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Analysis of Banking Sector Reforms on Nigeria Economic Growth: An Issue for Competitive Global Market (1980-2020)

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Abstract

Banking sector reforms faced some difficulties despite its laudable achievement. In Nigeria, wrong perception and stiff resistance to the policy could potentially determine prospective investors in the banking industry. The objective of the study is to analyse banking sector reforms on Nigeria economic growth for competitive global market from 1981-2020. The study made use of secondary time-series data sourced from annual CBN statistical bulletin. Augmented Dickey Fuller (ADF) and co-integration test were employed to determine the existence of long run relationship among the variables. The study used Econometric View (E-view 12) for descriptive analysis of the variables. The findings revealed that among others that credit allocation to private sector had a statutory trend from 1981 to 2006 and later experienced a gradual upward movement from 2007 to 2020. This shows that banking sector has contributed to the real sector of the economy through credit given to private sector. It shows that credit is significant to economic growth. The study concluded and recommended that time lag should be permitted to exist from one reform period and the next reform period to allow for appropriate planning and as well policy consistency.

Background to the Study

Given its role as financial intermediaries, the banking sector is undeniably the engine of growth in any economy. Banks support economic growth, employment, capital formation, and lubricate the production engine turbine of all economies through this function. According to Sylvanus, Ikhide, and Abayomi (2011), changes included liberalizing interest and exchange rates, credit distribution, increasing financial sector competitiveness and efficiency, and improving the regulatory and supervisory environment. Institutions and markets are growing and evolving, as they have in other emerging nations, resulting in the financial sector playing a larger role in the growth of Nigeria's economy. Reforms in the financial industry, according to Sanusi (2012), are aimed at resolving concerns such as corporate governance, risk management, and operational inefficiencies. Most banking reforms revolve around increasing capitalization. Banking changes are largely motivated by the desire to accomplish the consolidation architecture goal. Deregulation of the banking industry is usually used to implement banking reforms. Deregulation of the banking industry necessitates the development of a set of indicators that may be used to develop, implement, and evaluate effective policies.

Statement of the Problem

Reforms in the banking sector are primarily aimed at increasing the industry's scope and potential, as well as its capacity to play a developmental role in the economy. The fundamental goal of the changes is to provide a stable and efficient financial system. The reforms are intended to help the banking system gain the necessary resilience to support the nation's economic development by effectively performing its role as a fulcrum of financial intermediation. In Nigeria, erroneous perceptions and staunch opposition to the policy may influence prospective banking investors, as well as Nigerians' unwillingness to accept good developments in global dynamics. Despite their commendable accomplishments, the banking sector reforms encountered some challenges, including a misunderstanding of the reforms' intent, the introduction of a new banking model, and specialized banking (non-interest banking), which is intended to broaden the scope of financial services offered by Nigerian banks. Several studies on banking sector changes and their impact on economic development have been conducted. These investigations are still in their infancy. The study's goal is to look at the impact of banking sector reforms on Nigeria's economic growth in the global market from 1981 to 2020.

Literature Review

Conceptual Framework

Banking Sector Reforms in Nigeria

Okafor (2011) described reforms as a technique for achieving a desired change in a social or economic system, such as a shift from one normative course of action to another, in order to regulate the system's operations and operators and improve system performance. In Nigeria, the financial sub-capacity sector's to fulfill its function has been periodically hampered by its sensitivity to systemic hardship, macroeconomic instability, and the inevitability of policy fine tuning. Many emerging economies, including Nigeria, have adopted banking sector reforms, according to Sundararajan and Balino (2013). As a result, banking reforms focused on liberalizing banking activity, guaranteeing systemic competition and safety, and proactively preparing the industry to perform the job of intermediation and play a catalytic role in economic development. Banking changes have been ongoing for a long time. However, it has lately become more intense as a result of globalization pressures that are directing the integration of the world's financial markets and money. Broad money to GDP, currency outside bank as a percentage of broad money, interest rate spread, real interest rate, and gross sourcing as a ratio of GDP are all indicators of banking sector changes. Some studies have suggested that the Nigerian financial system has profited significantly from these changes, although the system is still in need of repair, according to Robinson (2012). The drive to reposition financial institutions to face the difficulties of a competitive global market was at the heart of Nigeria's banking sector reforms. Much as the Nigerian central bank attempted to build a seamless system capable of enthroning a stable monetary policy regime, the outcomes have necessitated more adjustments in order to meet the problems of the moment. In 2004, Prof. Chukwuma was appointed as the governor of the Nigerian Central Bank. He started the bank's consolidation process, which intended to ensure that the bank had a sound capital foundation. With 18 months' notice from the formal announcement of the banking reform policy on July 6th, 2004, the exercise raised the minimum capital requirement of banks from N2 billion to N25 billion. At the time, there were 89 banks. The most well-capitalized bank at the time had $526 million in capital. The sector was, nevertheless, highly concentrated, with the top ten banks owning half of all assets and deposits in the Nigerian banking system. As a consequence of the mergers and acquisitions, the capital basis of banks increased from N2 billion to a minimum of N25 billion, reducing the number of banks from 89 to 25 in 2005. In addition to the necessity for bank recapitalization, regulatory changes focused on the following:

1. Risk – focused and rule-based regulatory framework;
2. Zero tolerance in regulatory framework in data/information rendering/reporting and infractions;
3. Strict enforcement of corporate governance principles in banking;
4. Expeditious process for rendition of returns by banks and other financial institutions through e-FASS;
5. Revision and updating of relevant laws for effective corporate government and ensuring greater transparency and accountability in the implementation of banking laws and regulations;
6. Introduction of a flexible interest rate based framework that made the monetary policy rate the operating target.

As a result, it was able to keep large swings in interbank rates under control, promote orderly growth of the money market segment, payment system changes, and enable banks to be proactive in combating inflationary pressure. After succeeding Prof. Cukwuman Soludo in 2009, Mallam Sanusi Lamido Sanusi created a special joint committee of the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation to undertake a special examination of all 24 universal banks in Nigeria. The committee's conclusions identified inadequate corporate governance, operational indiscipline, and the global financial crisis as the primary reasons of the sector's fragility, and recommended more banking reforms to prevent the sector's ultimate collapse (Maurice, 2020). According to Chima, 2019 referenced in Maurice, (2020), there are significant indicators that the present Governor of the Central Bank of Nigeria, Mr. Godwin Emiefele, would stifle further financial reforms before the end of 2023. "...what we are trying to say is that recapitalization has weakened considerably, and it is time for us to say it is time for us to recapitalize Nigeria banks again," he was cited in the THIS DAY Newspaper on June 29, 2020. It is a policy thrust that will be considered at the committee of Governors meeting, and the framework for the recapitalization of Nigerian banks will, of course, be unveiled for everyone to see." This indicates that the financial system comprises all services that move actual resources to their ultimate user, rather than merely organizations that process payments and issue credit. The government wanted to build a dependable and efficient banking industry so that depositors' money would be secure.

Economic Growth and Financial Sectors

Economic growth is described by Mihaela (2012), as a metric based on the prices of information on gross domestic product calculated by nations' statistics agencies. A boost in a country's production capacity leads to economic growth. Ekpo (2015), believes that economic growth and GDP growth are insufficient for long-term development. Economic development entails more than just long-term growth; it also requires sharing, equity, and fairness. This implies that development must proceed in an automated or geometric manner. An economy is not developing if it takes one stride ahead and then two steps backward, resulting in an increase in poverty. All segments of a population must participate in development in order to raise everyone's standard of living.

According to Oluranke and Fatukasi (2012), the financial sector is critical to a country's overall growth. The most essential component, which acts as a channel for transferring cash from net servers to net borrowers, or from those who spend less than their incomes to those who spend more. Financial institutions have always been the country's primary source of long-term capital. These institutions offer a variety of financial products and services to cater to the diverse demands of the commercial sector. When considering the accumulation of capital in the form of investments that require technological innovation to function, in the sense of creating economies of scale and increasing production capacity capable of causing profound changes in the productive structure, Adel (2015) pointed out that when considering the accumulation of capital in the form of investments that require technological innovation to function, in the sense of creating economies of scale and increasing production capacity capable of causing profound changes in the productive structure, Adel (2015) pointed out that New enterprises, small and medium-sized businesses, and industries established in underdeveloped regions, on the other hand, benefit from the banking sector. They contribute to the reduction of regional disparities by promoting widespread industrial expansion. Unbalanced growth, in turn, releases driving forces, resulting in a cascade of inductive imbalances across an economy's different supply networks. Price stability, full employment, strong economic growth, and internal and external balances are often the aims of banking reforms. Nigeria's reforms have aimed to improve financial intermediation, financial stability, and system trust. The banking sector reforms are primarily aimed at increasing the industry's scope and potential, as well as its capacity to play a developmental role in the economy.

Global Market Competition

According to Levitt (1983), the decision on which home market to expand outside of the country is typically based on demand from foreign businesses, the capacity to fulfill that demand, or the ability to manufacture high-quality world-class products. In the same manner that Stoner, Freeman, and Gilbert (1999) view competitiveness as the new method of globalization, Stoner, Freeman, and Gilbert (1999) see politics, currency, local culture, accounting norms, tariff rate, corruption, and competition. They stated that establishing a presence in the global market requires careful consideration and time; firms progress through several phases of globalization as they gain greater contact and closeness to clients in other countries. Some African countries are moving quicker and taking more risky actions in their efforts to revitalize their banking sectors. Others, on the other hand, took their time in implementing financial operations.

Some African countries achieved success in national operations by developing market-based monetary policy, according to Mehran, Ugolini, Briffay, Iden, Lybek, Swaray, and Harward (1998). By 1997, the central bank had liberalized lending policy and interest rates in virtually all nations through open market operations. Still, primary market activity was primarily focused on trading government securities, interbank markets were minimal, and secondary markets, if they existed at all, were in their infancy. While some nations have made headway in liberalizing their financial systems in order to compete on a global scale, they have made considerably less progress in liberalizing capital account transactions. Evidence suggests that excessive liquidity in the economy, as measured by wide money (M2), narrow money (M1), and currency in circulation in Nigeria, is partially due to high cash transactions for economic activity, which has hampered efforts to attain price stability. Despite its potential for economic good and growth, as well as the global trend in the intensity of e-payment usage, the cashless policy has met with a lot of opposition.

Value creation, according to Goldberg and Pavcnik (2006), leads to effective worldwide company operations. It is both the bane and the backbone of international and local competitiveness. As a result of their ability to annex value to their products or services, nations such as Japan, the United States, and other developed countries have chosen a large share of the global market.

Empirical Review

Using annual time series data for 46 years, Okoi, Ocheni, and Orok (2019), investigated the impact of banking sector reforms on economic growth in Nigeria (1970-2015). Ex-post factor and desk research were used in the study's design. Other exogenous factors such as the exchange rate (EXR), bank capital base (BCAB), and corporate governance disclosure index (CGDI), as well as domestic product growth in Nigeria, were investigated to see if the model could effectively forecast economic development. The ARDL bound test indicated that these variables have a long-run connection. The coefficient of the Error Correction Mechanism (ECM) revealed that the speed of adjustment parameter was significant with a negative sign. The study ended by advising that deposit and lending rate policies be made more fair, since a narrower spread between savings and deposit rates affects effective financial intermediation. Finally, because corporate governance disclosure is viewed as an indicator of a company's openness index, firms should always provide all relevant information to external stakeholders. One major flaw with Okoi, et al (2019) that this study noticed was the data collection period (1970-2015), which does not include the period 2016-2019, which cannot be generalized and is grossly inadequate. This alone would not be sufficient and justifiable for a study of this magnitude, so it may be difficult to generalize these findings.

By fitting an ANOVA model into stepwise regression, Gidigbi (2017), assessed the influence of banking reforms on bank performance and economic development in Nigeria over the period 1981 to 2015. The results demonstrate that banking reforms contribute favorably to economic development, notably over the period 1999-2004, when dummy variables are used to isolate reform periods. Following the 1993 changes, it was discovered that banking reforms have a detrimental impact on bank performance. The research shows that banking sector reforms in Nigeria have a positive and negative influence on the economy. As a result, the report suggests that the apex bank test pre-crisis changes. The study of Gidigbi (2017) had a fundamental flaw, as discovered by the current study, in that the technique employed to gather data was not justified. The study used data from the Central Bank of Nigeria statistics bulletin for just two quantitative variables, one in each model. For a research of this size, this would not be adequate or justifiable on its own. As a result, generalizing these findings may be challenging. Most research look at the relationship between finance and economic growth. For example, Akinlo and Olufisayo (2011), used Johnson Cointegration to find favorable long-term and short-term correlations between banking sector reform and economic growth in Cameroon from 1970 to 2005. In the long and short run, the development of the banking sector causes economic growth, according to the findings. The rise of the banking industry has resulted in economic growth. Financial deepening, economic growth, and development were all investigated by Ndebbio (2014). Using an ordinary least square regression methodology, the study revealed that banking sector expansion had a minor impact on per-capital growth in selected Sub-Saharan African nations. The study ascribed the finding to a lack of well-functioning capital markets and shallow finance.

Theoretical Framework

Portfolio Theory of International Capital Flows

In 2006, Michael B. Devereux and Makoto Saito formulated this idea. It offered a tractable model of international capital flows in which the presence of nominal bonds and the portfolio composition of net foreign assets are critical in enabling cross-national capital movements. Domestic and foreign currency denominated bonds differ in their ability to hedge a country's unique consumption risk depending on the country's monetary policy.

As a result, countries' national bond portfolios have different compositions of currency denominated bonds. Countries can achieve an ideally hedged change in their net foreign assets (or current account) by changing their gross positions in each currency's bonds, enabling international capital movements. The major consequence of this thesis is that open, competitive, changing, and innovative banking policies will foster economic growth. Furthermore, the risk characteristics of optimum portfolios ensure that currency account movement is sustainable, as net debtor countries pay lower returns on their gross assets. This guarantees that wealth distribution between nations remains constant.

Research Methodology

The analysis relied on secondary data, with the data set coming from the CBN's annual statistics bulletin. The time-series data utilized in the research spanned the years 1981 to 2020. Because the research study incorporates data gathering from published work, exploratory survey research (ex-post factor research design) was employed.

Data Presentation and Analysis

Year	Credit Allocation to Private Sector[2] (CPS) (N' Billion)	Commercial Bank Loan& Advances	Lending Rate	Investment Rate	GDP
1981	8.57	8.58	10.00	12,215.00	15,258.00
1982	10.67	10.28	11.75	10,922.00	14,985.08
1983	11.67	11.09	11.50	8,135.00	13,849.73
1984	12.46	11.50	13.00	5,417.00	13,779.26
1985	13.07	12.17	11.75	5,573.00	14,953.91
1986	15.25	15.70	12.00	7,323.00	15,237.99
1987	21.08	17.53	19.20	10,661.10	15,263.93
1988	27.33	19.56	17.60	12,383.70	16,215.37
1989	30.40	22.01	24.60	18,414.10	17,294.68
1990	33.55	26.00	27.70	30,626.80	19,305.63
1991	41.35	31.31	20.80	35,423.90	19,199.06
1992	58.12	42.74	31.20	58,640.30	19,620.19
1993	127.12	65.67	36.09	80,948.10	19,927.99
1994	143.42	94.18	21.00	85,021.90	19,979.12
1995	180.00	144.57	20.79	114,476.30	20,353.20
1996	238.60	169.44	20.86	172,105.70	21,177.92
1997	316.21	385.55	23.32	205,553.20	21,789.10
1998	351.96	272.90	21.34	192,984.40	22,332.87
1999	431.17	322.76	27.19	175,735.80	22,449.41
2000	530.37	508.30	21.55	268,894.50	23,688.28
2001	764.96	796.16	21.34	371,897.90	25,267.54
2002	930.49	954.63	30.19	438,114.90	28,957.71
2003	1,096.54	1,210.03	22.88	429,230.00	31,709.45
2004	1,421.66	1,519.24	20.82	456,970.00	35,020.55
2005	1,838.39	1,976.71	19.49	468,980.00	37,474.95
2006	2,290.62	2,524.30	18.70	497,246.00	39,995.50
2007	3,668.66	4,813.49	18.36	501,571.60	42,922.41
2008	6,920.50	7,799.40	18.70	522,928.80	46,012.52
2009	9,102.05	8,912.14	22.62	560,835.30	49,856.10
2010	10,157.02	7,706.43	22.51	9,183,059.44	54,612.26
2011	10,660.07	7,312.73	22.42	8,425,762.15	57,511.04
2012	14,649.28	8,150.03	23.79	8,640,765.16	59,929.89
2013	15,751.84	10,005.59	24.69	9,320,347.19	63,218.72
2014	17,131.45	12,889.42	25.74	10,571,742.96	67,152.79
2015	18,675.47	13,086.20	26.71	10,432,227.75	69,023.93
2016	21,082.72	16,117.20	27.29	9,927,256.18	67,931.24
2017	22,092.04	15,740.59	30.68	9,631,696.14	68,490.98
2018	22,521.95	15,134.20	30.54	10,569,598.94	69,799.94
2019	24,922.94	17,187.77	30.72	11,815,129.06	71,387.83
2020	25,080.33	18,475.01	30.81	12,615,728.15	75,892.51

Source: Central Bank of Nigeria (CBN) Statistical Bulletin Vol 29, 2020

Unit Root Test

Table 2 Augmented Dickey-Fuller Unit Root Test

The Result of the unit root tests are presented in table 2

Table 2: Results of Unit Root Test

Variable	ADF Lags	ADF test statistics with constant but no linear trend	Critical Value for ADF at 95%	Order of Integration
D (BANKLOAN)	2	-4.365140	-2.941145	1
D (CREDIT ALLOCATION)	2	-3.650397	-2.941145	1
D (LENDING RATE)	2	-6.974057	-2.943427	1
D (INVESTMENT RATE)	2	-6.602777	-2.941145	1
D (GDP)	2	-6.008164	-2.943427	1

Table 2 shows that, with the exception of GDP, all variables have a stable trend in their first difference. Each's ADF test results are smaller than the absolute value, or 95 percent critical value. The Augmented Dickey-Fuller test statistic should be larger than the selected critical values if the variables are stationary. All variables, with the exception of GDP, are stationary at the first distinct level of differencing, as shown in table 2. However, after the first differencing, the levels of credit allocation to the private sector, commercial bank loans and advances, lending rate, and investment rate are all stable.

Co-Integration Test

Table 3: Johansen co-integration test Result

Date: 09/19/21 Time: 16:23
Sample (adjusted): 1983 2020
Included observations: 38 after adjustments
Trend assumption: Linear deterministic trend
Series: CREDITALLOCATION BANKLOAN LENDINGRATE INVESTMENTRATE GDP
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.815722	108.2572	69.81889	0.0000
At most 1	0.401216	43.98746	47.85613	0.1102
At most 2	0.358977	24.49900	29.79707	0.1801
At most 3	0.166116	7.600801	15.49471	0.5090
At most 4	0.018192	0.697666	3.841465	0.4036

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

The Johansen co-integration test is used to find co-integrating sectors utilizing unit root test residuals and ordinary least square (OLS) regression analysis. There are co-integration vectors in the non-stationary time series, according to the Johansen co-integration test result. However, the presence of co-integration suggests that the series have a stable long-run connection. There is also a stable long term equilibrium relationship between the variables, according to the Johansen co-integration test at a 5%

significance level (Gross Domestic Product, Credit Allocation to Private Sector, Commercial Bank Loan and Advances, Lending Rate and Investment Rate).

The hypothesis of any long-run equilibrium link between the variables was explored using Johansen co-integration approach in this study. In the long term, co-integrated factors will limit the relationship to equilibrium. In non-stationary time series, the Johansen technique uses maximum likelihood estimations to detect the presence of co-integrating vectors. The number of co-integrating vectors is determined by the trace and eigen value tests. This suggests that the variables have stable long-run equilibrium relationships.

Data Analysis and Result Interpretation
Attempts are generally undertaken in econometric analysis to find and establish existing relationships between the various economic variables included in the research. To this end, the research utilized descriptive analysis with Econometric perspectives (E-views 12).

Descriptive Analysis
Relationship between the variables tested by using Johansen co-integration methodology, Thus, by co-integrated variables, it will be constrained to equilibrium relationship in the long-run. The Johansen method applies the maximum likelihood estimations to determine the presence of co-integrating vectors in non-stationary time series. The trace test and eigen value test determine the number of co-integrating vectors. This implies stationary long-run equilibrium relationships between the variables.

Data Analysis and Interpretation of Result
In econometric analysis attempt is usually made in discovering and establishing existing relationship between the different economic variables involved in the analysis. To this effect, the paper used Econometric views (E-views 12) for descriptive analysis.

Descriptive Analysis

Fig. 1:

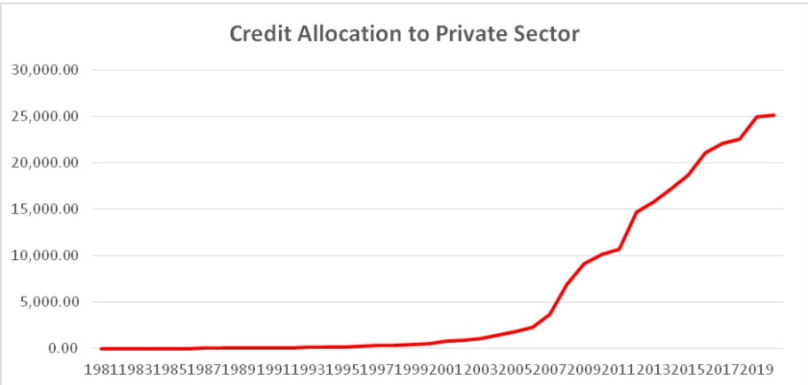


Fig. 2

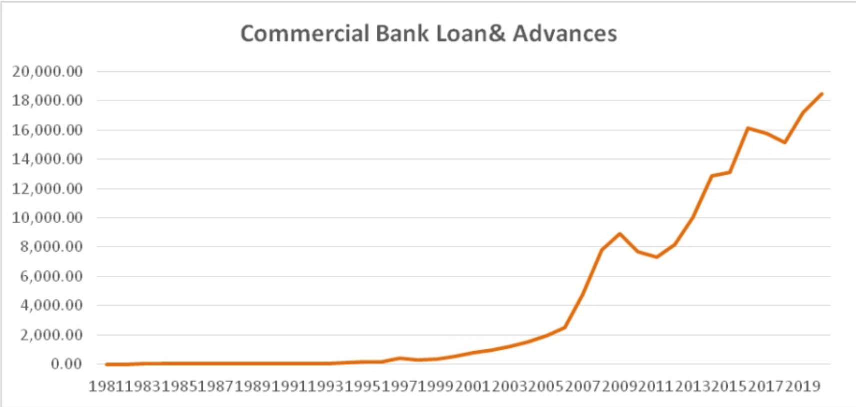


Fig. 3

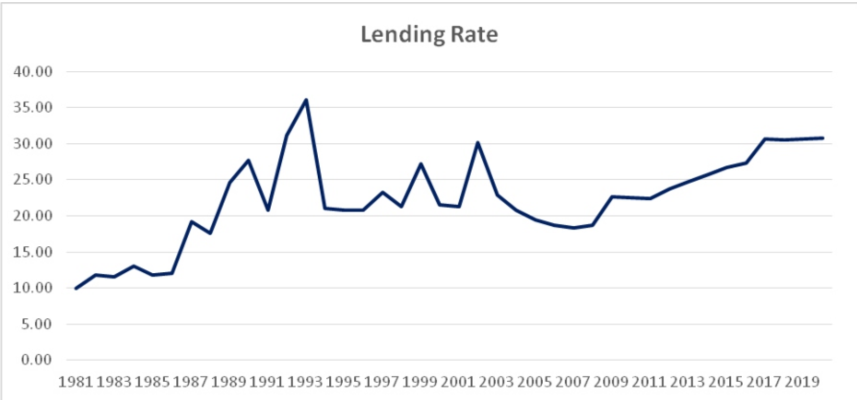


Fig. 4

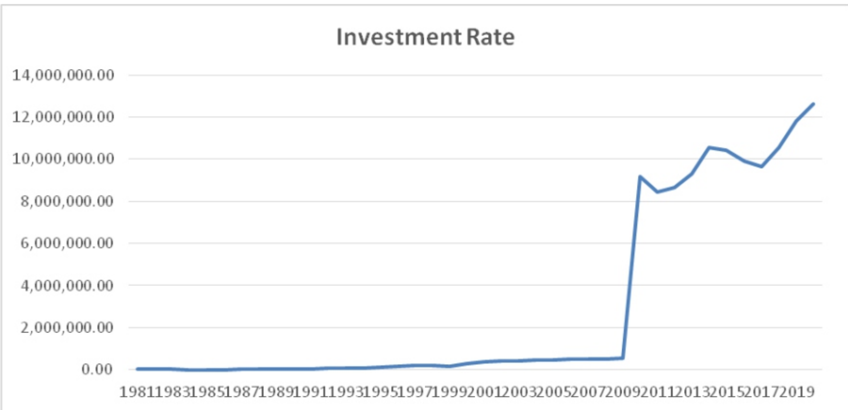
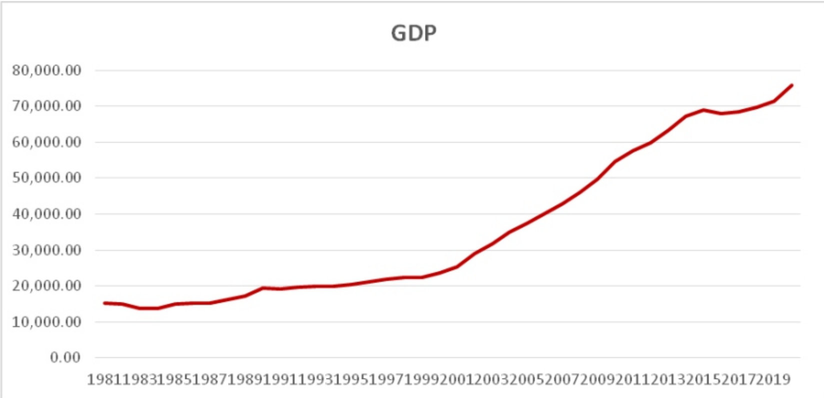


Fig. 5



Findings from Descriptive Analysis

From 1981 through 2006, credit allocation to the private sector remained static, before gradually increasing from 2007 to 2020. This indicates that the banking sector has aided the actual economy by providing loans to the private sector. It demonstrates the importance of credit to economic progress.

Commercial Bank Loans and Advances followed a steady rising trend from 1980 to 2002, then a moderate but erratic upward trend from 2003 to 2020. This demonstrates that in Nigeria, there is a strong link between banking sector changes and real sector funding, as measured by loans and advances.

From 1981 to 1983, the Lending Rate remained constant, and then began a steady and erratic increasing rise from 1983 to 1990. Between 1993 and 1994, the lending rate fell sharply, then fluctuated between 1994 and 2009, before returning to a somewhat consistent trend between 2011 and 2020. The rate of lending, on the other hand, was determined to be negligible, i.e., it has been volatile thus far, while credit given to the private sector has grown dramatically.

From 1981 through 2009, the Investment Rate remained constant. Between 2009 and 2010, there was a strong rising tendency, which then varied slightly between 2010 and 2020. This indicates that the banking sector is a key factor of economic progress.

From 1981 to 2015, the gross domestic product had a stable rising trend, and from 2016 to 2020, the gross domestic product had a steady upward trend. Despite the significant limitations imposed by government laws and other macroeconomic pressures.

Conclusion and Recommendations

The monetary authority should not rely too much on interest rates to stimulate growth in the banking sector and the real economy. A time gap between one reform era and the next should be allowed to allow for proper planning and policy consistency. By boosting bank lending and investment activity, a developed financial system alleviates growth finance restrictions, resulting in increased production.

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