THE CENTRAL BANK OF NIGERIA POLICY ON CASH WITHDRAWAL LIMITS VIS -A -VIS ITS ROLE TO ENSURE MONETARY AND PRICE STABILITY IN NIGERIA

BIMAK Associates
Barristers & Solicitors

Introduction:

The Central Bank of Nigeria (CBN), as part of its statutory obligations, is charged with the responsibility of ensuring Monetary and Price Stability in Nigeria. To effectively carry out this mandate, the CBN from time to time formulates and monitor the effective implementation of monitory policies in order to ensure sanity in the financial system. These monetary policies could range from the setting of interest rate, regulations on cash liquidity ratios for Deposit Money Banks, and the mopping up of excess cash in the system by setting limits on certain cash transactions.

Whenever the Central Bank of Nigeria initiates monetary policies which in the long run benefits the economy and makes for a stronger Naira, it would be said to have lived up to its responsibility as the Monitory Policy Manager of the economy and its core mandate as an institution. Where however such policies though good are not well implemented, it has the potential to cause a collapse in the financial systems and the economy at large.

The aim of this article is to discuss the Central Bank of Nigeria Policy on Cash withdrawal limit vis-a-vis its role in ensuring monetary and price Stability in Nigeria.

The Role to Ensure Monetary and Price Stability in Nigeria

Ensuring monetary and price stability is one of the principal objects of Central Bank Nigeria. In analyzing this role, we must first address the question of the meaning of price stability within the context of the role of the CBN as provided for in the CBN Act.

Price Stability in simple terms refers to a condition of relatively low change in the general price level over time. In other words, the degree of fluctuation or volatility is relatively low, suggesting the absence of inflation or deflation. It is also a situation where there is no need for consumption and investment decisions to take into account changes in the general level of prices. Where there is price stability, inflation is moderate and predictable. Ensuring price stability is the goal of every country's monetary policy as it in the end promotes a favourable economic environment and in turn creates a conducive environment for businesses to thrive.

While the Central Bank of Nigeria is principally responsible for price stability, financial stability also depends, first and foremost, on the responsible behaviors of banks and their cooperation/compliance with the policies of the Central Bank of Nigeria, so as to ensure the

Nigerian financial system is not thrown into confusion and instability. This is where the CBN activates it regulatory and supervisory roles to monitor and ensure compliance with its policies so as to ensure the financial system is kept under control.

Having established the role of the Central Bank of Nigeria in ensuring price stability, we would then examine its recent policy/directive to all Deposit Money Banks (DMBs) and other Financial Institutions (FIs) on its Revised Cash Withdrawal Limits.

Examining The Central Bank Nigeria Revised Cash Withdrawal Limits Directive of December, 6 2022 And the Aftermaths On Price Stability In Recent times.

On the 6th day of December, 2022, the Central Bank of Nigeria as part of its regulatory mandate issued a circular (BSD/DIR/PUB/LAB/015/069) to all Deposit Money Banks and Other Financial Institutions (OFIs) on Cash Withdrawal Limits. The policy which was to meant to commence from the 9th of January, 2023 outlines as follows:

1. The maximum cash withdrawal per week Over The Counter (OTC) by individuals and corporate organization is restricted to N100,000 and N500,000 respectively.
2. The maximum cash withdrawal from an Automated Teller Machine (ATM)per week is pegged at N100,000
3. The maximum cash withdrawal from an Point of Sales (POS) terminals per week was pegged at N100,000.
4. The maximum cash withdrawal from an Automated Teller Machine (ATM)per day is pegged at N20,000
5. The maximum cash withdrawal from a Point of Sales (POS) terminals per day was pegged at N20,000.

After a bit of an uproar, this policy was later revisited and amended to reflect a daily withdrawal of 100,000 naira and 500,000 naira over the counter withdrawal limits per day for individuals and corporate entities respectively.

The question for consideration then is whether these limits imposed by the Central Bank of Nigeria qualifies as a discharge of its responsibility in ensuring monetary policy and price stability in Nigeria?

It is important to point out that with regards to making of monetary policy, C.B.N has discharged its responsibility in creating policies set to control the overall money supply, promote economic growth, and set strategies to help in revising interest rates. The cash withdrawal limit policy is an example of such policy.

However, as to whether the cash withdrawal limit policy has aided price stability, the simple test to apply in answering the question is whether there has been any form of stability in prices of food, transportation, access to cash and cost of withdrawing the limited cash availed to the common man in Nigeria since the implementation of cash withdrawal limit policy? The answer is simply in the negative.

It is glaring even to the blind that the absence of the rain of currency within and outside the banking system has not made price stability efficacious rather, it has increased the prices of goods and services therefore reducing the standard of living of Nigerians. Regrettably, the cash withdrawal limit policy has encouraged inflation and created price instability for citizens. This is fundamentally against the statutory obligation vested on the CBN by the establishment Act and is a show of apparent failure in its role to ensure price stability in Nigeria.

Finally, the effectiveness of any Central Bank in executing its functions hinges crucially on its ability to promote monetary and price stability. Price stability is indispensable for money to perform its role of medium exchange, store of value, standard of deferred payments and unit of account. Attainment of monetary stability rests on a Central Bank's ability to evolve effective monetary policy and to implement it effectively. It is therefore pertinent to state that any policy which makes it impossible for a Central Bank to achieve a sound financial system is set to defeat the aims of its establishment and should not see the light of the day.

Factors Responsible for The Failure of CBN to Ensure Monetary and Price Stability in Nigeria;

The imminent causes of failure of CBN to ensure monetary and price stability in Nigeria is inexhaustive. However, few common factors will be listed and explained briefly below:

1. **Absence of Improved Technology**

It is no news that Nigeria lacks Improved technology in almost every sector, the Banking sector inclusive. It is also no myth that the availability of improved technology has a high impact on economic growth of every country and Nigeria is no exception. Therefore, it is only logical and financially sound that every sector with wide spread influence whether directly or indirectly on

the economy takes into consideration the absence of Improved technologies and takes steps to put in place the required technologies to aid effective implementation of any kind of policy. Borrowing the words of the bible; everyone must count cost before making an attempt to build. In order not to create toothless policies, it is advisable that improved technologies be deployed in every sector.

Moreso, it is very important to emphasize that the aim of creating new financial policies in a country's economy should be to promote a sound financial system and nothing more. Therefore, better technologies which allows for a sound financial system should be the grand goal of any regulatory agency vested with the responsibility of ensuring financial stability.

Finally, technological innovation and more education for workers and Nigerians at large will improve economic output which leads to a better living environment for everyone. Increases in labor productivity are much easier to achieve when investments are made on better equipment that require less physical work from the labor force.

2. Absence Of Loose Monetary Policies

Monetary policy influences the amount of money available to consumers and businesses, particularly within the credit market. The restriction or expansion of available funds (liquidity) influences purchasing trends, inflation and production levels. Actions such as these will result in reduced money supply and restrictions on credit availability for small businesses and consumers alike. Reduced credit and funds availability have impact on businesses to expand and hire additional workers. Monetary policies can either be tight or loose, understanding the economic theories behind tight and loose monetary policies, including the implications of such policies, is very essential to the growth of every economy.

Moreso, it is common knowledge that tight, or contractionary monetary policy seeks to slow economic growth to head inflation while loose or expansionary monetary policy seeks to stimulate production and employment through an increase in availability of money and credit in the market place. Therefore, it is pertinent to note that loose monetary policies should be frequently Implemented, to bridge the financial strain prevalent in Nigeria.

3. The Undue Government Interference in the Making of Policies as it Relates to Monetary and Price Stability in Nigeria

The appropriate role of government is fostering of conducive environments for implementation of monetary and price stability policies and not participation in the formulation of these policies.

This is to ensure independence, accuracy and efficiency of the regulatory body (CBN) vested with the responsibility of formulating these policies. It is therefore important to state that where independence is not guaranteed, monetary policies become a tool of political manipulation, statements and instrument of oppression rather than a tool for attaining a sound financial system.

RECOMMENDATIONS

Below are possible recommendations for consideration by regulatory agencies in Nigeria;

1. Every sector directly or indirectly vested with regulatory powers should provide the requisite technologies that will help implement the policies formulated before the implementation of such policies in order not to create contradictions.
2. Policies capable of causing instability in the economy should be implemented within a small group of persons before making it widespread for the general public. (Test-run policies).
3. Policies which affect the general public's financial stability can be implemented in phases or gradually till there is an overhaul of the system.
4. Where policies formulated are such that could affect the financial affairs of citizens; there should be awareness programs and trainings for Nigerians on how to manage their financial affairs before the implementation of the policies.
5. The financial system of a country should not be a spring board for surprises, or a tool for settling political scores. Every policy must be geared towards achieving a sound financial system.

CONCLUSION

Monetary and price stability policies are crucial to aid the economic growth of every country. However, policies of this nature must at all times be subject to thorough analysis before implementation. It is vital to state that good policies can be harmful if the implementation process is poor or improper. Therefore, it is essential that proper process of implementation be set in motion alongside formulation of policies.

DISCLAIMER

This article is for information purpose, it may, or may not reflect the current position of the law and is therefore not intended to provide legal advice or guidance on litigation or provide commentary on any pending case or legislation.

REFERENCES

1. Section 4 sub section (a) of the Central Bank of Nigeria Act, 1991.
2. https://www.suomenpankki.fi/en/monetary-policy/price-stability
3. https://www.chron.com
4. thecable.ng/cbns-withdrwal
5. http://www.cbn.gov.ng

Article by:

Margaret Ogbonnah Esq.