DEREGULATION OF THE BANKING INDUSTRY; AN IMPETUS FOR GROWTH IN THE NIGERIAN ECONOMY

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Abstract

Agriculture was the main stay of the Nigerian economy before the attainment of political independent in 1960. Emphasis soon started to shift from this sector towards petroleum as crude oil was discovered in commercial quantities. The oil boom and subsequent increase in revenue encouraged massive government spending, which eventually raised domestic prices and wages. Revenue from oil was becoming insufficient to pay for import and government had to finance most of it's imbalances by incurring debt, depleting her external reserves and even going into arrears in external payments. In order to resuscitate the ailing economy, government of 1985 proclaimed a period of National Economic Recovery with deregulation of the banking industry as one of it's features. This paper therefore appraises the deregulation of the banking industry in Nigeria in mid 80s. Factors that could render deregulation effective are also examined. Based on the findings the paper recommends the following among others: for deregulation to be successful: there is the need for government to avoid deficit financing and cultivate the culture of financial prudence; government should effectively educate the public on the modus operandi of the exercise as well as the benefit derivable from the policy.

Introduction

Before and shortly after Nigeria's political independence in 1960 the main stay of her economy was agriculture. Thus, agriculture provided food for both domestic consumption and exportation and in some cases provided income and revenue. With the discovery of petroleum in commercial quantities Nigerians started shifting emphasis from agriculture towards petroleum sector which was seen as the quickest source of getting money. Oi! gradually became the dominant sector of the economy accounting for about 90 percent of Nigeria's export.

From January 1973 when the naira was first put into circulation to mid 80s the Nigerian currency maintained an acceptable exchange value with other major currencies, viz the US dollar, British pound; Japanese Yen, etc. The oil boom and the subsequent increase in revenue encouraged massive government spending which eventually raised the levels of domestic prices and wages. Revenues from oil was becoming increasingly insufficient to pay for import and government started borrowing to finance such imports. Government financed most of its external reserves and even going into areas in external payment. Short-term trade arrears mounted to the point at which foreign banks held back on confirming letters of credit and because Nigeria was unwilling to devalue her currency even though it was recommended by the World Bank and International Monetary Fund (IMF), creditors refused to roll over short term debt and the prospect for fresh credit became bleak. Ojo (2001) observed that whilst the oil boom lasted with its oil wealth illusion syndrome, there was not much complaint about the waste and inefficiency in public enterprises. It was only in the wake of the economic recession that increased attention began to be focused on the negative consequence of the activities of public enterprises. Thus, while the government continued to increase its public expenditure not much attempts was made to improve the nation's balance of payments problems. It was on this note that in 1985 the Babangida government proclaimed a fifteen-month period of national economic recovery, which later metamorphosed into Structural Adjustment Programme (SAP) with deregulation as one of its features.

This paper examined the problems and prospects of salvaging an ailing economy through deregulation. The rest of the paper is divided into four parts namely, deregulation and Nigerian economy; the effect of deregulation; factors that may render deregulation ineffective; and ends with conclusion and recommendations.

Deregulation and the Nigerian Economy

In an effort to revamp the ailing economy, Nigeria's major creditors, the World Bank and International Monetary Fund (IMF) recommended some conditionalities among which were the devaluation of the naira, import liberalisation, privatization of public enterprises, government refused to adopt these measures and there emerged significant difference between it and its key creditors.

In August 1985 before General Babangida came to power there was a drop of oil prices and the dwindling oil revenue jeopardized the nations economic stability. Shortly on assumption of duty General Babangida initiated a national debate on whether Nigeria should implement the policy reforms to secure an IMF loan. The debate clearly opposed the policy reforms proposed by the IMF and created an overwhelming support for a programme that was made in Nigeria by Nigerians. This was a source of national pride that the reforms were locally initiated and not by foreigners. According to world Bank Report (1994) the 1986 budget contained a package aimed at correcting the distortions in the economy, via reduction in petroleum subsidy by 80 percent and efforts were put in place to privatise some public enterprises. The government also presented a balanced budget and imposed a levy on import without devaluing the naira Nigeria's creditors, particularly the World Bank and IMF did not accept the reforms packaged that excluded the devaluation of the naira.

In September 1986, the Structural Adjustment Programme (SAP) was introduced and the naira was subsequently devalued. According to the Odebiyj et al (1992), the official explanation was that the value of the naira was helping to sustain the interest of Nigerians in ostentatious consumption of imported goods. The idea of introducing SAP was therefore to encourage Nigerians to look inwards, imbibe the spirit of maintenance culture, and encourage local sourcing of raw materials in order to develop a sound industrial base, diversify the economy to broaden the foreign exchange earning capabilities of government instead of depending solely on crude oil earnings. The main features of the reforms were the gradual deregulation of the economy with the banking sector expected to be the major player.

Deregulation is neither synonymous with absence of or lack of government control nor does it connote appropriate pricing. Rather it is the absence of unnecessary interference by government in the operations of an economy. It also involves conscious efforts by government to gradually disengage from direct production of goods and services. The deregulation of the banking sector was aimed at reducing the degree of interference by government by the market forces with the economy. Agada (1994) observed that the deregulation policies by government ushered in by SAP brought in an unprecedented growth in the financial services sector with the number of finance houses in the country growing astronomically. He further stressed that more banks were licensed by the Central Bank of Nigeria (CBN) and by 1994 about six hundred (600) finance companies were in operation, 310 of which had valid licenses. According to him there were about 1046 community banks with provisional licenses while over 265 mortgage firms were in existence out of with 129 had valid licenses with certificate of standard.

Aluko-Olokun (1992) asserts that at independence there were five (5) banks in Nigeria: two expatriate, three indigenous and the Central Bank of Nigeria. By 1970 the number had risen to fourteen with about 273 branches. Later in the 70s additional six banks were established bringing the number to twenty (20). He further explained that as at 1980, there were about 740 bank branches around the country but between 1980 and 1986 the figure rose to forty-two (42) made of thirty (30) commercial banks and twelve (12) merchant banks. However, with the deregulation of the banking sector, Akingbola (1996) observed that the number of commercial and merchant banks rose to one hundred and twenty six (126) between 1987 and 1991,

Effects of Deregulation

Positive Effects

Deregulation of the banking sector led to the proliferation of finance houses, which have some positive effect on the economy. For example, while some of the finance houses have provided employment for a large number of people, some have computerized their operation making it possible for their customers to withdraw money from any of their branches in any part of the country. Banks have also helped in mobilizing their funds from surplus unit to deficit unit for productive ventures. Deregulation could promote competition among banks and other operators in the economy, enhance efficiency and guide against bank run and its attendant losses to customers and eventual loss of confidence in the entire banking system by such depositors and the public. Deregulation is expected to offer equal opportunity to all operators in the economy to function and hence level playing field devoid of favouritism or monopoly. It can reduce fraud, gross mismanagement and excessive risk taken by some managers and directors. Deregulation can promote efficient allocation of resources and reduce unhealthy rivalry in the economy.

According to Ogunleye (2001) the Information and National Orientation Minister, Professor

Jerry Gana enumerated the gains from deregulation to include the following among others:

a) It would lead to a self financing and sustainable economy and provide more funds for infrastructure development.
b) Proceeds from deregulation could be ploughed into Poverty Alleviation Programme (PAP).
c) It would remove inefficiency and wastage and discourage sharp practices such as smuggling and hoarding.

It is also believed that deregulation will usher in more private enterprise involvement; promote the use of modern technology and better services and increased productivity. It is also believed that deregulation would boost domestic employment and income.

Oluwa (2001) asserts that the remarkable economic performance and phenomenal industrial growth of the newly industrialized countries such as South Korea, Taiwan, Singapore, Hong Kong, Brazil, Mexico, etc. have been large due to the private-sector led growth of their economies. He also noted that governments in the affected countries adopted a mixture of positive and permissive economic policies of diversification, liberalization and deregulation of their economies which facilitated the in-flow of capita! and direct foreign investment required for technology transfer, acquisition and development necessary for industrialization.

Negative Effects

Deregulation may have some adverse effects on an economy, for example, the enormous expansion experienced in Nigeria's financial sector as an aftermath of SAP led to the thin spread of banking expertise and the entry of people of all manners into the banking industry. Thus, the dearth of skilled and experienced personnel led to the sudden occupation of managerial position by inexperienced bank workers as a result of which professionalism was relegated to the background with the attendant loss of integrity in the sector. This heightened cases of sharp practices in banks which included granting of unauthorized overdrafts, presentation of forged cheques, posting of fictitious credits, suppressions of cheques, fraudulent transfers and withdrawals, abuse of medical schemes, under-the-counter-trade, etc.

Deregulation of the banking sector triggered off the era of sharp practices in the allocation and use of foreign exchange. The exchange rate, which reached N40.00 to the U S dollar between 1994 and 1995made people to lose confidence in the naira, stimulated speculative purchase of foreign exchange, which was mostly used by people to import finished goods.

Inter-banking market also flourished in the era of deregulation, a situation where banks in dire needs of funds raised loans from other banks. As a result of growing distress in banks many were forced to borrow at prohibitive inter-bank interest rates. Interest rates soared and this coupled with high exchange rate adversely affected cost of production and fuelled inflation in the economy. (See Table 1).

Inflation Rates in Nigeria (1986-2000)					
Year	%	Year	%	Year	%
1986	5.7	1991	13.0	1996	29.0
1987	11.4	1992	44.6	1998	8.5
1988	54.5	1993	54.0	2000	5.4
1989	50.4	1994	57.0		
1990	7.4	1995	72.8		

Source: Adjustment in Africa, Lessons From Country Case Studies; World Bank and Sectorial Studies (1994) and 3 Various Issues of Business Times (1994-2001).

The existing high rate of inflation in the era of deregulation undoubtedly increases cost of production, which must have compelled manufacturers to embark on cost saving devices such as reallocation of data on annual unemployment. Figures provided by the Central Bank of Nigeria (CBN in its Statistical Bulletin of December, 1991 show that average annual registered unemployed professionals and executives was 258(1970-1978); 9,563, (1984-1990) and 11,858 in 1991. Since unemployment among skilled manpower was on the increase, this must be partly responsible for the decline in capacity utilization in manufacturing sector and a subsequent fall in the real growth c: Gross Domestic Product (GDP). (See Table 2).

Real Growth of GDP (1986-2000)				Capacity Utilization (1986-2000)			
Year	%	Year	%	Year	%	Year	%
1986	1.7	1994	1.0	1986	42.6	1997	34.0
1987	0.2	1995	2.2	1987	47.4	1998	28.0
1989	6.7	1997	3.2	1988	50.6	2000	32.1
1990	5.6	1998	2.4	1992	29.0		
1991	5.1	1999	2.7	1993	30.4		
1992	4.1	2000	2.8	1995	29.3		

Source: Adjustment in Africa, Lessons From Country Case Studies, World Bank and Sectorial Studies (1994) and 3 Various Issues of Business Times (1994-2001).

Nigeria's external reserves also suffered in the era of deregulation for example, external reserves for the 1991 stood at $4,487.0 billion but fell to $1,659.0 billion in 1994 and further to; $1,441.0 billion in 1995. It rose to $7,650 billion in 1998. The nation's balance of payments for the period (1981-85) stood at $1.4 billion but rose to $3.2 billion between 1986 and 1990 (Source-Business Times, 1994-2001).

Deregulation of the banking industry saw the emergence of multiple foreign exchange markets (official and parallel) with the attendant problem of multiple exchange rates, which eventually contributed to the historical slump, of the naira. The inability of the CBN to supply adequate foreign exchange created a situation of excess demand thereby rendering official exchange rate useless, Thus, investors were forced to source for foreign exchange in the black market at prohibitive rates leading to the collapse of many small-scale industries. This dampened the spirit of entrepreneurship in many Nigerian investors who were forced to engage in buying and selling which brought instant profit rather than embarking on ventures, which offered long term returns.

Factors That May Render Deregulation Ineffective

A number of factors may render deregulation ineffective among which is misconception or otherwise of the proposed reforms Ojo (2001) claims that different groups in Nigeria have misunderstood the concept of deregulation. These includes.

a. Those who have been beneficiaries of the system and are ready to defend the status quo.
b. Those who make excessive money for their living from the sale of scarce commodities mainly sold to consumers at exorbitant prices.
c. Those who although are fully convinced of the beneficial effects of deregulation, but would live to resist the reform for their political interests being served by the nation's enduring problem.
d. Those who are ignorant of the beneficial effects of deregulation or fearing more of the envisaged higher cost of living than any consideration of their final benefits that may accrue from deregulation.

Hence, from the analysis above, resistance to change (deregulation), may take three main forms, namely, opposition based on misunderstanding or rational objectives, fear of personal consequences and emotional distrust.

Ojo (2001) further assets that reforms in most cases are carried out in bad or even critical times when there is the glaring and pressing need to address a problematic situation. However, reforms are not carried out if the politically influential groups and their vested interests stand to lose; they block the implementation of such reforms. Inability of relevant authorities to adequately communicate the benefits derivable from reforms to the general public may be one of the causes of opposition to reforms.

Ogunleye (2001) observes that Nigeria lack anti-trust laws as obtained in the U.S and hence deregulation will not really benefit our economy. This is because deregulation could lead to the emergence of a cartel, which behaves like a monopoly and therefore would frustrate the gains that should normally accrue from the exercise to intends to promote.

It is also believed in some quarters that deregulation would serve the interest of the few powerful operators in the economy and who will consequently make the situation worse for the populace. Moreover, arbitrary changes in government policies, unstable political climate, poor incentives to investors, bureaucracy, corruption and mismanagement as well as lack of accountability may slow down the pace of development in an economy.

Conclusion and Recommendations

The ability of a nation to attain some reasonable level of sustainable development depends largely on how it uses its existing stock of human and material resources; how it is able to enforce its law and implement its policies. No responsible government will fold its arms and allow its citizens and foreigners absolute control. While control is necessary it is essential for government to vary its degree so as to make room for competitiveness which could enhance efficiency and improved services to its citizens.

For deregulation to be successful the following recommendations are made.

Efforts should be made by government to introduce anti-trust laws as it obtains in other advanced countries. The U.S. which experienced the sordid effects of unrestrained deregulation at the close of the 19^{lh} century had to introduce anti-trust laws to stem the activities of cartels, monopolies, syndicates and the like.

There is the need for government to provide conducive atmosphere, for example, the expected huge earnings from the exercise should be adequately translated into desired improved social and economic advancement of the populace.

Nigerians should cultivate the spirit of patriotism, hard work and obedience. They should desist from acts that are capable of bringing the image of the nation to disrepute.

There is direct need for government to avoid deficit financing and cultivate the culture of financial prudence. Illegal foreign exchange market should be discouraged while government on its part should increase the supply of foreign exchange. It is believed that this will reduce the cost of obtaining funds by investors, lower cost of production and bring about moderate prices of goods and services.

The government should effectively educate the public on the modus operandi of the exercise as well as the benefits derivable from the policy. Effort should be intensified by the government to diversify the economy so as to broaden the nation's revenue base. Sanctions should be put in place to punish erring operators and reward the obedient ones. Nigeria is not lacking in the formulation of good policy, what she lacks is good implementation and sustenance of such policies. All it requires is for the government to provide conducive atmosphere for the success of reforms.

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