PDF - THE IMPACT OF CBN CURRENT REFORMS ON THE NIGERIA BANKING SECTOR (A CASE STUDY OF UNION BANK PLC IN ENUGU METROPOLIS) - researchcub.infoAbstract

The national apex bank, the central bank ofNigeria (CBN), since its establishment in 1958 has been preoccupied with thegoals of ensuring the smooth running and satisfactory performance of thebanking sector so as to enable it perform its leading role in the entirefinancial sector of promoting economic growth and international acceptabilityof the Nigerian banking practice. To achieve these goals, policies andsubsequent reforms were promulgated. Some of the reforms were over-reaching andcounter to each other. As a result, it has not been easy for the financialanalysts to make good assessment of the impact of these reforms on the bankingsector. Burning with the seal to crack this puzzle, the researcher chose thistopic “The impact of CBN Reforms on the Nigeria Banking Sector (a case study ofUnion Bank Plc in Enugu metropolis)”. The information for the study wascollected using primary and secondary methods of data collection. For theprimary data collection, questionnaires, personal observations and oralinterviews were used while existing literature relevant to the topic wasconsulted for the secondary data. The researcher used chi-square statisticalmodel to analyze the data. Two major findings were made: CBN current reformshave a significant impact on the Nigeria banking sector. High proportiongovernment borrowing from banks instead of capital market tends to push uplending rate. Two major recommendation were proffered, viz government has toborrow more from the capital market than banks so as not to whip up lendingrates, and banks should not focus on opening more branches and acquiring moreassets but should, instead, discourage handing of cash in favour of automationof banking operations. The researcher suggested possible extension to the studyby looking into the effect of insurance and capital market reforms on theeconomic growth.

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Economic growth has long been considered animportant goal of economic policy with a substantial body of research dedicatedto explaining how this goal can be achieved. Most of the empirical studies havefocused on explanatory variables selected on the basis of their relevance topolicymakers or because of other theoretical predictions. See for instance,Barro 1991; Levine and Renelt 1992.

However, while most prior empirical studieshave focused on economic and non economic determinants of growth in developedand developing economies, there has been very little study focusing on therelationship between the banking sector and economic growth in developingeconomies. The handful of studies undertaken has focused on transitioneconomies of central and eastern European and the Baltics. Tuuli (2002)explained that although there has been numerous empirical studies on thedeterminants of growth in transition economies “the relationship betweenfinancial markets and economic growth, however, has largely been ignored. Toour knowledge, the only study that empirically tests the relation betweenfinancial markets and economic growth in transition countries is Drakos’s(2002) paper on the effects of banking sector’s structure on economicperformance.” Tuuli’s (2002) study however has some shortfalls: it equatesfinancial sector reforms with banking sector reforms; it uses unbalanced paneldata from 25 transition countries as variables which were either not alwaysavailable or were unavailable for identical periods for each country, and itignores structural differences amongst the countries.

In Nigeria, the only empirical study of therelationship between the banking sector and economic growth is Balogun’s (2007)paper on banking sector reforms and the Nigerian economy. There are, howeverquestion marks around the paper’s use of certain parameters in its modelspecification. For example, given multiple channels of accessing bankingservices

such as internet banking; telephone banking; mobile banking; and useof automated teller machines; the relevance of the number of bank branches as adeterminant of economic growth is uncertain. Secondly, the paper makes use oflending rates, savings rates and exchange rates as explanatory variables. Tuuli(2002), however assert that rather than use lending and/or savings rates,interest rate margins (i.e. the difference between savings and lending rates),are “a good estimator for efficiency in the banking
sector as it describes transactions costswithin the sector”. Also, Elbadawi (1992) found that high exchange ratepremiums (i.e. the difference between the parallel and official market exchangerates), lead to lower revenue generation from official exports, increaseddifficulties in controlling inflation and an acceleration of capital flight.

As a result, there remains a gap inunderstanding the causal relationship between banking reforms and economicgrowth in developing economies. Focusing on the Nigerian economy, a countrywhose banking industry has witnessed a large number of reforms in a relativelyshort time, the aim of this paper is to attempt to rectify this gap in economicliterature by investigating whether recent banking sectors have had any effectin stimulating economic growth in Nigeria.

Based on theoretical considerations, annualtime series data from 1999 – 2009 will be used to develop econometric modelsthat capture the interrelationship between the country’s economic growth overthis period, and relevant parameters. Policy directions aimed at stimulatingsustainable economic growth and an agenda intended to implement the outcome ofthis study will thereafter be recommended.

We conduct section 1 with a brief overview ofdevelopments within the Nigerian banking sector. A short review of relevantliterature and discussion of the theoretical framework is undertaken in section2. Data sources and econometric models are specified in section 3. Section 4presents the outcome of the data analyses while section 5 suggests policyrecommendations on the basis of the outcome of our analyses and suggestspossible extension to the study.

1.2 STATEMENT OF THE PROBLEMS

Absence of policies and regulations in anyhuman endeavour culminates in chaos and eventual failure. In similar vein, whenthere are policies and regulations and they fail to achieve the objectives forwhich they are formulated, the signification is malfunction.

Reforms are introduced when the aforementionedscenarios prevail. The first scenario held sway prior to 1958 when the centralBank of Nigeria was established by virtue of the central Bank Act of 1958.

The problem seemed to persist and,consequently in recent times, the CBN subjected the banking sector to a spateof reforms in quick succession which blured the proper evaluation of theireffect, and there arose, as a result, the problem and the need to properlydetermine the impact of the reforms on the Nigeria banking sector withparticular reference to union Bank of Nigeria Plc in Enugu Metropolis.

Other problematic issues that need to beaddressed are:

1. Therelevance of CBN current reforms in the economic growth of Nigeria.
2. Theextent to which the reforms have been implemented in the banking sector.
3. Thedetermination of the influence of CBN current reforms on the financialperformance of union bank plc.

Existing literature revealed that before theestablishment of the Central Bank of Nigeria in 1958, there were about 185banks and majority of them failed. After the establishment of the Central Bank,the apex bank came up in quick succession with a lot of regulations andcounter-regulations which made it uneasy for the analysts to [properlydetermine their impacts. Hence, the question; what are the impacts of CBNcurrent reforms on the Nigeria banking sector? There exist other problems thatrelate to the one above which the researcher has the burning desire to address.

1.3 OBJECTIVE OF THE STUDY

The purpose of this study is to evaluate theimpact of CBN current reforms on the Nigerian

banking industry with
particular reference to Union bank Plc inEnugu metropolis. Some other objectives of this study are:

1. Todetermine the relevance of CBN current reforms in economic growth of Nigeria.
2. Toassess the impact of the current reforms in Nigerian banking sector.
3. Todetermine how the reforms have is been implemented in the banking sector.
4. Todetermine the influence of CBN current reforms on the financial strength ofUnion bank plc.

1.4 RESEARCH QUESTION

The following research questions wereformulated in this research work:

1. What are the relevance of CBN current reforms in the economic growth ofNigeria?
2. What are the impact of CBN current reforms on Nigerian banking sector?
3. Howhave the current reforms been implemented in the banking sector?
4. What are the influences of CBN current reforms on the profitability ofUnion bank plc?

1.5 RESEARCH HYPOTHESIS

For the purpose of the study, the followinghypotheses were formulated:

HYPOTHESIS ONE

Ho: CBN current reforms do not have anyimpact in Nigerian banking sector.