

## CONCEPTUAL ISSUES ON SAVINGS IN NIGERIA

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### 1. INTRODUCTION

It is often held that capital accumulation is necessary and sufficient condition for growth and capital accumulation is almost synonymous with saving, hence the route to growth is then one of raising savings and smoothing consumption (Deaton, 1991). Savings is one of the key relevant macroeconomic variables in any economy. Its impact on the rate of capital accumulation, productivity and the degree of dependency of a nation on foreign capital and foreign ownership of domestic assets cannot be over-emphasised. High level of domestic saving will accelerate the rate of investment, enhance productivity and hence, economic growth. A country's level of savings or its saving rate relative to other countries can be used as a yardstick for measuring its growth prospect. As noted by Summer (1986) raising domestic savings rate is *sin-qua-non* to enjoying rapid productivity growth and success in international competition. It is no accident that Germany, France, United States and Japan with savings rates three times ours have enjoyed very high productivity growth rates over the last fifteen years (Afolabi and Mamman, 1994).

However, the domestic level of savings in some countries is so low that foreign borrowing must be resorted to. If the elasticity of substitution of foreign for domestic savings is high then such a country suffers from a perpetual payments deficit. The debt-service burden may be such that the prospects for future economic growth are limited. A lot of developing countries have fallen into such financial crisis, they had to either repudiate their external debt or reschedule their debts at frequent intervals.

This paper is motivated by the economic reform programmes Nigeria is carrying out at the moment, which will have to be financed mostly with domestic resources. The current sharp drop in savings rates is also a source of concern. Thus, the need for increasing national savings is critical and it will be more so in the future. Sustained growth will require a significant increase in capital formation. Given the fact that the availability of foreign capital is dwindling and is likely to be scarce for developing countries in the future, these economies will have to rely heavily on higher domestic savings to fund the needed increase in investment in order for adjustment to be followed by sustained growth (Garvin, 1990).

There is little doubt that one important area a country needs to look into when faced with economic crisis is the



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saving-consumption behaviour. Consumption and saving have attracted wide range of theoretical and empirical research, nevertheless, the varied empirical tests on the impact of a number of economic factors have turned up largely with different results. This may be attributable to variety of reasons, prominent among which is the multiplicity of methodological approaches adopted by different researchers, different types of data utilized, as well as country-specific reasons. There is need to bridge the huge gap in the geographical spread of reported research findings on the behaviour of aggregate savings in Nigeria. This issue has, however, not received adequate research attention. Specific investigations into this area are sketchy (Pinto, 1987; Afolabi and Mamman, 1994; Ikhide, 1994; Nyong, 1997, Adam, 1998; and Odusola, 1999) and incidentally there is an inadequate understanding of the issues.

For Nigeria to sustain its current investment programmes and its' associated import needs, priority must be given to the expansion of domestic savings and exports as some of the main instruments for growth. The main question is, to what extent will it be possible to constrain consumption

sufficiently, to reach the target level of domestic savings, giving that consumption is also an important element for growth? What are the reasons for the weak saving performance in Nigeria? This paper is limited to the consideration of conceptual issues on savings in Nigeria. The specific objectives of the paper are stated below:-

- To review conceptual issues on savings behaviour in Nigeria.
- Analyse the factors that may have led to weak saving performance, as well as make some suggestions about future behaviour of savings through a review of the literature.

This paper is divided into four sections. Section one contains the general introduction. Section two focuses on the background issues on the economy and savings in Nigeria. Section three captures conceptual/theoretical issues and literature review. The last section contains the summary, conclusion and recommendations.

## 2. The Nigerian Economy and Savings Profile

In the 1980s and 1990s, for many developing countries including Nigeria, were years of macroeconomic upheavals. This manifested in the form of unprecedented debt crises, high international interest rates, low external resource transfers, mass unemployment, persistent increasing inflation, exchange rate crises, economic stagnation and so forth. The international financial institutions have provided financial assistance to help cushion the impact of the external shocks and to assist countries to restructure their economies to the path of sustained growth. So far, the policy environment

has been characterized by 'stop and go' policies and increased administrative interventions, loss of fiscal control, little commitment to reform efforts, etc. This has led to fallen or marginal GDP growth, intensified capital flight, reduced foreign capital inflow and the countries are yet to witness a revival of satisfactory investment and saving rates.

During the past two decades, in order for Nigeria to maintain its consumption and investment levels, there has been rapid accumulation of external debt as imports exceeded exports. This has led to the widening of the country's external current account deficits and exchange rate overvaluation. The government introduced economic stabilization Act in 1982 leading to ban on imports and foreign exchange rationing. The adoption of Structural Adjustment Programme (SAP) in 1986 was another response to the lingering economic crisis. Despite these measures government expenditure kept rising beyond its revenue, the Naira exchange rate has been depreciating, while output has been growing marginally. For instance, external debt rose from US\$4.1 billion in 1980 to US\$24.6 billion in 1986 and moved to \$28 billion in 1999. For most part of the late 1980s and 1990s, real GDP growth was less than 3% on the average. For instance, between 1993 and 1999 GDP growth averaged 2.5% while overall fiscal deficit/GDP ratio moved down from 15.4% in 1993 to 7.7% in 1994 and was 8.8% in 1999. In recent times, savings ratio (savings-GDP ratio) has been single digit and has been on the decline. For example, savings ratio fell from 23.5% in 1991 to 13.7% in 1993 and was -15.2% in 1995, thus it averaged 0.7% between 1995 and 1998. Moreover, investment/GDP ratio has been single digit from 1996 to 2003.

## 2.1 Trends in National Savings in Nigeria

In order to further enlighten the review, we present below statistical data on national savings in Nigeria. As can be seen on table 2.1, the stock of savings rose steadily from N341.6 million in 1970 to N1,815.2 million in 1975, by 1980 the figure trebled to N5,769.9 million, again moved to N12,521.8 million in 1985 and by 1990 it had reached an all time high of N29,651.2 million. The upward trend continued with the figure reaching N108,490.3 million in 1995, moved to N379,528 million in 2000 and climbed to N592,094.0 million in 2002 by 2004, it moved to N1,033,400.0 million. Another way of looking at the national savings data is through an examination of its rate of growth. From 1.0 per cent in 1971, the growth rate reached an astronomical rate of 9.38 per cent in 1974, which is incidentally a period highest figure. The figure fell to 5.96 per cent the following year and further to 3.86 per cent in 1980 (see table 2.1). The trend fluctuated continuously, reaching a low of 2.46 per cent in 1990. An interesting point to observe is that the negative figure for 1995 notwithstanding, the growth rate was positive during the period 1995-1998 and averaged 1.15 per cent. The average growth rate from 1999-2004 was 3.19 per cent. The importance of this marginal performance is that as has been observed by Romer (2001), saving is future consumption. Thus a society that does not save will invariably be unable to raise its consumption as well as investment in the future, hence growth will suffer. Indeed, Romer (2001) posits that if individuals have problem saving at present it will mean that their future consumption prospects will be further impaired.

An analysis using national saving ratio (saving/GDP ratio) in table 2.1 shows

that between 1970 and 1975, national saving ratio averaged 6.3 per cent, 1976-80 (9 per cent), 1981-85 (12.4 per cent), 1986-90 (14.8 per cent), 1991-95 (10.2 per cent), 1996-2000 (7.8 per cent), 2001-2005 (13.7 per cent). The result shows that savings performance was more impressive during the present reform era (1999-2004), other periods of good performance were the SAP era and period just before the current reforms era. This fact tends to mask the rather dismal performance in the period after SAP as reflected by the low ratio of savings to GDP for the period. It can be observed that the figures for 1995, 1996, 1997 and 1998 are single digit, none up to 10 per cent. The figures were also low during the 1970-1978 periods under review. The 1980s were better, particularly the SAP period when there was an increase. The best performance has been recorded during the present democratic regime (2000-2005). The findings support Soyibo's (1997) that national saving rate increased after the year of reform. For example, from 1986 to 1991, the data show surplus savings which was not invested.

## 2.2 Financial Sector Reform and Savings

In the last two decades after independence, Africa was faced with a myriad of economic problems. Some of these were high inflation and unemployment, increasing poverty, low economic growth rates, high fiscal deficits, huge balance of payments deficits, financial sector repression and worsening terms of trade. The economic crises have been attributed to two main factors, i.e., domestic policy failures and inadequate institutional capacity (Afolabi and Mamman, 1994). This implies that the necessary conditions for growth and efficient economic management are the need for adoption of a consistent

and appropriate macroeconomic policy framework and the existence of high quality institutions. The introduction of Structural Adjustment Programme (SAP) in July 1986 was an effort to set the macroeconomic policy framework right. One of the components of SAP was the reform of the financial sector, aimed at increasing its efficiency.

In Nigeria, SAP was introduced to alter and realign aggregate domestic expenditure and production patterns so as to minimise dependence on imports; diversify the revenue base away from oil export, increase efficiency of financial sector, among others. The basic policies constituting the SAP programme included revenue expansion and public expenditure stabilization financial sector deregulation, privatization and commercialization, among others. Part of the financial sector reform involves efforts aimed at setting the sector free from any repression, such as freeing the interest rates. The observed low level of savings may have become endemic due to the prevailing high level of financial repression and low income. With financial repression, a country will experience a gap between domestic savings and the desired level of investments. Moreover, the higher the degree of financial repression, the further away is that economy from attaining efficiency in resource allocation and management (McKinnon, 1988). The regulatory controls with its' fixed interest rates regime, inhibited growth, competition and efficiency in the financial system. This is because the real rates became negative in some instances.

Therefore, the period of financial deregulation (1986-94) in which the government assigned an increasing role to the market forces in the allocation of resources witnessed

increasing number of financial institutions in the system. For instance, between 1986 and 1990, about 66 new commercial and merchant banks were created, particularly between 1988 and 1990, the number of banks increased from 66 to 107, while the number of commercial banks branch offices increased from 1,665 to 1,939 (Adam, 1998). The resulting competitive pressure brought about by the reforms while encouraging financial intermediation in the banking industry have also tended to raise risks, sharp practices and hence, led to distress in the system (Afolabi and Mamman, 1996).

The period of deregulation witnessed radical policy changes in banks operations and regulatory environment in Nigeria. Some of these policy changes include liberalisation of the foreign exchange markets and interest rates, the introduction of prudential guidelines/accounting standards, increase in minimum paid-up capital, creation of regulatory/supervisory institutions, relaxation of mandatory sectoral allocation of credits, enhanced autonomy and supervisory responsibilities for the Central Bank of Nigeria (CBN) and so forth.

The banking policy reforms were introduced sequentially. With the creation of the Nigerian Deposit Insurance Corporation (NDIC) in 1988, bank depositors were assured of immediate cash payments of up to a maximum of N50,000.00 in case of any bank failure. One important development during this period was the promulgation of two banking laws with effect from June 1991, the CBN Act, No. 24 of 1991 and the Banks and Other Financial Institutions Act (BOFIA), No.25 of 1991. This repealed the CBN Act of 1959 and the Banking Decree of 1969 respectively.

Following a further amendment of CBN Act of 1991, in 1998 and 1999, the Decree and amendments significantly enlarged the powers of the CBN with regards to the maintenance of monetary stability and a sound financial system. The amendments further granted autonomy to CBN in the formulation and implementation of monetary and financial policies. Furthermore, the BOFID seeks to introduce changes in regulations that can promote the development of the financial sector in a deregulated environment.

As a result, the number of commercial banks which stood at 14 in 1970 moved to 29 (107%) in 1986 and by 1993, it was 66 (128%), but dropped to 51 (-22.7%) in 1998 as a result of bank failures, only to climbed to 92 by 2004. Merchant banks also grew from 1 in 1970 to 6 in 1980, through to 12 (100%) in 1986 and peaked at 54 (366.7%) in 1993 but dropped to 38 (-26.6%) in 1998. Banks branches also increased tremendously during this era. For instance, commercial bank branches increased from 273 in 1970 to 740 in 1980 (171.1%), and moved to 1367(84.7%) in 1986 and further to 2258 (65.2%) in 1993 only to drop to 2107(-6.7%) in 1998. The observation indicates that financial variables under study radically changed during deregulation era compared to the regulation era; and accounted for the upward trend in savings explained in section 2 above.

The other financial institutions apart from the banking sector also increased in number and size, they include: the insurance companies, the pension funds, discount houses, finance companies, cooperative societies, among others. For instance, in Nigeria, community banks rose from one in 1990 to 753 in 2004, stock brokerage firms rose from 10 in 1980 to 162 in 1995 and Bureau de

Change increased from 52 in 1985 to 293 in 2004 (table 2.2).

Interest rate development in table 2.3 shows that deposit rate on normal savings was single digit from 1970 to 1984 and became double digits from 1985 to 1995, mostly during the SAP era, only to return to single digit from 2000 to 2004. Lending rate as represented by minimum rediscount rate (MRR) shows that the rate became double digit from 1985 to 2004, thus revealing a large spread between lending rate and saving rate since 2000 to 2004 (table 2.3). The conclusion from this exercise is that there is a high positive correlation between the interest rate and savings. For example, 2000-2004 was a period of high savings and moderate interest rate stance.

### 3. Conceptual Issues and Literature Review

The English Chambers Study Dictionary define savings as money set aside for future use, while Pan Dictionary of Economics and Commerce view savings as the converse of consumption, that is an individual may either consume or save his/her disposable income. Saving becomes available when an individual refrains from consumption. Thus, saving is a sacrifice of current consumption for capital accumulation which leads to investment and subsequently additional output that can be used for consumption in future. It is important to clarify that saving does not necessarily means making deposits at banks or financial institutions. It is sufficient to increase one's cash holding by refraining from consumption.

Gross national savings is also defined as the residual of what is consumed from gross domestic income. In a simple income-expenditure model,

the economy is in equilibrium when investment is equal to saving. Furthermore, there is need to distinguish between saving and savings. Saving is a flow while savings is a stock. This means that saving is the rate of change in savings per time period. Savings, being a stock is cumulative amount put aside over time. In symbolic terms if S is equal to savings,  $\dot{S}$  is change, while t is time, then saving (s) is equal to:

$$\text{Saving (s)} = \Delta S / dt,$$

There are many conceptual/theoretical approaches to savings however; the important and common ones are the absolute income hypothesis due to Keynes (1936) which assumes that saving is simultaneously determined with consumption, in the consumption function framework. It posits a positive relationship between savings and income through marginal propensity to consume/save. The second known as the permanent income theory postulates the view that consumption/savings is a function of permanent income (current income plus future income, wealth, etc.). Another theoretical approach is the *life-cycle* hypothesis which postulates that every individual spends in relation to what he conceives his normal income to be. In a particular year he may regard his income as low, in the good years he will save the excess and in the bad years he will run down his accumulated savings (Stiegeler and Thomas, 1982). The second and last approaches can be combined into one because they are similar; jointly referred to as the life cycle/permanent income hypothesis

Kuznets (1942) first documented the stability of the saving/income ratio, and in particular, that the saving ratio appeared to be independent of real income. This stood in contrast to the

rigid dependence implied by the simple Keynesian consumer behaviour. Kuznet's conclusion implied that consumers may be smoothing consumption and savings in the face of fluctuations in real income. After all, there emerged a number of rival hypotheses which include the relative income hypothesis (Duesenberry, 1949 and Modigliani, 1949); the life cycle hypothesis (Modigliani and Brumberg, 1954; Modigliani, 1957); and the permanent income hypothesis (Friedman, 1957). These studies dwell on different theoretical notions of income as the plausible determinant of aggregate consumption/saving behaviour. At another level, there are numerous empirical researches that extend the argument of the basic consumption/saving model to make the theory mirror the data set and some have included additional explanatory variables of consumption/saving behaviour such as inflation, liquid assets and wealth (see Zeller et al, Deaton, 1972; Davidson et al. 1978).

The permanent income hypothesis and life-cycle hypothesis distinguish between the consumption (and saving) effects of changes in permanent and temporary income using aggregate data. In its simple and extreme form, permanent income shocks should be entirely consumed, whereas temporary income shocks should be entirely saved. The permanent income hypothesis is typically rejected by the evidence. However, the evidence also shows that the positive impact on savings on the temporary increase in real per capita income is greater than that of a permanent rise in income (Loayza, Schmidt-Hebbel, and Serven, 2000). Uncertainty may help to explain why consumption/saving follows income so closely, thus contradicting the

simple permanent income hypothesis (Zeldes, 1989).

According to the life-cycle theory, demographic focus play a role in predicting saving, because saving is high at middle age and low at young and old ages. This proposition points to the concentration of growth in households with high saving rates like the rich or middle age household. The higher saving rate may be induced by the desire to leave bequests to heirs. This framework points to the link between savings and economic growth. However, this view has been challenged by other economists, for instance, according to Deaton and Paxson (1994), and Poterba (1995) elderly people save or at least do not dissave as much as predicted by the life-cycle hypothesis. Loayza, Schmidt-Hebbel and Serven (2000) provide supporting evidence for this view.

Empirical evidence suggests that inflation has positive influence on household's saving in physical assets. For instance, Davidson et al., (1978) and Rutayisire (1980) assert that individuals tend to substitute financial assets for physical assets in high inflation economies, thus, inflation is inversely related to financial saving. While the motives to smooth consumption may be strong, households may be restricted to their ability to transfer resources across time; both by inability to borrow against future earnings, by high debt-burden and low international credit ratings and by very low real returns on current savings (Lehmussari, 1990). The sharp drop in the household saving rates is attributable to the widening external current account deficits of these countries. Deaton (1989) attributes decline in national savings to falling real income, negative public sector saving (fiscal deficits) as well as small decline in

private sector's saving.

Furthermore, Montiel (2000) observes that saving/consumption booms have been common in both industrialized and developing countries and the explanations for their occurrence include economy-wide wealth effects associated with favourable movement in the terms of trade, surges in capital inflows, the implementation of market-oriented structural reforms (especially trade and financial liberalization), etc. Using a large cross-country study, he found that wealth effects linked to favourable movements in the terms of trade and anticipated improvements in macroeconomic performance seem to have been more important empirically. On theoretical grounds, it is postulated that a relaxation of liquidity constraints will be associated with consumption boom and a decline in aggregate saving (Reinhart and Tokalidis, 2000). Hence, no analysis of saving and consumption is complete without an assessment of the pervasiveness of liquidity constraints.

In Nigeria, there exists a few numbers of studies in the area of aggregate saving-consumption behaviour. The studies on aggregate consumption-saving behaviour are scanty (see Pinto, 1987; Afolabi and Mamman, 1994; Ikhida, 1994; Nyong, 1997; Essien and Onwiodukit, 1998; Adam, 1998; Obadan and Odusola, 1999). Recently, Afolabi and Mamman (1994), examine the determinants of consumption and the effect of deregulation on saving in Nigeria by adopting cointegration and Error-Correction Model (ECM) for both Pre and Post-Structural Adjustment Programme (SAP) periods (1970-1994). They estimated the equilibrium value of the marginal propensity to save (MPS) before deregulation at 0.12 and 0.23 during the SAP period. They also generated long-run

Marginal Propensity to Consume (MPC) which confirmed the observed high consumption-income (low saving-income) ratio for a developing country like Nigeria. They also found that SAP policies relating to savings mobilization had positive effects on the saving behaviour of individuals in the economy. These results, apart from the limitation that the model contains fewer explanatory variables, cannot be reconciled with the fact that deregulation has led to declining real disposal income of the average Nigerian. Moreover, their results may be regarded as tentative because of the use of approximate values of real disposable income and real consumer expenditure.

In an extension of Afolabi and Mamman (1994) work, Nyong (1997) re-examined if SAP and deregulation have led to increased savings in Nigeria. He added additional explanatory variables to the estimated consumption function, i.e., demographic, liquidity constraints, financial deepening and other variables. Based on the multiple regression and ECM model used for the period 1970-94, the study provides results in direct opposite to those advanced by Afolabi and Mamman (1994). He found that consumption (or saving) was responsive to changes in income but not to changes in interest rate. The MPC was higher during SAP era than during the Pre-SAP period and that the long-run marginal propensity to save (MPS) fell during the SAP era including deregulation, contrary to the empirical evidence presented by Afolabi and Mamman (1994). He concluded that consumption in Nigeria is more related to subsistence considerations and liquidity constraints than to intertemporal consumption smoothing. And that the major determinant of savings is changes in income. The problem of

this study is that the author used aggregate data only for the SAP and pre-SAP era which is too short for any meaningful results between the two eras. This may explain the conflicting results obtained by the two studies.

Obadan and Odusola (1999) examine the linkages between savings, investment and growth in developing and developed countries with the aim of drawing important lessons and to articulate policies for the future. Nigeria is used as a developing country case study. The study based on Granger causality model for the period 1970-1998, finds support for bi-directional relationship between saving, investment and growth. It however observed that the linkages will hold if, there is an increase in the volume of real savings, and a means of collecting and channeling the savings, for investment. Furthermore, there must be some effective means of transforming savings into productive capital. An important lesson emerging from the study is that the level of financial development and integration are crucial conditions for saving, investment and growth correlations. The problem with this study is that, it is not a detailed country-specific study and the model used is very simple. Essien and Onwioduokit (1998) examined empirically the effects of financial liberalization on savings mobilization in Nigeria and ascertain the existence of a long-run equilibrium relationship between them, using co-integration technique. They found financial liberalisation to be a significant factor and that the long-run equilibrium relationship is non-existent. A summary of past related studies is presented in table 3.1 (see appendix).

#### **4. Summary, Conclusion and Recommendations**

With the review thus far, the main

findings are as follows:

- (i) Savings is an important macroeconomic variable which impacts on capital accumulation, productivity, economic growth, and the dependency or otherwise of a country on external resource inflows;
- (ii) The foreign debt that the country accumulated in the 1980s and 1990s are attributable to the low domestic savings, high consumption, among other factors;
- (iii) Although a relatively large number of studies have been done on the subject by other scholars, those by Nigerians on Nigeria are rather few; and their results regarding the determinants of saving are contradictory;
- (iv) Though the savings figures for Nigeria are relatively low especially when viewed in regard to international standards, the cumulative stock per year, the growth rate and the saving/GDP ratio; the trend is nevertheless in the upward posture;
- (v) The contending theories (hypotheses) on saving (consumption) point to the tendency for the community to want to smooth out their consumption over the long-run, however, subsistence considerations and liquidity constraints still plays vital role.
- (vi) Studies on Nigeria indicate that the level of financial development and integration are crucial conditions for saving; thus, financial liberalisation enhances domestic saving

#### **4.1 Conclusion and Recommendations**

The study found that even though the number of financial institutions has increased, saving mobilisation has not increased appreciably. The need to enhance investment and economic growth potentials calls for measures to mobilise savings both in the short-run and long-run. First, the constraints to mobilisation of savings has been identified to include financial repression, fiscal deficits, scanty saving instruments, near non-monetisation of the economy, externalities, negative deposit rates, among others. Consequently, measures suggested to stimulate

savings include financial liberalisation and removal of all distortion to savings, savings enlightenment programme and adopting positive savings culture attitude, introduction of more savings instruments, development of the money and capital markets, reduction of fiscal deficits, macroeconomic stability, and continuation of democracy to ensure stability. Consequently, the area of future research interest can be identified as follows

- Analysis of the financial sector interest rate structure and how to improve on it

- Relationship between saving, investment and growth during regulation and liberalisation
- Building relevant legal, institutional and human capacity to ensure success of financial liberalisation
- Promoting collaboration between academic researchers and policy makers in ensuring both parties have inputs into policy research

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**APPENDIX****TABLE 2.1: Trends in National Savings, 1970 - 2004**

Year	Nat. Saving / GDP Ratio	Nat. Savings (NS) NBn	Growth Rate of NS
1970	0.07	0.34	-
1975	0.08	1.82	5.96
1980	0.11	5.77	3.86
1985	0.17	12.52	1.40
1990	0.11	29.65	2.46
1995	0.05	108.49	-2.2
1996	0.05	132.80	2.24
1997	0.06	177.65	3.38
1998	0.03	198.65	1.18
1999	0.12	272.01	3.70
2000	0.13	379.52	3.95
2001	0.11	488.04	2.86
2002	0.15	592.09	2.13
2003	0.14	840.4	4.19
2004	0.15	1033.4	2.31
2005	Na	Na	Na

Source: CBN Statistical Bulletin(Various Issues)



**Table 2.2: Number of Financial Institutions in Nigeria(1970-2004)**

FIs	1970	1980	1985	1990	1995	1999	2000	2004
Com.Bks	14	20	28	58	64	54	54	92
M. Bks	1	6	12	49	51	38	38	Na
C. Bks	-	-	-	1	1355	1014	881	753
P. Bks	-	-	-	169	278	Na	278	Na
Mo. Bks				169	280	Na	194	83
St. Bro.	-	10	19	80	162	Na	Na	Na
Fin. Co.				45	276	280	280	107
Ins. Co.	43	70	88	103	145	104	57	Na
Disc. H.				3	4	5	5	6
B.de Ch			52	92	223	260	na	293

Source: CBN Statistical Bulletin(Various Issues)

Note: Com. Bks. - Commercial Bank, M. Bks - Merchant Banks, C. Bks - Community Banks P. - Peoples Banks, Mo. Bks - Mortgage Bank, St. Bro. Stock Brokerage firm, etc.

**Table 2.3: Deposit Interest rate Trend in Nigeria (1970 - 2004)**

Year	Deposit Rate	Inflation Rate	MRR
1970	3	13.8	4.5
1975	4	33.9	3.5
1980	6	9.9	6.0
1985	9.5	5.5	10.0
1990	18.8	7.5	18.5
1995	12.6	72.8	13.5
2000	5.29	6.9	14
2001	5.49	18.9	20.5
2002	4.2	12.9	16.5
2003	3.5	14	15
2004	4.4	15	15

Source: CBN Statistical Bulletin (Various Issues)

Note: MRR - Minimum Rediscount Rate

**Table 3.1: Empirical Studies on Savings/Consumption Behaviour**

<b>AUTHOR/YEAR</b>	<b>OVERAGE/ METHOD</b>	<b>OBJECTIVE/COM MENT</b>	<b>RESULT</b>
Adam (1998)	(1970-98) / Econometrics	i) To analyze the efficiency and effectiveness of the financial intermediation process.	The result shows that the financial intermediation process is sub-optimal and caused by high lending rate, high inflation, low per capita income, and inadequate bank branches.
Ghosh and Ostry (1994)	(1965-91)/ Econometrics	i) To test whether precautionary saving is present in developing countries that have uncertain export earnings. ii) To consider the effect of export instability on the external balance.	The precautionary motive has significantly influenced saving behaviour and external balancing of developing countries. This was done through the institution of stabilization funds, accumulating foreign assets and so forth. The precautionary saving effect is stronger for countries with an export base more heavily concentrated in a few commodities than for countries with a highly diversified export structure.
Spatafora and Warner (1996)	(1965-89)/ Econometrics	i) To examine the impact of long-term movement in external terms of trade on savings, economic growth and macroeconomic variables	They found that permanent terms - of-trade shocks have no impact on savings, a strong positive impact on investment, and a negative impact on the current account. There is evidence of a long-run effect on output, particularly of non-tradables. Real exchange -rate appreciation is a key mechanism in

			appreciation is a key mechanism in triggering the resource reallocation. Finally, the response of expenditure to terms-of-trade shocks is not very sensitive to whether the expenditure comes from the public or private sector.
Fuhrer (1992)	(1960-91)/ cointegration/Error-correction model	i) To examine if consumers behave as the life-cycle/permanent-income theory of consumption predicts.	In the long-run, unlike in short-run, movements in consumption, income and wealth are roughly consistent with the life-cycle/permanent income theories of consumption, although consumption does not equal current resources period by period. Consumers who do not follow a rule of thumb appear to deviate from the life-cycle path because of adjustment in the short-run.
Ikhide (1994)	(1979-91)/ macro econometric Model	i) To examine the effect of the external shocks on savings,	External shocks particularly oil price shocks have a major effect on domestic production, export, saving, investment, government finances and credit sourcing.
Afolabi and Mamman (1994) a	(1970-92)/ ECM and Cointegration	i) To examine the determinants of saving and consumption in Nigeria. ii) To investigate the effect of SAP on savings mobilization	They found a high consumption - income (low saving-income) ratio for Nigeria. They also found that SAP had positive effects on saving behaviour of individuals in the economy.

Akano (1988)	1960-1994/ECM	i) To explore the determinants of long-run consumption behaviour in Lesotho	Inflation was not a significant factor of long-run consumption adjustments, but its short -run impact on consumption is significant. Per capita income elasticity of consumption over the period was approximately unity. Consumption behaviour over the period was not significantly influenced by past income and consumption habits exceeding a one year period.
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