discussed under such headings:

1. **Open Market Operation (OMO):** It is a powerful and flexible monetary tool available to a central bank under a free market economy. It is used to regulate banker’s cash reserve and money creation through the purchase and or the sales of securities, treasury bills, treasury certificates, development stocks and Central Bank of Nigeria (CBN) Securities by the Central Bank. When the Central Banks sells securities in the Open market, the Liquidity (excess reserve) of the banking system declines thereby limiting the ability of the banking system to extend credit and expand money supply conversely, when the Central Banks purchases, the liquidity of the system increase and the ability to expand credit is enhanced.
2. **Cash Reserver Requirement (CRR):** it is a monetary policy instrument that obliges bank (commercial) to hold a specified proportion of their deposits with the central bank. The higher the percentage of banks, reserve requirement, the lower the proportion of the bank’s fund that is available for as bank lending credit administration.
3. **Discount Rate:** it is a cost tool involving interest rate variation. Interest has an important allocative influence on the level of economic activities since the affect the operational cost of doing a business and therefore exert a significant impact on the level of economic activities. It is the minimum rate at which the Central Bank of Nigeria in its role as the lender of last resort makes or offer financial assistance to commercial banks. The Central Bank of Nigeria can encourage or discourage money creation by commercial banks simply by raising or lowering the discount rate and this will in turn force other banks to increase or decrease in the demand for bank loan by the public.
4. **Liquidity Ratio:** It is the percentage of banks funds which banks are under statutory or conventional obligation to hold against their deposit liabilities. It is the percentage of banks assets that has to be kept in liquid form at the banks without being used. If a tight monetary policy is desirable, the central bank raised the liquidity ration therapy exerting pressure on them to curtail their lending activities, an easy monetary policy will require an opposite action by the Central Bank
5. **Stabilization Securities:** Under section two of the Central Bank of Nigeria amendment Decree of 1968, the Central Bank of Nigeria was given the power to use stabilization securities for the purpose of maintaining monetary stability and economic stabilization securities are I OWE YOU, issued by the Central Bank at a rate of Interest and under such condition of maturity, mastication, negotiability and redemption as the bank may deem fit. The bank is empowered having issued stabilization security place or sell them by allocation to any financial institution. Any institution that refuse to accept or buy will be sanctioned thus:
	* prevent the institution concerned from extending new loans and advances and from undertaking new investment until full compliance is obtained.
	* Pay fine which is a civil debt not exceeding N100.00 for the default for everyday as the case maybe until full compliance is secured.
6. **Interest Rate Ceiling:** This is the rate which commercial banks charges the interest on borrowed fund by the customer. The Central Bank can fix interest rate ceiling (high or low) the aim of the central Bank of Nigeria in doing so is to reduce investment activities.

According to Abacha (1994:25)”With the existing rate requirement, it has become clear that producers are being penalized while peddlers of paper money. Craft manipulators and idle speculators were milking the economy dry. No responsible government would fold its arms and watch such a negative trends continue unchecked.

1. **Special Deposits:** The Central Bank, here, requires banks to hold, over and above the legal minimum cash reserves, a specified percentage of their deposits in government securities (such as stabilization securities issued by the Central Bank) hence, it is also called special deposits policy. The main objective is to influence bank’s lending by freezing a certain percentage of their assets.
2. **Moral Suasion:** Bankers are called for heart talk or hear to hear discussion and an appeal in a community spirit is made. Vague threats concerning futures availability of credit maybe made and bank examiners may go over banks books.

The central bank of Nigeria uses moral Suasion at banker’s committee or during annual dinner addressed to the institutes or in press release to tell the banks in clear and unmistaken terms the direction and nature of policies which the authorities would want to pursue. Moral Suasion operates most effectively where there are gentlemen and the number of institutions being persuaded is small.

* 1. **TYPES MONETARY POLICY**

Basically, there are two types of monetary policy, the directly monetary policy and indirect monetary policy or market-base control.

i. **Direct Monetary Control:**

It involves the imposition of credit ceiling on bank by the monetary authorities without going through the financial markets. This method is adopted mainly in developing economies in which the financial infrastructure necessary for operating indirect monetary control is either absent or under developed. This includes quantitative ceilings on banks credits selective credit controls and administered interest and exchange rate.

2. **Indirect Monetary Policy or Market Base Control:** is one under which the cost and availability of credits are determined through the financial markets. It relies on the Power of the monetary authority as a dealer in the financial market to influence the availability and the rate of return of financial assets this affecting both the desire of the public to hold money and the willingness of financial agents to accept deposits and lend them to the users. Examples of such instruments are reserved requirements, discounts rates and Open Market Operation (OMO) Philips (1992:2)

* 1. **EXPANSIONARY MONETARY POLICY**

An expansionary monetary policy is used to overcome a recession or a depression or a deflationary gap when there is a fall in consumer demand for goods and services, and in business demand for investment goods a deflationary gap emerges. The Central Bank starts an expansionary monetary policy that eases the credit market conditions and leads to an upwards shift in aggregate demand. For this purpose, the Central bank purchases government securities in the open Market, Lowers the reserve requirement of members banks. Lowers the discount rate and encourages consumers and business credit through selective credit measure. By such measures, it decreases the cost and availability of credit in the money markets, and improves the economy through injection.

* 1. **CONTRACTIONARY MONETARY POLICY**

A monetary policy designed to curtail aggregate demand is called Contractionary (or dear) monetary policy. It is used to overcome an inflationary gap. The economy experiences inflationary pressures due to rising consumers, demand for goods and services and there is also boom in business investment. The central bank starts a Contractionary monetary policy in order to lower aggregate consumption and investment by increasing the cost and availability of bank credit. It might do so by selling government securities in the Open market, by raising reserve requirements of member’s banks by raising the discount rate and controlling consumer and business credit through selective measures, by such measures the central bank increases the cost and availability of credit in the money market and thereby controls inflationary pressures.

2.8 **OBJECTIVES OF MONETARY POLICY**

In practice, monetary policies have been evolved to solved specific problems. It is however, not easy in practice. At times, success is achieved at the expenses of failure in other. Since the objectives may not be of equal importance for all times in an economy. There is always need to determine the main focus of policy at a given point in time.

i. The policy measures adopted in 1998 were designed to consolidate and build on the gain of 1997, through further reduction in the rate of inflation stimulating output growth and strengthening the external sectors position. These policies were to be implemented against the backdrop of the federal Government’s commitment to further deregulations of the economy.

The specific targets for over the years were to;

1. Achieve a real Gross Domestic Product (GDP) growth of not less than 4.0 percent.
2. Maintain price and exchange rate stability with inflation rate not exceeding 9.0 percent in pursuit of the above goals, the following specific policy measures were adopted.

1a. **Monetary and Credit Policy Measures:** the stance of monetary policy continue to be restrained, but disposed to ensuring adequate resources flow to the private sector for productive activities. Towards this end, the monetary policy instruments adopted are highlighted below:

(b) **Monetary and Credit Targets:** The following performance targets were set for fiscal 1998:

 i. Growth in broad Money (M2) 15.6%

 ii. Growth in narrow money (M1) 10.2%

 iii. Growth in Bank aggregate bank rate 24.5%

 iv. Growth in Bank credit (Net) to government 26.8%

* 1. Growth in bank credit to the Private Sector 33.9%

2.9 **PROBLEMS MILITATING AGAINST AN EFFECTIVE MONETARY POLICY IN NIGERIA**

The follow problems have been identified as some of the obstacles impending the realization of the goals of monetary policy.

2.9.1 Non-Bank-Financial Institution (NBFIS) with the introduction of the Structural Adjustment Programmes (SAPS) during the economic restructuring the number and size of the non-bank-financial institutions have been rising tremendously, these institutions though perform bank-like functions, they are not under the general credit guidelines of the Central bank of Nigeria. Thus, Institutions constitute a source of enormous leakage in monetary and fiscal controls thereby rendering the efforts of the monetary authorities somehow ineffective.

* + 1. The Problem of Harmonizing monetary and fiscal policies: Fiscal policies of the Federal Government over the years have been out of tune with monetary targets. Fiscal imbalance has adverse effects on the monetary policy. Fiscal policy has over the years rendered monetary control measures and leading to uncertainty.
		2. Confidence in Banking is an invaluable asset, the lack of which would undermine competition among the participating deposit institution. Undermines inter-bank confidence and also affect the general confidence of the non-bank public. The non-banking public is often being discourage because of failed banks following the huge size of bad and doubtful debts in banks investment portfolios and assets. This often discourage the bank habit of the people.
		3. Banking and Other Department Supervisions: Effective supervision is vital for the successful implementation of monetary is vital for the successful implementation of monetary and fiscal policies. There had been supervision on the part of the Monetary and fiscal authorities over the banking and public sector. This problem is occasioned by the subsequent Acts like (1959) Central Bank of Nigeria Act and tax laws.
		4. Statistical data; Statistical data as we all know is one of the conditions precedents for policies. For monetary policy to be effective, it will require timely and reliable data on the liquidation of banks and the factors determining the monetary base the system of data processing storage and retrieval in the Central Bank of Nigeria is not effective.
		5. Training: lack of adequate training for the successful implementation of designed monetary measures by the staff of Central Bank of Nigeria and the employees of other necessary authorities have been the major problem confronting monetary policy and inflation in Nigeria economy.
		6. Ineffective Administration: There is always an ineffective or bad administration especially with the monetary policy implementation by the authorities. This bad administration leads to corruption, improper carrying out of duties (negligence) by unpatriotic citizens who are after their interests.

2.10 **RELATIONSHIPS BETWEEN MONETARY POLICY AND INFLATION**

Inflation refers to a persistent rise in the general price level the prices of most goods and services rise steadily but not necessarily at the same rate. During an inflationary period, there is too much money in circulation and too much money purchases fewer goods and services.

In other words, a large quantity of money purchase few commodities, the value of money therefore fall during inflation.

While monetary policy is one of the major macro-economic stabilization tools, which involves measures designed to regulate and control the volume, cost, availability and direction of money and credit in an economy to achieve some specified macro-economic policy objectives, that is it is a deliberate effort by monetary authorities (the Central Bank) to Control the money supply and credit conditions for the purpose of achieving certain broad economic objectives.

In view of the above, the Central Bank of Nigeria (CBN) tries to checkmate the money in circulation through issuing of treasury bills, bonds, stocks etc. in an inflationary period where there are too much money, the Central bank of Nigeria buys back the treasury bills issued.

* 1. **YPES OF INFLATION**
		1. **Demand-Pull Inflation:** Demand-Pull inflation emanates from excess of demand over supply. If the demand for goods and services increases considerably without a corresponding increase in their supply, prices will increase. If the prices increase, fall in real income will result. For example an increase in income will increase the purchasing power of people. If this is not matched with increased production, inflation will occur. Demand-pull inflation is associated with periods of trade boom.
		2. **Cost –Push Inflation**: This type of inflation is generated by increase in the cost of acquiring the factors of productions workers may demand higher wages, the cost of capital and land may have increased generally, producers are forced to pass part of their higher costs to consumers in the form of higher prices, in order to maintain their profit margins. If the price increase persists inflation occurs.
		3. **Open** – **Inflation**: This is a type of inflation generated by an increase in money supply without a corresponding increase in the volume of goods and services, therefore, too much money chases fewer goods resulting in a rise of the general price level. This could be brought about by excessive bank lending or over-expansion of currency by the Central Bank.
	2. **CAUSES AND EFFECTS OF INFLATION**

The major causes of inflation widely identified include:

i. Excessive deficit-financing and rapidly increasing government expenditure.

ii. Excessive bank lending

1. Increase in wages and salaries of workers.
2. There is low domestic productivity in both the industrial and agricultural sectors.
3. Poor storage facilities of agricultural products.
4. Population increases.
5. There is also shortage of essential items brought about by poor distribution system and port congestion.
6. War and civil strife in some West African Countries.
7. Higher costs of production,
8. Reduction of imports without corresponding increase in domestic outputs.

2.12.1 **Effects of Inflation:**

1. It leads to increased earnings and higher profits on the part of businessmen.

2. There will be increased investment.

3. There will be increased employment.

4. There is a transfer of real earnings from creditors to debtors.

5. Inflation redistributes incomes

6. Inflation may lead to an adverse balance of payments position.

7. Inflation discourages saving.

8. A prolonged high rate of inflation may lead to loss of confidence in the country’s currency and a consequent collapse of the monetary unit.

9. Inflation reduces the burden of the National debt.

2.13 **CONTROL OF INFLATION**

Inflation can be controlled by:

 i. **The use of a Monetary Policy**:

The use of monetary policy tried to control the availability and use of credit. This type of policy is used by the Central bank to reduce lending by commercial banks. Thereby reducing the amount of money in circulation.

A monetary policy reduces the supply of money involves the use of open market operations (OMO). Increasing the cash-deposit ratio, the use of special deposits, use of directives, moral Suasion and funding.

2. **The use of a Fiscal Policy:**

A fiscal policy involves the use of government tax (or income) and expenditure policies to regulate the economy. It includes:

i. **Tax Policy:** The government could increase taxes on income. This reduces the disposable income of people. Consequently, there will be a reduction in their demand for goods and services.

ii. In order to control inflation, the government could increase its borrowing from the Public and at the same time spend less of its revenue. This could be done by issuing government securities like bonds, stocks and treasury bills.

iii. Inflation could be controlled by reduction of government expenditure and use of the budget surplus. The budget surplus involves the government spending less money than is received through various sources. The government should reduce expenditure especially on non-productive projects. This would reduce the amount of money flowing into the economy. If the supply of money is reduced, inflation will be curbed.

2.14 **CENTRAL BANK OF NIGERIA AND ITS REASONS**

A Central bank is a financial institution owned by the government of a nation, run by the Directors, chaired by a Governor or appointed by the government and charged with the responsibility of managing the expansion and contraction of the volume, cost and availability of money in the interest of public Welfare. It is primarily a non-profit entity.

**Reasons for Establishing:**

* + - 1. Problems of WACB: the board rather than being a monetary authority was an exchange mechanism which had nothing to do with money supply only doing what it was ordered to do.
			2. The character of bank advances was seasonal and discriminatory, concentrating in the hands of government retail and wholesale traders only. This hampered the development of economy.
			3. Absence of machinery to organize a market for government securities.
			4. The liquidity of the indigenous banks made them to maintain excess reserves liquidity in order to be safe. This is against the rules of banking.
			5. There was no central body to control the activities of foreign banks who repatriate profits overseas.
			6. Absence of money market with which banks could ask for advance or keep their balances. It was these factors which led to the establishment of the Central Bank of Nigeria (CBN) the federal government then invited several financial experts to deliberate on how to establish Central Bank of Nigeria, the bill establishing the Central Bank of Nigeria was passed in the Federal House of Representative in 1958 based on the report of NB Loynes on 22nd August, 1957. Infact, real banking operations did not start till July 1, 1959.

2.15 **ROLE OF CENTRAL BANK IN PROCESS OF CONTROLLING INFLATION**

The Central Bank provides capital for development.

Central Bank controls the money supply in the economy.

Central Bank supervises regulates and controls the whole banking sector.

The central bank also helps the development of money and capital markets.

It keeps the country’s external reserves and advices the government on actions to take to avoid increase of the deterioration of such reserves.

It organizes borrowing from abroad on behalf of the nation hence it deals with international monetary fund (IMF) and the world bank

The Central bank also encourages increased exports.

2.16 **USE OF MONETARY POLICY IN CONTROL OF INFLATION BY CENTRAL BANK OF NIGERIA PRICE CONTROL MEASURES:**

This involves the setting up of a price control board by the government which fixes maximum price charged for certain commodities experiencing inflation. Experience however has shown that this system with a myriad of problems does not work. The Nigerian case is a typical example, what usually results are hoarding profiteering and back marketing, thus neglecting the initial aims.

**Wages Control or wage freeze**

Most government place freezes on wage increase as a measure to combat inflation. But this policy does not work or is ineffective since workers have deviced methods of making the government or employers or labor dance to their times. These ways include, go slow work-to-rule, industrial actions etc. there are most often used in democratic nations or societies.

**Monetary Policy:**

This involves the use of traditional monetary instruments to reduce the quantity of money in circulation. These include; increase in the bank or discount rate, increase in the liquidity ratio, use of Open Market Operation (OMO) (Contractionary monetary policy in this case), sectoral allocations or special directives etc.

However, the experience in the developing would has shown that these traditional instruments of monetary policy have a lot of deficiencies hence their ineffectiveness in curbing inflationary pressures.

**Tight Fiscal Policy:**

A combination of increase in personal income tax and reduction in government expenditure may prove effective especially when inflation is demand-pull in nature. These reduce the purchasing power of consumers thus reducing prices of commodities.

**Total ban on the importation of certain items**:

Especially when inflation is imported, the government is strongly tempted to place total ban on the importation of certain non-essential items. However, retaliation by other nations and political pressure may lead to the lift of the ban so sooner than it was placed hence the effectiveness of such a policy.

**Increase in Production of Goods and Services:**

Increase in the production of goods and services is the most effective measure to control inflation. Increase in the supply of products will naturally force prices down., in Nigeria, concrete efforts should be made to increase production of essential but scarce commodities and services e.g. education, health transport.

**Over-hauling of the entire distribution network:**

Only genuine distribution should be appointed and any one found hoarding and profiteering should be prosecuted to served as a deterrent to others.

* 1. **SUMMARY AND CONCLUSION OF CHAPTER**

The development of money was an inevitable historical event in the cause of human civilization. The entire subject matter of the economy revolves around the application of money in one form or the other.

The objective of this research work is therefore to certain the important of monetary policy as an instrument for control in Nigeria Financial sector. Monetary policy is therefore the deliberate action on the part of Monetary Authorities (The Central Bank and Ministry of Finance) to control money supply and general credit availability as well as level of its cost which is the rate of interest.

The review of related literature on the monetary policy generally adopted in Nigeria was undertaken. Which stages of facts of monetary policy follows, the desire to understand monetary policy with effort toward identifying promotion of the and economic growth of the country. Other functions that are performed by the monetary policy in the economic development can be summarized as follows:

1. Desire for suitable level of economic growth and development.
2. Maintenance of health balance of payment position.
3. Achieving a higher rate of employment (full employment).
4. Maintenance of price stability.

The economic policy makers usually aim at stating a set objectives so as to achieve a number of laudable economic goals and to enforce strict adherence to the stipulated sanctions, regulations and directives of Central Bank of Nigeria (CBN) on monetary policy in a particular.

**CHAPTER THREE**

3.0 **RESEARCH METHODOLOGY**

3.1 **INTRODUCTION**

Research is a process of arriving at dependable solutions to a particular problem through planned and systematic collection, analysis and interpretation of data. It is devoted towards finding the conditions under which a certain phenomenon occur and the circumstances under which they occur.

Research is an important tool for advancing knowledge for promoting progress and in enabling the researcher to relate effectively between two or more variables and developed a concept or techniques of improving providing a channel for further investigation.

The techniques to be discussed in this research work were well understood to provide the research, with high degree of adequate data and information for further analysis.

3.2 **METHODS OF DATA COLLECTION**

Thee researcher has carefully selected the following methods of data collection.

1. **Personal Interviewed Method:** This method was adopted to get up-to-date facts and figures from the original source. As such an interview were conducted with some of the staff of Central Bank of Nigeria, Kaduna Branch.
2. **Documentary Methods:** This method involves secondary data containing information already gathered and stored as for historical reference. The researcher was able to obtain information in the Annual Reports (various years) and accounts, 2005/2006 of the Central bank of Nigeria, Textbooks, historical documentations etc.
	1. **SOURCES OF DATA COLLECTION**

The sources of data used in this research work are classified into primary data and secondary data respectively.

3.4 **TYPES OF DATA**

3.4.1 **Primary Data:** Primary data are original data gathered for the purpose of the present enquiry. Primary data are data that have never been used or published anywhere and by any other researchers.

 **The merits of Primary Data**:

 i. It gives instant response.

 ii. It saves time.

 iii. Easily assessed to gather information.

 iv. Obtaining information from original sources (Oral)

**The demerits of primary Data**:

i. It may contain false information.

ii. It involves heavy cost.

* + 1. **Secondary Data:** Secondary data are data formally collected to satisfy the purpose of some other enquiries but now being used for the present study. The secondary data relied upon in this study include the use of textbooks from the banks library, magazines, financial journals and government publications. Others include annual reports (various years) statistical bulletins, educational journals etc.

**The Merit of Secondary data:**

1. It saves time

2. Easy to gather information.

3. It can be used as reference.

4. It helps to improve on present research.

**The demerits of Secondary Data:**

1. It may be outdated.

2. It can be destroyed/consumed by fire.

3.5 **METHODS USED IN DATA COLLECTION**

Various research methods were specifically used to carryout this research work because of the validity. Research approach being employed. It could be seen that there are various ways of carrying out research project, but the adoption of a particular method of conducting research is usually influenced by the nature of the problem(s) understudy.

3.6 **POPULATION AND SAMPLE SIZE**

Sampling is the act of collecting information by selecting a few from the whole population from which conclusion can e drawn relating to the whole population.

Population is any group of people or objects, which are similar in one or more ways and which form the subject of the study in a particular survey.

However, for the purpose of this research work, the population is the senior staff of Central Bank of Nigeria (CBN) Kaduna Branch.

* 1. **JUSTIFICATION FOR THE CHOICE**

Research methodology is an important tool in the collection and analysis of data. It provides the basis for which data could be collected, analyzed and documented. As a result various methods had chosen on the basis of validity done with precision so as to allow the researcher to draw a valid conclusion regarding the problem understudy. A concise description of the research methodology used.

However, it is equally important to note that the researcher used both primary and secondary data for the purpose of this project work. The researcher found it necessary to use a combination of the above two methods rather than just one of them because each of them has its relative merits and demerits or a limitations.

**CHAPTER FOUR**

4.0 **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

4.1 **INTRODUCTION**

In this chapter, the information gather through questionnaire is tabled and analyzed to enable the researcher deduce appropriate and valid conclusion. The researcher issued twenty-five (25) questionnaires to both senior and junior staff of the central bank of Nigeria (CBN) out of which twenty (20) were returned representing 80% success rate.

* 1. **DATA PRESENTATION**

**Question 1: What caliber of staff are you?**

**Table 1:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Junior Staff | 15 | 75% |
| Senior Staff | 5 | 25% |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

The table above shows that 15 respondents representing 75% are the Junior Staff of Central Bank of Nigeria while 25% or 5 members is Senior staff.

**Question 2: How long have you been working with central bank of Nigeria (CBN)?**

**Table 2:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| 1 – 5  | 8 | 40% |
| 5 – 10 | 7 | 35% |
| 10 years and above  | 20 | 25% |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

The table above indicates that 8 respondents representing 40% have been with Central Bank of Nigeria (CBN) for the period of 1- 5 years 7 are representing 35% said they have been working between 5 – 10 years and 5 respondents said it is 10 years and above.

**Question 3: How would you assess the Central Bank of Nigeria (CBN) role in terms of monetary policy formulation or implementation?**

**Table 3**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Very good | 20 | 100% |
| Good | - | - |
| Fair | - | - |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

The table above indicates that the roles of Central Bank of Nigeria (CBN) in monetary policy formulation or implementation which means it is very good.

**Question 4: Does Central Bank of Nigeria Control inflation through the use of monetary and credit policy guidelines?**

**Table 4:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Yes | 20 | 100% |
| No | - | - |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

Twenty (20) respondents from the above table responded that Central Bank of Nigeria (CBN) controls inflation through the use of monetary and credit policy guidelines.

**Question 5: The Central Bank of Nigeria is regarded as banker’s bank. How would you assess its role in the implementation of monetary policy and control of Inflation?**

**Table 5:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Very adequate  | 14 | 70% |
| Adequate  | 4 | 20 |
| Inadequate  | 2 | 10% |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

Table 5 reveals that 14 respondents representing 70% are of the view that Central Bank of Nigeria’s role in implementation of monetary policy is very adequate while 20% said it is fairly adequate and 2 representing 10% said it is inadequate. This indicates that Central Bank of Nigeria tried its possible best in implementation monetary policy.

**Question 6: Does the Central Bank of Nigeria CBN’s policy have positive impact on the level of economic activities in Nigeria?**

**Table 6:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Yes | 20 | 100% |
| No | - | - |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

Table 6 reveals that Central Bank of Nigeria’s Policy on Money supply have positive impact on the level of economic activities in Nigeria.

**Question 7: What policy measures have the Central Bank of Nigeria taken to control inflation and stabilize the economy?**

**Table 7:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS** | **PERCENTAGE** |
| Light monetary policy measure | 10 | 50% |
| The use of oral Suasion | 5 | 25% |
| No idea  | 5  | 25% |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

The table above indicates that 10 respondents representing 50% said Central Bank of Nigeria controls inflation by withdrawing excess money in circulation, 5 respondents representing 25% said it is by sales of government securities and 5 respondents have no idea.

**Question 8: Did Central Bank of Nigeria contributes to banking reforms?**

**Table 8:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Agree | 15 | 75% |
| Fairly agree | 4 | 20% |
| Disagree | 1 | 5% |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

Table 8 above shows that 15 respondents representing 75% agreed that Central Bank of Nigeria contributes to banking reforms while 4 respondents representing 20% fairly agree and 1 respondents disagrees.

**Question 9: How would you rate The Central Bank of Nigeria’s role in printing and issuance and stabilization of money and it exchange rate value in relation to other foreign Currencies e.g. U.S. Dollars, Pound Sterling.**

**Table 9**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Very high  | 5 | 25% |
| Moderate  | 10 | 50% |
| Low | 4 | 20% |
| Very Low | 1 | 5% |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

Table 9 indicates that 5 respondents i.e. 25% opined that CBN’s Policy moderates inflation is very high while 10 respondents representing 50% said the CBN is moderate and 4 respondents i.e. 20% view that it’s low rate and the remaining 1 i.e. 5% respondents rates CBN very Low the 50% of 10 value the policy towards that is moderate.

**Question 10: Does government expenditure, tax revenue earnings and other money supply have important impact on the level of output?**

**Table 10:**

|  |  |  |
| --- | --- | --- |
| **RESPONSE**  | **NO. OF RESPONDENTS**  | **PERCENTAGE** |
| Yes | 20 | 100% |
| No | - | - |
| **Total** | **20** | **100%** |

**Source**: Central Bank of Nigeria Zonal Headquarter Kaduna (2007)

In the table above, the respondent i.e. 20 representing 100% said that government expenditure and money supply are important on the determination of the level of outputs.

* 1. **TECHNIQUES USED IN TESTING HYPOTHESIS**

The statistical technique has been used because of the following advanatages:

* 1. Statistical method is straight forward and easy to understand.
	2. It is also involves less complicated mathematic technicalities.
	3. It is also widely used in academic researches of this nature.
	4. The method is less cumbersome and less time consuming to apply.
	5. It is also very easy to interpret.
	6. **TESTING OF HYPOTHESIS**

The researcher tests the hypothesis formulated for the purpose of this research work that is monetary policy is a very important tool of macroeconomic stabilization of an economy.

Ho1: Monetary Policy is not an important tool of macroeconomic stabilization of an economy.

Hi1: Monetary Policy is an important tool of macroeconomic stabilization of an economy.

Ho2: Monetary Supply has no impact on the level of economic activities.

Hi2: Monetary Supply has impact on the level of economic activities.

**Proof of Hypothesis**

|  |  |  |  |
| --- | --- | --- | --- |
| **TABLE**  | **FAVOURABLE** | **UNFAVOURABLE** | **TOTAL** |
| 3 | 20 | - | 20 |
| 5 | 14 | 6 | 20 |
| 8 | 15 | 5 | 20 |
| **TOTAL** | **49** | **11** | **60** |

**Source**: Central Bank of Nigeria Zonal Headquarters Kaduna (2007)

 Favourable = 49/60 x 100/1 = 82%

 Unfavourable = 11/60 x 100/1 = 18%

**Hypothesis 2**

|  |  |  |  |
| --- | --- | --- | --- |
| **TABLE**  | **FAVOURABLE** | **UNFAVOURABLE** | **TOTAL** |
| 5 | 14 | 6 | 20 |
| 8 | 15 | 5 | 20 |
| 9 | 15 | 5 | 20 |
| 10 | 20 | - | 20 |
| **TOTAL** | **64** | **16** | **80** |

**Source**: Central Bank of Nigeria Zonal Headquarters Kaduna (2007)

Favourable = 64/80 x 100/1 = 80%

Unfavourable = 16/80 x 100/1 = 20%

Based on the results on the hypothesis tested in table 1. the percentage of favourable is 82% which means that we accept the alternative hypothesis (Hi1); monetary policy is a very important tool of macroeconomic stabilization of an economy) and reject the Null hypothesis (Ho1: Monetary is not an important tool of macroeconomic stabilization of an economy)

Second table revealed that the favourable is 80%. So we accept the alternative hypothesis that states that (Hi2: Monetary supply has positive impact on the level of economic activities) and reject Null hypothesis that (monetary supply has no positive impact on the level of economic activities).

Conclusively, we can now see it clearly that Central Bank of Nigeria has played significant role in the implementation of monetary policy and control of inflation in the process of economic growth and development of Nigeria economy.

4.6 **RESEARCH FINDINGS AND THEIR VALIDITY**

Firstly, it was discovered that the main factors responsible for not achieving accelerated economic growth and sustainable problem of poor development is lack of implementation of CBN’s monetary and credit policy guidelines at the level of macroeconomic policy formulation and implementation of such monetary and fiscal policy .

Secondly, it was discovered that the CBN’s management has not been given free hand to formulate policies without the interference of government officials. This has contributed to Central bank of Nigeria’s inability to meet its objectives goals of monetary and credit policy guidelines in the process of macroeconomic stabilization and development of this country since it is the major tool in promoting economic growth.

* 1. **SUMMARY OF FINDINGS**

The researcher was able to achieve his aim in carrying out the research by involving himself to bring in focus the meaning of Central bank of Nigeria (CBN) and its role in the economy.

The main objective of this research work is therefore to certain the important of monetary policy as an instrument for control in Nigeria financial sector and also money supply and credit availability as well as level of its cost which is the rate of interest.

* 1. **CONCLUSION**

In this chapter, it is evident that the Central bank of Nigeria really played an important role in Nigeria economy, with all the responses. If they are being given the chance. They can achieve their aim to stabilize Nigerian economy.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.0 **INTRODUCTION**

The focus of this chapter is to present the summary of the major roles of Central Bank (CBN) in the implementation of policy and control inflation in Nigeria economy.

* 1. **SUMMARY OF THE STUDY**

The followings are the major findings of the study;

* + - The study discovered that the current economic crisis as well as the slow economic growth in Nigeria is as a result of non-implementation and credit policy guidelines particular under military regime that continuously interfered with the implementation statutory functions of the Central Bank of Nigeria.
		- It was revealed that Central Bank of Nigeria was not given a free hand to formulate realistic economic policies without unnecessary interference by the government of the day, this has weakened the Central Bank of Nigeria’s ability and power to meet the set target particularly as it affects the economic development of Nigeria
		- Finally, the study also found that corrupt practices and favouritism in appointment to key position in the Central Bank of Nigeria greatly.
	1. **CONCLUSION REMARKS**

In the light of the findings of this study, the researcher can safely conclude that the instruments i.e. Open Market Operations, cash Reserve requirement, Liquidity ratio interest rate policy, Discount Window Operation stabilization Securities, Bank Credit expansion etc. of monetary policies can be allowed to effectively used and the central Bank of Nigeria is allowed to prosper the objectives of monetary policy, price stability, stable exchange rate of the naira, employment and external sector performance could be achieved.

5.3 **POLICY RECOMMENDATIONS AND SUGGESTIONS FOR THE STUDY**

Based on the findings and conclusion drawn, the researcher presents the following recommendations:

1. The Federal government of Nigeria should give autonomy to the central bank of Nigeria on all monetary matters dealings in foreign exchange transaction and other national and international finance transactions without any interference of any person or group of persons no matter how highly placed.
2. The management of the Central bank of Nigeria should be given free hand to formulate sound economic policies that would improve the economic well-being of Nigerians and facilitate the development of the Nigerian economy..
3. The Central bank of Nigeria should re-focus its attention on a achieving the rate of the art technology especially in the areas of information and communication. This will assists it in the effective performance of its functions notably in the areas of monetary management clearing and payment system effect regulation and supervision, foreign exchange management, debt management, capacity building and contributory to financial innovation and technological development in the financial system.
4. The central Bank of Nigeria should concentrate on its core functions which include the maintenance of monetary stability and development of sound financial system and leave non-central banking functions which have constrained the effectiveness of the Central Bank of Nigeria performance.

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