

Bank Reform And Economic Growth In Nigeria

Mbaeri C.C.

Banking And Finance Department
Imo State Polytechnic Umuagwo

ADIOHA N.F

Accountancy Department
Imo State
Polytechnic Umuagwo

UZOKWE NNAMDI J.

Banking And Finance. Imo State
Polytechnic Umuagwo

Abstract

This paper examines bank sector reform and its effect on economic growth in Nigeria. The author ex-rays recent bank reform measures by the monetary authority, central Bank of Nigeria Annual report and National Bureau of statistics. The use of regression analysis was engaged on to determine the relationship between gross domestic product and Bank reform and the findings reveals that Bank reform improves economic growth in Nigeria. He further recommended that credit to private sector should be mentored for proper implementation.

Key words. *Bank reform, economic growth, Regression, Private sector, domestic product.*

1.1 Introduction

Banking system is one of the most regulated industries in Nigeria. It plays a fundamental role in the economic growth of the country. The effectiveness and efficiency in performing these roles depend on the soundness of the sector. The nature of growth and the efficiency of the system affects the growth of the economy.

Generally, economic growth has been considered very important in the sustenance of an economy. For an economy to grow there should be a reliable payment system because it acts as a conduct that influence financial, monetary and price stability.

Experience has shown that inadequate reform leads to unsound banking system, weakens efficient credit allocation, distorts the structure of interest rate, disrupt monetary policy, impose significant financial cost, with adverse consequence on the stabilization of the economy. Where the majority of banks are weak and unhealthy, that will impair the ability of the industry to lubricate economic growth.

1.2 Objective Of The Study

Economic growth has been an important issue in any economic policy looking at the goal it will achieve. The industry over the years has experience a lot of restructuring focusing specifically on strengthening the system. Some reforms are geared towards expansion of aggregate domestic output, price stability, monetary and financial stability etc. The capacity of the banks to achieve .growth in an economy depends on the financial health, soundness and viability of the banks. Against this background,

the aim of the work is to examine the extent to which the bank reforms have helped to stimulate economic growth in Nigeria.

1.3 Review Of Related Literature

Before 1952 there were lack of regulation in the banking sector and that resulted in several bank failure. Uzoaga (1981) opined that between 1974 and 1952 Nigeria experienced a rapid expansion of indigenous banking companies and this rapid expansion was also accompanied by a high rate of bank failures which by 1954 had claimed 21 out of 25 indigenous banks. The rate of bank failure led to enactment of 1952 banking ordinance. This does not add much filling to the system because there was no central Bank in place to act as a lender of last resort or to effectively supervise the existing bank. In 1958 the Central Bank Act 1958 was established, which lead to the establishment of central Bank of Nigeria to control an act as a lender of last resort to commercial banks. By 1969, the banking Act of 1969 was enacted. According to Nnadi and Akpomi (2008). The 1969 banking decree required all banks to be locally incorporated and to publish their balance sheet on their Nigerian banking business only.

There are also other regulations which are aimed at stabilizing the indigenous banks for their long-term existence and committing the foreign bank more into the country's economic improvement." According to Beck, Cull and Jerome (2005), "In the 1970's, the Nigeria authorities introduced an array of direct controls in the banking system through ownership, as well as through interest rate and credit controls. The Nigerian Enterprises promotion Decree was promulgated in 1972 to restrict foreign ownership of Nigerian business to a maximum of 60%. In 1976, an amendment to the decree was promulgated to further restrict foreign ownership of Nigerian business to 40% with the enactment of the Nigerian enterprises promotion decree, the federal Government was able to acquire 60% equity ownerships of all foreign banks. Fadare (2010).

According to Fadare, up until the early part of the 1980's, the Nigerian economy had been almost entirely predicted on foreign exchange receipt from oil exports as a catalyst for economic growth. Since the first oil price stock in 1974, oil has annually produced over 90 percent of Nigerian's export incomes. The oil glut and subsequent oil price collapse of the 1980's however showed that there was a desperate need to reform the economy.

Ncema (2003) quoted by Fadare opine that the adoption of the IMF led structural adjustment programme in 1986, which included a broad programme of financial liberalization of interest rates and entry into the banking system liberalization, did not provide any significant improvement in Nigeria's key economic indicators as gross domestic product (GDP), at 1980 constant prices declined by 14.3% ie from 7.5% in 1988 to 6.5% at the end of 1989 while the inflation rate increased from 34% in 1988 to 50.5% at the end of 1989. He maintained that in order to improve the situation the country allowed the establishment of foreign banks in 1990. This resulted in an increase in the number of banks from 106 to 155 by the end of 1997. In 1997, a central Bank of Nigeria directive lifted the restrictions on equity ownership of individual and corporate investors in Nigerian banks. Under the new directive, it was possible for an individual or corporation to own 100% of the share capital of a bank, while for companies the limit was 30%. However, due to the distress that plagued many of these banks, the number of banks declined to 89 at the end of 1998 as the federal government liquidated twenty-seven ailing Banks. By 1999 Nigeria faced some problems, GDP decline by 27.4%, high domestic and external debt Burden, declining growth, rising unemployment, Crowding out of the private sector, heavy re-enhance of crude oil revenues and inflation. The CBN introduced low interest rate regime in order to support the real sector of the economy. There, were effort to narrow the gap between savings and lending rates, price and exchange rate stability. Further reforms were introduced in 2004? Banks were required to increase their share holders funds to 25 billion before December 2005, banks who could not meet the requirement were seen merging with others losing their licenses. These reduced the number of deposit money banks in Nigeria from 89 to 25. According to Tadere (2010) "In the process of meeting the new capital requirements, banks raised the equivalent

of about US \$ 3 billion from the domestic capital market and attracted about \$ 652 million of FDI in Nigerian banking sector." In 2006, the CBN in the bid to bring the interest rate down to single digits replaced the minimum Rediscount Rate (MRR) with the Monetary Policy Rate (MPR) to trading in the inter-bank money and to influence the level and market. Between August and December 2009, the CBN injected the equivalent of US \$ 4.1 billion into 10 Nigerian banks adjusted to be facing grave liquidity crisis, sacked 8 bank CEOs, introduced a plethora of regulations and took other direct actions deemed necessary in other to safeguard the banking sector from systematic collapse and to ensure the stability and soundness of Nigerian's banking sector Fadere (2010).

Furthermore, the CBN gave different capital bases for different banks according to the size of their operations. This, as planned should allow a variety of banks to operate in Nigerian and create banks that would serve different market segments, such as small and medium sized enterprises and to phase out the "one size fits, all" requirement by September 2011. Commercial bank was splitted into three; international Bank got a capital base of N50 billion, National Banks N25billion and Regional Banks ₦10 billion. Merchant bank got a minimum capital requirement of ₦10 billion while specialized banks got a capital base of N5 billion (www. Central bank.org).

1.4 RECENT BANK REFORM IN NIGERIA

The recent bank sector reform measures are:

1.4.1 Establishment of the Nigeria Deposit Insurance Corporation (NDIC).

Deposit Insurance Corporations are established to protect the banking system against possible bank run; that can cripple the financial intermediation process, disrupt. The payment system, and have severe macro-economic effects. Ebhodaghe (1997) posit that the establishment of NDIC was formed by economic circumstance under the structural Adjustment Programme (SAP), especially policies relating to banks shareholders. Support and because of the bitter experience of previous bank failures in Nigeria and the lesson of other countries with bank deposit scheme.

1.4.2 Introduction of Prudential Guidelines in 1990.

The prudential guidelines issued by CBN in November, 1990 were aimed at ensuring a stable, safe and sound banking system. It is meant to serve as a guide to banks to:

- i. Ensure a more prudent approach in their credit portfolios classification, provision for non performance facilities, credit portfolio disclosure and interest accrual on non-performing assets.
- ii. Ensure uniformity of their approach in (i) above and ensure the reliability of published accounting information and operation.

The objective of this guideline are to protect the interest of depositors and financial system and efficiency of the system.

1.4.3 Promulgation Of The CBM Act No.24 of 1991 and the Banks and other Financial Institutions Act (BOFIA) No 25 of 1991.

These act replaced the CBN act of 1959 and the banking Decree of 1969. The Act enlarged the powers of CBN with respect to the maintenance of monetary stability and sound financial structure, granted autonomy to CBN in the formulation and implementation of monetary and financial policies.

1.4.4 Universal Banking Programme

The universal banking was adopted in the year 2001 by the Central Bank of Nigeria. The policy abrogates the classification of banks by the nature of their business. It meant a phenomenon whereby a financial institution especially banks, perform array of functions and render services not to be inhabited by their nature. The main feature is the breaking down of barriers separating the different sectors of the financial service industry so that it allows financial institution to offer integrated services.

1.4.5 Bank Recapitalization/Consolidation

This reform agenda was based on two requirement; to increase the shareholders funds to a minimum of ₦25 billion by the end of December 2005 and consolidation through merger and Acquisition. This leads to the sieving of viable from non viable bank which lead to 25 banks emerging from the 89 banks previously in existence.

1.5. Methodology

The study adopts data collection of collaborative study in a field survey of different write up on reforms in the banking industry. Data also was collected through the Central Bank of Nigeria and National Bureau of statistics. The study is based on the null hypothesis that there are no relationship between the Gross domestic product and Credit to private sector, money supply. Bank Asset base.

$GDP = F(MS, CPs, AB).$

1.6 Data Presentation And Analysis

YEAR	GDP (Y)	MONEY SUPPLY (XI)	CREDIT TO PRIVATE SECTOR (X2)	ASSET BASE (X3)
2000	4582127.3	878457.27	530373.30	1568838.7
2001	4725086.0	1269321-61	764961.52	2247039.9
2002	6912381 3	1508172 91		2766880 3
2003	8487031.6	1952922.28	1096535.57	3047856.3
2004	11411066.9	2131820.08	1421664,03	3753277.8
2005	14572239.1	2637913.73	1838389.93	4515117.6
2006	18564594.7	3799538.05	2290619.76	7172932.1
2007	20657317.7	5138700.94	3680090.19	10981693.6
2008	24296329.3	8029088.61	6941383.41	15919559.8
2009	24794238.7	9456480.93	9147417.17	17522858.2
2010	29205983.0	11034940.93	10157021.18	17331559.0

Source: CBN Annual report and National Bureau of Statistics

**REGRESSION
Variables Entered/Removed**

Model	Variables Entered	Variables Removed	Method
1	X3,x2,x1 ^a		Enter

- a. All requested variables entered

Model Summary

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	.985 ^a	.970	.957	1.81446E6

a. Predictors: (constant), x3, x2,x1

ANOVA

Model		Sum of Mean	df	Mean Square	f	Sig
X	Regression	7.399E14	3	2.466E14	74.912	.000 ³
2	Residual	2.305E13	7	3.292E12	74.912	
Total						

- a. Predictors: (constant), x3,x2,x1
- b. Dependent Variable: Y

Coefficient

Model		Un standardized Coefficients		Standard coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	101437.858	1410185.595		.719	495 .
	XI	7.407	2.060	3.039	3.596	009
	X2	-5.618 .	1.536	-2.277	-3.657 .	.008
	X3	239	.559	.174	427	.682

- a. Dependent Variable: Y

1.7 ANALYSIS: F-Tabulated = 74.912

The relationship parameters are: Coefficient of correlation (R) = 98.5%, coefficient of determination (R²) = 97.0%, Adjusted R square=95.7%. The above imply that 97.0% of the variation in Gross Domestic product is being explained by variation in Money Supply, Credit Sector and Asset Base. This is a very strong relationship. The relationship model is given as:

$$Y = 1014037.858 + 7.407x_1 - 5.618x_2 + 0.239x_3$$

The significance of the above model is tested by way of F- test and t-test.

F calculated = 74.912 and F tabulated= 4.53. This shows that there is a significant relationship between bank reform and economic growth.

1.8 Conclusion And Recommendation

The paper has reviewed the effectiveness of the bank sector reform to enhance economic growth in Nigeria. Bank reform in one way or the other has helped in restructuring and strengthening the banking system and that has resulted to economic growth. Based on the findings and analysis of the result the researcher concludes that bank reforms have helped to stimulate economic growth in Nigeria.

Finally, the researcher recommends that credit to private sector should be monitored so that the credit is not channeled to unpreferred sector of the economy.

References

- Adams J.A (2005) "Banking Sector Reforms: The policy Challenges of Bank Consolidation in Nigeria. A paper presented at the 46th Nigerian Economic Society (NES) Annual Conferences Lagos 23rd-25th August.
- Adyemi K.S (2009) Banking Sector Consolidation in Nigeria: Issues and Challenges, www.businessayeNigeria.com
- Akintola B (2012) CBN and its Nostalgic Foray of Reforms www.businessavenigeria.com
- Balogun .E.D (2007) a Review of Soludo's Perspective of Banking Sector Reforms in Nigeria, University of Lagos, Nigeria.
- Bank and other Financial Institution Act (BOFIA)No 25 of 1991 Central Bank of Nigeria Act, No 24 1991.
- Beck. I, Cull R, and Jerome A (2005) Bank Privatization and Performance: Empirical Evidence from Nigeria, Journal of Banking and Finance, Servier, vol. 29 <http://center.kuls.nl/staff/beck/publications/market/performanceNigeria.pdf>
- CBN Publication and Statistics (2010).
- Central Bank of Nigeria Act, 1958, 1969,1988, 1991.
- Ebhodaghe J.U (1997) Deposit Insurance: The Nigerian Experience and Future Perspective. Paper presented at seminar on issues in central Banking and Bank Distress in sub Saharan African Countries, at CBN Training Centre Lagos.
- Fadare S.O 920100 Recent Banking Sector Reforms and Economic Growth in Nigeria research Candidate, Department of Economics, Middlesex University, London
- Iganiga B.O (2010) Evaluation of the Nigerian Financial Sector Reform Using Behavioural models, J. Economics, 65-75.
- Mbaeri C.C (2013) Fundamentals of Money and Banking, Mega Atlas Project

Ltd Owerri.

Oboh G.A.B (2005) Selected Essay on Contemporary Issues in the Nigeria Banking System Ibadan University Press PLC.

Sanusi L.S (2010) Global Financial Meltdown and the Reforms in the Nigerian Banking Industry, Public Lecture delivered at the Convocation square, Abubakar Tafawa University Bauchi.

Uzoaga W.O (1981) Money and Banking in Nigeria, Fourth dimension Publisher, Enugu.

AUTHORS PROFILE.

1. MBAERI C.C.

Mbaeri C.C is a senior lecturer in the Department of Banking and Finance, Imo State Polytechnic Umuagwu, Imo State, Nigeria. He holds B.SC. in Banking and Finance, M.SC. Financial management technology.

2. ADIOHA NDUBUISI F.

Adioha N.F is a lecturer in the Department of Accountancy and also the Dean of the School of Management Technology Imo State Polytechnic Umuagwu, Imo State, Nigeria. He holds the following degrees: HND, PGD, MBA (ACCOUNTING) ACA, ACTI.

3. UZOKWE NNAMDI J.

Uzokwe N. J. is lecturer in the Department of Banking and Finance, Imo State Polytechnic Umuagwo, Imo State, Nigeria. He holds B.SC. In Economics, M.SC Economics and PGD Education