

12-1990

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Recommended Citation

Central Bank of Nigeria (1990). Developments in Money, Credit and Banking in the Fourth Quarter of 1990. CBN Economic and Financial Review. 28(4), 3-10.

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DEVELOPMENTS IN MONEY, CREDIT AND BANKING IN THE FOURTH QUARTER OF 1990

The growth of the money stock maintained the high tempo observed since the third quarter. The acceleration was influenced by the sharp rise in foreign assets (net) of the banking system and the increase in credit (net) to the domestic economy. Credit (net) to the government sector rose sharply while merchant banks' credit to the private sector was excessive.

The expansion in the number and activities of commercial and merchant banks continued into the fourth quarter. The banks' assets and deposit liabilities increased substantially. The overall liquidity of the commercial banks increased while that of the merchant banks decreased slightly during the quarter.

Money Supply

The acceleration in the growth of the money stock, observed since July 1990, continued into the fourth quarter, maintaining a disquieting trend in the last two months of the year. The narrow money supply measure (M1) rose by 5.9 per cent in October, 7.4 per cent in November and by 7.3 per cent in December. At ₦37.2 billion at the end of December 1990, M1 was ₦6.7 billion or 22.0 per cent higher than its level at the end of September, compared with the ₦5.5 billion or 22.1 per cent rise in the third quarter. The rise, however, contrasted with the fall of ₦1.7 billion or 6.4 per cent in the second quarter. Over the level at the end of 1989, M1 at the end of 1990 increased sharply by 44.9 per cent compared with 21.5 per cent in the previous year. The growth in M1 thus substantially exceeded the 13.0 per cent target for fiscal 1990. The rise in M1, reinforced by the substantial growth in quasi-money, influenced the growth in broad money stock (M2) by 17.2 per cent during the quarter compared with 15.1 per cent in the third quarter. The cumulative growth in M2 during the year was 40.4, considerably higher than the 8.0 per cent rate recorded in 1989.

M1 growth during the quarter in review was driven by the rapid monetization of the government's foreign receipts as reflected in the movement of foreign assets (net) of the banking system, and the rise in credit (net) to the economy. The former increased by ₦8.7 billion and the latter rose by ₦6.8 billion. The combined expansionary effect of these factors was, however, partially offset by the ₦5.9 billion fall in "other" assets (net) and the ₦2.8 billion rise in quasi-money (see Table 1). The fall in "other" assets (net) was attributable largely to the rise in Central Bank "other" liabilities, notably trade debt promissory notes revaluation and to the increase in merchant banks' liabilities, mainly call money from other banks

Credit to the Economy

Aggregate bank credit to the domestic economy rose by 5.1 per cent in October fell by 1.0 per cent in November, but increased sharply by 8.7 per cent in December and by ₦6.8 billion or 13.4 per cent during the quarter, compared with the

increase of ₦7.3 billion or 16.7 per cent in the third quarter. At ₦57.7 billion at the end of the quarter, aggregate system credit was ₦8.4 billion or 17.1 per cent higher than its end-December 1989 level compared with the target maximum expansion rate of 13.5 per cent for fiscal 1990. The increase during the quarter was shared by the government and private sectors but the former accounted for 63.9 per cent of the total increase. The rise in credit (net) to the government sector reflected the growth in gross credit and the fall in Federal Government deposits with the Central Bank.

Credit to Government

Net bank claims on the government sector increased by 21.0 per cent to ₦21.0 billion in December, in contrast to the 5.7 per cent fall in November but compared with the increase of 10.6 per cent in October. When compared to the level at the end of the previous quarter, net claims on government rose sharply by ₦4.4 billion or 26.1 per cent during the review quarter compared with a larger increase of ₦5.2 billion or 45.5 per cent in the preceding quarter. It rose by 14.9 per cent during the year compared with the target maximum of 10.9 per cent for fiscal 1990. The rise during the quarter reflected increases in Central Bank, commercial and merchant bank credit. Central Bank claims on the sector increased by ₦2.0 billion or 17.0 per cent to ₦14.0 billion, lower than the ₦5.6 billion or 90.3 per cent rise of the previous quarter. Commercial bank credit increased by ₦2.2 billion or 46.3 per cent to ₦7.0 billion, constituting 51.2 per cent of the total increase, and reflecting the banks' increased treasury bill holdings. The increase, and the rise in merchant banks' credit by ₦131.3 million or 71.3 per cent, contrasted with the declines recorded in the preceding quarter.

Credit to the Private Sector

Bank credit to the private sector, which slowed in the second quarter and was still in line with the growth target for fiscal 1990 at the end of the third quarter, accelerated rapidly in the fourth quarter. At ₦36.6 billion at the end of December 1990, bank claims on the sector increased by 2.7 per cent during the month, following the respective increases of 1.6 and 2.5 per cent in November and October. Aggregate system's credit to the sector increased by ₦2.5 billion or 7.2 per cent during the quarter compared with the rise of ₦2.1 billion or 6.5 per cent in the third quarter. Over the end-1989 level, bank credit to the sector was 2.6 per cent above the target ceiling of 15.8 per cent for fiscal 1990. Commercial banks' claims increased by 4.1 per cent during the quarter in review compared with the rise of 9.0 per cent in the third quarter, and by 18.1 per cent over December 1989 as against the 12.5 per cent maximum target for fiscal 1990. Merchant banks' credit increased at a faster pace, expanding by 18.4 per cent during the quarter compared with the rise of 2.7 per cent in the previous quarter, and by 24.6 per cent during the year. Similarly, Central Bank claims increased by ₦46.5 million or

3.4 per cent during the quarter, in contrast to the ₦210.0 million or 13.4 per cent fall during the third quarter.

Foreign Assets of the Banking System

At the end of December 1990, foreign assets (net) of the banking system amounted to ₦44.8 billion, showing a sharp increase of ₦8.7 billion or 24.0 per cent over end-September, 1990 level. This compared with the increases of ₦2.8 billion or 8.5 per cent and ₦3.7 billion or 12.4 per cent in the third and second quarters of 1990, respectively. Over the level at the end of 1989, an increase of ₦21.5 billion or 92.5 per cent was observed. The rise during the quarter reflected largely the change in Central Bank holdings which increased by ₦7.4 billion or 26.8 per cent to ₦35.0 billion, representing 78.0 per cent of the total banking system's holdings compared with 76.3 per cent in the third quarter and 69.9 per cent in the second quarter. Similarly, commercial and merchant banks' holdings rose by ₦798.2 million or 14.5 per cent to ₦6.3 billion and ₦490.1 million or 16.0 per cent to ₦3.6 billion, respectively.

Commercial Banking

The commercial banking industry expanded further during the quarter, with the commencement of business by three banks, compared with two in the preceding quarter. This brought to 58 the total number of commercial banks. The total assets/liabilities of the banks increased substantially by ₦9.5 billion or 12.9 per cent to ₦83.0 billion, compared with the increases of ₦2.9 billion or 4.0 per cent and ₦6.1 billion or 10.3 per cent recorded in the preceding quarter and the corresponding quarter of 1989, respectively. The banks depended largely on increases of ₦5.1 billion and ₦3.7 billion in deposit and "other" liabilities respectively, in order to adjust their portfolio, particularly to expand investments by ₦2.7 billion, balances with other banks by ₦1.5 billion, and "other" assets by ₦3.8 billion (see Table 2).

Aggregate credit by the banks to the government and private sectors increased by ₦2.2 billion or 7.0 per cent to ₦33.4 billion. Credit to the private sector, which accounted for 79.1 per cent of total credit, decreased by ₦45.1 million or 0.2 per cent from its level in the third quarter to ₦26.4 billion (see Table 3). The observed decline in credit contrasted with increases of ₦1.9 billion or 7.9 per cent and ₦946.1 million or 3.2 per cent recorded in the preceding quarter and the corresponding quarter of 1989, respectively. Loans and advances outstanding, which comprised the major components of total credit, increased by ₦992.1 million or 4.0 per cent to ₦25.6 billion. Investments (including leasing) declined by ₦1.0 billion or 57.6 per cent to ₦0.8 billion. The banks' aggregate loan/deposit ratio declined from 77.7 per cent in the previous quarter to 66.5 per cent, while the liquidity ratio increased from 53.6 to 60.7 per cent during the quarter.

Analysis of total loans and advances outstanding at the end of the quarter showed that on a sectoral basis, the share of the priority sectors averaged 45.7 per cent as against the prescribed minimum of 50 per cent (see Table 4). Although the allocation to agricultural enterprises exceeded the stipulated minimum of 15 per cent by 1.0 percentage point, loans

to manufacturing enterprises fell short by 5.3 percentage points. However, loans and advances outstanding to small scale enterprises, at ₦5.9 billion, exceeded the stipulated minimum of 20 per cent by 2.7 percentage points. Loans to rural borrowers increased by ₦253.7 million or 5.7 per cent to ₦4.7 billion and accounted for 56.6 per cent of total deposits mobilised in the rural areas.

At the end of the quarter, the total deposit liabilities of the banks increased by ₦5.2 billion or 15.4 per cent to ₦38.8 billion.

Merchant Banking

Four new merchant banks commenced business during the quarter, bringing the total number to 48. The banks' total assets/liabilities increased by ₦3.6 billion or 14.2 per cent to ₦28.6 billion. This compared with increases of ₦1.5 billion or 6.3 per cent in the preceding quarter and ₦1.0 billion or 4.8 per cent in the corresponding quarter of 1989. Funds derived largely from deposits, money on call from other banks and "other" liabilities were utilised mainly to expand loans and advances and "other" assets as well as reduce balances held for other banks (see Table 2).

Merchant banks' aggregate credit to the economy increased by ₦1.5 billion or 19.7 per cent to ₦9.2 billion. Private sector credit, which accounted for 96.6 per cent of total, rose during the quarter by ₦1.4 billion or 18.2 per cent to ₦8.9 billion (see Table 5). Aggregate loans and advances accounted for 74.3 per cent of total credit and increased by ₦1.6 billion or 23.8 per cent to ₦8.1 billion at the end of the quarter. Domestic investment increased by ₦273.9 million or 13.4 per cent from its level in the preceding quarter to ₦2.3 billion. Leasing claims, a major component of investments, declined by ₦5.8 million or 0.4 per cent to ₦1.4 billion and accounted for 16.0 per cent of the banks' total assets.

On a sectoral basis, 55.1 per cent of the banks' loans and advances outstanding went to the priority sectors (see Table 6). This represented 5.1 percentage points above the prescribed minimum, with loans to agriculture and manufacture exceeding the prescribed minimum. The maturities of the loans by merchant banks continued to be largely short ended. Short term loans accounted for 53.1 per cent or 6.1 percentage points more than what obtained in the previous quarter, and substantially above the prescribed maximum of 20 per cent. Medium and long-term loans together accounted for 46.9 per cent of total.

The liquidity ratio of the banks declined by 6.0 percentage points to 24.3 per cent while their deposit liabilities increased by ₦1.0 billion or 25.7 per cent over the level in the preceding quarter to ₦5.1 billion at the end of the quarter.

Monetary Analysis Office and
Financial Institutions & Policy Office
Financial Analysis Division
Research Department.

Table 1

MONETARY AND CREDIT DEVELOPMENTS DURING THE FOURTH QUARTER OF 1990

(\$ Million)

	December 1990 (1)	September 1990 (2)	June 1990 (3)	December 1989 (4)	Changes Between (1) & (2)		Changes Between (2) & (3)		Changes Between (1) & (4)	
					Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
CREDIT TO DOMESTIC ECONOMY (NET)	57,674.9	50,862.7	43,569.7	49,259.1	6,812.2	13.4	7,293.0	16.7	8,415.8	17.1
CREDIT TO PRIVATE SECTOR	36,631.0	34,170.4	32,094.6	30,942.8	2,460.6	7.2	2,075.8	6.5	5,688.2	18.4
(i) Central Bank	1,400.1	1,353.6	1,563.6	1,502.2	46.5	3.4	-210.0	-13.4	-102.1	-6.8
(ii) Commercial Banks	26,364.5	25,328.8	23,242.5	22,325.8	1,035.7	4.1	2,086.3	9.0	4,038.7	18.1
(iii) Merchant Banks	8,866.4	7,488.0	7,288.5	7,114.8	1,378.4	18.4	199.5	2.7	1,751.6	24.6
CREDIT TO GOVERNMENT SECTOR (NET)	21,043.9	16,692.3	11,475.1	18,316.3	4,351.6	26.1	5,217.2	45.5	2,727.6	14.9
(i) Central Bank ²	13,691.8	11,698.1	6,145.7	15,189.8	1,993.7	17.0	5,552.4	90.3	-1,498.0	-9.9
(ii) Commercial Banks ³	7,036.6	4,810.0	5,119.4	3,035.8	2,226.6	46.3	-309.4	-6.0	4,000.8	131.8
(iii) Merchant Banks	315.5	184.2	210.0	90.7	131.3	71.3	-25.8	-12.3	224.8	247.9
FOREIGN ASSETS (NET)	44,832.2	36,157.4	33,326.0	23,290.0	8,674.8	24.0	2,831.4	8.5	21,542.2	92.5
(i) Central Bank	34,970.0	27,583.5	23,302.9	13,451.1	7,386.5	26.8	4,280.6	18.4	21,518.9	160.0
(ii) Commercial Banks	6,301.9	5,503.7	6,375.4	6,610.9	798.2	14.5	-871.7	-13.7	-309.0	-4.7
(iii) Merchant Banks	3,560.3	3,070.2	3,647.7	3,228.0	490.1	16.0	-577.5	-15.8	332.3	10.3
OTHER ASSETS (NET)	-37,604.4	-31,656.3	-28,814.2	-26,326.2	-5,948.1	-18.8	-2,842.1	-9.9	-11,278.2	-42.8
TOTAL MONETARY ASSETS	64,902.7	55,363.8	48,081.5	46,222.9	9,538.9	17.2	7,282.3	15.1	18,679.8	40.4
QUASI MONEY	27,669.0	24,841.5	23,079.2	20,525.3	2,827.5	11.4	1,762.3	7.6	7,143.7	34.8
MONEY SUPPLY	37,233.7	30,522.3	25,002.3	25,697.6	6,711.4	22.0	5,520.0	22.1	11,536.1	44.9
(i) Currency Outside Banks	14,940.6	12,327.8	11,826.5	11,688.4	2,612.8	21.2	501.3	4.2	3,252.2	27.8
(ii) Private Sector Demand Deposits	22,293.1	18,194.5	13,175.8	14,009.2	4,098.6	22.5	5,018.7	38.1	8,283.9	59.1
TOTAL MONETARY LIABILITIES	64,902.7	55,363.8	48,081.5	46,222.9	9,538.9	17.2	7,282.3	15.1	18,679.8	40.4
FED. GOVT. DEMAND DEPOSITS	37,317.4	38,042.4	39,537.4	14,033.9	-725.0	-1.9	-1,495.0	-3.8	23,283.5	165.9

¹Less Federal Govt. deposit with the Central Bank and Fed. Govt. External Assets.²Less Federal Govt. demand deposit with commercial banks.³Includes Federal Government External Assets.

**COMMERCIAL AND MERCHANT BANKS' SOURCES AND
APPLICATION OF FUNDS**

	Merchant Banks		Commercial Banks	
	Sources	Application	Sources	Application
ASSETS				
Cash & Cash Items		+226.6		+769.7
Balances held with other banks		+365.0		+1,470.7
Loans and advances (including Call Money outside Banks)		+1,561.1		+782.8
Investments		+76.4		+2,660.4
Other Assets (including Call Money within Banks)		+1,329.4		+3,768.9
Equipment on Lease	-5.8			+3.4
LIABILITIES				
Capital issued, paid-up and reserves	+240.5		+256.1	
Balances held for other banks		-452.9	+205.5	
Money on Call from other banks	+1,009.6		+267.8	
Loans and Advances from other banks		-300.1		-90.4
Deposits	+1,041.8		+5,181.4	
Certificate of Deposits	+206.9			-120.7
Other Liabilities	+1,806.9		+3,736.2	
TOTAL	4,311.5	4,311.5	9,667.0	9,667.0

Table 3

COMMERCIAL BANKS' CREDIT TO THE PRIVATE SECTOR

	December 1989 (1)	June 1990 (2)	September 1990 (3)	December 1990 (4)	Change Between (1) & (4)		Change Between (2) & (4)		Change Between (3) & (4)	
					Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
Total Loans and Advances	21,695.1	23,784.8	24,609.4	25,601.5	3,906.4	18.0	1,816.7	7.6	992.1	4.0
Non-Bank (Excluding Govt.) ¹	20,518.9	22,342.1	23,314.4	24,015.5	3,496.6	17.0	1,673.4	7.5	701.1	3.0
Loans & Advances to State Govt.	649.9	792.3	797.2	854.9	205.0	31.5	62.6	7.9	57.7	7.2
Loans & Advances to Local Govt.	104.7	270.9	57.0	80.3	24.4	-23.3	190.6	-70.4	23.3	40.9
Money at call with Non-Bank	11.7	-	14.0	6.0	5.7	-48.7	6.0	-	8.0	-57.1
Factored Debt	3.5	-	-	-	3.5	-	-	-	-	-
Others ²	+409.9	+379.5	+547.6	+644.8	234.9	57.3	265.3	-69.9	97.2	17.8
Total Investments (including										
Equipment on Lease)	688.6	685.2	1,800.0	762.8	74.2	10.8	77.6	11.3	1,037.2	-57.6
Equipment on Lease	-	28.0	123.2	126.6	126.6	-	98.6	352.1	3.4	2.8
Corporate Equity	10.2	14.8	15.5	15.2	5.0	49.0	0.4	2.7	0.3	-1.9
Corporate Bonds	86.4	109.6	90.0	121.4	35.0	40.5	11.8	10.8	31.4	34.9
State Govt. Stocks & Bonds	-	-	-	-	-	-	-	-	-	-
Bills Discounted	188.6	144.9	194.5	209.9	21.3	11.3	65.0	44.9	15.4	7.9
(a) Commercial Paper	67.8	33.0	84.0	84.1	16.3	24.0	51.1	154.8	0.1	0.1
(b) Bankers' Acceptances	83.2	44.3	-	-	83.2	-	44.3	-	-	-
(c) Export Bills	-	-	-	-	-	-	-	-	-	-
(d) Import Bills	-	-	-	-	-	-	-	-	-	-
(e) Promisory Notes	-	-	-	-	-	-	-	-	-	-
Other Investments	252.4	310.6	1,292.8	205.6	46.8	-18.5	105.0	-33.8	1,087.2	-84.1
TOTAL CREDIT	22,387.2	24,470.0	26,409.4	26,364.3	3,977.1	17.8	1,894.3	7.7	45.1	-0.2

¹Excludes Inter-Bank Credit and Credit to the Federal Government.²Includes the Excess of CD Holdings over issues.

Table 4

**COMMERCIAL BANKS' LOANS AND ADVANCES BY PURPOSE
(PERCENTAGE)**

Sectors	Prescribed Percentage For		Quarterly Average Performance		Deviation From Targets	
			4th Quarter	4th Quarter	4th Quarter	4th Quarter
	1989	1990	1989	1990	1989	1990
A. HIGH PRIORITY SECTORS	50.0	50.0	45.6	45.7	-	-
(i) Agricultural production (Agric Forestry and Fishery)	(15.0)	(15.0)	15.3	16.0	+0.3	+1.0
(ii) Manufacturing Enterprises ¹ (including agro-allied Industries)	(35.0)	(35.0)	30.3	29.7	-4.7	-5.3
B. OTHER SECTORS Comprising mining and quarrying construction, exports, public utilities, transports, communi- cation, government, Financial Institution, personal & pro- fessional and miscellaneous.	50.0	50.0	54.4	54.3	+4.4	+4.3
TOTAL A + B	100.0	100.0	100.0	100.0	-	-

¹From 1989 this is defined as all manufacturing enterprises and agro-allied enterprises.
It does not include mining, quarrying and construction which were classified under the sector up till 1986.

Table 5

MERCHANT BANKS' CREDIT TO THE PRIVATE SECTOR

(₹ Million)

	December 1989 (1)	June 1990 (2)	September 1990 (3)	December 1990 (4)	Change Between (1) & (4)		Change Between (2) & (4)		Change Between (3) & (4)	
					Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
TOTAL LOANS & ADVANCES	5,305.5	5,329.0	5,446.5	6,535.7	1,230.2	23.2	1,206.7	22.6	1,089.2	20.0
Loans & Advances to Non-Bank (Excluding Govt.) ¹	5,309.8	5,477.3	5,630.2	6,859.2	1,549.4	29.2	1,381.9	25.2	1,229	21.8
Loans & Advances to State Govt.	102.5	175.5	147.6	156.0	53.5	52.2	19.5	-11.1	8.4	5.7
Loans & Advances to Local Govt.	—	9.8	9.4	6.2	6.2	—	3.6	-36.7	3.2	-34.0
Money at call with Non-Bank	84.5	2.0	—	58.8	25.7	-30.4	56.8	2,840	58.8	—
Factored Debt	—	—	11.5	—	—	—	—	—	11.5	—
Others ²	-191.3	-335.6	-352.2	-544.5	353.2	184.6	208.9	62.2	192.3	54.6
Total Investments (In- cluding Equipment on Lease)	1,809.3	1,951.5	2,041.5	2,330.7	506.1	28.0	363.9	18.6	273.9	13.4
Equipment on Lease	1,329.2	1,411.1	1,418.5	1,412.7	83.5	6.3	1.6	0.1	5.8	-0.4
Corporate Equity	11.8	16.8	19.3	21.6	9.8	83.1	4.8	28.6	2.3	11.9
Corporate bonds	31.2	54.9	55.4	75.5	44.3	142.0	20.6	37.5	20.1	36.3
State Govt. stocks & bonds	—	—	—	—	—	—	—	—	—	—
Bills discounted	233.3	257.4	254.4	533.0	299.7	128.5	275.6	107.1	278.6	109.5
(a) Commercial paper	134.9	139.4	156.5	193.8	43.6	32.3	39.1	28.0	22.0	14.1
(b) Bankers Acceptances	—	—	—	—	—	—	—	—	—	—
(c) Export bills	—	—	—	—	—	—	—	—	—	—
(d) Import bills	—	—	—	—	—	—	—	—	—	—
(e) Promisory notes	—	—	—	—	—	—	—	—	—	—
Other Investment	68.9	71.8	137.4	94.1	25.2	36.6	22.3	31.1	43.3	-31.5
Total Credit	7,114.8	7,280.5	7,488.0	8,866.4	1,736.3	24.4	1,570.6	21.6	1,363.1	18.2

¹Excludes Inter-bank credit and credit to the Federal Government.²Include the excess of CD holding over issues.

Table 6

MERCHANT BANKS' LOANS AND ADVANCES¹ BY PURPOSE

(Percentage)

Sectors	Prescribed Percentage For		Quarterly Average Performance		Deviation From Targets	
			4th Quarter	4th Quarter	4th Quarter	4th Quarter
	1989	1990	1989	1990	1989	1990
A. HIGH PRIORITY SECTORS	50.0	50.0	56.2	55.1		
(i) Agricultural production (Agric, Forestry & Fishery)	(10.0)	(10.0)	14.2	14.0	+4.2	+4.0
(ii) Manufacturing Enterprises (including agro-allied industries)	(40.0)	(40.0)	42.0	41.1	+2.0	+1.1
B. OTHER SECTORS						
Comprising mining and quarrying construction, Exports, public utilities, transport, communication government, Imports, domestic trade, Money at Call outside banks, Credit and Financial Institution, personal and professional and miscellaneous.	50.0	50.0	43.8	44.9	-6.2	-5.1
TOTAL A + B	100.0	100.0	100.0	100.0	-	-

¹ Only Money at Call outside banks included in Merchant Banks' Loans and Advances from 1988.