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Contemporary issues in the Nigerian monetary policy landscape: current challenges and strategic options

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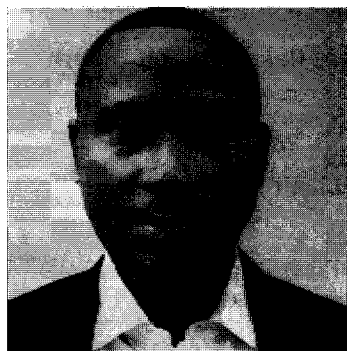
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CONTEMPORARY ISSUES IN THE NIGERIAN MONETARY POLICY LANDSCAPE: CURRENT CHALLENGES AND STRATEGIC OPTIONS



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1.0 INTRODUCTION

Nigeria's economic growth was adversely affected by the economic recession witnessed

ABSTRACT

Contemporary central banking in Nigeria is becoming laced with intricacies, and monetary actions impacting every segment of the society. Paradoxically, monetary policy landscape is characterized by complexities and frequent changes in the monetary environment amidst relatively constant monetary instruments. The economic recession witnessed by Nigeria from Q1 to Q4 of 2016 had reinforced the renaissance of primordial and 'nativistic' models of unregulated banking arrangement cum investment options via ponzi schemes and pyramid schemes, flexible exchange rate regime, selected import forex restrictions, calls for unconventional monetary policy with special reference to negative interest rate, central bank communication and financial stability concern. This catalyzes another seismic rethink in conventional monetary policy management in Nigeria along with policy implication. Nevertheless, the strategic options available to central bankers in Nigeria are relatively new and untested in the monetary policy landscape in Nigeria. More worrisome, is the fact that the current challenges are incompatible, intertwined and reinforcing. Understanding the current trends and issues bedeviling monetary policy is critical to central bankers in Nigeria, because, monetary actions premised on faulty theoretical knowledge would further exacerbate rather than mitigate the already stressed economy with unintended consequences. Therefore, the paper recommends that Central bankers in Nigeria must be abreast of the fundamental implications of the new reality.

from Q1 to Q4 of 2016. The economy is in recession with a threat of depression as evidenced in the rate of unemployment which stands presently at 13.3%; 3.3 basis points above the recession threshold of 10%, and 7.7 basis points nearer the depression benchmark of 20%. Recession is characterized by business cycle contraction and general slowdown of economic activities when output falls,

unemployment rises and government borrows more. But depression is a more severe situation (Nwobu, 2016).

According to the National Bureau of Statistics (NBS), domestic product contracted by 2.24 percent in Q3; 2016. This was attributable to the turmoil in global commodity markets, witnessed in the second half of 2014. Oil prices fell 66.8% from \$114/barrel

recorded in June 2014, to \$38.0 by December 2015. Prices fell even further in 2016 to \$32.6 as at 3rd February, 2016, with attendant sharp decline in foreign exchange earnings, shrinking from \$37.3 billion to \$25 billion from June 2014 to December 2016. Meanwhile, import elasticity is -2.00, with weighted average of -1.32 and standard deviation of 11.40, compared to Ghana's -1.52, -1.09 and 4.32 respectively (Aigbokhan, 2016). The mono-cultural economy, high marginal propensity to import, inchoate economy, weak macroeconomic fundamentals, revenue leakage and structural inefficiencies, shifting global consumption trends, underutilization of resource, delayed fiscal stimulus and lack of safety net that protects the vulnerable in the society reinforced a trifecta of headwinds that impedes developmental strides.

The economic crisis revitalized the renaissance of primordial and nativistic models of unregulated banking arrangement cum investment options via ponzi schemes and pyramid schemes, flexible exchange rate regime, selected import forex restrictions, calls for unconventional monetary policy with special reference to negative interest rate, central bank communication and financial stability concerns. This catalyzes another seismic rethink in conventional monetary policy management in Nigeria along with policy

implication. The greatest revolution in monetary policy landscape in Nigeria since the emergence of economic recession has been the vigorous questioning of previously held dogma on the workings of the economy, the orthodox monetary philosophy prescriptions in achieving short-run stabilization and long run growth simultaneously and the deportment of the central bank in pursuit of her mandate. This development is spawned by the changing paradigm of monetary environment and the failure of conventional monetary policy prescription in addressing cyclical fluctuations in the real economy.

Consequently, the monetary landscape in Nigeria witnessed tremendous transition in response to this economic malfeasance. The scope of the Central Bank of Nigeria increased dramatically with emphasis on manipulating monetary toolkits in kick-starting the economy to the path of prosperity. This contrasts sharply with the pre-recessionary period characterized by fixation on the achievement of moderate stability, premised on the belief that price stability was a sufficient condition to curtail cyclical fluctuations in an economy. New empirics and monetary policy formulators both claim to possess the wand to resolve the problems confronting the economy.

However, the strategic options

available to central bankers in Nigeria are relatively ultra-modern and unauthenticated in the monetary policy landscape. More worrisome is the fact that the current challenges and strategic options are incompatible, intertwined and reinforcing.

Understanding the current trends and issues bedeviling the monetary policy landscape in Nigeria is critical for central bankers because monetary actions premised on faulty theoretical knowledge would further exacerbate, rather than mitigate the challenges, thus causing unintended consequences. Therefore, Central bankers must be aware of the fundamental implications of the new reality. It is against this backdrop, that this paper critically examines the contemporary issues in the monetary policy landscape in Nigeria. Relevant questions primal to the efficient management of monetary policy are raised and addressed. This paper through the lens of available literature, will examine strategic options available to repositioning and resuscitating the ailing economy.

2.0 LITERATURE REVIEW

Monetary policy is a deliberate action of the monetary authorities to influence the quantity, cost and availability of money credit in order to achieve desired macroeconomic objectives of internal and external balances.

The action is carried out through changing money supply and/or interest rates with the aim of managing the quantity of money in the economy. The importance of money in economic life of any nation has made policy makers and other relevant stakeholders to accord special recognition to the conduct of monetary policy (CBN, 2011). It involves all action taken by the monetary authorities to affect the monetary base through influencing the availability and cost of credit in pursuance of sustainable growth of output, price stability and a healthy BOP position (Iyoha & Oriakhi 2002). Monetary policy in the Nigerian context refers to the actions of the Central Bank of Nigeria (CBN) to regulate the money supply, so as to achieve the ultimate macroeconomic objectives. Several factors influence the money supply, some of which are within the control of the central bank, while others are outside its control. The specific objective and the focus of monetary policy may change from time to time, depending on the level of economic development and economic fortunes of the country (CBN, 2006). Monetary policy can either be expansionary or contractionary, depending on the overall policy thrust of the monetary authorities.

Monetary policy is expansionary when the policy adopted by the central bank increases the supply of money

in the system, and contractionary when the actions reduce the quantity of money supply available in the economy or constrains the growth or ability of the deposit money banks to grant further credit. In a recent IMF World Economic Outlook, the authors announced a truism about current day Central Bank policy: "It is now widely accepted that primary role of monetary policy is to maintain price stability". (IMF, 2005) Indeed, they were being too modest. For major central banks, virtually the only role of monetary policy is to maintain price stability, and not just at any level, but in the low single digits. The primary objective of monetary policy is the realization of stable non-inflationary growth. This gives the citizens confidence in the future value of their money, so that they can make sound economic and financial decisions. Low and stable inflation also helps to prevent inflationary boom and bust cycles that could result in a recession and higher unemployment (CBN, 2011). Little wonder, the CBN is increasingly focusing more on the aspect of price stability, recognizing its relevance in macroeconomic stability for sustainable output and employment growth. In contrast, economists have disagreed, however, about whether price stability and money supply should be the central objective of macroeconomic policies or whether these policies should

serve broader monetary policy goals (Nwosa, Olaiya and Amassoma, 2011). Matthew (2015) posited that the core idea of monetary policy has been constructed to mean price stability at the expense of other key performance indicators like economic growth that culminates to job creation which measures the growth performance of a nation, stable broad money supply as well as prime lending and exchange rates which determine financial sector's stability in an economy. Against this background of shrewd judgment in terms of price stability being the fundamental in monetary policy objective, experts in the field of monetary economics have formulated alternative workings of the monetary policy and associated issues of growth and development especially in the era of economic recession. Goodhart's (2010) study aptly eliminated the one-sided bias, as it identifies three core tasks that central banks have in the contemporary context, especially in the era of economic downturn. According to him, central banks have to: maintain price stability; maintain financial stability and foster financial development; and support the state's economic policy in times of crisis or to constrain the misuse of the state's financial powers.

Available theoretical exposition shows that the relationship between price stability and

growth is bi-directional. According to Bain & Howells (2009) structuralists argued that inflation is needed for economic growth, whereas monetarists argued that inflation is harmful to economic growth. In pursuit of the objective of price stability and its accompanying objectives, central bankers are faced with a policy dilemma due to the existence of conflicts amongst the objectives and the need for trade-offs. Nevertheless, the simultaneous actualization of the transitory objective (price stability) and permanent objective (increased growth) is germane in a recessionary period as exemplified in the drive of the Central Bank of Nigeria (CBN) in recent times. However, studies in this phenomenal transition are relatively scanty especially with regards to the intricacies, complexities and policy implication of the emerging issues in the monetary landscape in Nigeria. This study becomes primal in bridging the gap identified.

3.0 EMERGING ISSUES AND CHALLENGES IN MONETARY POLICY LANDSCAPE IN NIGERIA

This review takes an in-depth look at recent trends in the monetary landscape in Nigeria. Empirical analysis of the theoretical foundation of recent monetary policy issues, such as flexible exchange rate, import restriction, call for negative interest rate, central bank's communication, and the

revitalization of Ponzi and pyramid schemes in Nigeria is undertaken to serve as litmus for exposing /identifying opportunities for growth and challenges to overcoming myriad barriers to development.

3.1 FLEXIBLE EXCHANGE RATE REGIME

The prevailing harsh economic realities posed serious challenges to much of received wisdom on how best to manage the exchange rate. Foreign exchange reserves dropped from \$42.8 billion in January 2014 to \$26.7 billion in June 2016. Collapse of crude oil price on international market from \$110 pb to below \$30 pb in early 2016. With the recovery of crude oil price towards \$50 pb, production level fell dramatically from earlier level of mbpd to 1.8 mbpd due to vandalism and unrest in the Niger Delta region. Consequently, some 70% loss in foreign exchange earnings from crude oil, foreign exchange inflow fell from monthly \$3 billion to less than \$1 billion. Meanwhile, forex demand rose astronomically over the years. Import bill rose from monthly \$148 billion in 2005 to \$915 billion in 2015. So, the demand for dollar far outstripped supply (Aigbokhan, 2016). The Central Bank of Nigeria (CBN) in pursing her mandate of ensuring exchange rate stability, announced the reintroduction of flexible exchange rate for greater flexibility in the inter-bank foreign exchange market

structure as opposed to the N197/\$ peg, while a small window for critical transactions is maintained. In addition, CBN also issued a directive excluding some imported goods and services from the list of items valid for forex in the Nigerian Foreign Exchange Markets. This is premised on the need to sustain the stability of the foreign exchange market and ensure the efficient utilization of foreign exchange whilst encouraging the resuscitation of domestic industries and create employment. The flexible exchange rate has brought about a market determined exchange rate resulting in greater efficiency in the management of scarce foreign reserves. The theoretical foundation for the exposition of the impact of flexible exchange rate on monetary policy management is the mundell-flemming models. According to the model, an open country faces a trilemma trade-off, whereby, policy makers can simultaneously achieve only two of the following three policies: 1) free capital flows, 2) an independent monetary policy and 3) exchange rate stability. The monetary authority pursue stable exchange rate, independent monetary policy and free capital flows in order to avoid unstable currency, manipulate the cost, availability and volume of money supply or interest rate to cool down an overheated economy or stimulate a sluggish economy,

and attraction of requisite foreign capital inflow. All three policies are desirable by policy makers, however, all three cannot be achieved simultaneously as increasing the degree of one policy requires a decrease in the degree of one (or both) of the other policies (Aizenman (2013); Obstfeld, Shambaugh and Taylor (2005)). The implication of the reintroduction of flexible exchange rate regime in the monetary landscape in Nigeria is that, the country has made a choice of the right vertex, labeled floating exchange rate, achieving two of three aspects of the trilemma. The economy is open to external capital inflows as there is no *prima facie* case for restricting international capital mobility, domestic monetary policy is focused on domestic price stability. Since the Central Bank of Nigeria (CBN) retains the flexibility to use independent monetary policy as a stabilizing tool, and the exchange rate floats freely: control of the exchange rate is foregone in favour of control over domestic monetary policy. (See figure 1). In the standard model of a financially open economy, studies of optimal policy have tended to suggest a floating exchange rate and internal price stability as an optimal policy choice (Obstfeld and Rogoff 2002). Figure 1: The Impossible Trinity (Feenstra & Taylor, 2008, p. 586)

The diagram above aptly

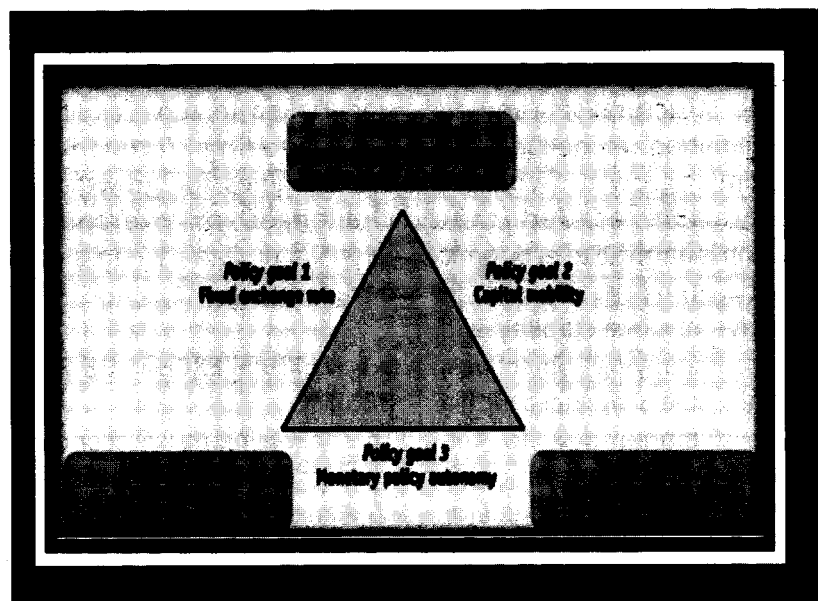


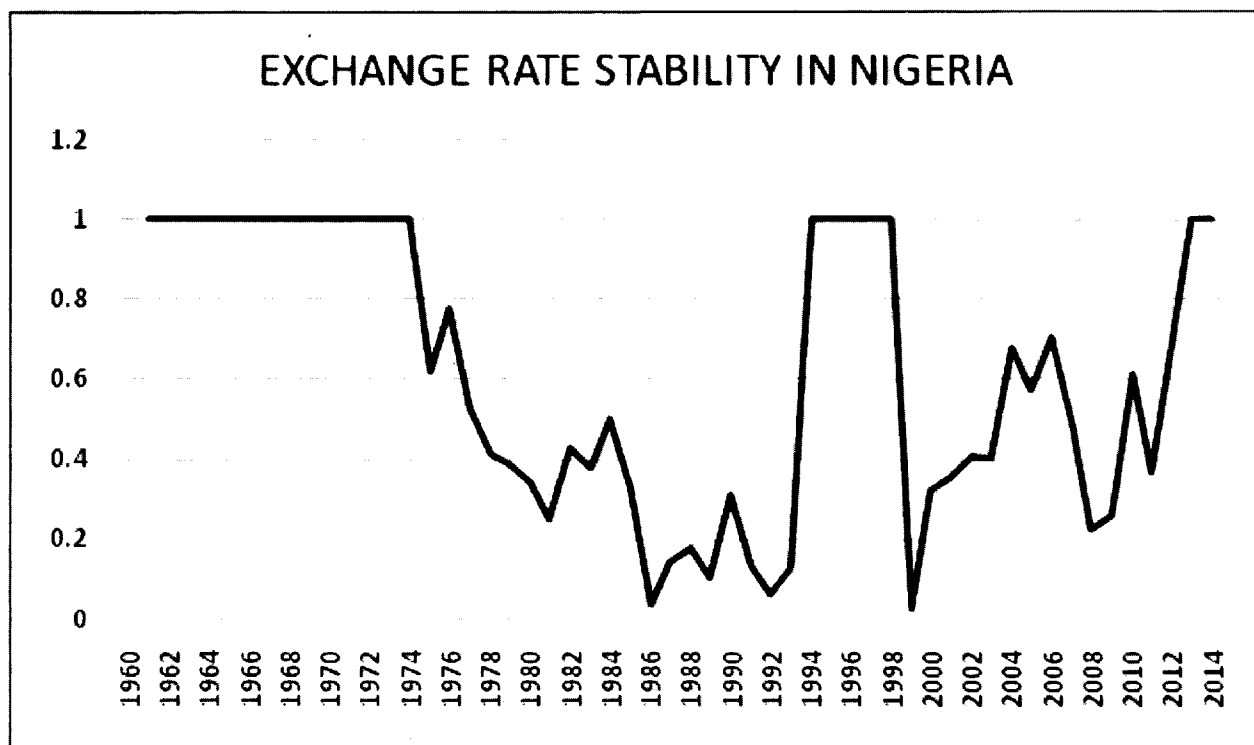
Figure 1: The Impossible Trinity (Feenstra & Taylor, 2008, p. 586)

explains recent occurrence in the monetary landscape in Nigeria. MPC (2016) observed that total foreign exchange inflows through the CBN increased by 89.14 per cent, from US\$1,092.21 million recorded in July to US\$2,065.79 million in August 2016. However, the domestic economy is constrained with traces of eternal price perturbations as the average Naira exchange rate weakened at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the inter-bank market opened at N285.25/US\$ and closed at N305.90/US\$, with a daily average of N302.87/US\$ between July 1st and August 26, 2016. Incontrovertibly, imperfect workings of flexible exchange rate regime, asymmetric response of domestic prices to exchange rate-induced changes in trade price, the international

transmission of excess demand, as well as the inelastic demand for imports, are some of the factors which could work against the insulative capacity of the flexible exchange rate system in Nigeria. Since the value of the Naira has fallen under this exchange rate regime, a higher amount of foreign exchange is required to pay for imports. Nigeria is now forced to look toward locally produced or import substituted products in an attempt to save its residual foreign reserves (CIBN, 2016). This requires urgent investment in critical productive sectors of the economy to boost local competitiveness in order to solve the myriad of problems confronting exchange rate stability.

3.3 CENTRAL BANK COMMUNICATION

In a sense, central banks have begun to resemble medieval philosophical faculties, with



Data Sources:Trillemaindex(2014)

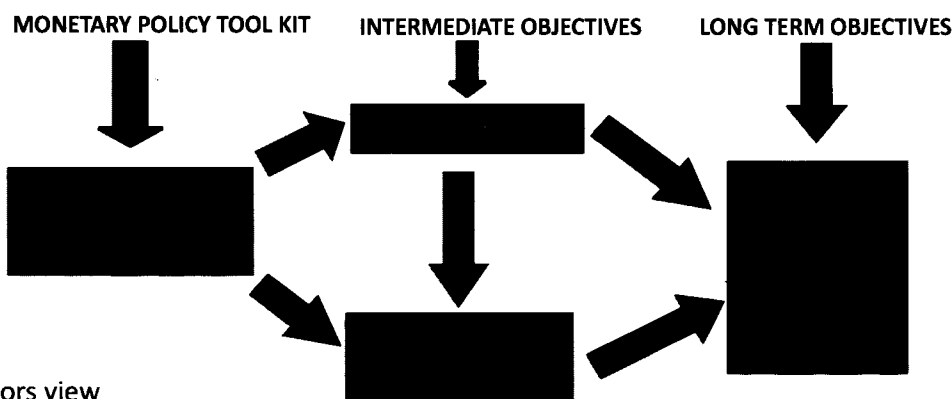
Figure 2. Graphical representation of exchange rate stability in Nigeria (1960-2014)

discussions addressing the issues underlying policy decisions, rather than just the policies themselves (James, 2014). Therefore, the publics' understanding of current and future policies is germane for the efficacy of monetary policy. Invariably, monetary policy is increasingly becoming the art of managing expectations. As a result, communication has

developed into a key instrument in the central bankers' toolbox in recent years. Central bank communication can be defined as the art or science of providing information by the monetary authority to the general public on the objectives of monetary policy, the monetary policy strategy, the economic outlook, economic

projections and the (outlook for future) policy decisions. Central bank communication may use various channels: press conferences, minutes, monthly bulletins, speeches and interviews. The raison d'être for central bank communication in the era of economic recession is premised on two nomenclatures(see figure 3).

THE OBJECTIVES OF CENTRAL BANK COMMUNICATION IN A RECESSED ECONOMY



Sources: Authors view

Firstly, is the need to reduce "noise", that is the need to distill panic and anxiety in the system. Recession is usually characterized by apprehension and fear in anticipation of untold hardship by citizenry, especially the vulnerable. The panic and fear associated with recessionary periods are justifiable, since it is a truism that expected recessionary era has a long history of unpleasant surprises such as job losses, credit crunch, inflationary spiral and a general lull in the economy. Though, the apprehension cannot be completely eradicated, but the Central Bank through optimal communication can reduce the "noise" to the barest minimum.

The recent crisis revitalized the communication strategy of the Central Bank of Nigeria as central bankers realized much to their relief that updating the public about the policy strategies actually reduced rather than exacerbated anxiety and panic. This is premised on the belief that central bank communication is considered authoritative and capable of assuring market participants of the safety of the economy especially in the era of economic downturn. The Central Bank of Nigeria as it were, employed every available communication channels to calm fears of untold hardship due to the recession witnessed. In this regard, the Governor of Central Bank of Nigeria, CBN, Mr. Godwin Emefiele, in a bid to reassure market participants of

the viability and soundness of the Nigerian economy said the worst is over as far as the recession was concerned, stating that by December, the economy would be fully out of recession and be on the path of growth. Furthermore, the Bank's senior staff participated in panel discussions which were usually open to the public on subjects that include monetary, exchange rate policy and broader economic issues that are primal to the public. Secondly, is the need to create "genuine news" that is the need to inform market participant of the policy of the Central Bank of Nigeria towards revamping the economy. Hence communication plays an important role in explaining to the public both the instruments and the goals as well as the reasons behind the decisions made by the authorities (Winkler, 2000). Nonetheless, The Central Bank of Nigeria has remain extremely careful about how, when and what they communicate, employing the mainstream medium of communication despite more advanced and technological savvy means of communication employed by major central banks i.e. Today, the Bank of England tweets, the Reserve Bank of New York blogs, the Central Bank of Ireland is on Facebook and Sveriges Riksbank holds live webchats. There are good reasons for this; ineffective communication can result to misunderstandings within financial markets and the public, with the result that

the efficacy of policy can be weakened. The central bank's power to manage private sector expectations depends on its ability to communicate intentions optimally and in an intelligible manner. Therefore, the effectiveness of monetary policy should benefit from transparency the most, when it is accompanied by good communication policy (Issing 2005, Winkler 2000). In this sense, good communication is an indispensable element of transparency. Its importance has been emphasized by Woodford (2005) who argues that good communication, preferably a history dependent one, could replace policy action itself.

3.4 NEGATIVE INTEREST RATE

Negative interest rates have been a curiosity to theorists, policy pundits and intellectual margnacarter of monetary policy in recent times. The identification of a policy rate that promotes price stability without constraining economic growth is the preoccupation of the monetary authorities. This is because interest rates are important toolkits of monetary policy as they are taken into account when dealing with issues involving investment, inflation, exchange rate and unemployment (Alade, 2015). In the aftermath of the economic crisis, the Central Bank of Nigeria has been implored to adopt unconventional monetary policy instruments to counteract the adverse effects

of the crisis by supplying large amounts of liquidity and decreased policy rates. According to investopedia a negative interest rate policy (NIRP) is an unconventional monetary policy tool whereby nominal target interest rates are set with a negative value, below the theoretical lower bound (see Figure 4). An example of a negative interest rate policy would be to set the key rate at -0.2% , for every N20 billion the central bank lends out to the commercial banks as a lender of last resort, the CBN is expected to pay additional N4 billion in interest to DMBs. On the other hand, the reverse is expected when commercial banks keep its excess reserves in CBN vaults. The DMBs would have to pay two-tenths of a percent on their deposits instead of receiving any sort of positive interest while the reverse is the case of lending. The rationale for Negative interest is premised on the need to encourage DMBs to expand the availability of loanable funds to the productive sector positioned for jumpstarting a quantum leap in the economy (See Fig5). Lower interest rates and a stable macroeconomic policy environment may increase banks' willingness to lend to businesses and households. This may increase spending especially by smaller borrowers who have limited access to credit, other than from banks. Lower real interest rates also make common stocks and related investments more attractive than bonds and other

debt instruments resulting in the rise of stock prices. Households with stocks in their portfolios find that the value of their holdings is higher and the resultant increase in wealth makes them willing to spend more. Higher stock prices also make it more attractive for businesses to invest in plants and equipment by issuing stocks (CBN 2011). Furthermore, Negative rates may help boost exports by encouraging currency depreciation and also support improved domestic demand. Nevertheless, NIRP could trouble financial stability through erosion of bank profitability; the banking sector would definitely face challenges in an attempt to pass the costs on to their esteemed customers. More worrisome, is the fact that, individuals who based their belief on deposits, usually incur additional cost are likely to

withdraw chunk of cash with preference to remain unbanked, limiting the amount of loanable funds available for lenders and even causing risk for a bank. This would have a dire consequence on the financial inclusion policy of CBN, still battling to reverse the dismay performance of about 40 million people having accounts with the formal banking sector in a country of about 180 million people. Negative interest rate might spawn various financial innovations to circumvent negative rates. Bank customers would rather stuff cash under the mattress or patronise alternative 'esusu' system with consequent implication on conventional banking system. At the extreme, if central banks pushed rates too far into negative territory, there is the risk that large sectors of the economy could become cash-based.

Figure 4.

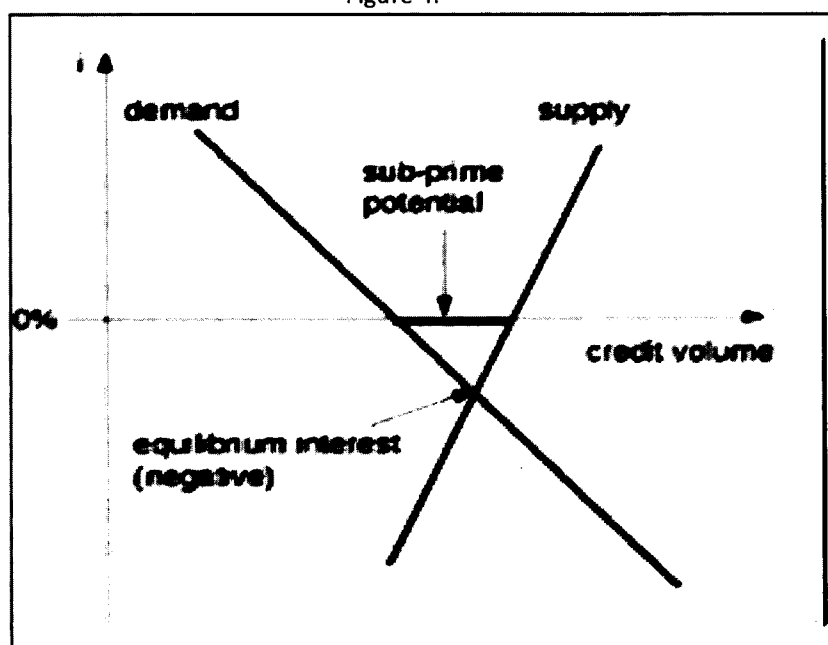
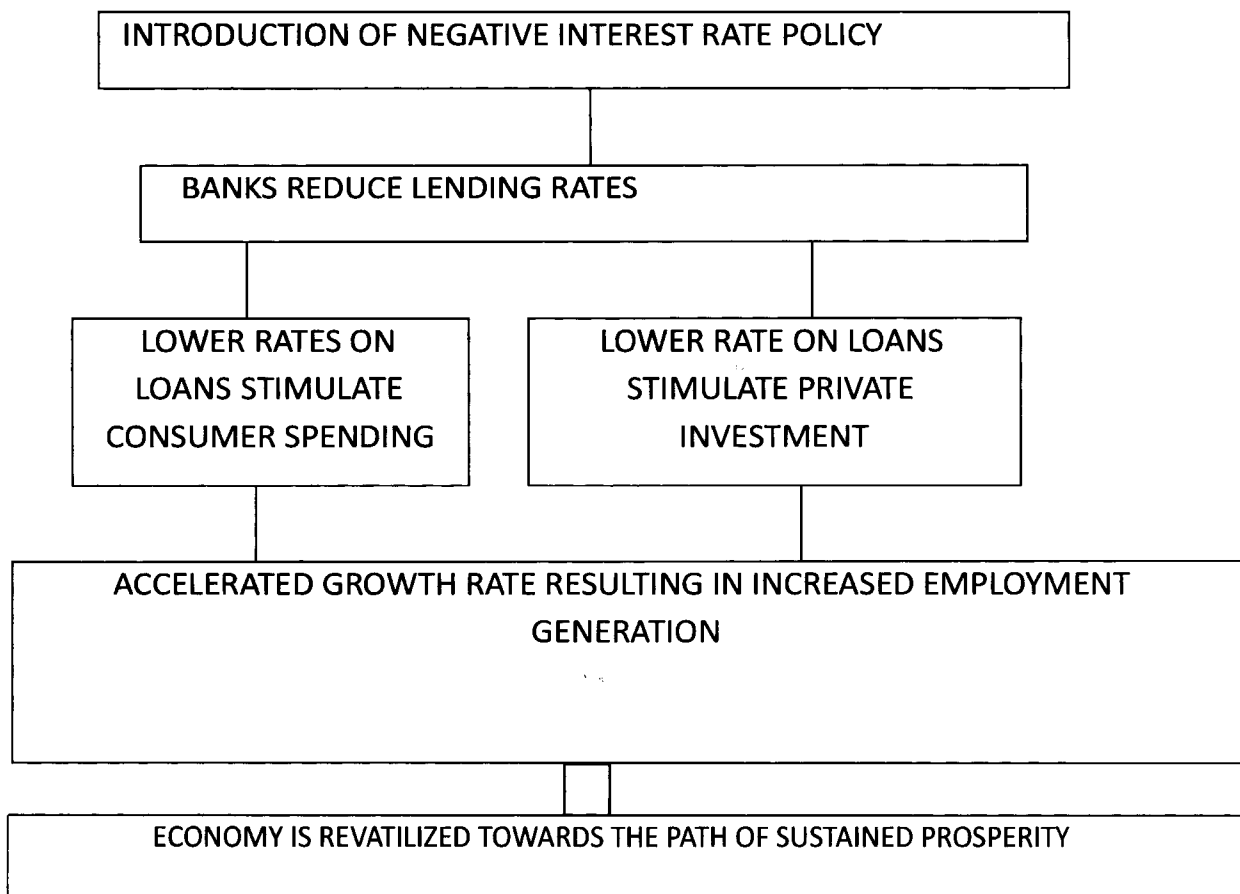


Fig 5



Source: Authors View

3.2 RESURGENCE OF PONZI AND PYRAMID SCHEMES IN NIGERIA

The resurgence of certain illegal investment schemes such as Ponzi, pyramid schemes and internet finance are aftermath of negative economic periods (recessionary trends) characterized by exclusion and repression with attendant negative consequence on the vulnerables in the society. The populace in a bid to find solace and escape from the harsh economic condition usually get entangled in this web disguised scam as genuine investment options. The monetary policy landscape in Nigeria also

witnessed the renaissance and surge in primordial and nativistic models of unregulated banking arrangement cum investment options via ponzi schemes, pyramid schemes and internet finance as a result of economic recession in the country. Examples of such ponzi/pyramid and internet finance option schemes in Nigeria includes but not limited to the following; MMM, ZARFUND, CROWDRISING, GIVERSFORUM, ULTIMATE CYCLE, ICHARITY, HELPING HANDS e.t.c. The ponzi scheme is otherwise referred to as ponzi game. According to the

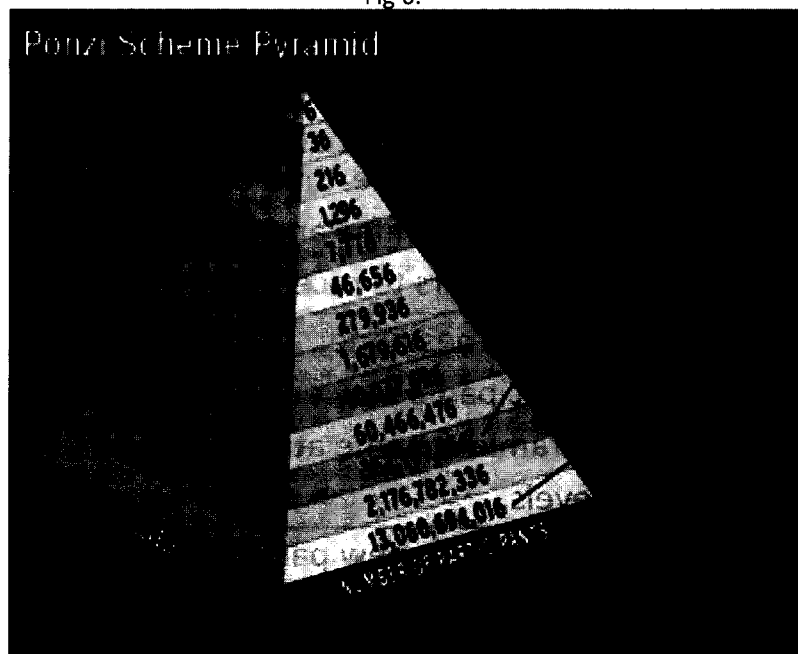
US Securities and Exchange Commission, a Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors to create the false appearance that investors are profiting from a legitimate business. Ponzi

schemes are basically investment frauds where investors are enticed into a business with promise of extremely high returns or dividends in a very short period. The investment is never made, but the Ponzi operators usually pay dividends to initial investors (by returning some of the investor's own money) to make the investment appear credible (Okoro, 2014). Ponzi schemes are often characterized as investment scams wherein investors' returns are generated by capital coming in from new investors rather than the success of the underlying business ventures (Nolasco/Vaughn/del Carmen, 2013). Bhattacharya (2013) lists three critical components of a Ponzi scheme: the perpetrator (1) convinces a group of people about an investment idea, (2) promises a high rate of return, and (3) builds credibility by initially delivering on his or her promises. The proposed investment idea frequently sounds sophisticated and complicated. Ponzi perpetrators promise rates of return that defy economic cycles. They make their first payments as promised, to create trust and to prop up an ensuing word-of-mouth publicity chain to attract more investors. To be able to sell a false idea of consistently high returns, it is likely that Ponzi perpetrators are charismatic salespeople, persuasive and good at successfully closing a sales pitch. A pyramid scheme

is a business model that recruits members via a promise of payments or services for enrolling others into the schemes, rather than supplying investment or sale of products or services. As recruiting multiplies, recruiting becomes quickly impossible and most

pyramid schemes contributed to the emergence of a black market-based interest rate and stifling of required resources for the productive sector of the economy needed to rejuvenate the already troubled economy. Nigeria's economy needs liquidity and investment inflows

Fig 6.



	Pyramid Scheme	Ponzi Scheme
Typical "hook"	Earn high profits by making one payment and finding others to become distributors of a product. The scheme typically does not involve a genuine product. The purported product may not exist or it may be "sold" only to other people who also become distributors.	Earn high investment returns with little or no risk by simply handing over your money; often the investment does not exist or only a small percentage of incoming funds are actually invested.
Payments	Must pay a one-time or recurring participation fee and recruit new distributors to receive payments.	No recruiting necessary to receive payments.
Interaction with original promoter	Sometimes none. participants may enter the pyramid scheme at different levels.	New Promoter generally interacts directly with all participants.
How the scheme works	Funds from new participants are used to pay recruiting commissions to earlier participants.	Funds from new investors are used to pay purported returns to earlier investors.
Collapse	Fast. An exponential increase in the number of participants is required at each level.	May be relatively slow if existing participants reinvest money.

Sources: SEC

4.0 STRATEGIC OPTIONS

The role of central banks in employing countercyclical policies to address economic crisis is primal in a modern economy. That notwithstanding, it worths understanding the basic monetary policy trajectory in Nigeria to avoid undesirable or

unexpected outcomes. The management of the Nigerian economy has a long standing history of fiscal dominance which has impaired the effectiveness of monetary policy. Furthermore, the trade-off between achieving the transitory goal (price stability) and permanent goal (growth objective) in Nigeria is well

documented in available literature. The monetary authority must be mindful not to calibrate its instruments in such a manner as to undermine its primary mandate and financial system stability in a bid to achieve the growth objectives. A cursory examination of theoretical empirics shows that this policy

dilemma can be addressed through the modification and adoption of the Mundell seminal work, premised on the principle enunciated by Tinbergen which states unequivocally that, conflicts can be resolved provided there are at least as many instruments as there are targets. Kadlor modifies the principle when he suggested an equal number of policy instruments and targets.

Overall, effective coordination between the monetary and fiscal authorities in the future will depend not only on existing institutional arrangements but also on the recognition of the imperativeness of such coordination as fundamental to macroeconomic growth and development of the country. More importantly, the political authorities at all levels of government must come to terms with the fact that the sustainability of public debt is in the overall interest of the country and as such, unbridled fiscal operations that build up a huge stock of public debt and distorts monetary operations will retard the economic growth of the country (CBN 2011). Therefore, this paper recommends the efficient coordination of fiscal and monetary policies with special consideration for the peculiarity of the Nigerian economy. In addition, the monetary policy landscape in Nigeria is becoming increasingly affected by vagaries of the external

environment. The Nigerian economy is highly vulnerable to external shocks especially activities in the international oil markets. Effort should be geared towards diversifying the mono-culture economy to enhance foreign exchange earnings and boost growth. Vigorous developmental financing to the productive sectors of the economy to boost their performance is urgently needed. The paper observed that the economy is inchoate to experiment with untested strategic options such as the call for negative interest rate. That notwithstanding, the mismatch between depositors interest rate and the lending rate with attendant neglect of the traditional banking system and proliferation of alternatives such as Ponzi, pyramid schemes and internet finance is well documented in available literature. This poses fundamental threat to the financial inclusion policy and financial stability mandate of the Central Bank of Nigeria. Therefore, the CBN must urgently bridge the existing gap between the wheels of financial intermediation with concomitant zeal to address the identified imbalance. The central bank communication is essential in addressing the bust in the economy. CBN must ensure sustained communication in educating market participants of current, emerging issues in the economy and consequent implications on the economy coupled with the activities of

the CBN in reviving the economy. Communication efforts against the dominances of unregistered or unregulated banking activities, Ponzi/Pyramid schemes, internet finance in the investment/banking domain in Nigeria should be undertaken. This is because, history shows that the activities of the Ponzi at al exacerbate rather than mitigate sufferings as greater harm is done to investors. Therefore, it is the duty of SEC in collaboration with CBN to dissuade investment in schemes not registered or regulated by them to save the economy from fraudsters.

4.1 CONCLUSION

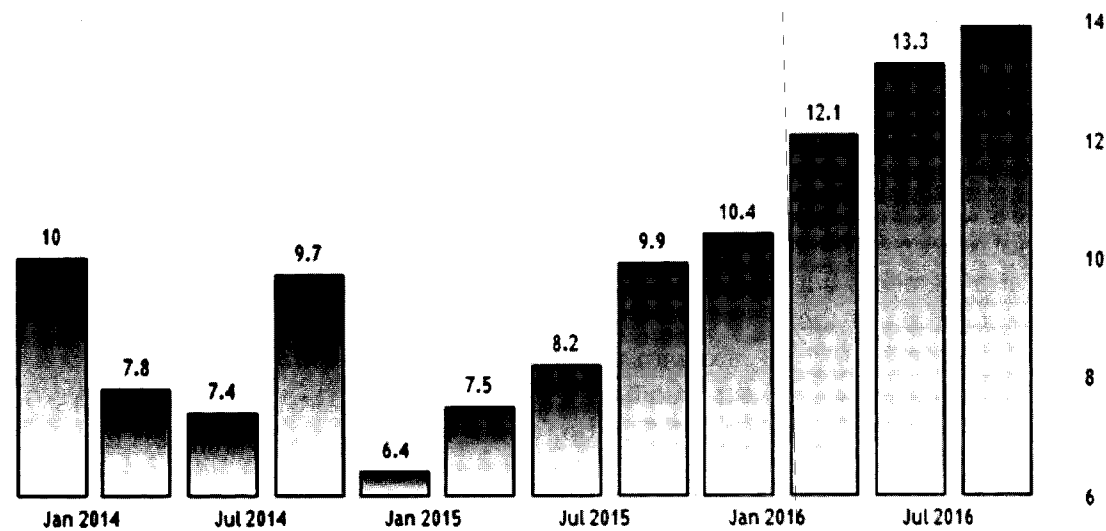
At several points in our discussion of contemporary issues in the monetary sphere in Nigeria and the circumstances that brought them, important contradictions, inherent mutual exclusiveness of monetary objectives as well as strategic options that are likely to shape the destiny of the country were enunciated. Nevertheless, for acceptability every propounded monetary toolkit capable of rejuvenating any economy must be subjected to test. Empirical verification creates opportunity for rethinking and re-assessment of issues, but also enhances the strategy required for economic challenges. However, central bankers must tread with caution in experimenting with strategic options as mistakes in monetary management could have dire consequences to the economy.

This argument is more cogent in developing countries (Nigeria inclusive) characterized by limited monetary toolkits, unstable economy and lack of automatic stabilizer that serves as buffer shock absorber. Regardless of the many

difficulties, facing the monetary policy landscape in Nigeria, two basic requirements underpinned their resolution. The first is the understanding of emerging issues in the monetary landscape and the second

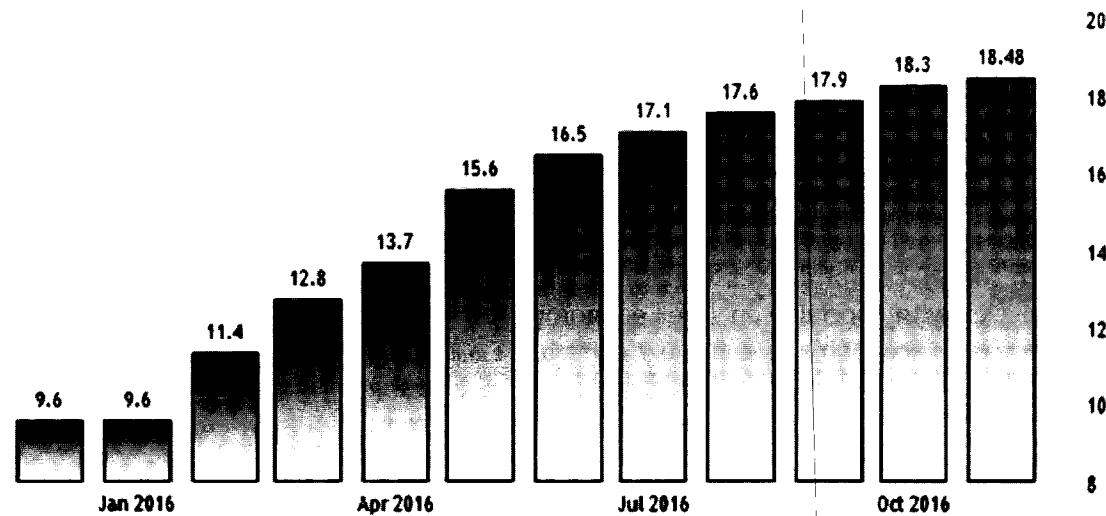
relates to the capacity of the monetary authority to manage monetary toolkits within the scope and context of the peculiar political and economic realities in the country.

NIGERIA UNEMPLOYMENT RATE



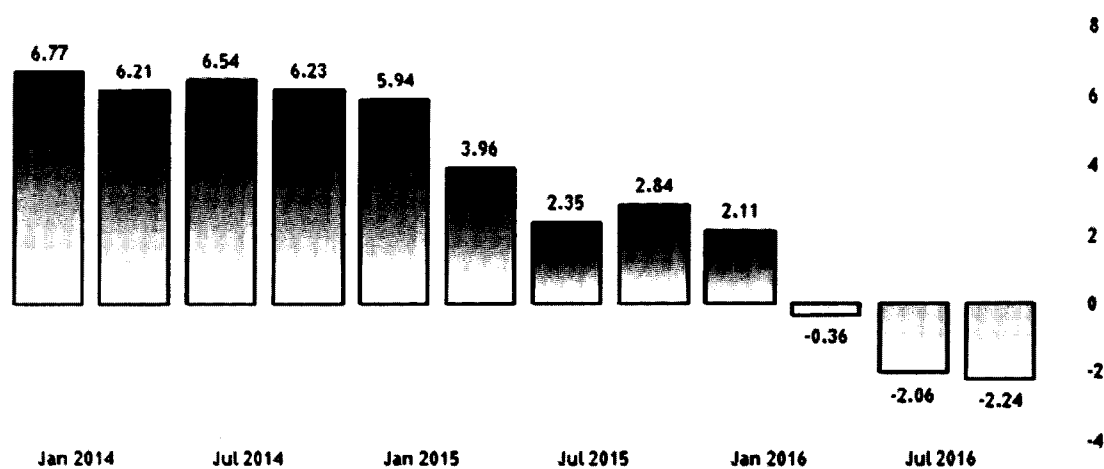
SOURCE: WWW.TRADINGECONOMICS.COM; NATIONAL BUREAU OF STATISTICS, NIGERIA

NIGERIA INFLATION RATE



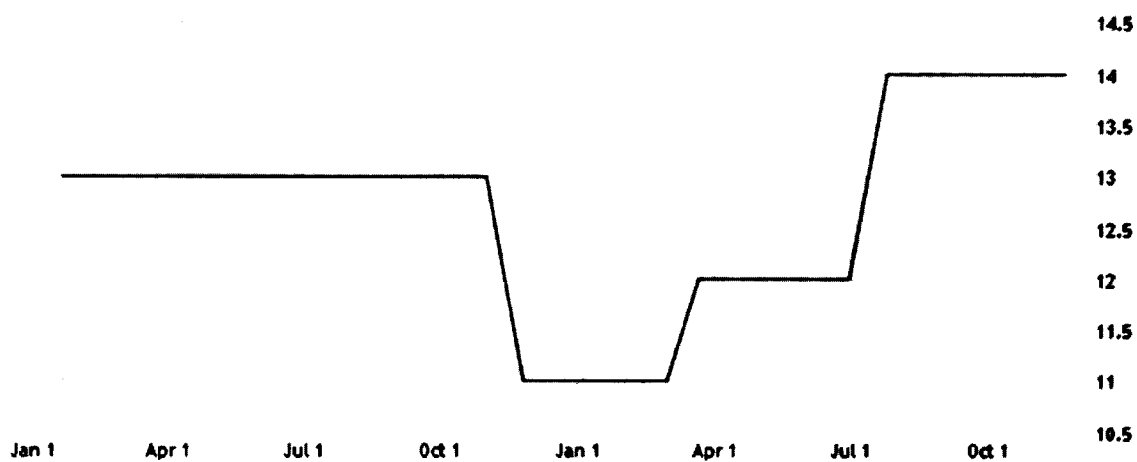
SOURCE: WWW.TRADINGECONOMICS.COM; NATIONAL BUREAU OF STATISTICS, NIGERIA

NIGERIA GDP ANNUAL GROWTH RATE



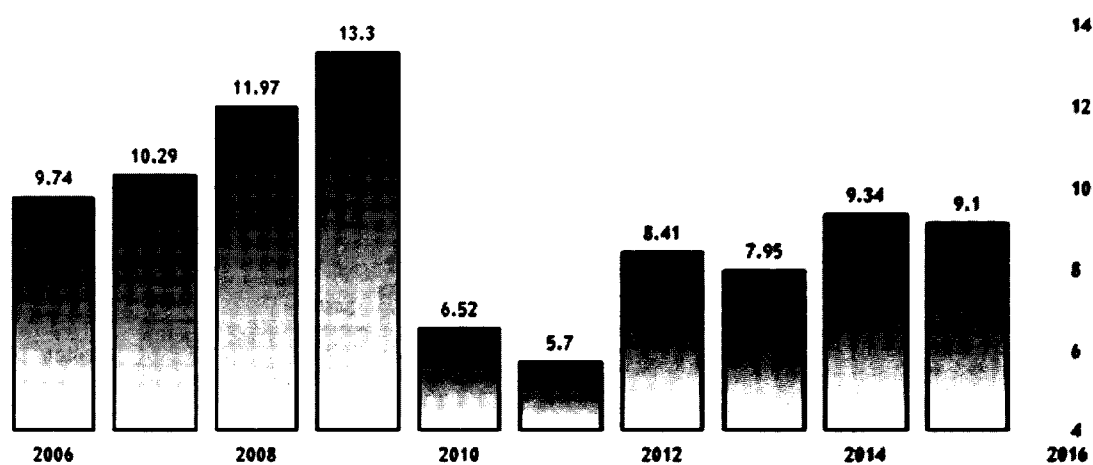
SOURCE: WWW.TRADINGECONOMICS.COM - CENTRAL BANK OF NIGERIA

NIGERIA INTEREST RATE



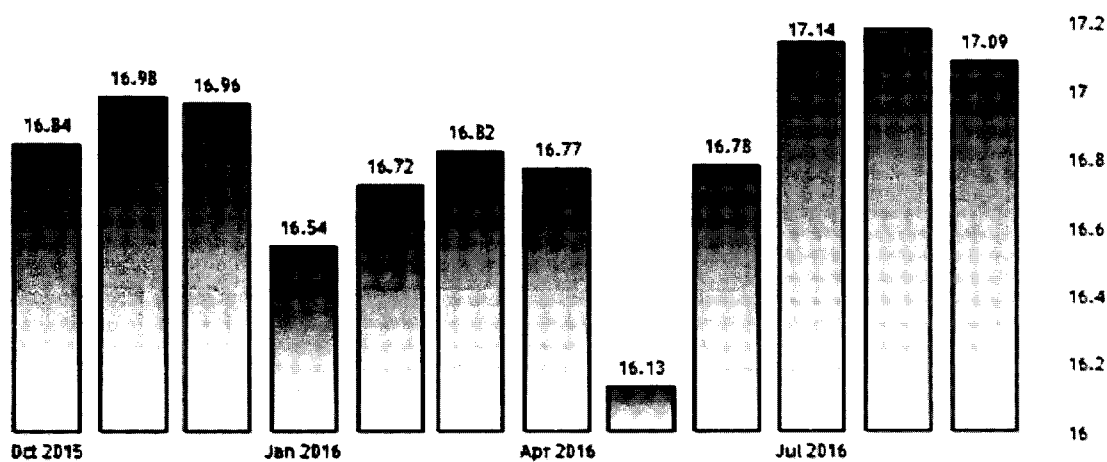
SOURCE: WWW.TRADINGECONOMICS.COM - CENTRAL BANK OF NIGERIA

DEPOSIT INTEREST RATE IN NIGERIA

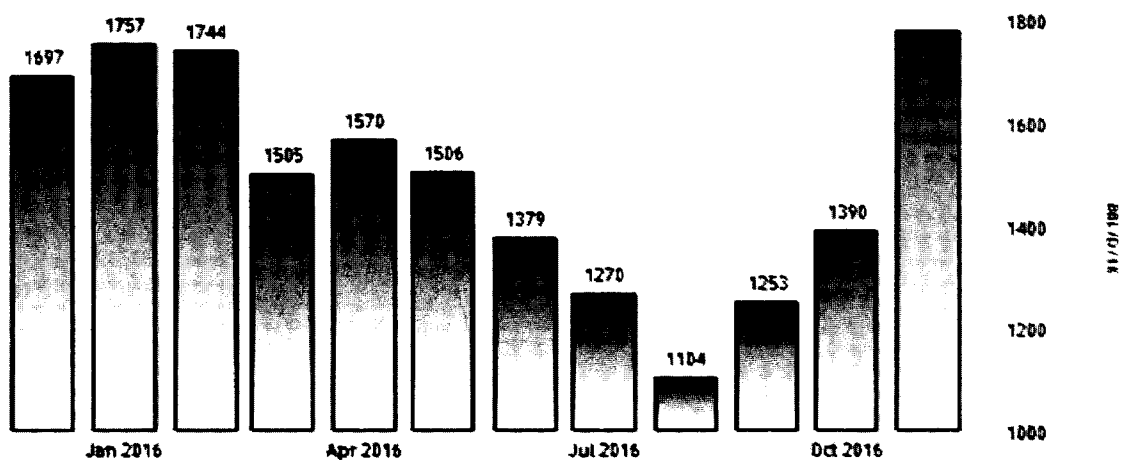


SOURCE: WWW.TRADINGECONOMICS.COM - WORLD BANK

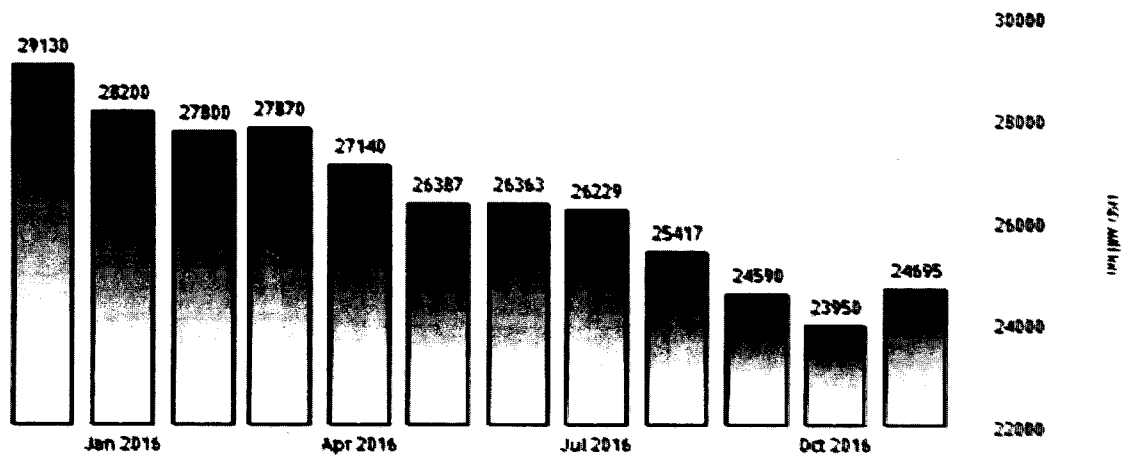
NIGERIA LENDING RATE

SOURCE: WWW.TRADINGECONOMICS.COM / CENTRAL BANK OF NIGERIA

NIGERIA CRUDE OIL PRODUCTION

SOURCE: WWW.TRADINGECONOMICS.COM / ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES

NIGERIA FOREIGN EXCHANGE RESERVES

SOURCE: WWW.TRADINGECONOMICS.COM / CENTRAL BANK OF NIGERIA

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