TITLE PAGE

SELECTIVE CREDIT CONTROL AS AN INSTRUMENT OF MONETARY POLICY IN NIGERIA: A REVIEW AND AN EMPIRICAL APPRAISAL, 1987-1993.

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Abstract

Contrary to the popular view that market forces best allocate resources in market economies, selective credit control policy or credit guideline was adopted by many LDCs(Nigeria inclusive) as a veritable instrument of monetary policy to redirect adequate resources (bank credit inclusive) to sectors designated "high-priority or preferred" sectors with a view to achieve increased economic growth/development. The decision was informed by the apparent market failure in the LDCs arising from their structural problems. The study reviewed and appraised compliance of banks with the credit policy. Times series data on sectoral credit allocations by commercial and merchant banks for 1987 to 1993 were used for the study. Simple statistical technique(the mean) was used in the analysis. From the study, commercial banks, among other findings, did not fully comply with the selective credit control policy, and hence, the credit guideline failed to adequately reallocate commercial bank credit to the high-priority sectors. On the other hand, merchant banks, "coincidentally" complied with the credit policy and hence, the selective credit policy succeeded in adequately redirecting merchant bank credit to the preferred sectors. In view of the observed banks' reluctance to allocate credit to the preferred sectors, the study recommended market-oriented policies with adequate incentives to banks, the sacrifices involved not withstanding. It equally endorsed the Government action in phasing out the credit guideline.