Impact of Central Bank of Nigeria in Nigeria’s Economic Growth

Alhaji Umar Lawal Aliyu
Alhaji Umar Lawal Aliyu, P.hD.
Faculty of Management, Department of Business Administration
LIGS University Hawaii, USA

Abstract: This paper examines and assesses the effects of Central Bank of Nigeria’ (CBN) economic growth. The traditional functions of a central bank include formulating and implementing monetary policy, determining interest rates and directing money supply - to achieve price stability; regulating and supervising the banking and financial systems, managing foreign reserve and ensuring the stability of financial markets. The empirical works of King and Levine (1993) who, in a cross country study comprising data from 77 countries over the period 1960-1989, found that the level of financial development stimulates economic growth. Consequently, the Central Banks of Nigeria (CBN) have considered ways by using both traditional and unconventional monetary policy instruments to foster growth in Nigeria. The findings from the study revealed that the state of economic development in Nigeria is invariably associated with extent of the growth and development of the Central Bank of Nigeria’s Development finance. According to R.S. Sayers ‘The Central Bank is the organ of Government that undertakes the major financial operations of the Government and by its conduct of these operations and by other means influences the behaviour of financial institutions so as to support the economic growth. The findings from the study revealed that the state of economic development in Nigeria is invariably associated with the roles the Central Bank of Nigeria’s plays in promoting economic growth and development.

Keywords: Central Bank, Development, Economic Growth, Instruments, Monetary Policy.

1. INTRODUCTION
1.1 Background of the Study
It is well acknowledged in economics literature that Central Bank of a country irrespective of the country’s economic or political policies play a major role in promoting economic development through trying to achieve price stability; regulating and supervising the banking and financial systems, managing foreign reserve and ensuring the stability of financial markets. In this regard, for an economy to grow, it should have a well-developed and stable banking system that is resilient to external shocks, which will effectively play the role of financial intermediation. However, enabling healthy financial sector evolution entails the CBN reviewing the basic one-size-fits-all model of banking. This has made possible the emergence of international, national, regional, mono-line and specialized banks such as...
non-interest banks, etc., with different capital requirements commensurate to the depth of their operations.

Economic growth has long been considered an important goal of economic policy with a substantial body of research dedicated to explaining how this goal can be achieved. One of the earliest works on banking performance and economic growth was by Schumpeter (1959) who argued that financial (banking) services are paramount in promoting economic growth. Economic development is about enhancing the productive capacity of an economy by using available resources to reduce risks, remove impediments which otherwise could lower costs and hinder investment. The banking system plays the important role of promoting economic growth and development through the process of financial intermediation. Therefore, without sufficient and effective development finance, economic development is impossible. Healthy development finance in a country ensures capital formation, higher productivity, better standard of living for citizens and stable and growing economy. Policy measure of development finance intervention, which provides capital in form credit to the productive sectors of the economy, is important and in fact necessary for meaningful economic growth and development.

The researcher would want to know whether the overall assessment of Central bank of Nigeria has positive impact on economic growth and development. However, it will be good to note that many economists have acknowledged that the financial system, with banks as its major component, provide linkages for the different sectors of the economy. The CBN also encourage high level of specialization, expertise, economies of scale and a conducive environment for the implementation of various economic policies of government intended to achieve non-inflationary growth, exchange rate stability, balance of payments equilibrium and high levels of employment.

1.2 Statement of the Research Problem

The current liquidity issue and the inadequate lending to the real sector that could result to economic growth have generated considerable discussions. The Central Bank of Nigeria (CBN) has risen up to these challenges by ensuring that liquidity in the banking system is adequate and that sectoral credit allocation to the sensitive sectors of the economy (Agriculture, Power, Aviation and SMEs) that will impact on the real sector for growth are handled with all the attention required. In Nigeria, empirical works that focused explicitly on banking sector performance and economic growth have yielded mixed results. Some of these works suggest that banking sector performance has affected positively and significantly on economic growth (see; Adelakun, 2010) while others reported an insignificant relationship between banking sector performance and economic growth (See. Ekpeyong & Acha, 2011; Odeniran & Udeaja, 2010).

Whatever the case may be central Bank of all countries play a very significant role in the development of every economy by mobilizing resources for productive investments and being the conduit for the implementation of monetary policy.

1.3 Objectives of the Study

The overall objective of this study is to investigate how commercial banks’ performance affects economic growth using data from Nigeria. The study strives to accomplish the following specific objectives:

a. To ascertain extent the Central Bank of Nigeria played a major role in supplying liquidity to financial markets.
b. To ascertain the impact of Central bank on economic growth in Nigeria.

2. LITERATURE REVIEW
2.1 Theoretical Framework

In Nigeria, the financial system is the hub of productive activity, as it performs the vital roles of financial intermediation and effecting good payments system, as well as assisting in monetary policy implementation. According to Ofanson et al. (2010) the process of financial intermediation involves the mobilization and allocation of financial resources through the financial (money and capital) markets by financial institutions (banks and non-banks) and by the use of financial instruments (savings, securities and loans).
This paper adopts classical theory of political economy and development in evaluating the relationship between Central Bank and economic growth and development. Moreover, it has been widely reported that the Central Bank of Nigeria played a major role in supplying liquidity to financial markets during distressed periods (Bullion publication of Central Bank of Nigeria Volume 34, No. 1 January - March, 2010). Although there exist an extensive body of literature on the link between finance sector development, economic growth and poverty reduction, there is no consensus on the effect of explanatory variables on economic growth. See for example, King and Levine (1993), Levine and Zervos, (1998), Rajan and Zingales, (1998) and Levine, Loayza and Beck, (1999).

In Nigeria, the climax of financial regulatory body the Central Bank of Nigeria, without an iota of doubts has been playing this development finance role for supporting the sectors of the economy such as agriculture, industry and entrepreneurs with the supply of finance, credits and donations for growth and development of Nigeria economy. Government is constrained by its fiscal resources, this paper explores the ways the central bank of Nigeria, has supported economic diversification, growth, and employment. Consequently, studying the role of central banks in promoting diversification and growth becomes especially interesting and worth exploring for Nigeria.

This paper describes the roles and functions of the Central Bank of Nigeria in promoting economic growth, employment and supporting economic diversification in Nigeria by exploring its current and potential roles.

2.2 Central Bank of Nigeria

The Central Bank of Nigeria (CBN) was established by the CBN Act of 1958 which has been modified in 1991, 1993, 1997, 1998, 1999 and 2007. It commenced operations on July 1, 1959 and issued its first treasury bills in April 1960. In its early days, the CBN mainly acted as regulators of the banking sector, monitored balance of payments according to the demands of the federal government and adjust monetary policy along the demands of the federal budget. The Central Bank of Nigeria has had 12 Governors since Nigerian Independence and is probably the most popular government body in Nigeria.

The major regulatory objectives of the bank as stated in the CBN Act are to: maintain the external reserves of the country, promote monetary stability and a sound financial environment, and to act as a banker of last resort and financial adviser to the federal government. The central bank's role as lender of last resort and adviser to the federal government has sometimes pushed it into murky regulatory waters. Therefore, Central Bank of Nigeria's credit schemes. Central Bank of Nigeria’s development role initiatives involve the participation of Central Bank Nigeria directly or indirectly in the economy in terms of the formulation and implementation of various policies, schemes, programmes innovations and directives for the provision of sufficient or adequate finance and credit to the productive sectors of Nigeria with primary objective of facilitating economic growth and development. The Central Bank of Nigeria administers development finance through its credit schemes such as:

a. Refinancing Facilities for Agricultural Export Commodities.

b. Rural Finance and Banking Support Scheme

c. Agricultural Credit Guarantee Scheme
d. Commercial Agricultural Credit Scheme
e. Small and Medium Scale Industry Credit Scheme etc.

After the end of imperial rule the desire of the government to become pro-active in the development of the economy became visible especially after the end of the Nigerian civil war, the bank followed the government's desire and took a determined effort to supplement any short falls in credit allocations to the real sector. The bank soon became involved in lending directly to consumers, contravening its original intention to work through commercial banks in activities involving consumer lending. However, the policy was an offspring of the indigenisation policy at the time. Nevertheless, the government through the central bank has been actively involved in building the nation's money and equity centres, forming securities regulatory board and introducing treasury instruments into the capital market.

CBN has overall control and administration of the monetary and financial sector policies of the Federal Government. The Bank is charged with the responsibility of administering the Banks and other financial institution with the sole aim of ensuring high standards of banking practice and financial
stability through its surveillance activities, as well as the promotion of an efficient payment system. Hence, the perpetual decline in productivity, output, exports, foreign trade, foreign direct investment, GDP, foreign exchange earnings in Nigeria economy could be attributed to inadequate finance and capital needed by the productive sectors. These have hindered with growth and development of the productive sectors. It has also rooted a perpetual crisis in Nigerian economy such as low productivity, low output, low income, extreme poverty, unemployment, inequality, insecurity and general economic crises. Therefore, sufficient supply of just and easy credit to the productive sectors like agriculture, industry, manufacturing and entrepreneur will help Nigerian economy to achieve high productivity and facilitate economic growth. Otherwise, Nigerian economy would continue to be in predicament.

2.3 Concept of Economic Growth

Economic growth can be defined as an increase in a nation’s output, which is most commonly measured by the gross domestic product (GDP). The benefits stemming from economic growth are wide ranging. (Harper, 2011). Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP.

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. It can be measured in nominal or real terms, the latter of which is adjusted for inflation. Traditionally, aggregate economic growth is measured in terms of gross national product (GNP) or gross domestic product (GDP), although alternative metrics are sometimes used. “Economic growth means the annual increase in real per capita income of a country over the long period. Thus, Professor Arthur Lewis says, “economic growth means the growth of output per head of population.” Since the main aim of economic growth is to raise the standards of living of the people. Economic growth remains one of the macroeconomic goals of every government and there are several studies on the subject. Harper (2011) however suggests that to achieve economic growth, that two options are available. These options are:
a. Using resources ‘extensively’ (that is producing more by using more of the available resources).
b. Using resources ‘intensively’ (that is producing more while using the same amount of available resources). However, the key to sustainable economic growth is to use resources ‘intensively’ that are to realize productivity gains (Harper, 2011:89).

2.4 CBN and Economic Growth

it is a globally recognised fact that a well-functioning financial system is a sine qua non for economic growth and development. Although there exist an extensive body of literature on the link between finance sector development, economic growth and poverty reduction, there is no consensus on the effect of explanatory variables on economic growth. See for example, King and Levine (1993), Levine and Zervos, (1998), Rajan and Zingales, (1998) and Levine, Loayza and Beck, (1999). Like many other emerging and developing countries, Nigeria has got its own peculiarities in the area of financing the economy. In addition to these peculiarities, the sheer size of our economy makes it impossible for neither the public sector nor the private sector to independently satisfy the financing requirements of the economy; hence, the need for an effective public private partnership and for each to play its individual roles.

Most emerging market economies have been known to use the domestic financial institutions to execute real sector big-ticket projects and financial institutions in Nigeria should not be an exception if we hope to achieve our developmental objectives. Thus, in recognition of the importance of financing for economic growth and given its understanding of the implication of risk management in credit allocation, the Central Bank of Nigeria adopted prong approaches to resolve the insufficient credit flow to the private sector and concomitantly accomplish its development finance function. Aimed at diversifying the economy away from over- dependence on oil revenues and consistent with its development agenda, the CBN initiated a number of development finance activities. These schemes are broad-based and spread across various sectors as follows:
a. Agriculture--The intervention schemes in the agriculture sector (including the ACGSF, CACS, NIRSAL, ABP etc.) aim to improve domestic supply of these commodities and eventually moderate
pressure on foreign reserves. Under these, we have: Agricultural Credit Guarantee Scheme Funds (ACGSF), Commercial Agriculture Credit Scheme (CACS), Real Sector Support Facility (RSSF), Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) and Anchor Borrowers' Programme (ABP).

b. Power--Industrialization will not be feasible if the power challenges are not fixed. Hence, in conjunction with stakeholders in the power sector, the Bank established a Special Purpose Vehicle, in the form of a low interest facility, to discharge existing legacy gas debts that had undermined gas supply to generating power plants in the country.

c. Micro, Small and Medium-Scale Enterprises (MSMEs)--These are recognized globally as the nucleus of sustainable growth, job creation and poverty reduction.

Despite the unusual monetary policy environment, the CBN has recently pursued the objectives of financial stability and initiating growth, but with a critical eye on price developments. The point here is that a focus on price stability is not inconsistent with financial stability and economic growth objectives as you cannot have economic growth without price stability. Thus, it is our expectation that effective implementation of the recent initiatives would help to promote Small and Medium Enterprises, bring the necessary improvements to the power sector, increase agriculture output, create employment and reduce poverty as well as put Nigeria on the path to meeting the targets of the Millennium Development Goals (MDGs).

2.5 CBN Roles in Economic Growth
a. Some of the roles of the central bank of Nigeria include the following:
b. Management of foreign reserves: The bank takes account of all receipts and payments of foreign reserves account.
c. Banker to the government: The CBN keeps all Government funds.
d. Banker to other banks: The CBN acts banker to other banks.
e. CBN oversees the financial sector.
f. CBN directs demand and supply money in the country.
g. CBN determines the country interest rates.
h. CBN is responsible in promoting sound financial environment and monetary policy.
i. CBN is responsible in promoting sound economic growth and development.

3. RESEARCH METHODOLOGY
3.1 Methodology
Several methods are available for use in collecting data in a research work. Some of these methods are so linked that a full study or research cannot be carried out using only one method. There must then be a blending of with available facts.

This research work is specifically designed to study the Impact of Central Bank of Nigeria in Nigeria’s Economic Growth. The research design is meant to guide the researcher in the use of the best method of collecting data in the course of the study. The research design used in this study is the simple method and approach. The researcher is only interested in knowing the Impact of Central Bank of Nigeria in Nigeria’s Economic Growth.

4. DATA PRESENTATION AND ANALYSIS
4.1 Data presentation
This section attempt to provide clear analysis and interpretation of all data collected. The data collected are presented in this chapter for easy comprehension. The analyses are computed which forms the basis of analysis and conclusion drawn there from.

4.2 Data analysis
An economist, Mr Titus Okuroumu, on Friday expressed optimism that the new Central Bank of Nigeria (CBN) credit policy would consolidate the gains already made in the economy and stimulate growth. Okuroumu, a former CBN director, said this in an interview with the News Agency of Nigeria (NAN) on Friday in Lagos.
NAN reports that under the new policy, agricultural, manufacturing and the sectors considered as growth and employment stimulating, can now borrow long term as much as N10 billion at consolidated nine per cent interest rate. The new credit policy, called Guidelines for Accessing Real Sector Support Facility (RSSF) through Cash Reserve Ratio (CRR) and Corporate Bonds, was released by the CBN on Thursday. The guidelines followed the recommendation of the Monetary Policy Committee (MPC) of the CBN at its 119th meeting held between 23 and 24 July.

The MPC emphasised the need to increase the flow of credit to the real sector of the economy, to consolidate economic recovery. “The take-off of the new policy will boost the anchor borrower’s scheme of the Federal Government on rice. “The programme, if adequately funded, will create food security in the economy and ensure that we could be a net exporter of food in the future. “While the purchasing managers’ index, which measures the economic health of the manufacturing sector, would witness a surge as a result of the funds that would be injected into the system,” he explained.

The economist said the funding incentives idea by the apex bank was good as it could boost the country’s Gross Domestic Product (GDP). Okuromu, however, urged the monetary authority to extend the funding incentives to other sectors of the economy in order to create wealth. “Government should expand the policy to accommodate the mining and tourism sectors to create more employment opportunities,” he added. The economist said this was how other developed economies generated funds to stimulate economic growth. NAN reports that the new policy marks a big departure from the excruciating interest rate regime of 25 to 30 per cent that was blamed for stifling manufacturing and other ventures in the country (NAN).

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of findings

This study was meant to find out the Impact of Central Bank of Nigeria in Nigeria’s Economic Growth. From the research study, it has been proven that CBN plays a very important and vital role in Nigeria economic growth and development.

In the course of this study, the following have been deduced from the analysis and interpretation of data connected:

a. Currency Monopoly and Distribution: Nigerian economic transactions are mostly cash oriented. One of the main CBN functions involves the safeness of the custody of stocks, currency distribution, currency issue, regular supply of currency and economic activities.

b. Banker of Other Banks: This Bank promotes confidence through its activities. The Central Bank of Nigeria can also seek for the cooperation with other banks. It includes the cooperation with international banks and bank services. The functions of CBN include the ability to issue directives on the cash reserve. It also provides monetary guidelines for other banks in Nigeria. The banks will face sanctions if they fail to comply with the CBN monetary guidelines. It helps to sustain a reasonable financial system in Nigeria.

c. Banker to The Government: The CBN undertakes most of the Federal Government banking businesses on the international and domestic arenas. The bank also acts as a banker to the Federal Government institutions. It provides banking services to the local governments and states. Still, new directives from the Government can change that. These new directives transfer the Government’s funds to the commercial banks. The CBN also mobilizes funds for the Federal Government. The bank is the instrument for the Government development stock.

d. Domestic Debt Management: The CBN has a function, which involves advising the Federal Government about the size of the national debt. This function also includes: - Advertising for public subscriptions; - Providing information about timing of a new debt instrument; - Redeeming matured stocks; - Payment of Interest; - Providing information about budget deficit. However, fiscal deficits have become bigger for the last few years.

e. External Debt Management: The CBN monitors external debts of the country.

f. Promotion of Monetary Stability: One of the main functions of CBN is providing the monetary stability. The existence of this function helps Nigerians to keep prices stable. The promotion of monetary stability includes the price stability. It guarantees that prices are of store value, units of
accounts, different payments and medium exchange. The effective monetary policy ensures stable development of prices in Nigeria. It also leads to the stability in households and families.

g. Foreign Exchange Management: Due to the recent downfall of Naira, it has become the most crucial function of the Central Bank of Nigeria. Exchange management includes following tasks: - Reduce of destabilizing short-term cash flows; - Monitoring of scarce foreign exchange; - Ensure foreign exchange utilization according to the economic priorities of the country; - Foreign exchange disbursement. This CBS function is the most questionable amongst Nigerians.

h. Promotion of The Financial Market Growth: One of the main functions of the CBN in Nigeria is the promotion of the financial markets. These money markets can mobilize short-term and long-term funds. The financial markets are also very controversial in Nigeria.

i. Promotion to Entertain Public Complaints: The Central Bank of Nigeria serves as a judge between Nigerian banks and their clients. It also regulates relationships between banks. The bank has a public complaint desk in the head office and its every branch. If banks are found to be unfair with customers, the CBN can start investigations towards these banks. If the investigations find that the complaints are reasonable, the CBN can impose sanctions.

j. Monetary Policy Management: This function is highly important in the Federal Government. It’s the monopoly for money and exchange manipulations. The monetary policy affects every sector of the economy, which includes - Investment level; - Consumption level; - The rate of economic growth. Monetary policy management is an instrument to regulate, design, supply and value the cost of money. The focus of the CBN Nigeria is money supply. It helps to achieve the Federal Government economic objectives.

5.2 Conclusion


The apex bank, the Central Bank of Nigeria in propelling the nation’s economy and facilitating economic growth is implementing various reforms like credit schemes and financial programmes, which have direct impact on the economy of the country. The development finance department of the Central Bank of Nigeria is the driver of these major reforms in order to achieve microeconomic goals at attaining rapid and balanced growth of the economy and the alleviation of poverty, unemployment and inequality.

Government must established effective monitoring mechanism that will monitor and guide the operation and performance of the development finance schemes. There is the necessary need for Government to increase, improve and encourage private development finance institutions in Nigeria in order to accelerate inflow of credit to the productive sectors of the economy. CBN development finance policy at any point of time should ensure financial system operate sufficiently and effectively such that the real sectors will receive the necessary financial support to achieve economic growth and development. Nigerian government should take development finance and the credit schemes more serious.

Consequently, the Bank is charged with the responsibility of administering the Banks and Other Financial Institutions (BOFI) Act (1991) as amended, with the sole aim of ensuring high standards of banking practice and financial stability through its surveillance activities, as well as the promotion of an efficient payment system.

In addition to its core functions, CBN has over the years performed some major developmental functions, focussed on all the key sectors of the Nigerian economy (financial, agricultural and industrial sectors). Overall, the Bank through its various departments carries out these mandates.

6. BIBLIOGRAPHY

2. America’s Bank: The Epic Struggle to Create the Federal Reserve Book by Roger Lowenstein 2015
6. Central banking in theory and practice Book by Alan Blinder 1996
7. Central Banking Systems Compared: The ECB, the Pre-Euro Bundes Bank and Federal Reserve System Book by Emmanuel Apel 2003
8. Collusion: How Central Bankers Rigged the World Book by Nomi Prins 2018
12. Innovation, profits and growth: Schumpeter and Penrose by John Cantwell 1959
14. Leadership Newspaper, New CBN Credit Policy Will Stimulate Economic Growth – Expert by Nan August 24, 2018
17. Naija.Com; Functions of CBN In Nigeria By George Ibenegbu
22. The European Central Bank Book by David J Howarth 2003
23. CBN Draft Annual Report For the Year Ended 31st December 2008 - Part 5
24. CBN Annual Report and Statement Of Accounts Published 8/15/2018 12:12:00am

© Copyright 2018 International Journal of Zambrut | Scientific Researcher Group