

DEVELOPMENTS IN MONEY AND CREDIT IN THE FIRST QUARTER OF 1990

Monetary and credit growth in the first quarter of 1990 was broadly in line with the established seasonal pattern. Money supply (M1 and M2) showed moderate increases over the previous quarter while aggregate banking system credit (net) increased only marginally. The banking system's credit to the private sector, however, maintained a higher-than-targeted rate of growth during the quarter.

The commercial and merchant banks continued to expand in number, and total assets and deposit liabilities showed appreciable increases. There was also a marked increase in the overall liquidity of the banks.

Money Supply

The narrow measure of the money stock (M1) at the end of March showed an increase of 4.0 per cent over the December 1989 level. Broad money stock (M2) similarly rose by 6.6 per cent.

As happened all through 1989, foreign assets (net) remained the main expansionary factor in money supply. Net foreign assets increased sharply by N6.4 billion or 27.3 per cent during the quarter while bank credit to the domestic economy rose modestly by N438.7 million or 0.9 per cent. The fall of N3.8 billion or 14.3 per cent in other assets (net) of the system, and the increase of N2.0 billion or 10.8 per cent in quasi-money, moderated the rise in M1. If net foreign assets continue to grow at the pace observed in February and March, a significant reduction in government spending may become necessary if M1 is to be kept to the target path. Also, the growth in private sector credit has been excessive and needs to be brought within the target rate even though aggregate banking system credit has remained well below the target levels.

The increases in M1 and quasi-money resulted in an increase of N3.0 billion or 6.6 per cent in the broad money stock (M2), compared with the increases of N1.5 billion or 3.4 per cent in the preceding quarter and N3.9 billion or 9.1 per cent in the corresponding quarter of 1989. Quasi-money increased by N2.0 billion or 10.8 per cent to N22.5 billion, the bulk of which occurred in March. The increase was much higher than the N261.5 million or 1.3 per cent rise observed in the preceding quarter. While the rise in the review quarter is substantial, the end-March level remains significantly lower than the May, 1989 peak of N26.8 billion.

Credit to the Economy

Aggregate bank credit to the domestic economy fell consecutively in February and March, after the sharp increase in January. At the end-March level of N49.7 billion, aggregate system credit was N438.7 million or 0.9 per cent higher than the end-1989 level. The rate of expansion at the end of the first quarter of 1990 was therefore in line with the 13.5 per cent target for fiscal 1990. The observed increase in the quarter, however, was in contrast to the decline of N1.5 billion or 3.0

per cent in the preceding quarter and N813.5 million or 1.4 per cent in the corresponding period of 1989. Accounting wholly for the increase during the review quarter was the rise in private sector credit which outweighed the fall in net claims on the government sector. The contraction in credit (net) to the sector, however, reflected the expansion in government deposits which in turn mirrored inflows into the stabilization funds accounts. The outcome would be different if this amount is regarded as sterilized or as jointly owned by the three tiers of government. The system's gross credit to government at the end of March was N13.8 billion or 42.6 per cent above the December 1989 level.

Credit to Government

Bank credit (net) to the government sector fell in March by N2.1 billion or 11.7 per cent following the decline of N922.2 million or 4.8 per cent in February and the rise by N993.4 million in January. It fell sharply by N2.1 billion or 11.3 per cent to N16.2 billion during the quarter as against the 10.9 per cent permissible growth rate in fiscal 1990. The fall in bank credit (net) compared with the declines of N2.5 billion or 11.9 per cent in the preceding quarter and N1.3 billion or 4.9 per cent in the corresponding period of 1989. The fall reflected the decline in net claims by the Central Bank which was partially offset by the rise in commercial and merchant banks' total claims on the sector. Central Bank's net claims declined by N3.2 billion or 20.9 per cent to N12.0 billion. Commercial banks' credit to the sector, on the other hand, rose by N1.1 billion or 34.8 per cent to N4.1 billion and merchant banks' credit by N41.9 million or 46.2 per cent to N132.6 million (see Table 1) largely reflecting the banks' increased holdings of treasury bills.

Credit to the Private Sector

Aggregate banking system's credit to the private sector expanded by N620.5 million or 1.9 per cent to N33.5 billion at the end of March following increases of N563.2 million or 1.8 per cent in February and N1.3 billion or 4.3 per cent in January. The increase over December 1989 was 8.1 per cent, an expansion rate clearly out of tune with the 15.8 per cent target ceiling for fiscal 1990. The rate of growth was also higher than the increases of 3.2 per cent in the preceding quarter and 1.8 per cent in the comparable period a year earlier. The excessive growth in the review quarter was traceable to Central Bank's credit which rose by N385.0 million or 25.6 per cent and commercial banks' credit which grew by N1.9 billion or 8.7 per cent. The growth in merchant banks' credit by 2.6 per cent was within the 2.9 per cent ceiling stipulated for the first quarter.

Although Central Bank's claims, mainly on account of export bills rediscounting, and commercial bank credit exhibited excessive growth during the quarter, available data indicate a deceleration. The increases in the case of the

Central Bank were ₦140.9, ₦223.6 and ₦20.6 million in January, February and March, respectively, while those of commercial banks were ₦949.5, ₦677.6 and ₦318.6 million respectively.

Foreign Assets of the Banking System

The level of the system's foreign assets continued its upward movement in the review quarter. It rose by ₦504.3 million, ₦3.1 and ₦2.7 billion in January, February and March respectively. Over the level at end-December 1989, the system's foreign assets holdings in March, 1990 increased sharply by ₦6.4 billion or 27.3 per cent compared with the increases of ₦3.6 billion or 18.4 per cent in the preceding quarter and ₦5.5 billion or 53.9 per cent in the corresponding period of 1989. The Central Bank accounted for 95.2 per cent of the increase. The Bank's holding increased sharply by ₦6.1 billion or 45.0 per cent to ₦19.5 billion, representing 65.8 per cent of the total external assets holdings of the banking system, compared with 57.8 per cent in the preceding quarter and 50.1 per cent in the first quarter of 1989. Commercial and merchant banks' holdings together rose by ₦306.8 million or 3.1 per cent to ₦10.1 billion.

Other Assets (Net)

Other assets (net) of the banking system declined sharply by ₦3.8 billion or 14.3 per cent, compared with the fall of ₦569.4 million or 2.2 per cent in the preceding quarter. The decline was traceable to the accounts of the Central Bank and the commercial banks. The fall in CBN's 'other' assets holding reflected largely the exchange difference on promissory notes accounts while commercial banks' 'other' liabilities increased, mainly loans from other banks, paid-up capital and reserves, and suspense resources.

Commercial Banking

The commercial banking sector continued its steady growth in the first quarter of 1990. One more commercial bank commenced business while the total assets/liabilities of the banks increased by ₦3.2 billion or 4.8 per cent to ₦68.7 billion.

The banks' aggregate credit to the government and private sectors increased by ₦3.0 billion or 11.8 per cent over the level at the end of the previous quarter. The increase represented a marked acceleration relative to the increases of ₦382.6 million (1.5 per cent) and ₦1.2 billion (4.3 per cent) in the previous quarter and the first quarter of 1989, respectively. The banks' credit to the private sector rose by ₦1.9 billion or 8.7 per cent to ₦24.3 billion and accounted for 85.6 per cent of total credit of the banks. Outstanding loans and advances which constitute the major components of credit, increased by ₦1.2 billion or 5.3 per cent, while investments, including

leasing, rose by ₦1.5 billion or 32.6 per cent to ₦6.1 billion.

A sectoral analysis of total outstanding loans and advances at the end of the quarter showed that the priority sectors accounted for 45.6 per cent of outstanding claims as against the prescribed minimum of 50 per cent. While total allocation to agriculture exceeded the 15 per cent minimum, that to the manufacturing sector fell short by 5 percentage points. The loans and advances outstanding to small-scale enterprises exceeded marginally the prescribed 20 per cent. Loans and advances to those enterprises increased during the quarter by ₦150.8 million or 3 per cent to ₦4.9 billion. Loans to rural borrowers increased by ₦379.4 million to ₦4.1 billion and accounted for 69.3 per cent of total deposits in rural branches of the banks.

The total deposit liabilities of the banks rose by ₦1.5 billion or 5.5 per cent to ₦28.7 billion.

Merchant Banking

One more merchant bank commenced business during the quarter, bringing to 35 the total number of merchant banks. Their combined assets/liabilities increased by ₦2.1 billion or 9.4 per cent to ₦24.2 billion.

The banks' aggregate credit to the economy increased by ₦224.4 million or 3.1 per cent to ₦7.4 billion. The bulk of this (98.2 per cent) was accounted for by private sector credit which increased during the quarter by ₦182.6 million or 2.6 per cent. Of this, loans and advances outstanding increased by ₦121.7 million or 2.1 per cent to ₦6.0 billion while domestic investments increased by ₦117.3 million or 3.6 per cent to ₦2.4 billion. Claims in respect of leasing accounted for the bulk of the increase in investments. Leasing claims rose by ₦84.2 million or 6.3 per cent to ₦1.4 billion and accounted for 5.8 per cent of the banks' total assets.

The distribution of the banks' loans by economic sectors showed that loans to the priority sectors of agriculture and manufacturing accounted for 58.9 and 44.6 per cent of total, respectively. In terms of maturities, short-term loans accounted for 50.7 per cent as against the prescribed maximum of 20.0 per cent, while medium and long-term loans accounted for 31.1 per cent of total.

The deposit liabilities of the banks increased during the quarter by ₦784.7 million or 20.6 per cent to ₦4.6 billion while the banks' liquidity showed a marked increase of 6.2 percentage points to 35 per cent.

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TABLE 1

MONETARY AND CREDIT DEVELOPMENTS IN MARCH 1990
(N=million)

	March 1990	December 1989	September 1989	March 1989	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)	49,697.8	49,259.1	50,785.3	56,512.8	+438.7	+0.9	-1,526.2	-3.0	-6,815.0	-12.1
CREDIT TO PRIVATE SECTOR	33,456.2	30,942.8	29,996.7	30,300.3	+2,513.4	+8.1	+946.1	+3.2	+3,155.9	+10.4
(i) Central Bank	1,887.2	1,502.2	1,160.6	2,312.4	+385.0	+25.6	+341.6	+29.4	-425.2	-18.4
(ii) Commercial Banks	24,271.7	22,325.8	22,108.9	21,564.1	+1,945.9	+8.7	+216.9	+1.0	+2,707.6	+12.6
(iii) Merchant Banks	7,297.3	7,114.8	6,727.2	6,423.8	+182.5	+2.6	+387.6	+5.8	+873.5	+13.6
CREDIT TO GOVERNMENT SECTOR (NET)	16,241.6	18,316.3	20,788.6	26,212.5	-2,074.7	-11.3	-2,472.3	-11.9	-9,970.9	-38.0
(i) Central Bank ¹	12,017.7	15,189.8	17,798.9	19,484.7	-3,172.1	-20.9	-2,609.1	-14.7	-7,467.0	-38.3
(ii) Commercial Banks ²	4,091.3	3,035.8	2,870.1	6,592.5	+1,055.5	+34.8	+165.7	+5.8	-2,501.2	-37.9
(iii) Merchant Banks	132.6	90.7	119.6	135.3	+41.9	+46.2	-28.9	-24.2	-2.7	-2.0
FOREIGN ASSETS (NET)	29,654.5	23,290.0	19,674.9	15,805.9	+6,364.5	+27.3	+3,615.1	+18.4	+13,848.6	+87.6
(i) Central Bank ³	19,508.8	13,451.1	9,582.6	7,922.6	+6,057.7	+45.0	+3,868.5	+40.4	+11,586.2	+146.2
(ii) Commercial Banks	6,737.2	6,610.9	6,235.1	5,044.3	+126.3	+1.9	+375.8	+6.0	+1,692.9	+33.6
(iii) Merchant Banks	3,408.5	3,228.0	3,857.2	2,839.0	+180.5	+5.6	-629.2	-16.3	+569.5	+20.1
OTHER ASSETS (NET)	-30,103.7	-26,326.2	-25,756.8	-25,639.3	-3,777.5	-14.3	-569.4	-2.2	-4,464.4	-17.4
TOTAL MONETARY ASSETS	49,248.6	46,222.9	44,703.4	46,679.4	+3,025.7	+6.6	+1,519.5	+3.4	+2,569.2	+5.5
QUASI MONEY	22,526.4	20,525.3	20,263.8	24,025.4	+2,001.1	+10.8	+261.5	+1.3	-1,499.0	-6.2
MONEY SUPPLY	26,722.2	25,697.6	24,439.6	22,654.0	+1,024.6	+4.0	+258.0	+5.2	+4,068.2	+18.0
(i) Currency Outside Banks	10,880.5	11,688.4	10,920.2	10,027.2	-807.9	-6.9	+768.2	+7.0	+853.3	+8.5
(ii) Private Sector Demand Deposits	15,841.7	14,009.2	13,519.4	12,626.8	+1,832.5	+13.1	+489.8	+3.6	+3,214.9	+25.5
TOTAL MONETARY LIABILITIES	49,248.6	46,222.9	44,703.4	46,679.4	+3,025.7	+6.6	+1,519.5	+3.4	+2,569.2	+5.5
FED. GOVT. DEMAND DEPOSITS	29,877.7	14,033.9	12,992.1	9,237.7	+15,843.8	+112.9	+1,041.8	+8.0	+20,640.0	+223.4

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