

INTER-SECTORAL FINANCING IN NIGERIA 1981

The inter-sectoral financing activities in Nigeria in 1981 closely reflected the overall economic performance which was generally not very satisfactory. The sharp decline in mining production resulting from the lower level of petroleum output, as a direct consequence of the global oil glut, affected the volume of financial transactions and the pattern of intermediation.

The volume of net inter-sectoral financing which was at a high level of ₦12,176.4 million in 1980 dropped to a low level of ₦4,381.4 million in 1981. Most of the transactions were recorded in the markets for Foreign Exchange (₦3,068.5 million), Domestic loans and Advances (₦3,003.8 million) and Government Loans and Shares (₦2,630.2 million). Other markets include markets for Federal Debt (₦877.5 million), Currency and Deposits (₦441.7 million) and Other Debt (₦382 million).¹

Compared to 1980, 1981 recorded declines in Currency and Deposits, Federal Debt, while increased activities were recorded in Foreign Exchange, Insurance and Provident Funds, Government Loans and Shares and Domestic Loans and Advances.

Estimated Gross Capital Formation by the various sectors in 1981 stood at ₦12,951.6 million, a decline of 0.8% from the ₦13,055.8 million of 1980. The Domestic Sectors recorded a deficit of ₦3,419 million which was the extent to which the Rest of the World financed the Nigerian economy.

The performance of the individual sectors as regards their net acquisition of financial assets and needs of funds is summarised in Table 2. In Table 1, we show the main channels through which the deficit sectors obtained funds and how surplus sectors disposed of their surpluses. The heavy deficit of the Private Sector (₦4,631.9 million) could not be adequately financed by the other domestic sectors. There was, therefore, a substantial resource to the Rest of the World as source of funds to the tune of ₦3,419.4 million in 1981. This strong position of the Rest of the World in 1981 contrasts with its deficits of ₦1,593 million in 1980 and ₦1,009.5 million in 1979.

In terms of global need for funds as measured by estimated total Gross Capital Formation, 1981 saw only a marginal decline (0.8%) on 1980 which experienced a substantial increase (18.7%) on 1979. But the financing capacity of the domestic economy during 1981 appeared to be a total reversal of the 1980 story. Given the economy's net supply of ₦1,593 million to the Rest of the World in 1980 and its receiving of ₦3,419.4 million from it in 1981, there was, effectively, a resource gap of ₦5,012.4 million during the two-year period.

TRANSACTIONS IN FINANCIAL ASSETS

The total volume of inter-sectoral transactions in the market for foreign asset (of which foreign exchange is a part) was ₦3,053.2 million in 1981. Transactions in this market alone resulted in a net surplus of ₦2,926.7 million for the Rest of the World sector. There was a corresponding decrease of ₦3,068.5 million in Nigeria's foreign assets during the year. Nigeria had deficits in her Balance of Payments in 1981 and the foreign assets transactions in that year reflected closely the overall balance of payments position of the country.

In the market for **Currency and Deposits**, the Private Sector supplied ₦306.3 million or 91% of the total funds that the market received in 1981. The Government sector supplied only

₦28.8 million or 9% of the market's total funds. The Banking Sector and Other Financial Institutions shared a total of ₦335.1 million which the market received in 1981. The Banking Sector got ₦192.6 million or 57% while other Financial Institutions received ₦142.5 million or 43%.

The general trend in the market for currency and deposits in 1981 was that of funds flowing from the Private and the Government sectors to the Banking and other Financial Institutions sectors. These constitute a substantial part of the mobilisable funds discussed under 'Financial Intermediation'.

A total of ₦2,848.3 million was transacted in 1981 in the market for **Government Debt**. The Banking sector increased its claims by ₦2,368.5 million or 83% of the total funds of the market during the year. The Rest of the World supplied ₦479.8 million or 17% of the funds received by this market for Government Debt in 1981. Instead of supply funds to this market, Private, Government and Other Financial Institutions sectors actually reduced their claims on the market for Government Debt by ₦1,965.6 million, ₦859.7 million and ₦23.0 million respectively in 1981. In other words, funds were transferred from the Banking and the Rest of the World sectors through this market to the Private, Government and Other Financial Institutions sectors in 1981.

The Loans and Advances market received a total of ₦3,231.6 million in 1981. These funds were supplied by the Banking sector (₦632.9 million or 20%) and other Financial Institution (₦204.4 million or 6%). The Private sector (mainly the Businesses) received ₦3,231.6 million, which is virtually all the loans and advances supplied in 1981.

In several other financial markets such as sundry investment, stabilization securities and private bonds in which net transactions were ₦2,203.6 million, the Private sector (₦1,824.3 million or 83%), the Government sector (₦251.3 million or 11%), other Financial Institutions (₦92.6 million or 4%) and the Rest of the World (₦35.5 million or 2%) were net suppliers of funds to the Banking sector during 1981.

SECTORAL ADJUSTMENT BEHAVIOUR

Given the economic policy measures, both monetary and fiscal, pursued in 1981, the various sectors made necessary adjustments to their portfolio positions in order to reach balance with the rest of the economy. Some of these adjustments are discussed below.

The **Banking Sector** which undertook gross capital formation of ₦79.1 million from its ₦95.2 million gross savings was left with a surplus of ₦6.1 million which was thus available for deployment in the financial markets. This sector also raised additional funds in 1981 through an increase in Currency and Deposits Liabilities (₦192.6 million) and other Debt instruments, (₦2,301.3 million).

The Banking sector made a disinvestment of ₦3,068.5 million in foreign exchange. Thus it was heavily indebted to the Rest of the World up to that amount. Thus a total of ₦1,894.1 million was mobilised from all sources including the net surplus on capital account. These funds were invested in various assets. Investment in Federal Debt amounted to ₦2,368.5 million. Given the heavy disinvestment in foreign assets, the major outlet of this sector's funds was investment in domestic loans and advances which was ₦2,496.4 million. Miscellaneous transactions resulted in a net investment of ₦97.7 million during

¹See Table 1

the year.

The **Other Financial Institutions** sector performed differently, in net terms, from the Banking sector. It had a deficit of ₦6.1 million in 1981 as its capital formation (₦39.4 million) was less than its gross savings (₦33.3 million). Thus the financial markets were used to fill this resource gap during the year (see Table 1).

This sector which includes Merchant Banks, Specialised Banks, and Insurance Companies acquired assets in quite a number of markets. It invested ₦12.5 million in Foreign Assets, ₦21.0 million in Federal Debt while its holdings of State Debt went down by ₦44.0 million. Its holdings of currency and deposits at ₦249.1 million in this market and the balance of ₦142.5 million was available for investment in other markets. Another source of funds which was available to this sector was Insurance and pension funds which amounted to ₦96.9 million in 1981, compared to ₦65.2 million in 1980.

The **Government sector** (Federal and State Governments) invested an estimated total of ₦7,938.3 million on capital projects in 1981. Its gross savings was ₦9,140.8 million leaving a net surplus of ₦1,202.5 million. In addition, this sector raised funds through Federal Debt (₦877.5 million) and State Debt (₦2.5 million). These three sources provided a total of ₦2,082.5 million to the Government for use in acquiring financial assets.

These funds were used mainly to increase Government holdings of Currency and Deposits (₦28.8 million), make a net addition of ₦737.8 million to Government loans and shares, reduce other debt owing by ₦251.3 million (see Table 1) and miscellaneous items and certain unidentified transactions which resulted in a net use of ₦1,146.6 million during the year.

The **Rest of the World sector** had a net surplus of ₦3419.4 million on capital account. It decreased its liabilities in the foreign assets market by a net of ₦2926.7 million during the year. There was also an investment of ₦481.1 million in Federal Debt and ₦35.5 million in other Debt. Thus, there was a substantial claim by this sector against the domestic economy. In other transactions and unidentified items, there was a net inflow of ₦22.6 million into this sector during 1981.

The **Private Sector** had a heavy deficit of ₦4631.9 million in its capital transactions. This is understandable in view of heavy investment by the business sub-sector. With such a small amount of gross savings, ₦262.9 million in 1981, this sector relied heavily on the financial markets for necessary funds to close the resource gap.

Loans of ₦452.9 million were raised in the market for Government Loans and Shares, ₦2704.0 million from Domestic loans and advances and in addition, its holdings of other Debt were reduced by ₦1824.2 million. Investments made by this sector included Currency and Deposits claims of ₦306.3 million against the Banking system and ₦96.9 million in Pension and Insurance funds.

There was a disinvestment of ₦2,013.4 million in Federal Debt which was effectively a source of funds to this sector as it drew down its holdings of this instrument by that amount. Thus, the Private sector through its Business sub-sector was a substantial net borrower of funds during the year.

Financial Intermediation

Total net lending of the Banking System to other sectors was ₦2,912.2 million during 1981 compared to ₦1,740.4 million in 1980. Out of this ₦2,778.7 million or 95.4% went to the Private sector. On the other hand, the banking system received as

deposits a net amount of ₦319.6 million from other sectors (see Table 4).

This was a substantial reduction from the ₦5,483.9 million of 1980. The total amount effectively mobilised through the banking system during the year was ₦2,592.6 million (net) compared to a net position of ₦835.0 million in 1980.

Of total net deposits with the banking system during the year, the Private Sector accounted for 95.8% which was ₦306.3 million and received as loans a net amount of ₦2,778.7 million. This means that the private sector effectively mobilised through the banking system a total amount of ₦2,472.4 million during the year. In other words, the amount of financing (net) of the private sector through the Banking System was ₦2,472.4 million.

The deposits of the Government sector with the Banking System during the year amounted to ₦28.8 million (net) while they received from the sector an amount which stood at ₦104.9 million (net). This was a significantly different position from that of 1980 when the Government Sector was a net lender to the tune of ₦87.7 million. The Government sector mobilised through the Banking System ₦76.1 million (net) in 1981.

The non-bank financial institutions deposits were reduced by ₦15.5 million during the year. On the other hand they received ₦28.6 million from the banking system as loans resulting in an effective mobilisation of ₦44.3 million (net) through the Banking System.

The pattern has been such that the bulk of the financial intermediation of the Banking System was accounted for by the Private Sector; although its deposits in 1981 was the insignificant amount of ₦306.3 million (see Table 4).

FLOW OF FUNDS OFFICE,
15th DECEMBER, 1982.

TABLE 1
NIGERIA'S FINANCIAL FLOW MATRIX 1981
(₦ million)

Transaction	Banking Sector Account		Other Financial ¹ Institutions		Government Sector		Private Sector		Rest of the World		Discrepancy Source	Total	
	S	U	S	U	S	U	S	U	S	U		S	U
A. Gross Savings	95.2		33.3		9140.8		262.9		3419.4			12951.6	
B. Gross Capital Formation		79.1		39.4	7938.3		4894.8		—			12951.6	
C. Net Surplus	16.1		-6.1		1202.5		-4631.9		3419.4			0.0	0.0
Total Financial Sources/Uses	1878.0	1894.1	933.1	927.0	1479.6	2682.1	2994.8	-1637.1	-2904.1	515.3		4381.4	4381.4
1. Foreign Exchange (Net)		-3068.5							-2926.0		-142.5	-3068.5	-3068.5
2. Other Foreign Assets				12.5		2.8			-0.7		16.0	15.3	15.3
3. Currency and Deposits	192.6		249.1	106.6		28.8	—	306.3				441.7	441.7
4. Insurance & Pension Fund			96.9					96.9				96.9	96.9
5. Federal Debt		2368.5		21.0	877.5	20.3		-2013.4		481.1		877.5	877.5
6. State Debt			-44.0		2.5			47.8		-1.3		2.5	2.5
7. Govt. Loans & Shares			284.9		1892.4	2630.2	452.9					2630.2	2630.2
8. Domestic Loans & Advances	102.1	2496.4	92.8	582.1	104.9		2704.0	-74.7				3003.8	3003.8
9. Other Debt	2301.3	97.7	156.2	248.8	-251.3		-1824.2			35.5		382.0	382.0
10. Unidentified items and Discrepancy Sources	-718.0		53.2		-1146.4		1662.1		22.6				
Total	1973.2	1973.2	966.4	966.4	10620.4	10620.4	3257.7	3257.7	515.3	515.3		17333.0	17333.0

¹ Figures for Nigerian Bank for Commerce and Industry and the Insurance Companies are provisional.

TABLE 2
NET ACQUISITION OF FINANCIAL ASSETS 1979-1981

(₹ million)

Years	Banking Sector ¹			Other Financial Institutions ²			Government Sector ³			Private Sector			Rest of the World Sector			Discrepancy
	Gross Savings	Capital Formation	Net Acquisition of Financial Assets	Gross Savings	Capital Formation	Net Acquisition of Financial Assets	Gross Savings	Capital Formation	Net Acquisition of Financial Assets	Gross Savings	Capital Formation	Net Acquisition of Financial Assets	Gross Savings	Capital Formation	Net Acquisition of Financial Assets	
1979	36.7	59.2	-22.5	58.4	40.7	17.7	7884.7	6618.4	1266.3	4027.3	4279.3	-252.0	-1009.5	—	-1009.5	0.0
1980	49.6	75.8	-26.2	-10.1	20.8	-31.9	11162.1	7409.5	3752.6	3447.2	5549.7	-2102.5	-1593.0	—	-1593.0	0.0
1981	95.2	79.1	16.1	33.3	39.4	-6.1	9140.8	7938.3	1202.5	262.9	4894.8	-4631.9	3419.4	—	3419.4	0.0

¹ Monetary Authority and Commercial Banks.

² Consists of Merchant Banks, Specialised Banks and Insurance Companies.

³ Federal and State Governments.

TABLE 3
TRANSACTIONS IN FINANCIAL ASSETS (NET)¹
1979-1981

Transactions Type Period	Banking Sector	Other Financial Institutions	Government Sector	Private Sector	Rest of the World Sector	Discrepancy
Foreign Assets (Net)						
1979	1963.6	5.4	3.0	-38.2	-1833.0	100.8
1980	2345.0	8.9	3.0	—	-2359.8	2.9
1981	-3068.5	12.5	2.8	—	2926.7	126.5
Currency and Deposits						
1979	-2904.3	-14.4	1321.6	1597.1	—	0.0
1980	-5375.4	-118.9	2812.0	2682.3	—	0.0
1981	-192.6	-142.5	28.8	306.3	—	0.0
Govt. Debt						
1979	1809.0	76.9	-2104.7	-341.5	559.4	0.0
1980	882.9	-23.0	-919.5	462.8	522.0	0.5
1981	2368.5	-23.0	-859.7	-1965.6	479.8	0.0
Loans and ² Advances						
1979	-578.2	195.1	1661.0	-1277.9	0.0	0.0
1980	1498.0	50.8	1772.6	-3321.4	0.0	0.0
1981	2394.3	204.4	632.9	-3231.6	0.0	0.0
Other Debt ³						
1979	-106.9	-207.5	4.5	92.0	217.9	0.0
1980	-17.1	109.4	1037.0	-1339.1	209.8	0.0
1981	-2203.6	92.6	251.3	1824.2	35.5	0.0
Unidentified items and Discrepancy Source						
1979	-206.6	0.2	380.9 ⁴	-321.5	46.2	100.8
1980	-640.4	7.2	-952.8	273.6	35.0	3.4
1981	718.0	-53.2	1146.4	-1662.1	-22.6	126.5

¹ Acquisition of Assets or reduction in liabilities is shown positive; Sale of Assets or increase in liabilities, negative.

² Includes Government's Loans and Shares of table 1.

³ Includes Insurance and Provident Funds figures of table 3.

⁴ This figure includes Sundry Investments in parastatals, personal advances and loans and advances to institutions.

TABLE 4
LENDING BY AND DEPOSITS WITH THE BANKING SYSTEM¹
(₦ million)

	1978	1979	1980	1981
LENDING				
Federal and State Governments	1,191.6	-1,074.2	-87.7	104.9
Private Sector	1,167.8	654.9	1,847.3	2,778.7
Other Financial Institutions	-131.9	12.7	19.2	28.6
Total Domestic Lending	2,227.5	-432.0	1,740.4	2,912.2
DEPOSITS				
Federal and State Governments	247.2	1,321.6	2,812.0	28.8
Private Sector	12.2	1,597.0	2,682.3	306.3
Other Financial Institutions	-248.5	-0.1	-10.4	-15.5
Total Domestic Deposits	10.9	2,918.5	5,483.9	319.6

¹ Defined as Central Bank, Commercial Banks, Merchant and Specialised Banks.

CHART I
FINANCIAL SURPLUS/DEFICIT

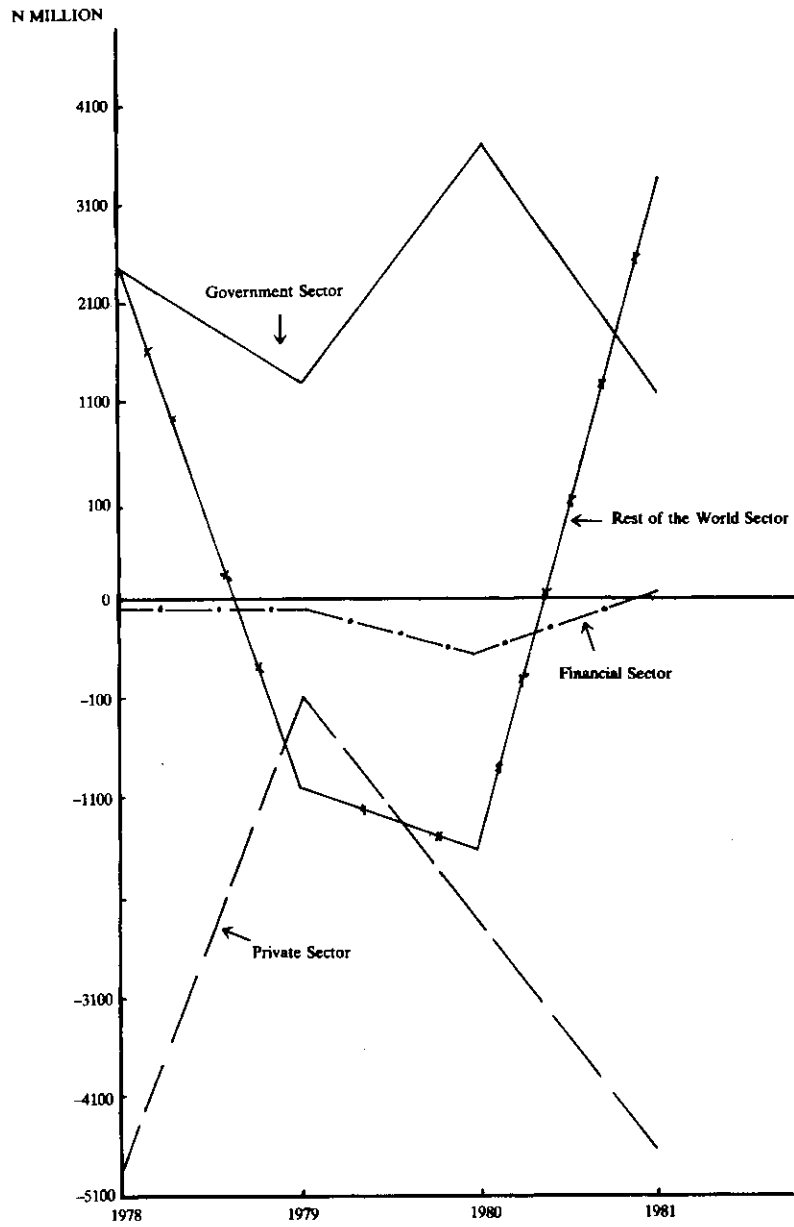
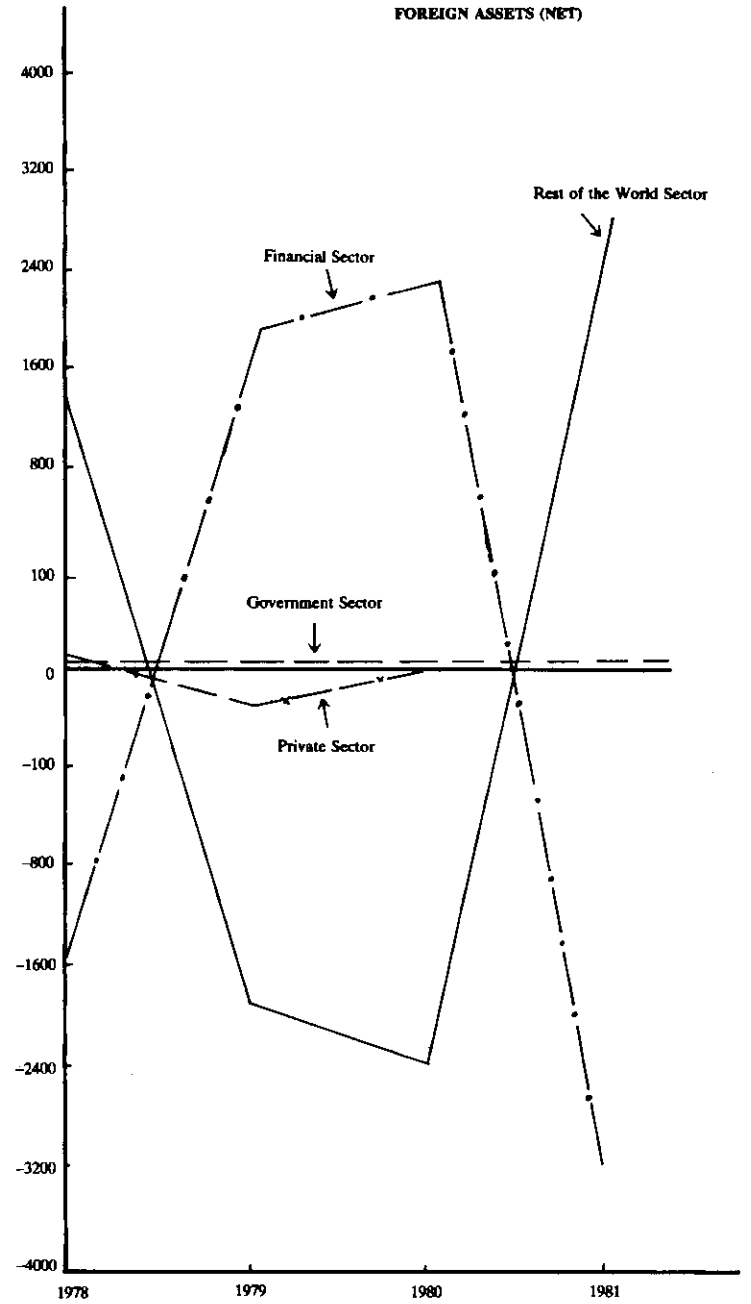


CHART II
FOREIGN ASSETS (NET)



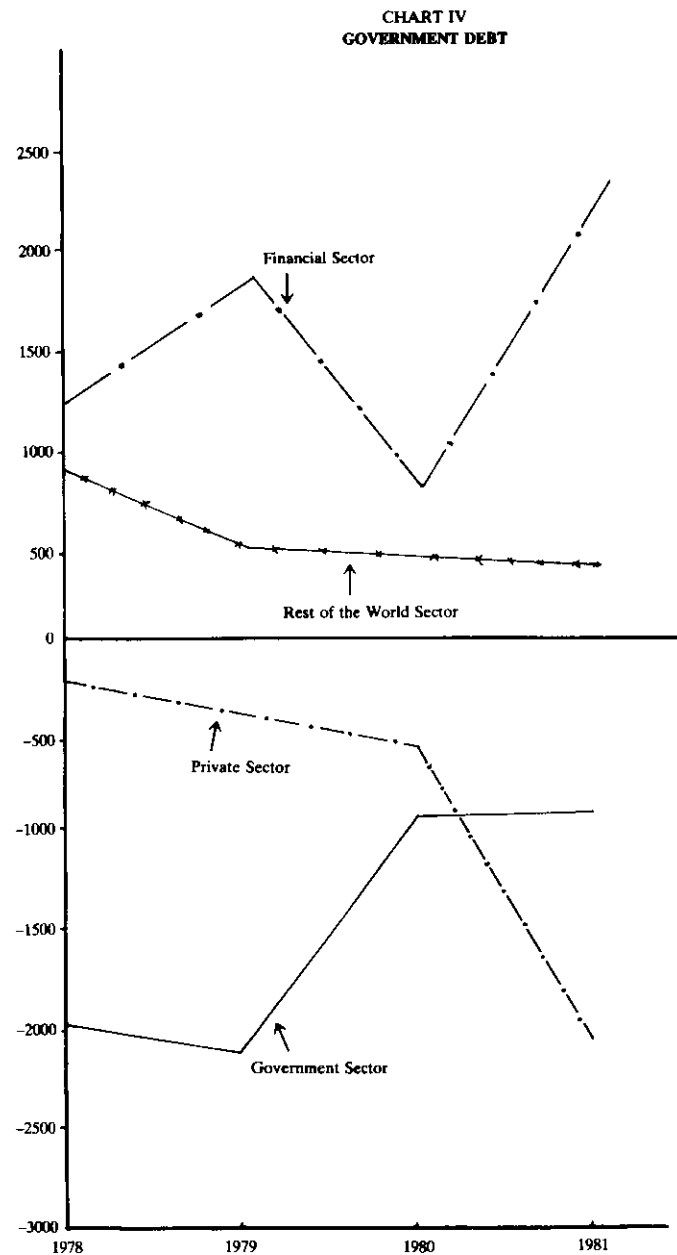
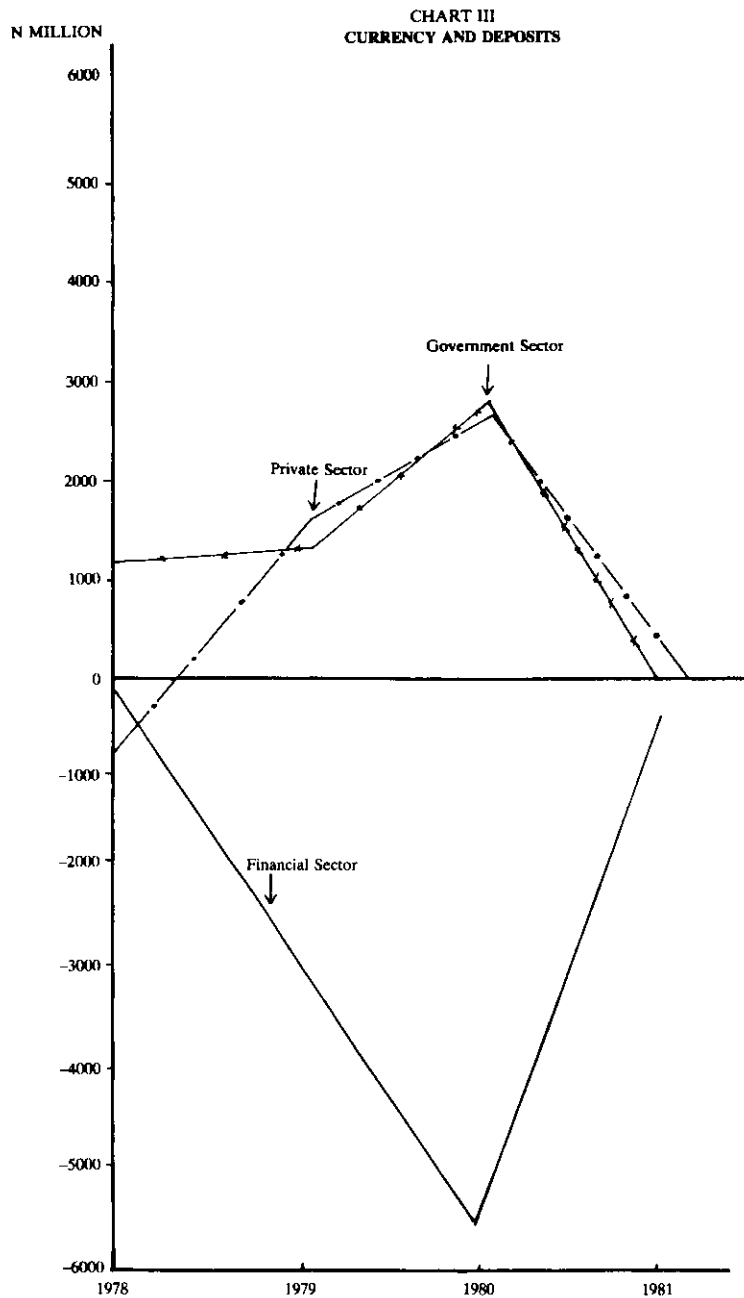


CHART V
LOANS AND ADVANCES

