

DEVELOPMENTS IN THE BANKING SECTOR DURING THE SECOND QUARTER OF 1984

Monetary and Credit Developments

The downward movement in money supply (M_1) observed during the first quarter of 1984 continued through the second quarter. At ₦10,748.5 million at the end of June 1984, money supply fell by ₦353.9 million or 3.2 per cent from its end-March 1984 level. The decline almost doubled the ₦180.0 million or 1.6 per cent decline observed in the preceding quarter. However, in the comparable period of 1983, M_1 rose by ₦613.4 million or 6.6 per cent while over the one-year period ended June 1984, the rate of expansion was 8.1 per cent. On a monthly average basis, M_1 stood at ₦10,414.4 million during the second quarter of 1984 compared with ₦11,122.0 and ₦9,720.6 million in the preceding quarter and the corresponding quarter of 1983, respectively.

In contrast to the decline in M_1 , the broader measure of money stock (M_2) increased by ₦208.5 million or 1.1 per cent from end-March to ₦19,795.3 million at the end of June. This compared with the increases of ₦217.9 million or 1.1 per cent and ₦1,138.9 million or 7.0 per cent recorded during the first quarter of 1984 and the comparable period of 1983, respectively. The annual rate of expansion in M_2 was 13.7 per cent.

The factors responsible mainly for the contraction of M_1 in the review period were the increase in quasi money and the fall in "other" assets (net) of the banking system which more than offset the expansionary influences of the increases in net credit to the domestic economy and foreign assets of the banking system.

Changes in the components of the monetary aggregates during the second quarter was greatly influenced by the currency exchange exercise which took place between April 25 and May 6, 1984. For example, currency with non-bank public fell sharply as currency of old designs were deposited with banks awaiting exchange for the new designs. This resulted in the sharp increases in the deposit ratios of M_1 and M_2 . Thus, between end March and end-June 1984, the deposit ratio of M_1 rose from 56.3 to 66.5 per cent while that for M_2 increased from 75.2 to 81.8 per cent. The currency ratios declined correspondingly.

At ₦29,097.1 million, aggregate banking system credit (net) outstanding to the domestic economy at the end of the second quarter of 1984 showed an increase of ₦316.3 million or 1.1 per cent from ₦28,780.8 million at the end of the previous quarter. This compared with the increases of ₦598.7 million or 2.1 per cent and ₦1,472.8 million or 6.3 per cent in the preceding quarter and the second quarter of 1983, respectively. Compared with the level a year earlier, this monetary variable rose by as much as ₦4,326.5 million or 17.5 per cent. The expansion of credit to the domestic economy observed in the review period was accounted for solely by the increase in credit to Government as bank claims on the private sector declined during the period.

Credit to government sector increased by ₦516.0 million or 3.2 per cent to ₦16,707.4 million, compared with the increase of ₦363.2 million or 2.3 per cent and ₦1,309.5 million or 11.2 per cent observed in the first quarter of 1984 and the second quarter of 1983, respectively. In the one-year period ending June 1984, bank credit to the government sector rose by ₦3,665.9 million or 28.1 per cent. The expansion in credit to government during the review quarter was wholly accounted

for by the commercial banks whose claims to the sector increased by ₦2,211.9 million and which more than offset the decline of ₦1,696.0 million in the Central Bank's credit. The banks took advantage of their enhanced liquidity position in the face of weak demand for credit by the private sector to increase investments in government securities, notably treasury bills. On a monthly average basis, credit outstanding to government in the review period stood at ₦16,545.9 million, compared with ₦16,284.7 and ₦12,319.5 million in the first quarter of 1984 and the corresponding quarter of 1983, respectively.

Credit to the private sector during the review quarter declined by ₦199.7 million or 1.6 per cent to ₦12,389.7 million. This contrasted with the increases of ₦235.5 million or 1.9 per cent and ₦163.3 million or 1.4 per cent observed at the end of the first quarter of 1984 and the second quarter of 1983, respectively. Over the level a year earlier, the system's credit to this sector increased by ₦660.6 million or 5.6 per cent. Both the Central Bank and the commercial banks shared in the decline observed during the second quarter of 1984. Central Bank's claims on the sector (mainly in the form of accommodation to the commodity boards) declined by ₦156.5 million or 12.6 per cent, largely reflecting a seasonal default in the purchases of some of the boards. Commercial banks' loans and advances to their non-bank customers, which forms the bulk of aggregate bank credit to the private sector, also declined by ₦43.2 million or 0.4 per cent. On a monthly average basis, aggregate credit to the private sector in the review period stood at ₦12,444.8 million compared with ₦12,292.2 million in the first quarter of the year.

Foreign assets of the banking system rose by ₦322.2 million or 32.0 per cent from the end of March level of ₦1,008.2 million to ₦1,330.4 million at the end of June, 1984. This compared with the increase of ₦113.4 million or 12.7 per cent in the preceding quarter. In the corresponding period of 1983, however, the system's external assets holding declined by ₦117.9 million or 13.8 per cent but rose by ₦594.3 million or 80.7 per cent in the one-year period between June 1984 and June 1983. On a monthly average basis, foreign assets during the review quarter stood at ₦1,193.6 million, as against ₦849.5 million in the first quarter of 1984. The observed improvement in the level of external reserves was due mainly to the faster rate of growth in inflow compared with outflow. For example, while inflow increased by ₦124.6 million, outflow rose only marginally by ₦14.7 million. See Table 1)

Commercial Bank loans and advances

Commercial banks' aggregate loans and advances outstanding at end-June, 1984 amounted to ₦11,177.3 million, showing a marginal increase of ₦28.9 million or 0.3 per cent during the review quarter. This compared with the increases of ₦49.4 million or 0.4 per cent and ₦664.0 million or 5.6 per cent during the first quarter of 1984, and the second quarter of 1983, respectively. The rate of expansion between end-June 1983 and end-June 1984 was ₦640.7 million or 6.1 per cent. Compared with the level at the end of December, 1983, loans and advances outstanding at the end of June, 1984 showed an increase of only ₦77.3 million or 0.7 per cent as against the permissible expansion rate of 12.5 per cent for the 1984 fiscal year. The low growth rate of the bank's loans and advances

observed in the second quarter was as a result of the continuing sluggishness in general economic activities in the country, which generated rather weak demand pressure for credit from the favoured sectors. (See Table 2)

With regard to sectoral allocation of credit, the banks failed, as in the preceding quarter, to achieve full compliance with the prescribed sectoral credit ratios. The achieved level of credit to the preferred sectors of the economy, for example, was 68.4 per cent compared with 68.3 per cent in the preceding quarter, as against the prescribed minimum target of 75.0 per cent. The level achieved in the corresponding period of 1983 was 67.8 per cent compared with the prescribed minimum of 76.0 per cent. On a monthly average basis, the subsectors of agriculture, industrial enterprises, exports and services received 1.3, 1.3, 1.0 and 4.0 percentage points, respectively, less than their stipulated minima. A similar pattern was observed in the preceding quarter of 1984 when credit to agriculture, industrial enterprises, exports and services sub-sectors fell short of their prescribed minimum targets by 1.4, 1.2, 0.9 and 3.8 percentage point, respectively. The residential construction sub-sector, however, exceeded the prescribed minimum target by 0.9 percentage point compared with an excess of 0.7 percentage points in the preceding quarter.

In the less preferred sectors, it was only in the general commerce subsector recording 1.6 percentage points below the prescribed maximum, that full compliance was observed. The other sub-sectors, namely Government and "other" (comprising credit and financial institutions, personal and professional) exceeded their stipulated maxima by 1.8 and 6.4 percentage points, respectively. In the preceding quarter, Government and "others" exceeded their prescribed maxima by 2.2 and 6.0 percentage points, respectively, while general commerce recorded 1.6 percentage points lower than the prescribed maximum (see table 3).

Commercial Bank deposit liabilities

Total deposit liabilities of the commercial banks increased over the previous quarter's level by ₦1,479.6 million or 10.5 per cent to ₦15,566.8 million at the end of the second quarter of 1984 – about ten times the increase observed during the preceding quarter. In the one-year period between the review

quarter and the corresponding period of 1983, the banks' deposits rose substantially by ₦3,034.0 million or 24.2 per cent. On monthly average basis, total deposits stood at ₦15,842.7 million as against ₦14,007.8 million in the preceding quarter. The ₦1,834.9 million monthly average increase during the review period reflected large cash lodgements made by customers into the various categories of deposits – demand, savings and time – during the currency exchange exercise, 25th April to 6th May, 1984.

Commercial Bank liquidity

There was an improvement in the commercial banking system's liquidity position during the review period. The system's liquidity ratio, for example, averaged 66.5 per cent monthly during the second quarter of 1984, compared with 56.3 per cent in the preceding quarter, and as against the statutory minimum of 25.0 per cent. The growth in the system's liquidity during the quarter under review was due mainly to the large deposits lodged with the commercial banks which, in the absence of a strong demand for credit by the private sector, was invested largely in Government's short-dated securities.

The system's cash ratio also showed an increase on a monthly average basis. From 7.8 per cent in the first quarter, cash ratio rose to 13.4 per cent during the second quarter of 1984 mainly because of the large lodgements by customers in May and June.

Central Bank rediscount operations

Central Bank's assistance to the money market by way of rediscounts/purchases amounted to ₦1,786.6 million, representing an increase of ₦690.5 million or 63.0 per cent – a significant development during the second quarter. Over the level a year earlier, rediscounts/purchases rose by more than three hundred per cent. This development was attributable to commercial banks investment of customers' deposits pending foreign exchange allocation in short-term government debt instruments, especially treasury bills. Thus, when allocation of foreign exchange was made to the banks, the Central Bank debited their accounts with the domestic currency equivalent, thereby forcing the banks to rediscount their eligible assets with the CBN in order to replenish their clearing balances with the Bank.

MONETARY AND CREDIT DEVELOPMENTS IN THE SECOND QUARTER OF 1984

Table 1

(₹ Million)

	June	MARCH	December	June	Changes between		Changes between		Changes between	
	1984	1984	1983	1983	(1) & (2)		(2) & (3)		(1) & (4)	
	(1)	(2)	(3)	(4)	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
CREDIT TO DOMESTIC ECONOMY (NET)	29,097.1	28,780.8	28,182.1	24,770.6	+316.3	+1.1	+598.7	+2.1	+4,326.5	+17.5
CREDIT TO PRIVATE SECTOR	12,389.7	12,589.4	12,353.9	11,729.1	-199.7	-1.6	+235.5	+1.9	+660.6	+5.6
(i) Central Bank	1,083.0	1,239.5	1,062.8	1,016.8	-156.5	-12.6	+176.7	+16.6	+66.2	+6.5
(ii) Commercial Banks	11,306.7	11,349.9	11,291.1	10,712.3	-43.2	-0.4	+58.8	+0.5	+594.4	+5.5
CREDIT TO GOVERNMENT SECTOR (NET)	16,707.4	16,191.4	15,828.2	13,041.5	+516.0	+3.2	+363.2	+2.3	+3,665.9	+28.1
(i) Central Bank ¹	8,566.8	10,262.8	10,528.2	8,118.3	-1,696.0	-16.5	-265.4	-2.5	+448.5	+5.5
(ii) Commercial Banks ²	8,135.5	5,923.6	5,296.3	4,919.5	+2,211.9	+37.3	+627.3	+11.8	+3,216.0	+65.4
(iii) Federal Savings Bank	5.1	5.0	3.7	3.7	+0.1	+2.0	+1.3	+35.1	+1.4	+37.8
FOREIGN ASSETS (NET)	1,330.4	1,008.2	894.8	736.1	+322.2	+32.0	+113.4	+12.7	+594.3	-80.7
(i) Central Bank ³	1,062.9	777.6	813.8	804.9	+285.3	+36.7	-36.2	-4.4	+258.0	+32.1
(ii) Commercial Banks	267.5	230.6	81.0	-68.8	+36.9	+16.0	+149.6	+184.7	+336.3	+488.8
OTHER ASSETS (NET)	-10,632.2	-10,202.2	-9,708.0	-8,094.8	-430.0	-4.2	-494.2	-5.1	-2,537.4	-31.3
TOTAL MONETARY ASSETS	19,795.3	19,586.8	19,368.9	17,411.9	+208.5	+1.1	+217.9	+1.1	+2,383.4	+13.7
QUASI MONEY	9,046.8	8,484.4	8,086.5	7,467.9	+562.4	+6.6	+397.9	+4.9	+1,578.9	+21.1
MONEY SUPPLY	10,748.5	11,102.4	11,282.4	9,944.0	-353.9	-3.2	-180.0	-1.6	+804.5	+8.1
(i) Currency Outside Banks	3,596.1	4,856.0	4,842.8	4,225.3	-1,259.9	-25.9	+13.2	+0.3	-629.2	-14.9
(ii) Private Sector Demand Deposits	7,152.4	6,246.4	6,439.6	5,718.7	+906.0	+14.5	-193.2	-3.0	+1,433.7	+25.1
TOTAL MONETARY LIABILITIES	19,795.3	19,586.8	19,368.9	17,411.9	+208.5	+1.1	+217.9	+1.1	+2,383.4	+13.7
FED., GOV'T. DEMAND DEPOSITS	1,640.3	1,477.6	1,577.9	1,228.1	+162.7	+11.0	-100.3	-6.4	+412.2	+33.6

¹ Less Federal Govt. deposit with the Central Bank and Fed. Govt. external assets

² Less Federal Govt. demand deposits with commercial banks

³ Includes Federal Government External Assets

Table 2

COMMERCIAL BANKING SYSTEM
COMPARATIVE STATEMENTS OF ASSETS AND LIABILITIES
(N Million)

Accounts	June	March	June	Percentage	
	1984	1984	1983	change between	
	(1)	(2)	(3)	(1) & (2)	(1) & (3)
ASSETS					
1. Cash and cash items.....	1,222.5	1,405.8	1,081.8	-13.0	+13.0
(a) Vault cash.....	399.2	391.2	415.4	+2.0	-3.9
(b) Balance at Central Bank	823.3	1,014.6	666.4	-18.9	+23.5
2. Balance held with	848.9	791.5	510.2	+7.3	+66.4
(a) Banks in Nigeria.....	432.1	368.0	304.3	+17.4	+42.0
(b) Banks outside Nigeria	371.3	411.1	198.5	-9.7	+87.1
(c) Offices and branches outside Nigeria.....	45.5	12.4	7.4	+266.9	+514.9
3. Loans and Advances.....	11,177.3	11,184.4	10,536.6	+0.3	+6.1
(a) Banks in Nigeria.....	9.0	13.0	7.0	-30.8	+28.6
(b) Other customers	10,547.3	10,394.5	9,880.0	+1.5	+6.8
(i) Banks' Subsidiaries.....	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
(ii) Federal Government....	(65.9)	(51.2)	(34.4)	(+28.7)	(+91.6)
(iii) State Government	(415.3)	(489.1)	(404.5)	(-15.1)	(+2.7)
(iv) Local Governments....	(58.2)	(41.1)	(118.6)	(+41.6)	(-50.9)
(v) Other	10,007.9	9,813.1	9,322.5	(+2.0)	(+7.4)
(c) Banks outside Nigeria.....	—	—	—	—	—
(d) Money at call outside Central Bank.....	570.6	686.1	597.2	-16.8	-4.5
(e) Bills discounted.....	50.4	54.8	52.4	-8.0	-3.8
(i) Payable in Nigeria	(47.8)	(52.3)	(46.5)	(-8.6)	(+2.8)
(ii) Payable outside Nigeria	(2.6)	(2.5)	(5.9)	(+4.0)	(-55.9)
4. Investment	8,589.1	6,394.7	5,346.9	+34.3	+60.6
(a) In Nigeria					
(i) Treasury bills	(7,244.2)	(5,035.9)	(4,070.7)	(+43.9)	(+78.0)
(ii) Treasury certificates....	(839.1)	(762.6)	(707.1)	(+10.0)	(+18.7)
(iii) Development stocks....	(281.2)	(310.3)	(327.5)	(-9.4)	(-14.1)
(iv) Bankers' Unit Fund....	(17.8)	(17.8)	(18.6)	(0.0)	(-4.3)
(v) Certificates of Deposit	(164.5)	(230.4)	(192.0)	(-28.6)	(-14.3)
(vi) Stabilisation Securities	(—)	(—)	(—)	(—)	(—)
(vii) Other.....	(42.3)	(37.7)	(31.0)	(+12.2)	(+36.5)
(b) Abroad.....	—	—	—	—	—
5. Other Assets.....	6,998.6	6,767.1	6,316.1	+3.4	+10.8
TOTAL.....	28,836.4	26,507.5	23,791.6	+8.8	+21.2
LIABILITIES					
1. Capital: Issued, paid-up & reserve	883.5	840.0	794.2	+5.2	+11.2
2. Balance held for	333.2	354.9	404.6	-6.1	-17.6
(a) Banks in Nigeria.....	181.3	159.6	124.0	+13.6	+46.2
(b) Other banks outside Nigeria	151.8	194.8	221.6	-22.0	-31.5
(c) Offices & branches outside Nigeria.....	0.1	0.5	59.0	-80.0	-99.8
3. Money at call from other banks	46.0	84.0	148.5	-45.2	-69.0
(a) In Nigeria	46.0	84.0	148.5	-45.2	-69.0
(b) Outside Nigeria	—	—	—	—	—
4. Loans and advances from.....	371.5	383.3	79.6	-3.1	+366.7
(a) Central Bank of Nigeria	—	—	—	—	—
(b) Other banks in Nigeria	299.9	310.4	—	-3.4	+100.0
(c) Other banks outside Nigeria	—	—	—	—	—
(d) Other creditors.....	71.6	72.9	79.6	-1.8	-10.1
5. Deposits	15,566.9	14,087.2	12,532.9	+10.5	+24.2
(a) Demand	6,525.2	5,607.9	5,068.6	+16.4	+28.7
(b) Savings	3,628.4	3,022.5	2,643.7	+20.0	+37.2
(c) Time.....	5,413.3	5,456.8	4,820.6	-0.8	+12.3
6. Certificates of Deposit	82.0	104.9	124.4	-21.8	-34.1
7. Other Liabilities	11,553.3	10,653.2	9,707.4	+8.4	+19.0
TOTAL.....	28,836.4	26,507.5	23,791.6	+8.8	+21.2

SECTORAL DISTRIBUTION OF COMMERCIAL BANK LOANS AND ADVANCES (PER CENT)

	Prescribed Targets		1983						1984						AVERAGES				DEVIATION FROM TARGETS			
	1983	1984	Jan.	Feb.	Mar.	April	May	June	Jan.	Feb.	Mar.	April	May	June	Jan.- Mar.	Apr.- June	Jan.- Mar.	Apr.- June	Jan.- Mar.	Apr.- June	Jan.- Mar.	Apr.- June
A. PREFERRED SECTORS															1983	1983	1984	1984	1983	1983	1984	1984
(i) Agriculture.....	10.0	10.0	7.8	7.7	7.9	8.1	8.0	7.9	8.6	8.6	8.5	8.7	8.7	8.8	7.8	8.0	8.6	8.7	-2.2	-2.0	-1.4	-1.3
(ii) Industrial Enterprises	45.0	45.0	44.1	44.8	43.5	43.7	43.1	41.9	43.7	44.1	43.5	43.8	43.4	43.9	44.1	42.9	43.8	43.7	-1.4	-2.6	-1.2	-1.3
(iii) Residential Building- Construction.....	6.0	6.0	6.5	6.4	6.7	7.0	7.2	6.6	6.8	6.7	6.5	7.0	7.0	6.8	6.5	6.9	6.7	6.9	+0.5	+0.9	+0.7	+0.9
(iv) Export.....	3.0	2.0	1.1	1.1	0.9	1.1	1.0	1.1	1.1	1.1	1.0	1.2	0.9	1.0	1.0	1.1	1.1	1.0	-2.0	-1.9	-0.9	-1.0
(v) Services.....	12.0	12.0	9.3	9.5	8.9	9.0	9.0	8.6	8.5	8.1	8.1	8.0	8.0	8.0	9.2	8.9	8.2	8.0	-2.8	-3.1	-3.8	-4.0
TOTAL 'A'.....	76.0	75.0	69.1	69.5	67.9	68.9	68.3	66.1	68.7	68.6	67.6	68.7	68.0	68.5	68.8	67.8	68.3	68.4	-7.2	-8.2	-6.7	-6.6
B. LESS-PREFERRED SECTORS																						
(vi) General Commerce	16.0	16.0	15.1	14.5	14.7	14.5	14.7	14.6	14.5	14.6	14.3	14.0	14.7	14.4	14.8	14.6	14.4	14.4	-1.2	-1.4	-1.6	-1.6
(vii) Government.....	3.0	3.0	4.1	4.0	4.3	4.3	4.3	4.8	4.9	5.5	5.2	5.0	4.8	4.7	4.1	4.7	5.2	4.8	+1.1	+1.7	+2.2	+1.8
(viii) Others.....	5.0	6.0	11.7	12.0	13.1	12.3	12.7	14.5	11.9	11.3	12.9	12.3	12.5	12.4	12.3	13.2	12.0	12.4	+7.3	+8.2	+6.0	+6.4
TOTAL 'B'.....	24.0	25.0	30.9	30.5	32.1	31.1	31.7	31.9	31.3	31.4	32.4	31.3	32.0	31.5	31.2	31.6	31.7	31.6	+7.2	+7.6	+6.7	+6.6
TOTAL A + B.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	—	—	—	—