

TOPIC: CENTRAL BANK OF NIGERIA.

HOW CENTRAL BANK CONTROLS THE ACTIVITIES OF THE COMMERCIAL BANKS.

Central bank controls the activities of the commercial banks through the following;

- 1) Open market operations
- 2) Special deposit
- 3) Bank rate
- 4) Special directives
- 5) Cash reserve or Cash ratio.
- 6) Moral suasion.

OPEN MARKET OPERATIONS: This involves buying & selling of securities from and to commercial banks in order to increase and reduce the volume of money in circulation. If the central bank feels that the money in circulation in the country is too small & wants to increase it, it will buy securities from commercial banks. By buying securities it will increase the volume of money in the possession of commercial banks and increase their ability to give more loans to members of the public.

SPECIAL DEPOSIT: This is an instruction from the central bank asking commercial banks to keep with it special deposits over & above their statutory requirements. This is a mechanism used by the central bank to curtail credit facilities of the commercial bank.

BANK RATE: This is also called discount rate. It is the rate of interest the central bank charges commercial bank & other financial institutions by discounting their bills. If the central bank feels like curtailing the lending powers of commercial banks & other financial institutions it will raise its discount rate which will force other rates to raise.

SPECIAL DIRECTIVES: These are special instructions which the central bank gives the commercial banks & other financial institutions as to which directions their lending policies should follow. The central bank will tell them the sector of the economy they should direct their lending policies.

CASH RESERVES OR CASH RATIO: This is also known as liquidity ratio. Commercial banks are required by law to keep certain percentage of their total cash or liquid assets in the form of cash either in their vaults or with the central bank.

MORAL SUASION: This is persuasion based on moral grounds not with use of force of law by the central bank. It takes the form of gentle appeal by the central bank to commercial banks as to the kind of lending policy they should adopt regarding the increasing or reduction of money supply.

THE ROLE OF CENTRAL BANK IN ECONOMIC DEVELOPMENT IN WEST AFRICA.

ISSUING OF CURRENCY: It is the money provided by the central banks that has helped in the establishment of industries, production & distribution of goods & services which have aided the economic development of west Africa.

FUNDING AGRICULTURE: They do this with the help of their special directives which empower commercial banks & other financial institution to lend money to agricultural sector while prevents famine in west Africa.

FUNDING INDUSTRIES: They aid industrialist & governments in pursuing industrialization in west Africa.

PREVENTION OF BANK CRISIS: They do this by releasing more money to other financial institutions when the need arises.

OFFERING FINANCIAL ADVICE TO GOVERNMENT: They give monetary advice in order to put the governments on the right financial path.

DIFFERENCES BETWEEN THE CENTRAL BANK AND COMMERCIAL BANKS.

CENTRAL BANK

Owned by the Fed. Govt.

Does not accept deposits

From public.

Established by an act of

Parliaments.

The highest financial institution

Of the country.

Aim is not for profit making.

COMMERCIAL BANKS

Owned either by state govts organizations or private ind.

Accepts deposit from member of the pubic.

Established through incorporation by corporate affairs com.

Commercial banks are subordinates to central bank.

Established to make & maximize profits.