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Understanding Nigeria's flow of funds accounts

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UNDERSTANDING NIGERIA'S FLOW OF FUNDS ACCOUNTS :

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INTRODUCTION

Since the mid-1970s Nigeria has been preparing flow of funds accounts as an extension of the more familiar system of National Accounts. A substantial amount of statistics has therefore been generated. But as far as I am aware there have been few studies that have utilised the body of statistics so generated. It appears to me that the major reason for this is lack of familiarity with the basic framework of the flow-of-funds accounts. This paper is an attempt to orient users to the data system. Essentially, therefore, what follows is an introduction to the flow of fund system of accounting.

To provide perspective, the paper is organised as follows: In Section I, we define the flow of funds accounts and provide a rationale for their construction. In Section II, we outline the various steps in preparing the accounts. In Section III, we demonstrate the analytical role of flow of funds accounts by assuming some major financial developments and working the implications through. Finally, a summary and conclusion is done in Section IV.

SECTION I
CONCEPT OF THE FLOW OF FUNDS (FOF) ACCOUNTS

As stated in the Monograph "Nigeria's Flow of Funds Accounts 1970 - 1978", (CBN, 1983) flow of funds system of accounting may be described as an attempt to bring the financial activities in the economy into focus. As a technique of analysis flow of funds offers a valuable framework for explaining the mechanism by which surplus and deficit institutional sectors of the economy finance one another. And as a system of accounting it analyses the borrowing and lending which accompany income and expenditure.

In their every day dealings some economic units (households, Governments and Business) earn more as income than they spend, these are described as surplus units. Others may spend much more than they generate as income. The economic units in this latter group are described as deficit units. It is thus necessary to investigate the types of uses to which the surplus sectors put their "surpluses" and how the deficit units were able to finance their "deficits". The transfer of funds from surplus to deficit units is mostly done by financial intermediaries through the creation of suitable financial instruments (Time deposits, certificates of deposit, commercial papers and Insurance Reserves). It may be noted that sometimes, transfer of funds could be effected directly between surplus and deficit units. But the advantage of indirect finance arises from the fact that surplus units want financial instruments that differ from those which deficit units prefer to issue and deficit units want accommodation on terms differing from those which surplus units are able and willing to grant (Goldsmith, 1969). The flow of funds tables show quite clearly the critical role of financial intermediaries in mobilizing funds from surplus units and channelling the funds to the other sectors of the economy.

THE LINK BETWEEN NATIONAL ACCOUNTS AND FOF ACCOUNTS 1

As stated above, the FOF a logical extension of the nc accounts covering gross saving and investment are derived from the National Accounts Statistics prepared by the Federal Office of Statistics (FOS). On the other hand, the sector accounts, for instance, the Monetary Authority, Commercial Banks and Merchant Banks sectors are compiled from the Balance Sheets of the CBN and consolidated balance sheets of commercial and merchant banks, respectively. The statistics relating to Federal Government accounts are derived from the Accountant-General's report. But the data related to the Oil and Non-oil Business sectors are derived from surveys conducted by the Research Department of the Central Bank of Nigeria.

DATA PROBLEMS

At the moment, the flow of funds matrix is based on annual estimates. It is hoped that in the near future a quarterly matrix will be compiled. Such a development will facilitate the analysis of developments in the economy that annual data may not permit. It is to be noted that some of the data are available with a considerable time lag hence estimates are sometimes used in the compilation of the accounts. Because of the problems of measurement, there may also be residual errors. In addition, in view of the fact that some of the data do not fit into the existing financial categories they are classified as "unidentified".

ANALYTICAL ROLE OF FLOW OF FUNDS

As we said in the introductory section, the analytical power of the flow of fund system can be demonstrated by assuming some major financial developments and working the implication through. In this section we intend to demonstrate that by assuming:

(a) a sharp rise in government borrowing.

(b) an increase in the money supply.

In the case of (a) the source of funds will be shown in the government sector as a combination of a non-financial deficit (negative saving) and government lending as an offsetting use of funds, since the money raised will be used in one way or another. Simultaneously, the borrowing itself must be matched by an equal amount of lending somewhere along the row that carries government securities. And in whatever column that lending appears, there must be a sources of funds available for this use. To keep the accounting simple we assume that the private sector was the only source of funds. The accounting for the government might be as follows:[2]

Item	Private		Government	
	S	U	S	U
Saving	7		-7	
Government loan	3			3
Government Securities		10	10	
	10	10	3	3

Even with this simple example, a lot of questions can be raised with regard to the private sector demand for other types of financial asset that are competitive with government securities as investment forms, including the influences of interest rates, risk, marketability on the volume of flow into financial intermediaries and the volume of credit supplied by intermediaries. In fact, questions could be raised in respect of the circumstances that generated the government deficits and the consequences for

[2] Adapted from Board of Federal Reserve System (1980) Introduction of Flow of Funds.

private demand for capital goods.

To take another example, we consider what happens when the money supply increases. As we know, money is a liability of the banking system and an asset of the public, hence any increase in it must be accompanied by some combination of a decrease in other liabilities, an increase in bank assets, and offsets in the accounts of other sectors. The effect on the other accounts will depend on the source of the increase in the money supply-domestic credit, net foreign assets, other assets or changes in quasi-money.

SUMMARY AND CONCLUSION

In this paper an attempt has been made to describe the flow of funds system of accounts and also indicate its analytical uses including how a change in real activity has been financed, the forecasting of interest rates and the effects of economic policy changes. The major steps in the preparation of the accounts were outlined. In particular, we indicated that sectoring in FOF accounts is institutionally defined. Thus it is possible to review the inter-sectoral financial transactions of the economy.

On the other hand, we noted the data problems that are associated with FOF accounts. Some of the basic data are available only after a considerable delay, e.g. national accounts figures, while others have to be estimated (households) leading to residual errors. Nevertheless, the flow of funds system serves as a useful instrument even at its present level of development in this country but full realisation of its potential depends on a big improvement in the collection and processing of basic data.

APPENDIX I

Sector			Definition
A	FINANCIAL		
	1.	Central Bank	Central Bank of Nigeria and the Federal Treasury Monetary Funds.
	2.	Commercial Banks	Deposit-taking banks that provide chequing facilities as defined in the Banking Decree, 1969.
	3.	Merchant Banks	Banks which provide accepting and discounting facilities as defined in the Banking Decree, 1969.
	4.	Specialised Banks	These include development banks and other specialised banking institutions which mainly engage in long-term financing.
	5.	Insurance Companies	Institutions registered for the purpose of carrying out insurance business as provided for under the Insurance Companies Regulations of 1968.
B.	NON-FINANCIAL SECTOR		
	6.	Federal Government	The Federal Government of Nigeria and it's instrumentalities as encompassed by the accounts of the Federal Treasury.
	7.	State Government	The Government of all the States of the Federation.
	8.	Oil Sector	Those engaged in exploration and production of crude petroleum.
	9.	Non-oil	All the incorporated limited liability companies but excluding oil companies, financial institutions, the unincorporated institutions and non-bank financial institutions, e.g. Cooperative Societies, etc.
	10.	Household	Parastatals, unincorporated businesses, Pure Households Non-Profit Institutions, Serving households, etc.
	11.	Rest of the World	All non-resident persons and institutions as defined for balance of payment purposes.

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Appendix 3
NIGERIA'S FINANCIAL FLOW MATRIX 1987
(₦'Million)

Transactions	Monetary Authority S	Monetary Authority U	Commercial Banks S	Commercial Banks U	Merchant Banks S	Merchant Banks U	Specialised Banks S	Specialised Banks U	Insurance Companies S	Insurance Companies U	Federal Govt. 2/ S	Federal Govt. 2/ U	State Govt. 3/ S	State Govt. 3/ U	Oil Companies S	Oil Companies U	Non-Oil Companies 2/ S	Non-Oil Companies 2/ U	Households 3/ S	Households 3/ U	Rest of the World S	Rest of the World U	Discrepancy S	Total S	Total U
A. Gross Saving	38.0		107.8		18.6		23.1		2.9		-857.1		4005.3		797.9		305.9		9196.6		-6628.0			7011.0	
B. Gross Capital Formation				255.3		44.2		21.4		0.0		4413.7		2597.3		1190.0		6155.8		-7666.7					7011.0
C. Net Surplus	38.0		-147.5		-25.6		1.7		2.9		-5270.2		1408.0		-392.1		-5649.4		16863.3		-6628.0				
D. Total Fin. S/U	-714.8	-676.8	8057.0	7909.5	3336.2	3310.6	21.5	23.2	688.5	691.4	9767.8	4497.0	-721.8	686.2	1523.1	1131.0	6627.6	777.7	-1462.1	15401.2	806.6	-5821.4		27929.6	27929.6
1. Foreign Exchange (Net)		-2443.1		696.3		68.1								2.4							480.5		-2156.8	-1676.3	-1676.3
2. Other Foreign Assets																									
3. Currency and Deposits	3058.3		5333.3	1776.6	1344.0	1316.0	-2.0	-9.2		49.3		2460.3		683.8		-22.2		551.0		2928.0				9733.6	9733.6
4. Insurance & Prov. Fund									74.1		0.0							0.5		73.6				74.1	74.1
5. Federal Debt		1475.5		3114.1		130.6				580.0	9322.7	2.6						1.8		4233.4		-215.3		9322.7	9322.7
6 State Debt													1361.0									1361.0		1361.0	1361.0
7. Govt. Loans & Shares							16.7					2034.1	812.5						1204.9					2034.1	2034.1
8. Domestic Loans & Adv.		110.7	429.5	1755.6	542.6	891.5	-46.6	42.6		31.0	0.0		26.4		23.6		290.2		1565.7					2831.4	2831.4
9. Other Assets/ Liabilities	-3773.9	180.1	2294.2	566.9	1449.6	904.4	53.2	-10.2	615.3	31.1	444.5		-2921.7		1500.4	1153.2	6337.4	224.4	-1750.0	8166.2		-6967.1		4249.0	4249.0
10. Unidentified Items & Discrepancy Source	0.2	0.0	0.0	0.0	0.0	0.0	0.2		-0.9		0.6		0.0		-0.9		0.0		-2482.7		326.1				
Total	-676.8	-676.8	8164.8	8164.8	3354.8	3354.8	44.6	44.6	691.4	691.4	8910.7	8910.7	3283.5	3283.5	2321.0	2321.0	6933.5	6933.5	7734.5	7734.5	-5821.4	-5821.4		34940.6	34940.6

1/ Provisional.
2/ Estimates.
3/ Residual Sector.