Monetary Policy Thrust for Inclusive Growth in Nigeria

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Abstract

Economic growth in Nigeria has taken an upward trend in the last one decade. However, the growth has been regarded as non-inclusive, given the rising rates in unemployment, poverty incidence and income inequality. Although monetary policy has a role to play in fostering inclusive growth, it has had limited influence on Nigeria's economy due to its weak productive structure. In addition, monetary policy has managed inflation solely as a demand-pull phenomenon when, in reality, cost-push factors have activated it through the supply-side of the economy by increasing the cost of production. Increased monetary policy rate is transmitted into the bank lending rate which, in turn, is passed onto the cost of production. This cost is then passed onto the consumers in the form of high product prices. The impact is often quite significant, given the heavy reliance of producers on financial resources and services in the production process. Consequently, monetary policy should be proactive to ensure inclusive growth by re-allocating resources from one sector to another, or from one industry to another without increasing the cost of production, especially the cost of credit.

Keywords: Monetary policy, price level, growth, employment, interest rate

JEL Classification: E50, O40

1. Introduction

Economic growth in Nigeria has been on a steady increase. The growth rate of its gross domestic product (GDP) averaged 5.3% between 2010 and 2014, reaching an all-time high of 8.6% in the fourth quarter of 2010 and then declining to 6.2% in 2014. The Nigerian economy was ranked 26th in the world in terms of GDP (nominal— 30th in 2013 before rebasing, 40th in 2005, and 52nd in 2000) and was the largest economy in Africa, according to the rebased figures announced in April 2014. However, the current growth pattern has been found not to have any significant effect on employment, as the labour market conditions continue to be staggered. The proportion of the population living below the poverty line increased significantly from 17.1 million in 1980 to 112.47 million in 2010. The

Gini coefficient, which was 0.4296 in 2004, was 0.4470 in 2010, indicating that inequality increased by 4.1 % nationally. The country also did not make any appreciable improvement in the human development index (HDI), as it was ranked among countries with low HDI of 0.504 in 2013—it was 152 of the 187 countries surveyed and ranked. This therefore highlights that the growth being witnessed is not inclusive.

Monetary policy play s an active role in fostering inclusive growth. By changing the policy rate or altering public expectations about a monetary policy, the central bank influences the volume of bank lending to the real sector, the exchange rate, asset prices, and supply of money in the economy. When the central bank raises the policy rate, both short -term interest rates (such as interbank rates) and long-term interest rates rise, thus increasing deposit and lending rates of banks. Consequently, households increase their savings and cut down on expenditure with the belief that inflation will be stable. Likewise, firms reduce investment as investment costs rise. Credit availability of banks shrinks and loans extended to firms and households decline. Investment and consumption will weaken accordingly (Chang and Gaffar, 2014). Thus, changes in interest rates affect the general price level through the cost of production rather than through money supply (Babatunde and Shuaibu, 2011). In reality, however, the monetary policy rate feeds into costs of production through the bank lending rate. These costs are then passed to consumers through increase in the general price level, given that the increased costs cannot be totally absorbed by the producers. Moreover, increasing costs of production can lead to a reduction in the workforce as a measure for cutting down total costs.

Therefore, a monetary policy that should stabilize the general price level from the supply side would aim at stabilizing it through the management of the demand side of the economy. Consequently, there is a need to design proactive monetary policies that would be responsive to the current Nigerian situation as well as capable of inducing inclusive growth. This is imperative if the credit intervention programmes designed by the CBN to influence the real sector of the economy are to be effective. The rest of this paper is divided into three sections. Section two discusses monetary policy and the Nigerian economy, while section three recommends how proactive monetary policy can influence inclusive growth. Section four is the conclusion.

2. Structure of the Nigerian Economy

The productive base of the Nigerian economy remains weak, narrow and externally-oriented, with primary production activities of mining and quarrying

(including crude oil and gas) accounting for about 14.0% and over 80.0% of government revenues. In contrast, secondary activities, comprising manufacturing and agriculture, which traditionally have greater potential for broadening the productive base of the economy and generating sustainable foreign exchange earnings and government revenues, account for 29.0% of gross output. Services or tertiary activities, which depend on wealth generated by the productive sectors for their operations , comprised about 49.0% of gross output (Ajakaiye and Babatunde, 2015). Consequently, the current productive structure may not allow growth to be inclusive.

With the rebased GDP results, agriculture accounts for 21.5 % of GDP in 2013, while the manufacturing sector accounts for 7.9% of GDP (table 1). In cognisance of the strategic importance of the manufacturing sector in the nation's quest to be one of the top 20 economies of the world by 2020, the sector's share of the GDP is low. The sector is projected to contribute significantly to GDP with a manufacturing value-added of not less than 25.0% in the Vision 20:2020 document. This is because the achievement of this vision requires a vibrant manufacturing sector that is able to cope with the dynamic challenges of an increasingly globalised world. Similar strategic economic plans (such as the transformation agenda, the seven-point agenda, the industrial revolution plan, and the new Nigerian agriculture policy) recognized the importance of the real sector as key driver of inclusive growth and economic development.

The non-inclusive nature of the growth is reflected in the unemployment level and poverty index. For example, the national unemployment rate increased to 23.9% in 2011 from 21.1% in 2010 and 19.7% in 2009. Further analysis of employment data shows that the rate of new entrants into the labour market has not been uniform between 2007 and 2011. The rate increased between 2007 and 2009, declined significantly from 2009 to 2010, and then increased from 2010 to 2011. Within the five-year period, there was an average of 1.8 million entrants into the active labour market per year (table 2). The poverty level also rose significantly over the period. Despite that the Nigerian economy was paradoxically growing, the proportion of Nigerians living in poverty was increasing every year. For example, the data in table 3 showed that the proportion of the population living below the poverty line increased significantly from 1980 to 2010. The result was that the steady growth rate recorded by the country was not inclusive.

Table 1: Growth and composition of the Nigeria gross domestic product, 2011 -2013

	Growth of GDP (%)			*Composition of sectors in GDP (%)*		
Sector	*2011*	*2012*	*2013*	*2011*	*2012*	*2013*
Agriculture	3.45	2.76	1.62	23.59	22.73	21.50
Mining and quarrying	3.51	-2.15	5.30	15.36	14.09	13.82
Manufacturing	10.62	13.77	14.65	6.95	7.41	7.91
Electricity, gas, steam & air-condition supply	39.95	13.23	12.83	0.77	0.82	0.86
Water supply, sewerage, waste management	12.01	17.54	15.71	0.14	0.16	0.17
Construction	12.65	15.30	16.00	3.11	3.36	3.63
Trade	-2.10	18.40	7.80	15.31	17.00	17.06
Accommodation and food services	8.86	7.73	9.32	0.47	0.47	0.48
Transportation and storage	-2.32	3.13	5.09	1.19	1.15	1.13
Information and communication	9.84	5.14	9.35	11.49	11.33	11.54
Arts, entertainment and recreation	26.65	17.99	19.65	0.07	0.08	0.08
Financial and insurance	18.79	16.03	21.00	2.59	2.82	3.18
Professional, scientific & technical services	6.47	2.54	7.19	3.20	3.08	3.07
Administrative & support services	6.01	1.52	6.42	0.02	0.02	0.02
Public administration	5.56	1.68	6.28	3.70	3.53	3.49
Education	14.33	5.87	9.40	1.66	1.65	1.68
Human health and social services	10.31	3.03	6.27	1.08	1.05	1.04
Other services	6.07	3.14	7.30	1.68	1.62	1.62
Total gross domestic product	5.09	6.66	7.41			

Source: Author's computation from data obtained from the National Bureau of Statistics.

One of the reasons the current growth pattern has not been inclusive is the limited sphere of influence of the country's monetary policy due to its weak productive structure. For example, due to the largely peasantry nature of the nation's agricultural sector, it is somewhat insulated from the effects of monetary policy. In addition, the services sector, which has the largest share of the GDP, is mostly informal and is insulated from monetary policy instruments, except telecommunication and the new modern chain stores. However, the manufacturing sector, which the monetary policy is expected to influence directly, is small, given its share in the gross domestic product. Yet the success of a monetary policy depends on the productive structure of the economy. The challenge before the country is, therefore, how to make its monetary policy contribute to the performance of the manufacturing sector.

Table 2: Employment statistics in Nigeria, 2006 -2011

	2006	*2007*	*2008*	*2009*	*2010*	*2011*
Population	140,431,790	144,925,607	149,563,227	154,349,250	159,288,426	164,385,656
Economically active	78,922,666	81,448,191	84,054,533	86,744,278	89,520,095	92,384,738
Labour force	57,455,701	59,294,283	61,191,700	63,149,835	65,170,629	67,256,090
Employed	50,388,650	51,763,909	52,074,137	50,709,317	51,224,115	51,181,884
Unemployed	7,067,051	7,530,374	9,117,563	12,440,517	13,946,515	16,074,205
Newly unemployed	-	463,323	1,587,189	3,322,954	1,505,997	2,127,691

Source: NBS (2011)

Table 3: Relative poverty headcount (1980 – 2010)

Year	*Poverty incidence (%)*	*Estimated population**	*Population in poverty**
1980	27.2	65	17.1
1985	46.3	75	34.7
1992	42.7	91.5	39.2
1996	65.6	102.3	67.1
2004	54.4	126.3	68.7
2010	69.0	163	112.47

Source: National Bureau of Statistics (2010). NB: *In million

3. Challenges Confronting Real Sector Operators in Nigeria

The broad objectives of credit policies in Nigeria over the years have been the enhancement of credit availability, reduction of cost and improvement of access to credit to the private sector, as well as stimulation of growth in the real sector of the economy. Thus, credit guidelines were designed to ensure that the financial needs of the real sector, especially the small and medium-scale enterprises (SMEs), are effectively and efficiently met. Banks were required to pay greater attention to the prescribed aggregate and sectoral allocation of their loans and advances to enhance the attainment of the long-term vision and objectives of the government. However, this is not the current reality in Nigeria.

While these priority sector-lending targets and intervention have encouraged the flow of credit to underdeveloped sectors, they have failed to improve the flow of credit to financially under-served segments within sectors. Moreover, directing the flow of credit away from sectors where it would be most profitable hinders deposit money and banks' profitability, as well as shifts the task of ensuring an inclusive credit allocation away from government to banks— a responsibility that is arguably better served by the state financial apparatus. Concerns with such problems have led commercial banks to abandon priority sector-lending targets over the past two decades.

This is why sectors such as agriculture and manufacturing are getting decreasing shares of the total loans and advances of commercial banks in Nigeria. The percentage share of agricultural sector loans and advances, for example, declined from 8.1% in 2000 to 2.5% in 2005 and 1.7% in 2010. Also, the credit allocation of commercial banks to the manufacturing sector fell from 27.6% in 2000 to 17.8% in 2005 and 14.4 in 2011. Ironically, these are the productive sectors that the country looks up to for achieving inclusive growth and economic development. In contrast, commercial banks' credit to the mining sector increased from 1.4% in 1990 to 15.0% in 2010 (the highest out of all the sectors). Low credit to the real sector has been attributed to a number of factors, such as the inherent risks and insufficient collateral, unfavourable growth prospects of the sectors, and perception of the sector as non-strategic to the business models of deposit money banks (DMBs).

In addition, DMBs' credit to small-scale enterprises (SSEs) has been on a downward trend since 1992 (figure 1). The percentage fell precipitously from around 49.0% in 1992 to 0.16% in 2010. This is despite SSEs' resilience and capacity to generate increased employment and output. It should be recalled that since the initial rule mandating banks to grant a minimum of 20.0% of their credit to SSEs was abolished in 1996, Nigerian banks have paid very little attention to this segment. This observation is of utmost importance, given that most enterprises in the nation's real sector are micro and small-scale (NBS-SMEDAN, 2012). Moreover, this implies that monetary policy has far-reaching effects on the financing conditions in the economy—not just the costs, but also the availability of credit, banks' willingness to assume specific risks, etc.

4. Current Orientation of Monetary Policy in Nigeria

At independence, monetary policy was committed to development; the favour that followed independence also made it natural to give priority to development. To maintain price and financial stability, direct monetary instruments, such as credit ceilings, selective credit controls, administered interest and exchange rates, the government fixed cash reserve requirements, minimum rediscount rate and liquidity ratio. However, the adoption of structural adjustment programme (SAP) in 1986 led to a shift in paradigm after the economy became more neo-liberal. The assumption was that markets are more efficient than the state in resource allocation and that the appropriate role of the latter should be to provide an enabling environment for the private sector to flourish. The outcome was the complete jettisoning of CBN's engagement with the economy on the development side, with more focus on maintaining price and financial stability.

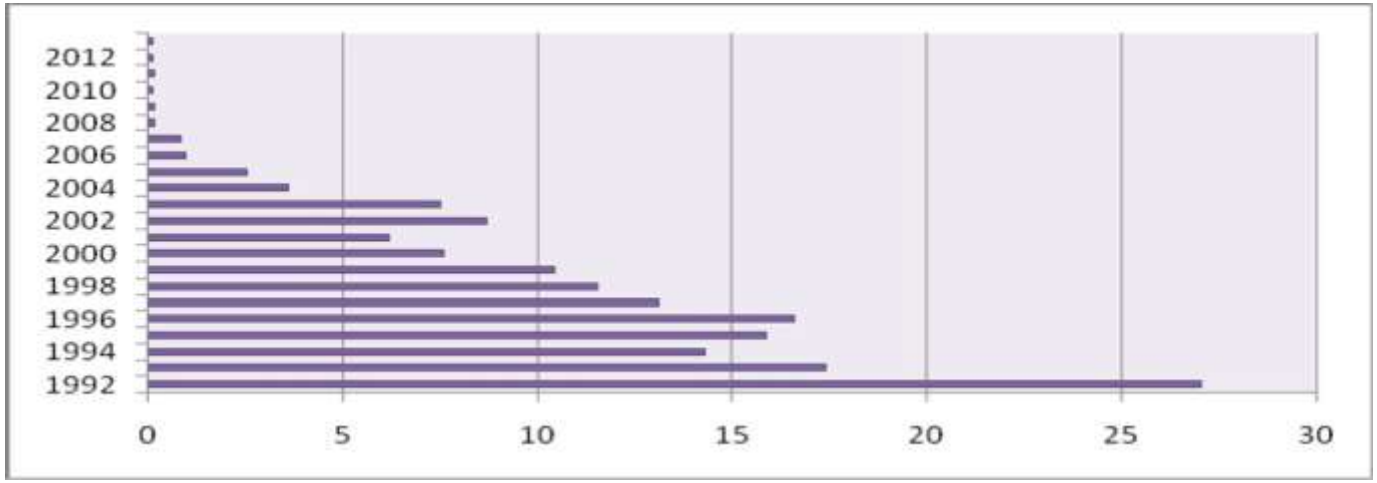

Figure 1: Commercial banks loans to small scale enterprises as percentage of total credit
Source: CBN Statistical Bulletin, 2013.

Table 4: Sectoral distribution of commercial banks' loans and advances (%) 1990 - 2013

	Production				General Commerce				Services			Others		
Period	Agriculture, Forestry and fishery	Manufacturing	Mining and Quarrying	Real Estate and constr uction	Bills Discounted	Domestic Trade	Exports	Imports	Public Utilities	Transport and Communications	Credit to financial institutions	Government	Personal And professional	Miscellaneous
1990	16.2	30.3	1.4	12.3	1.18	10.6	2.87	3.93	0.83	3.6	2.77	4.46	5.12	4.32
2000	8.07	27.8	6.4	-	-	-	4.98	-	-	-	-	-	-	52.8
2005	2.46	17.8	8.7	-	-	-	1.34		-	-	-	-	-	69.7
2006	1.96	17.7	10	-	-	-	2.09	-	-	-	-	-	-	68.3
2007	3.11	10.1	10	-	-	-	1.38	-	-	-	-	-	-	75.2
2008	1.36	12	11	5.99	-	-	0.96	1.86	0.59	16.7	6.91	9.16	-	33.6
2009	1.52	11.1	13	8.73	-	-	0.51	13.5	0.84	8.71	13.8	3.95	-	24
2010	1.67	12.8	15	8.7	-	-	0.58	11.7	0.66	10.7	11.3	4.86	-	21.8
2011	3.49	14.4	18	6.2	-	-	0.49	10.3	0.94	17.3	4.15	6.83	-	18.1
2012	3.88	13.1	21.7	6.6	0	0	0.81	8.5	0.4	11.9	3.1	7.76		22.9
2013	3.44	11.8	21.5	7.3	0	0	0.04	7.6	2.2	13.9	3.2	7.18		21.8

Source: Computed from CBN Statistical Bulletin, 2013.

Consequently, CBN adopted the inflation-targeting framework to control inflation and maintain price stability. Th e intended or unintended consequence of this monetary policy stance in the overall economy began with the reduction or stagnation of credit to the private sector, particularly, small and medium enterprises, by commercial banks. A new framework for monetary policy implementation was, nevertheless, introduced in December 2006 to enable CBN to leverage on the success of the banking system consolidation. Elements of the new framework included the introduction of monetary policy rate (MPR) to replace MRR, cash reserve requirements (CRR) and a standing lending and deposit facility (Dalhatu, 2012). But the need to fight inflation and maintain credibility with markets and economic agents led the authorities to give priority to MPR. The success of manipulating this policy rate was seen in the recent downward trend of inflation in Nigeria —which reduced from 12.0% in December 2012 to 9.4% in November 2015 (CBN, 2015).

While the adjustment of MPR seems to have stabilized inflation, it has continuously been set at a high rate of between 12.0 and 13.0%, which translates to bank lending rate in excess of 20.0%. This implies that the management of inflation in Nigeria has focused on the demand side of the economy. The underlying assumption is that excess demand is responsible for inflation; hence, the strategy has been to manage the aggregate demand through MPR. However, inflation in the Nigerian context is not only a demand -pull phenomenon but also a cost-push one.

Cost-push factors are activated through the supply-side of the economy, by increasing the cost of production. For example, when CBN raises the policy rate, the bank lending rate also increases. The increased lending rate is then transmitted into the cost of production of manufacturing firms. Prices are pushed up by the rising costs, which are then passed onto the consumers in the form of higher product prices. The impact of such lending rate on the goal of securing economic growth with minimal inflation is quite significant, given the heavy reliance of producers on financial resources and services as input in the production process. This is especially so, given the pervasive mark-up pricing regime in all sectors of the economy (Ajakaiye and Ojowu, 1991; Ajakaiye and Omole, 1991; Ajakaiye and Odusola, 1995; Ajakaiy e, 2002). Hence, the level of growth in the real sector has been affected negatively because of high bank lending rate, which is responsible for high cost of production in the manufacturing sector (Adebiyi, 2001; Rasheed, 2010).

Higher production costs mean a reduction in the workforce, which has implications for rising unemployment, poverty and inequality rates. Higher prices also cause workers to demand higher wages, causing a wage price spiral. Hence, while the inflation variable has been stable under the control of the monetary authorities in Nigeria, it has come at the cost of high rates of unemployment, poverty and inequality. Against this background, an empirical assessment of the drivers of general price level in Nigeria was carried out.

Table 5: Pairwise Granger causality tests of bank lending and price level

Null Hypothesis:	*Obs*	*F-Statistic*	*Prob.*
Real GDP does not granger cause bank lending rate	32	0.23335	0.7935
BLR does not granger cause real GDP		0.24606	0.7836
Real money balances does not granger cause bank lending rate	32	0.49631	0.6142
Bank Lending rate does not granger cause real money balances		4.01989	0.0296
Price level does not granger cause bank lending rate	32	0.89990	0.4185
Bank lending rate does not granger cause price level		5.99077	0.0070
Real money balances does not granger cause real GDP	32	5.47713	0.0101
Real GDP does not granger cause real money balances		0.12970	0.8789
Price Level does not granger cause real GDP	32	1.39763	0.2645
Real GDP does not granger cause price level		0.35748	0.7027
Price Level does not granger cause real money balances	32	2.19379	0.1310
Real money balances does not granger cause price level		0.98248	0.3874

Where Pt is GDP deflator; $RM1P_{t-1}$ is real money balances (narrow money divided by the price level); RGDP is real gross domestic prices; BLR is bank lending rate.

The standard price equation obtainable by suitably manipulating the money demand equation is augmented by introducing indices of bank lending rate, real GDP and real money balances. The essence is to provide insights into the impact of bank lending rates on costs and the general price level in Nigeria. The causality between the variables is first reported so as to give impetus to the empirical specification of the equation. The causality result in table 5 showed that bank lending rate affects the general price level in a unidirectional manner. The causality runs from bank lending rate to the general price level, raising the suspicion that movement in bank lending rate affects the general price level through costs. To buttress this, the index of general price level, proxied by the GDP deflator, is regressed on the bank lending rate and real GDP. The regression results are as follows:

$$\text{Log}P_t = -14.808 - 0.177\log RGDP + 2.193\log RM1P_{t-1} + 0.036BLR_t$$
$$(6.103)\quad (1.107)\quad (5.067)\quad (2.725)$$
$$R^2 = 0.707; \quad F = 23.43; \quad n = 32; \quad D.F. = 27$$

The variables are as earlier defined.

The coefficients have the expected sign and all, but the real GDP, are significant at the 1.0% level. The positive relationship between bank lending rate and general price index is consistent with the widely acknowledged influence of bank lending rates on costs and hence prices in Nigeria. In addition, this empirical result supports the view that bank credits in Nigeria are used essentially as inputs directly or indirectly by all producers, and that the demand for credit by private consumers is small, if at all. These could partly explain why some CBN interventions in the real sector have not been effective.

For robustness, this paper examined whether the monetary policy rate adjustment is through the savings rate. The increase in MPR is expected to increase in savings deposit rates to make savings attractive and thereby encourage it. Consumption is also expected to fall and reduce prices. This is the familiar argument of indirect inverse relation between savings rate and the general price level. For example, if interest rates increase, the reward from saving increases, so that it becomes relatively less attractive to hold cash and/or spend (consume). This is the substitution effect — with higher interest rates, consumers substitute spending for saving. Also, if interest rates increase, savers see an increase in income because they receive higher income payments. This is the income effect. Usually, a cut in Central Bank's base rates would lead to an equivalent fall in bank rates.

However, what is mostly important is the real interest rate. The real interest rate is nominal deposit interest rates minus inflation. Hence, the paper examined the impact of real interest rate on the general price level. Results of the causality test (table 6) showed that there is no relation between savings deposit rate and the price level in Nigeria; this suggests that MPR adjustments bypass the savings rate but directly pass through to the bank lending rate. Consequently, the paper sought further confirmation using a regression result.

The regression buttressed the causality test result that savings rate has no relationship with the general price level in Nigeria. The transmission mechanism of MPR is directly to the bank lending rate, with a bypass of savings rate. The unstable nature of inflation rate in Nigeria does not encourage savings but leads to an increase in the cost structure of the productive firms. The summary of the findings is that monetary policy has partly contributed to the non -inclusive nature of the economic growth through the trade-off effect of the instrument adopted to ensure price stability in the economy. Monetary policy rate must, therefore, be reduced in order to support inclusive growth in the economy.

Table 6: Pairwise Granger causality tests of real saving rate and price level

Null Hypothesis:	*Obs*	*F-Statistic*	*Prob.*
RSR does not granger cause P	32	0.19322	0.8254
P does not granger cause RSR		1.71830	0.1984
RM does not granger cause P	32	0.98248	0.3874
P does not granger cause RM		2.19379	0.1310
LY does not granger cause P	32	0.35748	0.7027
P does not granger cause LY		1.39763	0.2645
RM does not granger cause RSR	32	0.24569	0.7839
RSR does not granger cause RM		0.26753	0.7673
LY does not granger cause RSR	32	0.28178	0.7566
RSR does not granger cause LY		0.03683	0.9639
LY does not granger cause RM	32	0.12970	0.8789
RM does not granger cause LY		5.47713	0.0101

Where RSR is real savings deposit rate measured as the savings deposit rate minus inflation rate.

$$\text{Log}P_t = -14.694 - 0.113\log RGDP + 2.180\log RM1P_{t-1} - 0.0006RSR_t$$
$$(5.376)\quad (0.635)\quad (4.493)\quad (0.134)$$
$$R^2 = 0.633; \quad F = 16.69; \quad n = 32; \quad D.F. = 27$$

5. Going Forward

Monetary policy will be ineffective in stimulating inclusive growth in Nigeria, if it continues to give the wrong diagnosis and treatment of inflation as a demand-pull rather than a cost-push phenomenon. The current framework of structural change required in the economy to promote inclusive growth requires a rechanneling of resources from one sector to another, or from one industry to another, without increasing the cost of production. The following suggestions are therefore put forward to ensure that the nation's monetary policy supports inclusive economic growth.

a. Stronger complementarity of monetary policy with fiscal policy

Monetary policy may not be effective in controlling inflation if the latter is due to cost-push factors. Monetary policy can only be helpful in controlling inflation that is caused by demand-pull factors. This means that while the interest rate adjustments that push down demand could address demand-push inflation, it is likely they would be helpless in the face of cost-push inflation. Hence, monetary policy alone is incapable of controlling inflation. From a practical standpoint, the rapid structural change taking place in many developing economies complicates

the attempts to maintain price stability by focusing only on monetary policy instruments. It should, therefore, be supplemented with fiscal measures.

There is, thus, the need to achieve greater coordination of fiscal and monetary policies. Hence, a monetary policy should be complemented by growth-oriented and job-creating fiscal, industrial and labour policies. Achieving multiple objectives requires that CBN work in close coordination with the fiscal authorities. This calls for appropriate coordination, consultation and complementarity and requires constant dialogue between the real sector operators, monetary authorities, development institutions (Bank of Industry, Bank of Agriculture), ministries of finance, budget and national planning, industry, trade and investments, and agriculture, among others, to guide the operation on both sides. Effective coordination also calls for the building of the technical capacity of fiscal authorities (ministry of budget and planning, ministry of finance, ministry of trade and investment) to exchange technical information and chart the direction of policy.

b. Government should address structural constraints

The government must also address the structural constraints of infrastructure (especially electricity), corruption, and human capacity, among others in order for monetary policy to be effective. These constraints limit the competitiveness of the manufacturing sector in Nigeria. Therefore, the fiscal authorities should make effort to enhance the infrastructure base of the economy.

c. Incentivizing the deposit money banks to make use of the fund in the treasury single account

Implementation of the treasury single account (TSA) will enable the government to know her true fiscal position and, therefore, restricts its borrowing. Prior to the introduction of TSA, the limited information about government fiscal posture made it compete with the private sector for credit in the financial market, which complicated the problem of credit access. With the introduction of TSA, the government knew its cash position and borrowed less and, in the process, freed some funds for the private sector. Thus, to serve as a model in advancing credit to the productive sector, the government can give conditions of lending to the real sector as the basis of being the custodian of its deposits. Guidelines on how to utilize the deposits can then be defined and agreed with the interested banks.

Given this scenario, commercial banks will no longer operate in an armchair/ laisser-faire attitude but will serve as partner s with the real sector

agents (borrowers). Banks will assist in feasibility studies and the designing of frameworks for financial flows, as well as give technical advice to different enterprises, among others. These measures would help reduce the financial risks usually associated with the real sector of the economy. The banks would have, therefore, moved from their passive arm chair role to the more productive and effective intermediation role.

d. Adoption of a financial vehicle for development intervention

A close and coordinated relationship is necessary for a central bank and employment/ development objectives. This is because monetary policy is a blunt instrument that affects the economy at the aggregate level, while achieving employment or development objectives requires that policies target specific industries and geographical areas. To encourage the flow of credit to certain geographical areas or industries, the government can set up specialized banks. Hence, to keep to the mandate of a regulator, lending to specific sectors should be carried out via a vehicle (that is, through other institutions) without deviation from the core mandate of maintaining price and financial development objectives.

In other words, it is common to find specialized banks (such as the Bank of Industry, Bank of Agriculture etc) with mandates for supporting investment in specific sectors. Thus, the current framework of engagement in the critical sectors of the Nigerian economy through the Bank of Industry should be broadened to include more development finance institutions. The CBN should resist the temptation of giving credit directly to the different sectors, but should only respond to the demand of the critical sectors in a safe manner by developing vehicles that will operate in the financial system. This will enable C BN to effectively regulate such institutions. The mechanism of direct engagement compromises the regulatory role of CBN —for as a regulator, it should not undertake the activities of the regulated (development banks, etc).

e. Moral suasion

The Central Bank of Nigeria can use moral suasion to require DMBs to make decisions or follow certain paths to achieve desired goals, such as changes in the level of credit to specific sectors of the economy. Although there is no legal compulsion on the part of DMBs to conform to the rules of CBN, they generally do so for fear that CBN may use its statutory powers to force them to behave accordingly. Given that DMBs generally want to maintain cordial relationship as much as possible with CBN, the moral suasion strategy should be leveraged upon to make them lend to the real sector as a preferred sector in Nigeria.

f. Asset Management Company of Nigeria (AMCON) should be strengthened Given the difficult economic environment in which the country currently operates, the capacity of Asset Management Company of Nigeria (AMCON) should be strengthened to especially manage the unintended fall out of non-performing loans (NPLs). AMCON should be mad e to underwrite any form of NPL arising from the increased intermediation process. However, this should be done to avoid mainly the problem of moral hazard on the part of DMBs. Hence, the information should not be made available to the banks so as to avoid a repeat of the 2009 episode.

g. Rationalization of costs by deposit money banks

Deposit money banks (DMBs) should be encouraged to rationalize their endogenous costs to reflect the current economic reality in Nigeria. This may free up some resources, making them available to the real sector. For example, the spread between the salaries of management staff and junior staff can be collapsed to reduce the overhead costs of DMBs.

6. Conclusion

Economic growth in Nigeria has been steady in recent times; but poverty, inequality and unemployment have been on the rise. This indicates the non-inclusive nature of the growth. The role of monetary policy has been to manage policy rate to stabilize the general price level and the financial sector. The stabilization has been carried out only in the context of demand-pull conditions. However, a monetary policy cannot be effective against inflation that is caused by cost-push factors, but can only be helpful in controlling inflation that is caused by demand-pull factors. Adjustments in the monetary policy rate affect bank lending rate, which is then transmitted to the costs of production in the real sector of the economy. The increased costs are passed onto the consumers, with implications for the general price level and inclusive growth.

Therefore, a monetary policy must be proactive to ensure inclusive growth by reallocating resources from one sector to another, or from one industry to another without increasing the cost of production, especially the cost of credit. However, monetary policy cannot achieve inclusive growth alone. It should be complemented by growth-oriented and job-creating fiscal, industrial and labour policies. Macroeconomic policies in general should emphasize the resolution of underlying structural problems of an economy to reduce the cost of production, and monetary policy must be as supportive as possible in ensuring price stability.

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