

*The credit guidelines are those monetary policy instruments used by the monetary authorities particularly the Central Bank to influence the supply, allocation and cost of credit with view to attaining specific macro-economic objectives in the country. It is a deliberate measures aimed at controlling the qualitative supply of money. Some of the goals are directed towards steering and maintaining the economy at its full potential output to attain full employment, to achieve a balance of payment equilibrium and to moderate inflationary pressures.*

*The objectives of the study includes the examination of credit guidelines, to identify factors militating against the realization of the guidelines, to evaluate the Central Bank's method of compliances, to identify areas of frictions (if any) between the CBN and the government and to make recommendation for the effective improvement of the policy guidelines.*

*Using the correlation analysts and chi-square distribution, four hypothesis listed below were tested.*

- i. The effectiveness of monetary and credit policy in credit guidelines in Nigeria economy*
- ii. CBN is autonomous in the real sense of it.*
- iii. Some banks violate some of the guidelines in preference to paying fines.*
- iv. CBN encounter problems while ensuring compliances by banks and other financial institutions.*

*Source of data used included primary and secondary sources. Primary data involved interviews and use of questionnaires while the secondary data were sourced from the CBN library, literature in the field of economics, banking and finance.*

*Recommendation and conclusion were based on find lasting solution to improve the operation of the credit guidelines in Nigeria.*

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## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

The level of economic activities in any economy has to be monitored always because there are some factors that are affecting it. And one important factor affecting the level of economic activities in every economy is changes in supply of money. These changes affect directly the rate of spending by the citizens of the country. However, it is because of the economic importance of money that the monetary authorities had devoted time and resources towards the management of money.

The credit guideline, which is my topic of study, has formed the apex instrument used by monetary authorities in Nigeria to influence the economic activities. These guidelines are in form of Central bank of Nigeria monetary policy circulars prescribing sectoral and aggregate increase and decrease in credits by the commercial and merchant banks.

These guidelines are used in regulating the pace and contents of economic development in an economy. However, it involves the authority's interference with the volume and direction of credit by the commercial and merchant banks to those sectors of the economy they believe that are of crucial important to the economic development. And because of this, the government has divided the economy into two major sectors, namely the preferred or high priority sectors and less preferred or other sectors.

The preferred sectors comprise, agriculture, industrial or manufacturing enterprises, residential building construction, exports and essential services. Moreover, since the introduction of the credit guideline in 1964, the government has urged banks to grant more credit facilities to these sectors in order to boost the rate of economic development in the country.

The less preferred sector of the economy comprises general commerce, government agencies and others. Government also urges banks to allocate less fund or exercise restraint in granting loans and advances to this sectors because of the effect it would have on the general price level.

However, credit guidelines, could be regarded as an anti-inflationary technique preventing the flow of funds to those sectors of economy that are very sensitive to inflationary pressures.

### **1.2 STATEMENT OF THE STUDY**

Despite the efforts of the monetary authorities in order to achieve the objectives of the credit guidelines, performance has fallen far below the projected level. Several factors could be identified to account for the failure to achieve these sets of objectives. The factors form the basis of the statement of the study and includes:

1. Some of the credit guideline measures are ineffective to tackle the economic problems.
2. Lack of complete autonomy on the part of the CBN to discharge its monetary functions effectively.
3. Inadequate coordination in major problems and government activities thereby fueling inflationary pressures in the economy.
4. The problem of taxing and operational lags which exist between problem identification, formulation and implementation of credit guidelines.

### **1.3 OBJECTIVES OF THE STUDY**

Bearing in mind the project topic, the objectives of this study are:

1. To reveal how often and to what extent the guidelines being the most population weapon of control in Nigeria have been used by the monetary authorities to influence the credit base of the economy.

- 2.To highlight the general effects or the specific effects of credit guidelines on the Nigerian economy in terms of availability of funds.
- 3.To elaborate the situations that call for the use of credit guidelines as an alternative to general monetary weapons.
- 4.To show the impact the credit guideline has on the economic development of the country.
- 5.To show the effectiveness of credit guidelines in combating inflation in the economy. This will be revealed by the movement of price index as illustrated in table IV
- 6.To reveal the effectiveness of the Central Bank of Nigeria in forcing the banks to comply with the policy guidelines
- 7.To identify areas of friction if any between the CBN and the government that frustrate the banks effort in the execution of the credit guidelines.
- 8.To make recommendation for the effective improvement of the credit guidelines in Nigeria.

#### **1.4SIGNIFICANCE OF THE STUDY**

A proper understanding of the diagnosed factors inhibiting the realization of the credit guidelines will help the monetary authorities and the citizens at large to gear up the economy towards the attainment of optimum rate of growth.

#### **1.5STATEMENT OF HYPOTHESIS**

In the process of carrying out this study, the following assumptions were made:

- 1.The insufficient supervision and examination of banks operations by the CBN enable the banking sector to contravene the policy guidelines.
- 2.The independence of the Central Bank of Nigeria in the unexpected control of the government via the ministry of finance.
- 3.Lack of adequate statistical data hamper the central bank of Nigeria's effort in monitoring the impact of credit guidelines as an instrument of monetary control in the economy.

#### **1.6SCOPE AND LIMITATION OF THE STUDY**

This research topic was chosen with the intuition to find out the effectiveness of credit guidelines as an instrument of monetary control in Nigeria.

The study covers both the problems facing monetary management and problem inhibiting the realization of objectives in developing the periodicals in Nigeria banking. Finance, newspapers and magazines which constantly update the literature. It is worth mentioning that the researcher in carrying out the study encountered some problems which limited her ability to come up with up-to-date data and comprehensive report. These problems include:

- i.Lack of availability of statistical data. Even where the data were available, they sometimes relate to out-dated information.
- ii.Unwillingness of some bank officials and members of the public to honour request for interviews.
- iii.Financial constraints which limited the researcher from traveling far to collect data and information.
- iv.Time lag between the approval of the research topic and submission which was very short to carry out a comprehensive work also pose its own problem.

#### **1.7DEFINITION OF TERMS**

The research works incorporate a lot of terms relevant to the study. However, the aim of the researcher in this part is to give precise definitions to some of these terms as they are related to the study.

## Monetary Policy

This means that part of the economic policy which regulate the level of money or liquidity in the economy in order to achieve some desired policy objectives such as the control of inflation, full employment, price stability and growth in the Gross National Product (GNP).

## Credit Guidelines

The credit guidelines are in form of Central Bank of Nigeria (CBN) monetary circulars to the commercial banks, merchant banks and other financial institution prescribing sectoral and aggregate increase or decrease in credit by these banks and financial institutions. It is used primarily in directing the allocation of credit and advances to the various sectors of the economy.

## Quantitative Control

Quantitative control techniques is that part of monetary policy that affects the economy generally without regards to the various units in the economy.

## Qualitative Control

This is also part of the monetary policy which is aimed at influencing the direction of bank loans and advances and the amount that should be directed to a particular sector of the economy. The credit guidelines belong to this group of control.

## Money

Money can be defined as anything which is generally acceptable in a given society or locality as means of exchange and for settlement of debt. Money can be in form of commodity money, legal tender, bank deposits, Bank note, currency etc.

## Open Market Operation (OMO)

This is the buying and selling of government securities e.g. development bonds, treasury bills, treasury certificates etc in open market by the Central Bank of Nigeria (CBN) on the behalf of Federal Government of Nigeria with the intention to control the quantity of money.

## Special Deposits

These are cash deposits in the central bank by commercial and merchant banks in response to a special directive.

## Loan

This is the borrowing of a sum of money by one person, company, government or organisation from another with the hope of repayment at specified time.

## Aggregate Credit Ceiling

Aggregate credit ceiling is an instrument of monetary policy by the central bank in which the banks are restricted to a certain level of growth per annum in loans and advances.

## Gross Domestic Product (GDP)

This could be defined as the total market value of all final goods and services produced in the country at a given time normally a year.

## Gross National Product (GNP)

This could be defined as the total money value at current market prices of all final goods and services produced by the citizens of a country during the accounting period.

## Price Stability

Price stability means reducing to the lowest the rate of upward movement in the general price level in an

economy so as to increase the standard of living of the people.

#### **Economic Growth**

Economic growth means an appreciable increase in the output of goods per head. It is also a rapid and sustained rise in real output per head and attendant shifts in the technological, economic and demographic characteristics of a society.

#### **Balance of Payment Equilibrium**

This is the equality of payment made to other countries and receipt from other countries as a result of visible and invisible terms of transaction.

## **EFFECTIVENESS OF CREDIT GUIDELINES AS AN INSTRUMENT OF MONETARY POLICY IN NIGERIA**

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