Impact of Banking Sector Reforms on Economic Growth in Nigeria

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Abstract

The study empirically examined the impact of banking sector reforms on economic growth in Nigeria using the annual time series data for forty six years (1970-2015). The major objective of the study was to examine how banking sector reforms impact on economic growth in Nigeria. The design of the study was ex-post facto and desk research design. Data for the study were sourced from Central Bank of Nigeria (CBN) statistical bulletin and International Monetary Fund (IMF) journals. The study was based on Financial Repression Hypothesis (FRH) by Mckinnon and Shaw (1973). The data were analyzed using Johnansen cointegration test and Granger-causality test for the period 1970 – 2015. Autoregressive Distributive Lag (ARDL) test was adopted in the study. From the ARDL test results, it was found that interest rate spread (INRS) was correctly signed in the model and adequately predictive of economic growth indicator studied while other exogenous variables {exchange rate (EXR), bank capital base (BCAB) and corporate governance disclosure index (CGDI)} studied did not impact positively on gross domestic product growth in Nigeria. The ARDL bound test revealed the existence of a long-run relationship among these variables. The speed of adjustment parameter as indicated by the coefficient of the Error Correction Mechanism (ECM) was significant with appropriate negative sign. The study concluded by recommending that, the policy of deposit and lending rate should be made reasonable as smaller spread between savings and deposits rates influences efficient financial intermediation. Finally, since corporate governance disclosure is seen as an indicator of the company’s openness index, companies should always make full disclosure, thereby not withholding any relevant information to external stakeholders.
1. Background to the Study

Banks have, over the years, tried to respond to competition, systematic weaknesses, and macro-economic instability by engaging in quite a lot of survival strategies. The Nigerian financial system has undergone several years of reforms, designed to position Nigeria as Africa’s financial hub. These reforms have resulted to financial widening characterized by big and reliable banks, an efficient payments systems and improved financial inclusion in the economy. Usually, the major aims of such reforms are to produce a safe, sound, strong, reliable and diversified banking system that will provide sustainable financial development for economic growth and equally ensuring that Nigerian Deposit Money Banks (DMBs) perform dynamic roles in the regional, national and international financial system (Emefiele, 2014 & Soludo, 2004).

Reforms are inventions, fresh ways or schemes put in place to improve or change the old ways in which things were being done which are usually introduced either in response to changing developments, operational challenges or as proactive procedures both to strengthen the banking structure as well as avoid total crisis. Banking reforms therefore, is the totality of regulatory actions, policies or strategies, directives and incentives intended to ensure a diversified, strong and reliable banking system which will guarantee the safety of depositors’ money, perform dynamic developmental roles and become competent and competitive players within the economy. The various phases of reforms embarked upon in Nigerian banking sector were the un-guided liaise faire (1930-1959), the control or regulated era (1960-1985), the deregulated era (1986-1992), the re-regulated era (1993-1998), the banking consolidation (1999-2004), the banking reforms of 2009 and cashless policy of 2011 till date (Anyanwu, 2012). Therefore, reforms undertaken to achieve the following macro-economic goals; mobilization and expansion of savings, promotion of interest rates that enhances growth, laying the foundation for economic growth, engendering healthy competition in the provision of services; promotion of investment culture and improved regulatory and surveillance framework in Nigeria.

Consequent upon this, the research intends to bridge or fill the gap in economic literature and empirically determine the causal association between banking sector reforms and economic growth and whether banking reforms cause economic growth or banking reforms are a consequence of economic growth; which policy makers, economist, financial and development experts are yet to reach any consensus on this topical issue in Nigeria. In doing this, emphasis was laid on four basic banking reforms in Nigeria- interest rate reform, foreign exchange reform, recapitalization reform and corporate governance reform. This study is meant to cover selected reforms that have taken place in Nigeria, within the period of 1970 – 2015, both years inclusive in the analyses.

2. Statement of the Problem

In spite of sundry reforms implemented so far, the Nigerian banking sector has not been able to measure up to its expectations as the driver of economic growth and development. Apparently, there have been wide interest rate margins, undue reliance on foreign exchange and its attendant fluctuations, unsustainable and weak capital base, internal control infractions and managerial weaknesses resulting to inadequate disclosure of financial statements. There has been excessive reliance on foreign exchange market through revenue from petroleum products. These have caused continuous fluctuations in exchange rate in the economy. Many of the banks conducted only limited lending to certain preferred sectors while engaging predominantly in more lucrative short-term illegal arbitrage foreign exchange “round-tripping” activities. Moreover, the banking system has undergone through several recapitalization with small or negligible impact to meet the challenges posed by liquidity, technical insolvency and operational crises as well as lack of public confidence in the system.
3. Objectives of the Study
The general objective of the study is to examine the impact of banking sector reforms on economic growth in Nigeria. The specific objectives are to:

i. Determine the relationship between interest rate spread and economic growth in Nigeria;
ii. Analyze the effect of exchange rate on economic growth of Nigeria;
iii. Assess the effect of banks’ capital base or size on the growth of the Nigerian economy;
iv. Determine the relationship between corporate governance disclosure index and gross domestic product growth rate in Nigeria;

The theory upon which this study shall be based principally is the McKinnon (1973) and Shaw (1973) financial repression hypothesis, which holds that financial development correlates with economic development and growth if authorities were not to interfere in the operation of financial institutions. Also, banks have great influence on growth and development in a developing economy. Financial repression as defined by Fry (1988), is an indiscriminate distortion of financial prices, including interest rates and foreign exchange rates which reduces the real rates of growth and the real size of the financial system relative to non-financial magnitudes. Financial repression arises primarily when a country imposes ceilings on nominal deposit and lending interest rates at a low level in relation to inflation (Nzotta, 2009). Informed by the McKinnon-Shaw banking intermediation theory, the Central Bank of Nigeria (CBN) believes that the efficient functioning of a nation’s economy depends on the strength of its financial system (CBN, 2009). Although there exists an extensive body of literature on the link between financial sector development and economic growth, there is no consensus on the effect of explanatory variables on economic growth (Levine, 1999 & Fadare, 2010).

• Relevance of McKinnon-Shaw hypothesis to the Study:
In their analysis (also referred to as complementarity hypothesis), they concluded that alleviating financial restrictions by allowing market forces to determine the real interest rates rise toward their competitive market equilibrium. This means that artificial ceilings on interest rates reduce savings, capital accumulation and discourage the efficient allocation of resources. In the views of the duo, market forces and financial liberalisation could bring an optimum financial structure and development as well as efficient mobilisation of savings and credit allocation. The analyses also concluded that greater ease of entry into the banking sector encourages competition. This promotes the prospects for higher savings, investment supply of real credit and thus the potential for financial deepening.

4.1. Review of Empirical Literature
Banking reforms have been an ongoing phenomenon around the globe right from the 1980s, but it is more intensified in recent times because of the effect of globalization. Apparently, the major constraints to successful financial reforms in Nigeria are, inconsistency in policy mix, inappropriate sequencing, inadequate regulation and supervision. Though, from the historical antecedents, the major ailment of the sector have been identified as maladapted banking system culture. That is, its institutional structure, culture, orientation and modes of operation of the main actors are mainly of foreign transplanted type, not appropriately adapted and oriented to suit local structural peculiarities, as well as being, not made relevant to the developmental needs of the economy concerned (Ojo, 2010).

The Nigerian financial system is one of the biggest in Sub-Saharan Africa (SSA), consisting of banking and non-banking financial institutions. Banks are ordinarily catalytic and developmental institutions, for a developing economy like ours (Okoi and Stephen, 2014). In the banking institutions, we have twenty one (21) deposit money banks, over eight hundred and eighty four (884) micro finance banks, the agricultural and rural development banks, bank of industry, urban development bank, sixty four (64) licensed finance companies, about forty two (42) primary mortgage institutions, over one hundred insurance companies, five (5) discount houses, various pension administrations and custodian
organizations and over two thousand five hundred and twenty (2,520) bureau de change by end of 2014 (Olowe, 2008 in Ibor, 2016). However, deposit money banks dominated the financial sector accounting for 93 per cent and represents the major form of financial savings.

Adjei-Frimpong (2014), evaluated the efficiency of the banking industry in Ghana over the period 2001–2010 using the data envelopment analysis. The study investigated the impact of size, capitalization, loan loss provision, inflation rate and GDP growth rate on Ghana’s bank efficiency using both static and dynamic panel data models. The static model was estimated by the fixed effects estimator whereas the dynamic model was estimated by the two step system GMM estimator. The results of the study suggested that Ghanaian banks are inefficient. The study further revealed that well-capitalized banks in Ghana were less cost efficient. In addition, bank size has no influence on bank cost efficiency suggesting that larger banks in Ghana had no cost advantages over their smaller counterparts. The findings also exhibited that loan loss provision ratio has no effect on bank efficiency in Ghana. The study revealed further that GDP growth rate negatively influenced bank cost efficiency and that lagged cost efficiency tended to persist from year to year.

Xuezhi and Benson (2013), examined the role of financial development and economic growth in Tanzania. They reported on evidence from savings and credits cooperative societies in Tanzania. The statistical tools employed were Newey-West standard errors regression model and Wald Granger causality tests analysis. The findings showed that there was a strong positive association between the financial services and the economic growth, and also there was two-way Granger causality between them. In addition, it was discovered that savings were more important in fostering economic growth as compared to credits/loans. The findings further revealed that Savings and Credits Cooperative Societies (SACCoS) facilitate economic development in Tanzania and therefore should be promoted with more emphasis on the savings objective.

Ojong et al (2014), focused also on “banking reforms in Nigeria: a regulatory imperative for sustainable banking industry”. The study revealed among other things that, many Nigerian banks were under-capitalized prior to the 2004 banking sector reforms, and this has accounted for their poor performance in terms of, low liquidity, low returns on investment, lack of sustainability and low productivity. The study added that enormous bad debts profile or poor asset quality has a negative impact to bank performance and was statistically significant. There was a positive and significant effect between interest rate and bank performance. However, capital and interest rate contributed positively to the growth of Nigerian banks, and the economy. The study strongly recommended that strict implementation of the risk-focused and rule-based regulatory framework by the regulators; which would reduce the high prevalence of huge bad debts profile of banks, and subsequently improve the assets quality of banks for better performance in the economy.

Udofia (2010), carried out a review of study that focused on the perspective of banking sector reforms in Nigeria, its pitfalls and the stability of the banking system between 1970 and 2008. The study used both descriptive statistics and some econometric models. The study quipped that the results from the implementation of the reforms were disappointing, as the reforms never impacted positively on the stability of the economy for the period under review. However, the study added that even though there was an increase in financial resources mobilized by banks in nominal terms during the reformed eras, there was no improvement in the quality and efficiency of financial services that were provided by banks in the period under review. The study attributed the huge deterioration in the health of the banking sector to faulty premises of the reforms, wrong sequencing of reforms, frequent reversals and policy summersaults by the regulatory and supervisory authorities and the clear lack of will by the government to sustain the tempo of these reforms. The study therefore, recommended that the basic structural weakness of the banking sector such as corporate governance of banks and the state of non-performing assets of banks should be critically addressed before embarking on any further banking reforms. The study added that the main four areas of potential conflict between the Central Bank of Nigeria and the government, namely, interest rate policy, deficit financing, credit policies and the management of substandard banks should be streamlined in order to create a conducive atmosphere for a robust banking reform in the future.
5. Model Specification

The choice of this model is premised on financial repression hypothesis of Mckinnon-Shaw (1973) and the reason that (Olajide, Asaolu and Jegede, 2011; Essien, 2012 and Abubakar, 2013) conducted a similar work on financial appraisal of the Nigerian financial sector and market and came out with good results. Hence, the present model is modified after their models. The model of the relationship, between banking sector reforms variables and economic growth determinant was established on the basis of the equation:

\[ GDP_g = f(\text{INTRS, EXR, BCAB, CGDI}) \]  

(1)

The function can also be represented in a linear econometric format thus:

\[ GDP_{gt} = b_0 + b_1 \text{INTR}_t + b_2 \text{EXR}_t + b_3 \text{BCAB}_t + b_4 \text{CGDI}_t + U_t \] ...

(2)

On a priori, \( b_1, b_2, b_3, b_4 > 0 \), where

\( GDP_{gt} = \) Gross domestic product growth rate at a time, \( t \), proxied by \( GDP_{\text{current yr}} \) Minus \( GDP_{\text{preceding yr}} \) for economic growth

\( \text{INTR}_t = \) Difference between deposit and lending rate. Interest rate spread, at a time, \( t \). This measures the transaction cost and efficiency within the banking sector

\( \text{EXR}_t = \) Exchange rate at a time, \( t \). It measures volatility or movement in exchange rate and a proxy for instability in the economy.

\( \text{CGDI}_t = \) Corporate governance disclosure index. This is the disclosure made by deposit money banks, at a time, \( t \). It measures the extent to which information flows internally and externally in the banking sector.

\( \text{BCAB}_t = \) the capital base of banks at a time, \( t \). It measures the recapitalization of banks.

5.1 Estimation Technique

In view of the dynamic nature of the study, the unrestricted standard Autoregressive Distributive Lag (ARDL) analytical technique was adopted on the bases of which the relationship between the stated variables was determined.

**ARDL short run dynamics result**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2.411043</td>
<td>2.219940</td>
<td>1.086085</td>
<td>0.2898</td>
</tr>
<tr>
<td>D(EXR)</td>
<td>0.031906</td>
<td>0.117995</td>
<td>0.270399</td>
<td>0.7895</td>
</tr>
<tr>
<td>D(EXR(-1))</td>
<td>0.328035</td>
<td>0.140467</td>
<td>2.335324</td>
<td>0.0295**</td>
</tr>
<tr>
<td>D(INRS)</td>
<td>-0.886247</td>
<td>0.521939</td>
<td>-1.697990</td>
<td>0.1043</td>
</tr>
<tr>
<td>D(INRS(-1))</td>
<td>-0.315884</td>
<td>0.517124</td>
<td>-0.610847</td>
<td>0.5479</td>
</tr>
<tr>
<td>D(BCAB)</td>
<td>-0.000260</td>
<td>0.001093</td>
<td>-0.238323</td>
<td>0.8139</td>
</tr>
<tr>
<td>D(BCAB(-1))</td>
<td>-0.000249</td>
<td>0.002177</td>
<td>-0.114597</td>
<td>0.9099</td>
</tr>
<tr>
<td>D(CGDI)</td>
<td>-1.757538</td>
<td>0.497773</td>
<td>-3.530805</td>
<td>0.0020*</td>
</tr>
<tr>
<td>D(CGDI(-1))</td>
<td>0.157871</td>
<td>0.346942</td>
<td>0.455036</td>
<td>0.6538</td>
</tr>
<tr>
<td>ECM(-1)</td>
<td>-0.381638</td>
<td>0.094942</td>
<td>-3.738035</td>
<td>0.0068*</td>
</tr>
</tbody>
</table>

R-squared: 0.772789  | Mean dependent var: 0.155806
Adjusted R-squared: 0.646841  | S.D. dependent var: 9.281127
S.E. of regression: 8.054600  | Akaike info criterion: 7.266060
Sum squared resid: 1362.408  | Schwarz criterion: 7.728637
Log likelihood: -102.6239  | Hannan-Quinn criter.: 7.416849
F-statistic: 9.092471  | Durbin-Watson stat: 2.164243
Prob(F-statistic): 0.000053*  | Source: Result from E-views 9.5

Key: * Significant at 1%
** Significant at 5%
ARDL short run test
6. Discussion of Findings

From the estimated model and test of hypotheses, the nexus between banking sector reforms and economic growth was established. The study used the data for these variables extracted from literature, and employed (after testing its stability) Autoregressive distributive lag (ARDL) bound test to deliver on its objective without spuriousness. The Gross Domestic Product Growth Rate (GDPGR) was used as proxy for economic growth in the model equation. The study empirically examined the impact of banking sector reforms on economic growth in Nigeria. The study focused on four (4) banking reforms in Nigeria; viz: interest rate reform, foreign exchange reform, recapitalization reform and corporate governance reform.

The results of the ARDL short-run dynamics as presented in Table 4.1 above. Moreover, with the presence of the long run relationship from the ARDL bound test and cointegration, the ARDL short run dynamics test was conducted to attempt to correct the existing disequilibrium position in the short run. The error correction (ECM) factor has a negative sign and statistically significant as theoretically expected. The coefficient of the error correction factor showed that about 38 per cent of the short-run disequilibrium has been corrected each year. ECM showed the weak speed of adjustment to equilibrium. It could also be interpreted as only 38 per cent of the disturbance/disequilibrium converge back to the long run equilibrium. This is rather a below-average speed of adjustment from short-run disequilibrium to long-run equilibrium. In the same vein, the ARDL short run test revealed that, there was a negative link between interest rate spread and gross domestic product growth rate. Though, interest rate was rightly signed, it was found to be insignificant. The interest rate spread or margin which was expected to get smaller as more efficient banking practices are pursued sequel to increasing competition continued to increase to double digit figures which had militated against borrowing capacity. A maximum interest rate spread ought to be less than ten (10) or single digit. In the analysis, it was established that Interest Rate Spread (INRS) is negative and conforms to economy theory, implying that coefficient of INRS is statistically insignificant at 5 per cent level. This supports the theory of Mckinnon (1973) and Shaw (1973) that a well-developed banking sector is measured by the efficiency of the spread between deposit rate and lending rate. This further supports the work of Obamuji and Olorufemi, 2011; Iganiga, 2010 and Fadare, 2010 that the behaviour of interest rates is important for economic growth in view of the empirical relationship between investment growth and interest rates. INRS is one of the macroeconomic variables that is a good estimator for efficiency in the banking sector as it describes transactions cost within the sector. Interest rate spread became narrower before the structural adjustment programme that created an enabling environment for interest rate on financial assets to adjust competitively.

The negative value of interest rate spread for the period under review is capable of facilitating the capability of banks to organize deposits and allocates credit efficiently based on interest rate policy which is key determinant of the volume of deposits and level of investment in developing countries like Nigeria. As one of the key elements of reforms is liberalization of interest rate - this was found strong though insignificant in motivating development in the financial sector and growth of the economy despite all effort by monetary authorities to allow a market driven economy. The interest rate spread (INRS) has militated against bank’s role in financial development. This has further discouraged creditors of funds particularly investors to borrow for economic activities.

The result also showed a positive and significant relationship between exchange rate (EXR) in the previous lagged period and gross domestic product growth rate. Exchange rate was expected to be negatively signed. Exchange rate was expected to negatively influence the gross domestic product growth (GDPGR) or economic growth rate in Nigeria. The value of exchange rate fluctuation has a positive sign that is not in line with economic theoretical expectation. Although, some scholars are of the opinion that exchange rate is indeterminate in terms of theoretical underpinnings. The coefficient of exchange rate fluctuation is statistically significant at 5 per cent level, from which it is said that a rise in exchange rate will lead to an increase in the gross domestic product growth rate in Nigeria, all things being equal. The result further supports the study by Inam and Umobong (2016) whose study revealed the existence of a positive and significant relationship between exchange rate and economic growth in
It is also explained by the position of Osundina et al (2016) that exchange rate accelerates economic growth. This is because importers, exporters, manufactures and other investors will take an advantage of this, and hence, will boast economic activities within the country. Hence, the result was inconsistent with Ojo (2010) who also made similar findings on reforms and economic development in Nigeria.

The result further implies that when exchange rates increases (depreciates) output growth or gross domestic product growth rate increases. This could also be termed currency depreciation which means that a currency depreciates when under floating rates, it becomes less expensive in terms of foreign currencies. This could be as a result of the fact that foreign exchange reform may have witnessed several policy reversals and modifications to date which were not favourable to the economy within the period under review. This could also be as a result of implementation of financial liberalization which abolished all direct controls on exchange rate policy within the period under review. This is in tune with the findings of Ebiringa & Duruibe (2015) who found a positive relationship between exchange rate and economic growth. As at the time of writing this dissertation, the economy of Nigeria was badly hit in the year, 2015; exchange rate fluctuated between N193 - N198 per dollar. Of course, Nigeria as a country has suffered a shocking downturn in 2015 due to insufficient supply of foreign exchange occasioned among other factors by sharp decline in the global price of oil. The steady fall in the price of crude oil and the corresponding decline in the supply of foreign exchange resulted to depreciation of naira against US dollars given that Nigerian economy was dependent on crude oil. The inadequate supply of foreign exchange (dollar) and increase in the demand for dollar caused the official rate of a dollar to reach 198 naira in the official market and 280 naira at the parallel market as at December, 2015. This has further made the volume of importation of goods very expensive as well as medical trips, scholarship abroad within the period under review.

The coefficient of banks’ capital base is incorrectly signed and is statistically insignificant at 5 per cent level. Moreover, it is not in line with theoretical expectation. This supports the findings of Udofia (2010), Ojong et al (2014) and Azeeze and Oke (2012) who argued that the implementation of the reforms were disappointing as the reforms never impacted positively on the stability of the economy. In the same vein, Bernard & Obiafor (2014) findings conforms with the present study, that bank capitalization has no significant effect on profitability and asset quality of banks. The recapitalistion reform studied is in tandem with Essien (2011) who also supported the view that despite the myraids of reforms carried out in Nigeria they were not still large enough to promote growth of the economy within the financial sector. In addition, from the literature reviewed, some banks never gave a proper position of their accounting books, thereby not allowing full disclosure of records. As such some banks were window dressed. In another development, the result of bank recapitalization showed a negative and insignificant relationship with gross domestic product growth rate. That is an increase in bank capital base will lead to a decrease in the output growth of the economy, and vice-versa. This could be the reason why Nigerian banks capital base are always reviewed upward. Another reason could be that financial reforms did not follow a due process of implementing a successful reform as noted by Udofia (2010) in his study. This could be due to profit maximization drives of Nigerian banks that had a counterproductive effect on bank capitalization. In addition, recapitalization of banks in Nigeria could also be a mirage for banks to be allowed to operate as a result of inadequate information disclosure. It is on record that of all the reforms agenda, the issue of increasing shareholder fund to ₦25 billion with a regulatory option to mergers and acquisitions, and the need to comply before 31st December, 2005 generated so much controversy among stakeholders. The policy resulted to a noticeable rate of increase in the capital base of banks. It is surprising that empirical test has confirmed that bank recapitalization has not lived up to its expectations in Nigeria. This could be another reason why ten (10) banks out of twenty four (24) banks that emerged from the consolidation exercise were declared technically insolvent in the year 2009. The then Central Bank (CBN) Governor Mallam Sanusi, sacked the board of five banks and had to inject 629 billion in form of loans to assist the banks bounced back (CBN, 2009). Moreover, most corporate companies in Nigeria have always window
dressed their financial reports showing the company is making profit and “healthy” thereby concealing outrageous malpractices in the company, the banks cannot be different.

Finally, the analysis showed that there was a negative but significant relationship between corporate governance disclosure index and economic growth within the period under review. This result has refuted the study of Uwuigbe (2011) who discovered a positive and significant nexus between level of corporate governance disclosure and performance of deposit money banks in Nigeria. It is interesting to note that the code of best practices for public and private companies in Nigeria was effective 2005 when the institute of directors of Nigeria set up a center for corporate governance to champion the cause of good corporate governance amongst its members. Though, Uwuigbe (2011)’s scope of work was from 2006 – 2012 where the code of corporate governance for banks was effective. This could be the reason why corporate governance disclosure was positively related to the performance of banks in Nigeria within the period under review. In the same vein, the level of corporate governance disclosure index (CGDI) revealed a negative and statistically significant at 5 per cent level effect on economic growth. This can be interpreted to mean that the CGDI would definitely produce a mixed impact on economic growth rate, but the extent of impact might not be reliable.

The R-square of 77 per cent and the adjusted R-square of 65 per cent showed that the model had a good fit as these levels of the total variations in economic growth rate were respectively explained by changes in the explanatory (banking reforms) variables. The F-statistic values are within the acceptable bounds it was significant and indicated that the model is fine for policy analysis prediction of the economic relationships in the short and long-runs. The significance of the F-statistic at 5 per cent level showed that the change was not due to chance and therefore could be attributed to policy shifts in the banking reforms.

6.1. Policy Implications

The analysis of this study showed that interest rate spread, exchange rate, banks’ capital base and corporate governance disclosure index had a significant impact on economic growth in Nigeria as they are good determinants of banking reforms. Policy must, in the future conform with the empirical deductions of McKinnon-Shaw (1973) that, financial development is positively related to economic growth; hence the findings of the study revealed that only interest rate spread conformed to empirical deductions of McKinnon and Shaw (1973). Therefore, this would require that other variables (e.g. banks’ capital base, exchange rate and corporate governance disclosure index) are monitored by regulatory agencies in ensuring that they do not generate a negative correlation between bank reforms and economic growth. Besides that, interest rate spread was a good measure of financial efficiency and transaction cost. Moreover, other variables (e.g. exchange rate, banks’ capital base and corporate governance) that exhibited a negative relationship with economic growth should be targeted and desirable as policy measures by the monetary and regulatory agencies as noted by Udofia (2010). In addition, institutional authorities in Nigeria should be able to place priority to correct pace and sequencing in banking reforms undertaken in any given period.

Summary of Findings

The main thrust of this study was to examine the impact of banking sector reforms on economic growth in Nigeria using the annual data points for forty six (46) years. Consequently, the following major findings were made:

i. The result of the findings revealed that one of the variables (INRS) captured in the model is correctly signed. Interest rate spread (INRS) conformed to apriori expectation. Therefore, INRS validates the general agreement that a well-functioning financial intermediation stimulates economic growth.

ii. There was a positive and significant relationship between exchange rate and gross domestic product growth rate in Nigeria with negligible impact on the economy.
iii. The results have shown that banks’ capital base had a negative and insignificant impact on economic growth. This could be the reason why Nigerian banks’ capital base are always reviewed upward.

iv. Empirical results revealed that there exist a negative but significant relationship between corporate governance disclosure index and gross domestic product growth rate in Nigeria.

v. The Autoregressive Distributive Lag (ARDL) bound test revealed the existence of a long-run relationship among the variables. The short-run ARDL test result showed that the spread of adjustment in ARDL error correction factor had a negative sign and statistically significant as theoretically expected. The coefficient of the error factor showed that about 38 per cent of the short-run disequilibrium has been assumed to have been corrected each year. This is rather below-average speed of adjustment from short-run disequilibrium to long-run equilibrium.

vi. Obviously, the analysis showed that bank reforms account for a very high proportion of the variation in economic growth. This aligns with the intermediation paradigm of Mckinnon-Shaw 1973 which holds that financial development correlates with economic growth.

7. Recommendations
Based on the above findings, the following recommendations were advanced:

(i) Interest rate policy should be made to stimulate savings through the implementation of reasonable real deposit rates. The policy of lending rate should also be made reasonable in order to encourage seekers of funds to borrow for production activities. A smaller spread between savings rate and deposit rate influence efficient financial intermediation services that subsequently promotes economic growth.

(ii) Since exchange rate policy or movements have serious implications for economic growth in Nigeria, it is absolutely imperative that government formulate and implement an appropriate mix of fiscal and monetary policies that will not only ensure a realistic and stable exchange rate but will also guarantee a rate that encourages local production that will boast economic growth in Nigeria.

(iii) The monetary authorities should maintain and review the capitalization upward from time to time in line with economic dictates of the country in order to sustain the tempo of revival and stability in the banking sector. Monetary authorities should use banks recapitalization as strategies for expanding the economic roles of banks for the entire economy with adequate sequential timing.

(iv) Corporate governance disclosure index is seen as an indicator of the company’s openness index. Banks should therefore not withhold any relevant information to the external stakeholders. In view of the very sensitive nature of certain information, corporate disclosure should however be guided by the need and the right to know the basic principles of corporate governance. Regulatory agencies could adopt a system such as the corporate governance rating system (CGRS) to monitor and encourage compliance.

References


