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EFFECTS OF FINANCIAL REFORMS ON EFFICIENCY OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT:

Financial reforms were meant to remove the intrinsic limitation and disintegration of the financial system, and strengthening the key financial intermediation and deepening which propel banks for structural and financial efficiency. This study is then intended at empirically investigate how financial restructuring and financial intermediation influence the efficiency of Deposit Money Banks (DMBs) in Nigeria. Ten deposit money banks were surveyed which constitute the old and new generations in Nigerian banking industry. Secondary data were collected and analysis was done with the use of SPSS. The study is both qualitative and quantitative in nature. In the hypothesis formulated graphical illustration was used to measure bank performance, The finding reveals that there were key financial deepening indices affecting structure-conduct-efficiency of monetary policy target of DMBs between 2001-2018 in Nigeria. The result concluded that financial deepening indices should not be separate from financial reforms so as to facilitate the flow of funds for private sector development and generates increased savings, investment, and efficient allocation of capital for banks. It is hereby recommended that unethical practices like debt refinancing should be avoided by banks so that macroeconomic variables which include controllable and uncontrollable factors, such as financial deepening/M2 effect, Illiquidity could be well managed,

KEYWORDS:

FINANCIAL DEEPENING RESTRUCTURING INTERMEDIATION EFFICIENCY.

INTRODUCTION

Financial sector reforms and attendant policy prescriptions are age long phenomena. They characterize the various transformation and policy adjustments and overhaul that are directed at the art, practice and activities of financial institutions and markets overtime in response to normal need for operational improvement and development of both the institutions and the general financial system. They could be inner or outer in nature, reflecting critical cum broad amendments, reformation, and/or additions to the presented body of laws, guiding principle and policies (Chinedu and Muoghalu, 2004). The financial reforms focus on additional liberalization of banking business ensuring opposition and protection of the scheme and proactively positioning the industry to carry out the function of intermediation and playing a catalytic function in economic growth.

Financial reform involves numerous elements that are exceptional to each country based on historical, economic and institutional importance. In most cases, bank reforms are to prevent banking crises or lessen the effects of a recent crisis. Banking sector reforms have come into play due to banks failure to meet up to necessary responsibility or please their stakeholders which eventually have led to ensuing failures and crises. A banking crisis can be activated by limitation in banking structure characterized by constant illiquidity, liquidation, undercapitalization, high level of non-performing loans. Financial reform is meant to significantly advance the banking infrastructure, reinforce the regulatory loans and weak business governance, among others (Adegbaju and Olokoyo, 2008). Banking reform also include the supervisory structure, and address the subject of weakened capital and provision of structured finance through different programs, so as to provide cheap credit to the real sector, and financial accommodation for Small and Medium-Scale Enterprises (SME) (Anyanwu, 2010).

Generally, the reforms were anchored on four cardinal pillars, namely, enhancing the quality of banks, establishing financial firmness, enabling healthy financial sector progression, and ensuring that the financial sector has a say to the real economy. Following the fourth phase of the change which began in 2004, banks were combined through mergers and acquisition, raising the capital base from ₦2 billion (about US$15 million) to a least of ₦25 billion (about US$190 million), which decreased the number of banks to 25 from 89 in 2005 and later to 24 at the end of December 2007 with the merging of Stanbic Bank Plc and IBTC Bank to form Stanbic IBTC Bank Plc. The cumulative capital of the consolidated banks rose by 439.4 per cent between 2003 and 2009, while deposit level rose by 241.8 per cent. However, by August 2009 it was found that the banks were not stable after all as up till now envisioned in the case of merging of Access bank Plc and Diamond Bank Plc in 2020. The Central Bank of Nigeria (CBN) intervened again supposedly to save the banking industry from imminent collapse. Five Banks were recognized for salvage as a consequence of capital inadequacy, high risk assets, poor corporate governance tending towards Chief Executive Officers(CEOs) corruption; erosion of shareholders fund, high liquidity ratio and credit crises. Whereas the twenty-five (25) banks that passed the recapitalization test were affirmed sound in 2005, by 2006, ten (10) were declared sound, five (5) satisfactory, five (5) as marginal and five (5) unsound (CBN, 2006).

The other mechanism of the modern banking sector reforms in Nigeria, according to (Sanusi, 2012), include the approval of risk focused and rule-based regulatory structure; adoption of zero acceptance in regulatory structure in data/information rendition/reporting and infractions; firm enforcement of corporate governance ideology in banking; expeditious procedure for rendition of returns by banks and other financial institutions through electronic Financial Analysis Surveillance System (e-FASS); revision and updating of relevant laws for effective corporate governance; and ensuring greater transparency and accountability in the implementation of banking laws and regulation (Sanusi, 2012). Beyond the need to recapitalize the banks, the reforms focused on ensuring dependence on public sector for funds, but somewhat relying on the private sector. These problems, according to Sanusi (2012), led to a new set of reforms, whose cardinal pillars encompassed: enhancing the quality of banks, establishing financial stability, enabling healthy financial sector evolution, and ensuring that the financial sector put in to the real economy. The Central Bank of Nigeria (CBN) equally articulated a blueprint known as “The Project Alpha Initiative” for reforming the Nigerian financial system in general and the banking sector in particular following the 2008 global banking crisis. Therefore, reforms were meant to remove the intrinsic limitation and disintegration of the financial system, include the various ad-hoc and piecemeal reforms and let loose the huge potential of the economy.

This study is then intended at empirically analyzing how financial restructuring influence the efficiency of Deposit Money Banks (DMBs) in Nig

Financial reform can be as a result of the use of credit reduction which aimed at tightening the standards of financial institution that is evidenced in the United State of America in 2007 due to deteriorating balance sheet of which Nigerian Deposit Money Banks is not an exception. Since then, Nigerian banking system has critically been entangled in financial crisis due to a lot of stress, doubt and nervousness. In addition, financial institutions stopped lending and recalled their credit lines to ensure capital adequacy (Aluko, 2009). Before the consolidation exercise in 2005, the banks find it exhausting to carry out their constitutional functions in the Nigerian economy. As a result of this it eroded the confidence of the general public, local and foreign investors which were the huge asset in the entire Nigerian banking industry (NDIC, 2018). Even the Nigerian Stock Market (NSM), which is supposed to function as fund buffer, was not left out of the financial crisis. In addition, investor’s and depositor’s funds were not insured, thus making many of the Deposit Money Banks (DMBs) to come under pressure due to capital insufficiency. These problems really weaken the efficiency of the bank’s assets as non-performing assets became huge burdens on many of the banks which necessitated need for bank reform

In view of the above problems, the following research questions were investigated to create a conclusive report.

i. To what extent does financial deepening indices affect the conduct of DMBs in Nigeria.

The objectives is to

i. critically examine if financial deepening indices affect prime lending rate of DMBs in Nigeria

Two hypotheses formulated for the study were stated in the null form below

2: There is no critical effect of financial deepening on the conduct of DMBs in Nigeria

LITERATURE REVIEW

EFFICIENCY OF NIGERIAN BANKS AND THEIR LIQUID CAPITAL BASE

In 1952, the bank ordinance fixed the minimum capital prerequisite for commercial banks as: indigenous banks at #25,000 and expatriate banks at #200,000. These were increased to cater for the increasing banking activities and capital sufficiency of banks in 1958 as indigenous banks (#500,000) and expatriate banks (#400,000). The new capital; levels were meant to develop the system and forestall the bank collapse which was prominent in the late 1940s and 19early 50s. It was also to prevent banks under capitalization. However, in 1962, the minimum capital base for the indigenous banks was further increased by CBN to #600000 while that of expatriate banks was still #400000. After the founding of the Central Bank of Nigeria in 1958 and Nigerian independence in 1960, the environment was cleared up for full operations of Nigerian banks. However, following the banking acts of 1969, a new capital base for expatriate bank was raised to #1,500,000 from the preceding #400,000 fixed in 1962. From the late 1970s the least amount capital base for banks began to hover in millions. For instance, it was #10 million from 1977 to 1988 but increased to #20 million in 1989 and #50 million in 1992. At the same time, the capital base for merchant banks was #2 million in 1979. This was augmented to #6 million in 1985 and #12 million in 1989. By 1997, a uniform #500 million capital base was initiated to permit a level playing field for both types of banks. The 1990s is very significant in the Nigerian banking industry. The Nigerian banking industry expanded due to the financial deregulation and liberalization of the industry but the 1990s was also marked with many distress in the sector because of the abuses and sharp practices in the system.

Furthermore, in 2000, the minimum capital was moved to

#1 billion for new banks while the existing banks were likely to meet this level by December 2002. #2 billion minimum paid up capital was initiated for new banks in 2001. By June 2004, the CBN introduced #25 billion as capital base for banks in Nigeria because the previous #2 billion bank capital requirement became grossly inadequate to meet the emerging domestic and global realities in the new financial system.

The decisive actions of the central bank of Nigeria with reverence to non-performing loans that compromised the health of several banks in the operation in Nigerian during the reform of 2009-2011 with the purchase of the defensive loans by the Asset Management Corporation of Nigeria (AMCON) and subset recapitalization of the troubled banks, taken along with the response of all the banks to the reforms, have brought the industry to a new state of health and platform for new prosperity. Some of the measures in the recent banking reform in Nigeria included:

i. The replacement of managing/executive directors of eight (8) of the banks that were identified as the source of instability of the system.

ii. Establishment and commencement of operation by the Asset Management Corporation of Nigeria (AMCON)

iii. Injection of N620 billion as liquidity support for the insolvent/ailing banks

iv. Purchasing non-performing loans and advances from the banks, and thus reduced the ratio of non-performing to gross loans and advances in the industry from 32% in December 2009 to 15.5% in December 2010.

v. Embarked on the recapitalization of technically insolvent banks

Revised code of corporate governance, which led to the exit of the managing Director/Chief Executive Officer (MD/CEO) that had spent ten years and above in that capacity. This affected the CEO's of Skye Bank, United Bank for Africa and Zenith Bank

vi. Bank structure consolidation and uniform accounting year-end,

vii. New banking model, comprising commercial, merchant an d specialized banks

viii. New prudential guidelines were introduced

ix. Criminal prosecution of errant top management of the technically insolvent banks;

x. Growth of a supervisory framework to provide an early warning signal on troubled banks

xi. Compulsory adoption of international financial reporting standard (IFRS) by 1st January 2012;

xii. Memorandum of understanding on cross-border supervision of bank engaged in cross-border banking;

xiii. Guidelines issued for institutions offering non-interest financial services

xiv. Take-over in September 2011 of three troubled banks that had difficulty of recapitalization.

THE NEXUS BETWEEN FINANCIAL DEEPENING AND FINANCIAL REFORMS ON DMBS' EFFICIENCY

A lot of the studies reviewed could not critically links financial reforms and financial deepening parameters influencing the efficiency of banks while others did not examine detailed analysis of connection between liquidity management and banks' performance, and financial deepening intermediation. Also, limited empirical study using critical ratios on the appraisal of the connection between financial deepening and financial reforms on the efficiency of Nigerian banking, particularly in 2001 and beyond. It was observed that most previous works are cross sectional in nature. Hence, a limited number of longitudinal research are observed.

Finally, going through previous studies, such as Appah and John (2011), Sulaimon *et al* (2011), Owolabi and Ogunlalu (2013) Kaur (2010), Jimmy (2008), Emeri *et al.,* (2014), Elumilade (2010), and Ikeora *et al.*(2016), etc. It was observed that they all made use of ROA; hence, few studies of banking sector restructuring using Return on Investment (ROI) was observed. This study therefore posed to prevail over these challenges by using Prime Lending Rate (PLR) Deposit Mobilization Rate(DMR) and ROI as a measure of DMBs efficiency in Nigeria.

CONCEPTUAL FRAMEWORK: FINANCIAL REFORMS AND FINANCIAL DEEPENING INTERMEDIATION BANKS' EFFICIENCY

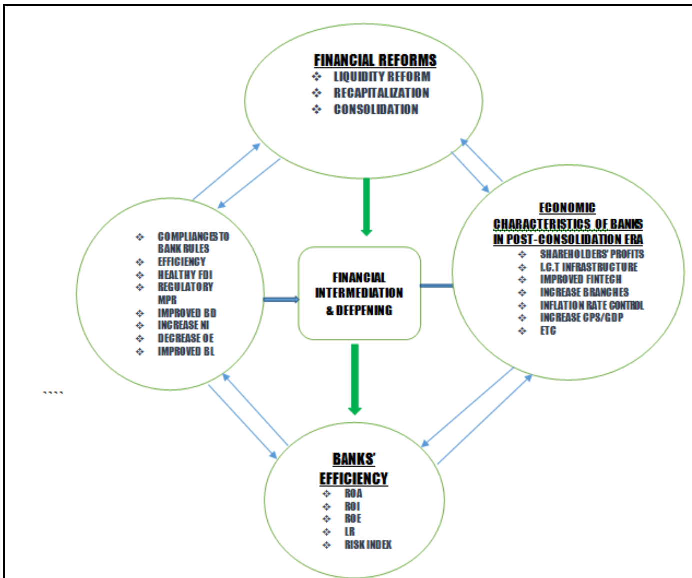

FIGURE 1: RESEARCHER'S CONCEPTUAL MODEL, 2022

The graphical representation in figure 1 presents idea of the reforms in the banking sector. The arrow-head line from the bank reforms hits banks' efficiency and vice-versa. This implies that either of the two can warrant each other, that is, financial reform can be embarked on because of the propensity to economic development or because the banks want to witness economic characteristics after consolidations. Volumes of literature buttressed the fact that the causality between banking restructuring or financial performance and economic characteristics is bi-directional. More so, some of the pronounced targeted restructuring in the banking sector are the items in the box next to the bank reform box in the diagram at the left-hand corner. Simply, as it applies to deposit money banks (DMBs) during the phases of financial, monetary and foreign exchange reforms in Nigeria.

The aim of which is to make possible financial intermediation and deepening, as Chong and Chan (2011) rightly opined from their analysis of Geweke (1984), financial deepening promotes economic development, and simultaneously, economic growth propels banks financial performance. Likewise, the duo asserted that financial deepening contributes more to the causal connection in the developing countries than in the industrial countries. Financial intermediation serves as channels to allocate savings, utilizing of efficient resource of market liberation, increase real sector credit allocation and control inflation rate. Many researchers as cited in Chong and Chan (2011) harmoniously agreed that financial restructuring and Banks' performance is based on the ability of financial intermediaries to correct market failure emanating from informational problems, production externalities the role of banking sector policies and stock market capitalization. The results of which would subsequently translate to raise in shareholders' profits, improved I.C.T infrastructure & FinTech Services, increase the number of bank's branches and improved credit to private sectors and gross domestic product of current market price all of which improved banks' performance. Despite the fact that the number of commercial banks in the country has reduced drastically, the sector could retain reasonable asset values and have stability in credit extensions, ultimately, facilitating its role of financial intermediation as bank deposit (BD) level improved, banks' loan (BL) increases, net income (NI) increase and overall banks performance increases in ROA, ROI, ROE and the lending rate (LR).

THEORETICAL REVIEW

THEORY OF FINANCIAL DEEPENING INTERMEDIATION

The theory regarding financial intermediation was developed in 1960 by Gurley and Shaw (1960). The modern of financial intermediation analyzes, mostly, the functions of financial intermediation, the way in which the financial intermediation pressure the economy on the whole and the effect of government policies on the financial intermediaries. Financial intermediation is the mobilization of funds from the surplus spending units at a cost or lending such funds to the deficit spending units at a price both within and outside the shore of the country (Kazeem, 2013). Furthermore, the process performed by bank of taking in funds and the lending them out to a borrower. The banking business flourish on the financial intermediation capabilities of financial institutions that permit them to level out money of moderately high rates of interest while receiving money on deposit at moderately low rates of interest. The financial intermediation theory highlights the role of financial intermediaries in economy. Most of the studies performed emphasize their role in achieving a strong economic development, and the force of regulations on financial intermediation, accentuating the role of the central bank in the regulation, supervision and control of financial intermediaries.

Financial intermediaries are financial institution focused in the activities of buying and selling (at the same time) assets and financial contracts; [1]. As their name suggest, financial intermediaries mediate between the providers and users of financial capital [2]. The transfer of funds from agencies with surplus to agencies with deficit through financial intermediaries is also called financial intermediation. See figure 2 below

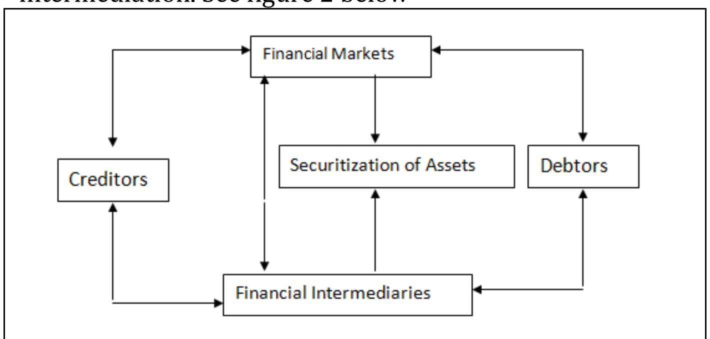

FIG 2.: PROCESSES OF FINANCIAL INTERMEDIATION

Source: Adapted From Anjan, 2010.

The analysis of financial institutions that achieve financial deepening intermediation can be made from two prospective: as firms or as intermediaries.

EMPIRICAL REVIEW

Many studies on the association between Liquidity Management and bank performance provided mixed proof and many failed to show a clear association between Liquidity management variables and performance of DMBs in Nigeria. Many researchers (Joshua, 2010; Olagunju and Obademi, 2012; Onikoyi, 2010 and Omah, Okolie and Durowoju, 2013; Cabral *et al*. (2002), Carletti *et al.* (2012) agreed that banking organizations considerably enhanced their profit efficiency ranking after consolidation and they agreed that consolidation has helped Nigerian banks to wax stronger.

Olagunju *et al.,* (2011) examined liquidity management and commercial banks' profitability in Nigeria. Findings of this study indicate that there is important connection between liquidity and profitability. That means productivity in commercial banks is considerably influenced by liquidity and vice versa. Also, Liquidity management is inversely related to the performance of banks (Bassey and Moses, 2015). A liquidity management crisis was evident in Global financial crisis of 2007–2008 this was the worst financial crisis raising fundamental questions about liquidity management (Basel Committee on Banking Supervision, 2013). During the crisis banks all over the world were hit hardest by liquidity management pressures cutting back sharply (Basel Committee on banking supervision, 2013). The indicators of poor liquidity management are a fall in asset prices, inadequate debt and low marketability of assets (Saunders and Cornett, 2005). Many DMBs as a result face the challenge of reduced productivity (Molefe and Muzindutsi, 2016).

Fagge (2019), studied the stability of technical al locative and cost efficiency of deposit money banks in Nigeria. Over the period of 2010-2017 using non-parametric, data envelopment analysis (DEA) techniques. Amongst others, the results recommended reasonable stability between cost and technical efficiency and higher al locative efficiency scores rankings. Based on these findings, the paper concluded that the efficiency levels of the banking sector comparatively strong, implying that as financial deepening enhanced, the sector's ability to finance real activity grew stronger, further improving banking habits and the efficiency of intermediation. However, technical inefficiency was the major source of inefficiency, which calls for managerial growth in order to scale up the efficiency levels.

Lucky and Bruno (2018), studies the effect of financial reforms on banking sector efficiency in Nigeria from 1986-2016. The purpose of the study is to assess the degree to which exchange rate, (EXCH), interest rate (INT) and liquidity (LQT) have affected the effectiveness of banking operations in Nigeria. The dependent variable in measuring banking sector effectiveness is proxy by Nonperforming Loan (NPL). The OLS regression was adopted for test of the three hypotheses formulated. The findings show that financial restructuring targets have considerably affected banking sector effectiveness in Nigeria in the long run. The study suggests that the regulatory and supervisory structure should be strengthened while interest rate policy should be made to stimulate savings through high real deposit rate and lending rate so as to promote financial deepening and thus banking efficiency.

METHODOLOGY

The study centres on financial reforms and bank performance assessment of Nigerian deposit money banks in the pre and post consolidation era (2001-2018). The liquidity crisis dealt heavily on Nigerian banks because of over reliance on shareholders' equity as a veritable source of financing the consolidation exercise. Most of the banks if not all banks participated in Initial Public Offers (IPO's) and suddenly a crash of the stock market completely repressed the value of investor's funds. The result was a weak balance sheet for most banks and failure to meet up their financial obligations with depositors. Hence the need to assess the efficiency of Deposit Money Banks before and after these major financial reforms especially on the area financial deepening and intermediation.

There are various research designs, but the one adopted for the study is descriptive research design. This research design offers the study a profile of described relevant aspects of financial reforms variables of interest from performance-oriented perspective of deposit money banks. Therefore, this research design enabled the study to gather data from a wide range of secondary data in Nigerian banking industry. And this helped in analyzing time-series data obtained on how it affects the deposit money banks' performance. The design share features of panel data approach of secondary longitudinal data gathered from the record of the banks which gives a better perspective of the banking industry over the 18 years period of time and makes better judgment possible. With panel data the researcher can include variables at different levels of analysis (i.e financial indices) suitable for multilevel or hierarchical modelling. In this case many banks are observed at different time intervals to create a panel of banks..

The dataset for this research spans a period of 18 years, from 2001 to 2018. The research is divided into two time frames. In the first case, there are five banks which began operation on or before 1980 namely First Bank of Nigeria PLC, Union Bank of Nigeria PLC, United bank for Africa PLC, Sterling Bank PLC and Wema Bank of Nigeria PLC. These banks survived the financial crisis in the economy between 2001 and 2018 that constitute a dataset for the estimation of model. The whole data used to estimate all the bank exact variables identified for this research was obtained from the annual reports of the various banks and NDIC report. However, the data for macroeconomic variables is obtained from Central Bank's statistical bulletin for the various years. A major assumption is that the financial year of all the sampled banks run from January through December.

This study identified two-in-one aggregation or study groups These are all Deposit Money Banks(DMBs) in Nigeria, target at both old and new generations., particularly those that have benefited at one time or another from the financial sector reforms and services in Nigeria.

SAMPLE SIZE AND SAMPLING TECHNIQUE

The study adopted both purposive and simple random sampling for the selection of banks that pass the recapitalization test out of 89 banks in Nigeria. The purposive sampling is conducted to reject individual banks that do not pass recapitalization test. Cochran's sample size formula was used to calculate the study sample size. Hence, simple proportion was used to decide the sample size needed for Deposit Money Banks in Nigeria and as illustrated in the breakdown below:

Where;

$$p = 20DMBs = number of pass banks$$
$$q = 69DMBs = number of failed banks$$

$p = \frac{20}{89}x100\%$; $q = \frac{69}{89}x100\%$

p= 22.5% (Proportion of Deposit Money Banks that passes the recapitalization test)

q= 77.5% (Proportion of Deposit Money Banks that failed the recapitalization test)

e = margin error as a proportion, 0.05 at 95% confidence level and; $z^2 = 3.84$

Relying on Cochran's correction formula (1977), the sample size for this study is 10 deposit money banks as shown in the calculation below:

$$n_0 = \frac{n}{1 + \frac{n-1}{89p}}$$
$$n_0 = \frac{20}{1 + \frac{20-1}{89x0.225}}$$
$$n_0 = \frac{20}{1 + \frac{19}{20}}$$
$$n_0 = \frac{20}{1.95}$$
$$n_0 = 10 \text{ banks}$$

This means that 10 Deposit Money Banks (DMBs) in Nigeria is enough for the study using simple random sampling based on stratification of the generation of being old and new in the banking industry in Nigeria. Therefore, this study target the ten (10) listed banks according the years of generation as shown in the table 1 below:

SN	Old Generation Banks	Year Founded	SN	New Generation Banks	Year Founded
1.	First Bank plc	1894	6.	Zenith Bank plc	1990
2.	Union Bank plc	1917	7.	Guaranty Trust Bank plc	1990
3.	Wema Bank plc	1945	8.	Access Bank plc	1989
4.	UBA plc	1949	9.	Stanbic IBTC Bank	1989
5.	Sterling Bank plc	1960	10.	Fidelity Bank plc	1988

Source: CBN Statistical Bulletin, 2020

JUSTIFICATION FOR SELECTING THE ABOVE LISTED DEPOSIT MONEY BANKS.

I. With the recapitalization exercise completed in 2012, the ten (10) selected banks were among 20 banks, ranked by their assets holding of 53% in the Nigerian banking sector total assets and 20% GDP increase in deposit from household hereby raise customer confidence in the banking sector and thus to some extent increase banking efficiency.

II. At the end of December 2005, the ten (10) selected banks were among 25 banks that first met the required minimum shareholders fund of N25 billion

III. None of the selected banks were among the eight (8) problematic banks taken over by the Asset Management Corporation of Nigeria (AMCON)

The instrument for research is annual financial records of banks collected from NDIC and CBN statistical bulletin between 2001 and 2018 to solicit information for different phases of financial restructuring emphasis in order to provide a snapshot of the variables of the

This work employed both descriptive and inferential statistical analyses. The panel data from the ten (10) listed Nigerian DMBs in Nigeria were tested with Pearson Moment Correlation, using SPSS version 25.0. The time-series data covered the analysis for the research between 2001 and 2018. The research makes use of financial measures of banks' performance including return on investment (ROI), and liquidity management variables

RESULTS AND DISCUSSION

DATA PRESENTATION AND ANALYSIS

This section presented the statistical analysis used in conducting a test on appraisal of financial sector reforms and the level of performance of DMBs in Nigeria. The data variables for the study were acquired from the published annual financial statements of the banks from statistical bulletin of Central Bank of Nigeria and NDIC in the study area. The quantitative approach was adopted because the study is explanatory quantifiable in nature by digging into the problem by way of generating numerical data in the connection between financial reforms and bank's performance that can be transformed into usable statistics which is more scientific, control-sensitive and useful for decision making in the banking industry. The research has conducted a fixed redundant test which established that there is nexus between the dependent and the independent variables.

MARKET POWER VARIABLES (HIRSCHMAN-HERFINDAHL INDEX) OF BANK'S FINANCIAL REFORM

This is a measure of banking industry concentration in this research and is significant to estimating the changes in the assets quality of banks as shown in table 4. The relationship is negative which signifies that as bank concentration is increasing, prime lending rate is decreasing and so is the profitability of the bank. This result opposes the finding in Flamini et al. (2009) for the banking system in sub-Saharan Africa, perhaps because of their choice of overhead costs as a proxy for market concentration. However, there is no evidence of the structure-conduct-performance objective in the banking system but the result is consistent with a non-collusive behavior of banks in the industry. The underlining reasoning here is that banks in Nigeria do not reap oligopolistic profits due to collusive behavior of lower prime lending and deposit mobilization rate.

TABLE 2. CHARACTERISTIC INDICES OF FINANCIAL DEEPENING INDICES AFFECTING STRUCTURE-CONDUCT-EFFICIENCY OF MONETARY POLICY TARGET OF DMBS BETWEEN 2001-2018 IN NIGERIA

Years	CPS/ GDP (%)	ASSET QUALITY (%)	FINANCIAL DEEPENING/ M2 (%)	PRIME LENDING RATE (%)	SAVINGS/DEPOSIT MOBILIZATION RATE (%)
2001	9.40	9.84	15.60	18.29	5.49
2002	8.21	12.89	13.29	24.85	4.15
2003	8.24	6.60	14.68	20.71	4.11
2004	8.21	6.18	12.31	19.18	4.19
2005	8.26	7.04	11.85	17.95	3.83
2006	7.99	6.99	13.25	17.26	3.14
2007	11.12	7.79	15.54	16.94	3.55
2008	17.67	4.80	20.45	15.14	2.84
2009	20.55	6.90	21.25	18.99	2.68
2010	18.60	6.17	20.21	17.59	2.21
2011	16.93	5.82	19.33	16.02	1.41
2012	20.43	9.86	19.37	16.79	1.70
2013	19.67	9.21	18.92	16.72	2.17
2014	19.24	10.16	18.24	16.55	3.38
2015	19.84	11.32	19.68	16.85	3.58
2016	20.77	12.21	21.31	16.87	3.75
2017	19.43	10.43	19.67	17.58	4.13
2018	17.63	7.94	19.63	16.91	4.07

Source: CBN Annual Report, 2018

Practical indicators of financial reform variables were shown in table 2. The published data provided by CBN from 2001 to 2018 indicated that banks' credit to private sector (CPS) in Nigeria is less than 70% of GDP and is relatively termed as "well-developed" financial system. The financial stability of DMBs in Nigeria is not readily sound as a result of poor asset quality of the banks. This was mainly the reason for the CBN active roles to maintain monetary policy target at 20% financial deepening/M2 between 2001-2018 to regulate dwindling credit to private sector (CPS) so that firms and households will have access to credit to investment and various purchases by reducing the burden in prime lending rate. However, if proper justification were to be done to give credence to this assertion based on the findings of the descriptive analysis, it would be wise to conclude that the failure of DMBs in Nigeria to increase savings and sound deposit mobilization rate during these years were basically mounted on the perception of majorities that liquidity reform was not well managed and that critical acclaimed determinant factors of financial reform and post-consolidation review of macro-economic variables have not been adequately addressed.

The figure 3 below critically examined the graphical view of the trends of financial deepening indicators propelling banks' efficiency between 2001 and 2018. The intersected line graphs within the columns clustered bar charts show the deposits mobilization and prime lending rate as proxies for banks' efficiency while financial reforms indicators are credit to private sector, indices of financial deepening and the asset quality of the bank. Thus, savings and deposit mobilization are poor over the years and several efforts has been directed towards reducing the prime lending rate to keep CPS/GDP rate above 15% through financial intermediation and deepening to encourage capital flow for investment and households purchases during the 18 years periods. With this effect, the asset quality of deposit money banks (DMBs) was put under control and was seen to have inversely proportional to the savings and deposit mobilization throughout the years. This implied that the dwindling effect of savings and deposit mobilization were due to the increases in asset quality of the banks before and after many years of liquidity and consolidation reforms in Nigeria.

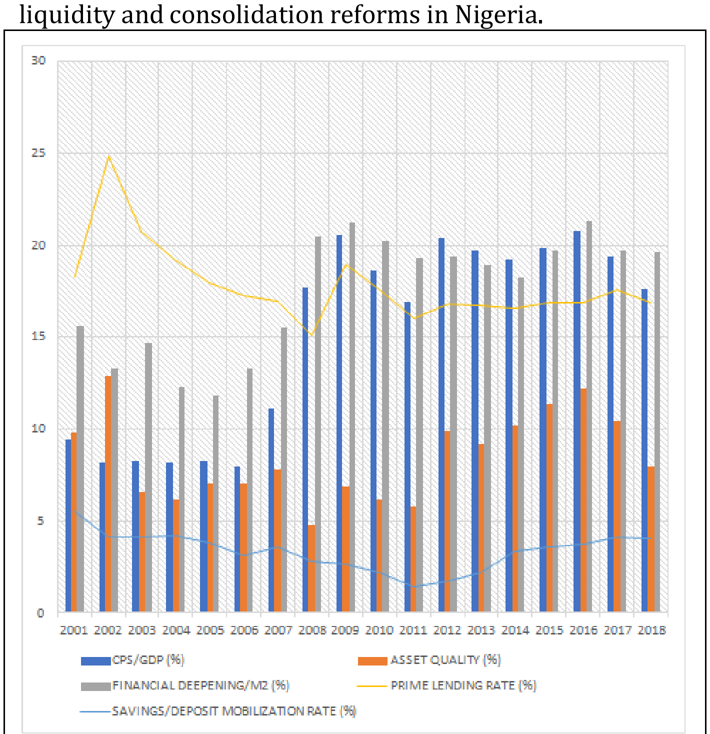

FIGURE 3. BAR CHART SHOWING FINANCIAL DEEPENING INDICATORS AND BANK'S PERFORMANCE BETWEEN 2001-2018

Source: Author's compilation, 2022

CONCLUSION

It is pointed out that Nigerian deposit money banks are challenged authoritatively to perform a statutory role of government operating a bubble economy that cannot withstand the problem of liquidity.

Therefore, Nigerian DMBs became grossly affected when the economy run short of revenue due to shortfall. Hence, it could be observed as been accountable for the financial crisis of the Nigerian DMBs is illiquidity. To avoid this undue pressure, the research concluded that financial deepening indices should not be separated from financial reforms so as to facilitate the flow of funds for private sector development and generates increased savings, investment, and efficient allocation of capital for banks.

RECOMMENDATIONS

Based on the findings

I. It is recommended that unethical practices like debt refinancing should be avoided by banks so that macroeconomic variables which include controllable and uncontrollable factors, such as financial deepening/M2 effect, and illiquidity should be manage in the structural adjustment programmes of financial sector reform for improved efficiency of Deposit Money Banks in Nigeria

II. It is recommended that financial deepening indices should not be separated from financial reforms

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