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Deregulation In the Nigerian Banking Industry:* A Review and Appraisal

Dr. M. O. Ojo**

The objective of the paper is to review and appraise the process of deregulation in the Nigerian Banking Industry since the adoption of the Structural Adjustment Programme in 1986. As a background, the paper analyses some conceptual and theoretical issues and the regulatory framework before 1986. Deregulation of the banking industry involves the systematic removal of regulatory controls, structures and operational guidelines which may be considered inhibitive of orderly growth, competition and efficient allocation of resources in the industry. The Nigerian banking industry experienced the most intensive regulations between 1958 and 1986. The regulatory framework was supported by major legislations such as the CBN Act of 1958, Companies Act of 1968 and the BankingAct 1969, as well as the vigorous application of the Exchange Control Act of 1962. While the regulations ensured the viability and stability of the banking industry, they tended, through their prolonged use, to reduce the competitiveness and efficiency of the industry. The basic elements of deregulation in the banking industry since 1989 have been the liberalisation of foreign exchange transactions and international trade generally, the introduction of structural and institutional changes and some simplification of the monetary control process. Along with a general improvement in financial intermediation, deregulation of the banking industry has encouraged savings mobilization and increased flow of financial resources to the productive sectors of the economy. However, deregulation appears to have accentuated the problems of poor management, fraud, inadequate infrastructure and scarcity of professional staff. With adequate long-range planning and maximum co-operation with the monetary authorities, the banking industry is likely to experience stronger growth as the process of deregulation gathers momentum.

INTRODUCTION

It is widely recognised that the banking industry, by the nature of its activities, is among the most heavily regulated sector in both developed and developing economies. As financial intermediaries, banks assist in channelling funds from surplus economic units to deficit ones to facilitate business transactions and economic development generally. Since these funds are owned by third parties, prudence demands that such funds should be efficiently managed to sustain the confidence of depositors in the banking system, ensure the continued soundness of the system itself and thereby minimize the risk of bank failures. Apart from this "prudential" requirement, the authorities may want to intervene in the operations of the banking system to correct the shortcomings of the price fixing mechanism in ensuring that what is commercially rational for an individual bank also approximates social rationality as much as possible. For

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** Dr. M. O. Ojo is the Director of Research, Central Bank of Nigeria.

example, interest rates charged by banks may be regulated to encouraged savings mobilization and ensure adequate investments for rapid economic growth. Similarly, the existence of market imperfections and externalities in financial markets, especially in developing countries, has often induced official intervention not only to boost investments, but also to redirect credit to economic sectors with high social but low commercial rates of return.

Experience has, however, shown that government intervention in the workings of any market may not often achieve the intended objectives efficiently. Indeed, such intervention often results in new economic distortions leading to a sub-optimal resource utilization. In order to remove or minimize these distortions, policy makers have often resorted to economic deregulation. Financial markets are usually one of the first sectors of the economy to be subjected to deregulation. The campaign for deregulation of financial markets has been vigorously undertaken in many developed economies. For instance, in the United States, "Regulation Q" which had imposed interest rate ceilings on the deposits of Federal Reserve member banks was abolished in 1983. In recent times, a number of third world countries with heavy debt burdens and dwindling foreign exchange earnings have also adopted policies designed to deregulate their economies, particularly the financial markets. This has usually been carried out as part of comprehensive structural adjustment programmes aimed at ensuring that market forces are assigned greater roles in the allocation of scarce resources. Adopting the same philosophy, Nigeria, as part of its Structural Adjustment Programme (SAP), has commenced the deregulation of its financial system. The process started most earnestly with the liberalization of interest rates and banking structure. At present, the monetary authorities seek to further deregulate the sector by moving away from direct to indirect control of money and credit, involving the manipulation of market-based instruments. Economic deregulation is a delicate exercise which, if not carefully undertaken, may destabilise the financial system and lead to a new set of distortions in the economy.

The objective of this paper is to review and appraise the process of deregulation so far in the Nigerian banking industry against the background of the numerous controls which characterized the industry before the SAP was adopted in 1986. The paper is divided into four parts. Part I examines the conceptual and theoretical background to the policy of regulation and deregulation in the banking industry, while Part II reviews the regulatory regime of the Nigerian banking system from its inception. Part III reviews and appraises the process of deregulation, highlighting the nature, effects and problems of the reforms so far carried out. The final Part contains the summary and concluding remarks including an analysis of the challenges of deregulation in the banking industry.

PART I
CONCEPTUAL AND THEORETICAL BACKGROUND

Economic regulation in general embraces all types of controls which government imposes on economic and business activities. Economic regulation is a right claimed by all governments in both free market and centrally planned economies. However, in a free market setting which best describes our economic system, government regulatory role was traditionally most active in the area of public utilities. This first stage of regulation has usually been followed by a wide range of controls on both the domestic and external sectors, leaning heavily on some defined economic philosophy but quite often having a political undertone. At the peak of regulation, government can be observed actually participating in some non-traditional public sector activities in efforts aimed at fostering competition and improving economic efficiency. When regulation fails, as it often does, the process of deregulation inevitably begins in a bid to avoid a collapse of the whole system. Economic deregulation in the present context may be defined as the deliberate and systematic removal of regulatory controls, structures and operational guidelines in the administration and pricing system in the economy. The underlying philosophy of the deregulation of an economy or its component segments is the belief that factors of production, goods and services are optimally priced and allocated when their prices are freely determined in a competitive environment. The symptom that often precipitates the need for deregulation is the prevalence of supply/demand gaps in both the product and factor markets. In the financial markets, the gap manifests itself in a savings/investment imbalance, the prolonged existence of which is not conducive to long-term economic growth. The deregulation of the financial markets by eliminating distortions such as those emanating from subsidised interest rates and credit rationing will most likely improve economic efficiency and the productivity of investments.

In the process of financial deregulation, market interest rates, because of their important role in macroeconomic policy, assume a high level of significance. An interest rate policy has a major influence not only on domestic expenditures, inflation and external payments, but also on long-term accumulation of savings and the level and composition of domestic investments. The real domestic interest rates must be high enough to ensure an equilibrium level of savings/investment disequilibrium. Conversely, equilibrium in the domestic market for savings would occur at positive interest rates which ensure an increase in the supply of either domestic or foreign savings, assuming such supply is interest-elastic, to guarantee some reasonable level of private sector investments. This analysis therefore suggests that the elimination of distortions in the market for financial savings would be expected to yield a significant gain in terms of achievement of a higher rate of domestic private fixed capital formation and growth of output that was hitherto practicable.

Extensive controls on interest rates and other elements of the financial markets have been motivated by a variety of factors, including the desire to influence the flow of credit to preferred sectors of the economy and the concern that market-determined interest rates could result in serious imperfections in the market. It has, for instance, been argued that since domestic financial markets are to some extent structurally oligopolistic, the freeing of interest rate from controls might lead to sharp increases in lending rates that would increase the cost of capital and thereby discourage investment. Moreover, such high nominal interest rates would also increase the cost of servicing the public debt. While the above phenomenon has some empirical foundation, especially in developing economies, controls have nevertheless often induced high negative real rates of interest, resulting in the decline of holdings of domestic financial assets and the accentuation of the problem of capital flight. When such developments occur, they usually severely restrict the availability of credit and thereby inhibit investment. Since available credit is offer first allocated to large enterprises, credit for small and medium-sized firms may be severely limited, even though their investments could yield higher rates of return.

Thus, in order to increase the availability of credit, interest rate policy should be used to encourage the accumulation of domestic financial assets by offering holders of these assets sufficiently attractive rates. At the same time, other structural reforms could be used to increase the efficiency of the financial system. Such reforms include the removal of regulations impinging on the number of existing financial institutions and, where appropriate, support for the broadening of the range of financial instruments. A well-developed and reasonably free financial sector is, therefore, crucial both the mobilizing financial savings and for efficiently channelling such savings into productive investments. These are the considerations which justify the deregulation of the financial system as a key element in most structural adjustment programmed. It should be emphasised, however, that deregulation is not to be interpreted to mean the absence of all regulations. Deregulation attempts to rationalise the existing regulatory framework in such a way that efficiency and competition will be further promoted for the growth of the industry and the economy as a whole.

PART II
THE REGULATORY FRAMEWORK OF THE NIGERIAN BANKING INDUSTRY

In order to fully appreciate the significance of the deregulation that has been embarked upon in the banking industry in recent years, it would be expedient to review the regulatory framework and performance of the industry prior to the adoption of SAP. This was the era when the banking system was characterized by a series of regulations which were rightly meant to guarantee the survival of the system itself. It should, however, be noted that many of the banking regulations of this period are still in force today.

A Perspective of Banking Regulations

The Nigerian banking scene before 1986 was characterised by changes designed to promote banking in the country. The changes may be categorized into three phases: namely, the era of laissez- fair banking (1894-1952), era of limited banking regulations (1952-1958) and the regime of intensive regulations (1958-1986). During the first phase, banking business was monopolized by foreign banks, principally the African Banking Corporation which was the precursor of the former Standard Bank and the present First Bank of Nigeria, the Colonial Bank which predated the former Barclays Bank and present-day Union Bank, and the British and French Bank, the for-runner of the present United Bank for Africa. Alleged discrimination against Nigerians by these banks led to the establishment of some indigenous banks which unfortunately offered little or no competition to the foreign banks essentially because of their weak capital base and poor managerial capacity. Consequently, all but three of the indigenous banks failed.

The enactment of the Nigerian Banking Ordinance in 1952 introduced some form of regulations into the Nigerian banking scene. The ordinance laid down the standard and procedure for the conduct of banking business by prescribing the mandatory minimum capital requirement for banks and introduced regulations to check bank failures. However, all the indigenous banks established in the country during this period also all failed. The bank failures of this era were attributed largely to the monopolistic structure of the banking industry which allowed the foreign banks to enjoy exclusive patronage from the British firms.

The period 1958-1986, which may be aptly described as the regime of intensive banking regulation, began with the enactment of the Central Bank of Nigeria Act of 1958 which gave legal backing to the establishment of the Central Bank of Nigeria (CBN). This Act empowered the CBN to promote and integrate the Nigerian financial system. Thus, the CBN was able to outline regulatory measures to effectively stem the tide of bank failures that followed the first banking boom. Consequent upon this new and encouraging climate, more commercial banks sprang up in the country. For instance, between 1959 and 1960, eight new commercial banks were established, bringing the total number of commercial banks to 12 which increased further to 17 by 1962. Under the 1968 Companies Act, foreign-based banks operating in Nigeria were obliged to be incorporated in the country. During this period also, government acquired controlling shares in a number of foreign banks including the "Big Three" commercial banks namely, First Bank, Union Bank and United Bank for Africa. Two other sources of banking regulations were the Banking Act of 1969 and the Exchange Control Act of 1962. The Banking Act of 1969 generally provided for the regulation and control of the monetary and financial system. Specifically, it made provisions for the granting of licenses to banks while imposing restrictions on the activities of licensed banks. The Act also made provision for the CBN to exercise its powers in maintaining monetary and financial stability in the economy, the stipulation of liquidity and capital adequacy requirements, certain categories of investments banks cannot undertake, as well as limits on interest rates and bank lending to the private sector. The Exchange Control Act of 1962 was not aimed at banks directly, but since foreign exchange transactions are mostly carried out through the banking system, the existing foreign exchange regulations would necessarily restrict the actions of the banks. The 1962 Act, whenever it was rigorously applied during periods of scarce foreign exchange resources, ensured that foreign exchange was allocated to the priority sectors of the economy.

Nature of Banking Regulation

Having outlined the sources of banking regulations, it is necessary to examine their various forms and how they were applied prior to SAP. Three categories of banking regulations will be considered - statutory regulations, Central Bank's guidelines and other regulations incidental to performing the functions of the CBN.

(a) Statutory Regulations

The main statutory regulations are specifically stated in the banking laws - the Central Bank Act (1958) and the Banking Act (1969). These laws stipulate the duties of banks and the penalty for default. Some of the regulations specify the requirements for the maintenance for reserve funds, disclosure of interest by directors and other bank officials, keeping books of accounts, restriction on payment of dividends and other activities of the banks. These and other rules are designed to protect all the interest groups in banking development-shareholders, management, workers, customers, as well as the banking system and the economy generally. The rules, while recognising the right of shareholders to earn their dividends, ensure that banks remain viable and strong for the benefit of all parties. Other objectives of the banking regulations are to ensure that banks have honest and dedicated staff, keep books of accounts to enable them render regular returns to the regulatory authorities within the prescribed time limit. The regulations are designed also to give direction to the banks in the preparation and publication of profit and loss accounts and balance sheets and the appointment and powers of auditors-all of which are expected to enhance sound banking practices and thereby enable the banks to carry out their major function of financial intermediation.

(b) Central Bank Guidelines

In addition to the statutory regulations, the Central Bank is empowered to make other rules which are to foster monetary stability and a sound financial structure. These extra rules are usually reflected in the regular Central Bank's guidelines to banks. In the period before SAP, the important regulatory instruments were the stipulation of cash reserve requirement and liquidity ratio, the call-up of special deposits and issue of stabilization securities, as well as the direct regulation of interest rates and growth and sectoral distribution of bank credit.

Introduced in the 1976/77 fiscal year, the cash reserve ratio was designed to influence the liquidity of banks and their ability to grant credit. In this regard, the CBN prescribed ratio ranged between 2 and 5 per cent , only commercial banks were subject to this guideline. The other variant of reserve requirement- liquidity ratio-was originally fixed at 25 per cent mainly to safeguard the ability of banks to meet their depositors' cash withdrawals and ensure confidence in the banking system. Subsequent legislative amendments gave the Central Bank not only the power to alter the composition of the liquid assets for the compilation of the liquidity ratio but also to change the liquidity ratio itself, though it remained unchanged at 25.0 per cent during the pre-SAP period.

The CBN's power to call for special deposits from banks has been found to be a useful supplement to cash and liquidity ratios. This instrument was used on a number of occasions during the pre- SAP period. A related instrument -stabilization securities-which was introduced in 1976, was retired in 1979 and was not utilized again in the pre-SAP era. Another important tool of control was the direct regulation of interest rates. Up to July 1987, interest rates were determined administratively by fixing the ranges within which both the deposit and lending rates were to be determined by banks. It is pertinent to note that the most popular tool of regulating the lending activities of banks prior to SAP (and even now) was the specification of ceilings on their credit expansion and indication of sectoral allocation of the permissible quantum of credit. It may be observed that the banking regulations emanating from the CBN guidelines assist mainly in the process of monetary control which is essential for economic stability. In the main, the tools of direct monetary control are virtually inevitable in undeveloped financial markets, while the general evidence is that monetary authorities usually face problems in their application.

(c) Regulations Arising From Some CBN Functions

Apart from regulations arising directly from the statutes or the regular CBN guidelines, other rules emanate from certain functions of the Central Bank. For example, as the bankers' bank, the CBN decides the amount of overdraft it can allow each bank. It has also the opportunity to advise the banks or to hold consultations with them. For example, the Bankers' Committee meetings provide opportunities for interactions with the banks. The Central Bank also uses it s supervision of the cheque clearing houses to monitor the activities of banks. Besides, the Bank is involved in the selection of applications for banking licenses.

(d) Monitoring And Enforcement

Having identified the sources and nature of banking regulations, it remains to examine how the regulations are enforced. There are two major ways through which the CBN monitors the activities of the licensed banks in order to assess their compliance with the regulations. The first is the appraisal of their statutory returns to the CBN. This enable the CBN to analyse bank's performance with a view to determining what new strategies to adopt to enhance future performance. Such analysis also helps the Bank to make recommendations to government on policies affecting the banks. Apart from appraising the bank's statutory and other returns, the CBN goes further to examine the books of the banks in order to ensure that they comply with the regulations set for them in the statutes and the Central Bank guidelines. In the process of supervising the affairs of the banks, defaults may be detected and are usually penalised. The major penalties for default are fines, the confiscation of the equivalent of credit excesses or shortfalls by the CBN and withdrawal of some privileges.

Appraisal of Banking Regulations

The effects of banking regulations in Nigeria prior to SAP could be described as mixed. While some of the effects were salutary, others could be considered counter-productive. Banking regulations -whether statutorily or discretionarily administered by the regulatory authorities - had some salutary effects on the banks and their customers. They, no doubt, positively influenced the viability of banks in Nigeria. This fact is best appreciated if we recollect the constant bank failures during the laissez- fair banking practices of the 1940's and 1950's. Between1951 and 1852, for example, about 17 new indigenous banks were established, but only one of them survived beyond two years. The free-for-all banking practices of the period, especially before the Banking Ordinance of 1952, no doubt, encouraged the factors which led to bank failures. The factors included inadequate capital and staff, structural handicap and poor management. Following the Ordinance and subsequent banking laws-the Central Bank Act and the 1969 Banking Act, bank failures gradually disappeared from the Nigerian scene. This will tend to corroborate the view that the protection of banks has been the central aim of the regulations. Banking regulations, by promoting the viability of banks, encouraged increased investment in the banking industry and consequent growth in banks and the services they rendered.

Despite the benefits just highlighted, a number of problems arose from the banking regulations, especially in the period immediately before SAP, and questioned the entire mode of banking regulation. The main approach to banking regulation in the period SAP involved the use of direct controls. The degree of compliance varied among the banks with some of the banks making good effects at compliance. For some of the regulations, the banks bad no other alternative than to comply. For example, when the CBN required banks to make special deposits with it, they had no room to manoeuvre, especially if the special deposits could be transferred from the banks' current accounts at the CBN. Besides, the Central Bank's control, through the withdrawal of privileges or facilities, tended to compel compliance. The major areas of default were the cases where the banks had room and incentive to manoeuvre. For example, on the average, most banks defaulted on the ceilings imposed on their credit expansion and the guidelines on the sectoral allocation of their credit. The rapid increase in the number of banks since the 1970s increased the burden of monitoring individual banks and therefore made enforcement or regulations more difficult. The banks exploited this loophole by circumventing the controls, through window dressing and the use of off-balance sheet items to hide relevant information about their operations, thereby increasing the difficulty of the regulatory authorities in getting appropriate information for enforcing the regulations. In an attempt to get the growing number of banks to comply with the rules, the regulatory authorities diverted more of its resources to the enforcement of compliance with credit ceilings and related direct controls. Furthermore, the focus of pre-SAP regulations on direct controls resulted in declining competition in the banking industry as each bank's market share became strictly determined by credit ceilings and administratively fixed interest rates. Efficiency of the system was reduced as banks were allowed the same proportional expansion in credit irrespective of the level of their efficiency. Above all, regulations gave too much room to fraudulent and corrupt practices within the system.

PART III
THE PROCESS OF DEREGULATION IN THE NIGERIAN BANKING INDUSTRY

Measures of Deregulation

One could safely say that the era of deregulation of the Nigerian banking system came with SAP which has assigned a pivotal role to market factors in the pricing and allocation of resources for development. The measures of deregulation so far implemented in the banking system cover such areas as interest rates, licensing of new banks, sectoral allocation of credit, withdrawal of public sector deposits, and the use of an auction method in the issuing of treasury securities.

Although the stance of monetary policy has remained generally tight since the adoption of SAP in a bid to restrict aggregate demand and curtail inflationary pressures, there has nevertheless, been a conscious move towards ensuring a more market-oriented banking system. This has been predicated on the need to facilitate the mobilization of financial savings and encourage a more efficient allocation of such resources. In a significant departure from previous policies, the tight control over interest rates has since 1987 been removed to enable banks charge market rates of interest and also pay competitive rates to their depositors. In order to further boost savings mobilization, the spread between deposit and lending rate was narrowed further during the course of 1986, followed in 1988 by the complete elimination of lending rate differentials among economic sectors. The classification of the economy into may sector/sub-sectors for the purpose of allocation of bank credit which had let the banks with little or no discretion in their credit operations has also been revised to ensure greater flexibility for banks. The number of sectors was first reduced from eight in 1985 to four in 1986 and further to two in 1987, with agriculture and manufacturing (including tourism recently) rated as high priority sectors, while all other sectors constitute the second category. There is a plan to completely abrogate the entire classification when the system has acquired a built-in feature that would not unduly discriminate against productive activities.

Furthermore, in keeping with the policy of deregulation of the economy in general and the banking sector in particular, government has continued to license more new banks, irrespective of pressures for restraint, provided proprietors of proposed new banks show evidence of ability to operate on professional basis. Consequently, the period since SAP has witnessed an upsurge in the number of new commercial and merchant banks. For instance, between 1986 and 1990, a total of 46 new commercial and merchant banks opened for business, and about 25 others had been granted licenses but were yet to start business. Thus, at the end of 1990, the total number of banks was 106, while the number of bank branches/offices also increased from 1,655 in 1985 to 2,025. In order to protect the system from the adverse effect of such open door policy on the licensing of new banks, the minimum paid-up capital of commercial banks was increased from ₦10 million to ₦20 million and that for merchant banks, from ₦6 million to ₦12 million. Recently, these capital requirements were again raised to ₦50 million for commercial banks and ₦40 million for merchant banks, the rational being to ensure a sound capital base for effective and competitive banking operations in the light of the sharp depreciation in the exchange value of the naira. Towards the end of 1990, a set of prudential guidelines and accounting standards for licensed banks were also introduced which are essentially complementary to the capital adequacy rules. These recent actions of the monetary authorities would suggest that deregulation is not absolute but needs to be supported by reasonable rules which will ensure the stability of the system.

The period of deregulation has also witnessed a number of strategic institutional changes in the banking system in Nigeria designed to prepare the industry of further deregulation. Among these changes was the take-off of the Nigeria Deposit Insurance Corporation (NDIC) charged with the responsibility of insuring bank deposits against bank failures and ensuring safe and sound banking practices through effective monitoring and supervision of the banks, in collaboration with the CBN. Given the fear being expressed about the proliferation of banks and the possibility of bank failure as the system has become more competitive, the establishment of the NDIC is intended to instill greater confidence in the banking system.

Another notable action which has placed the banks at greater alert in a period of deregulation was the withdrawal of public sector deposits from the banking system which has had the effect of separating banks from such public sector funds which had been known to discourage healthy competition in savings mobilization. Another was the introduction of the use of an auction-based system for the issuing of treasury securities whose principal objectives are the promotion of greater reliance on market forces in the determination of yields on government debt instruments through market-determined interest rates and efficient management of public debt. Since September 1989, banks have also been directed to adopt uniform definitions in reporting some transactions which were treated differently hitherto.

It is instructive to add that the process of deregulation is ultimately expected to culminate in the adoption of the indirect techniques of monetary management which use market-oriented instruments of monetary and credit control. These would involve the use of cash reserve/liquidity ratio requirements, and open market operations instead of credit ceilings to target the desirable level of money supply and credit that would guarantee stable, non-inflationary economic growth. The monetary and credit policy measures outlined in the 1991 Budget made a modest start towards implementing this monetary control system by defining a more effective cash reserve requirement of all banks. With a view to targeting broad money, the CBN redefined the cash reserve requirement on the basic of all deposit liabilities of the banks. The Bank continued its policy to put all institutions in the system on equal footing in its policy framework. The issue of stabilization securities for mopping excess liquidity in the system has assumed some significance and it is envisaged that more market-based CBN securities would emerge in the future. Apart from the monetary and banking reforms described above, the operations of the official foreign exchange market has been radically modified since 1986. The adoption of a floating exchange rate system in which the price mechanism allocates foreign exchange among competing uses has bad the effect of reducing if not, eliminating the pains previously experienced by the banks in administering foreign exchange policies under the Exchange Control Act 1962. To complement this strategy, external trade activities have been substantially liberalised which has further simplified the process of international trade transactions through the banking system.

Effects of Deregulation

At present, the full impact of deregulation on the banking industry can hardly be sufficiently evaluated since most of the expected effects can only be fully apparent in the medium to long-term. Besides, the financial system is still subject to some fundamental direct controls which will likely obscure for sometime the effects of the reforms already undertaken. In a more rigorous impact analysis, some important elements such as the level and structure of interest rates, growth of the banking sector, competitiveness and efficiency of the system, the quality of banks' loan portfolios and the system's integration with the international banking system would need to be evaluated, which is not possible at the moment. Our review will therefore be rather general and preliminary in nature. In the last five years, some position developments have been observed in the industry which may be directly or indirectly attributed to the deregulation undertaken so far. At the same time, some aspects of deregulation have resulted in unintended, negative side effects.

(a) Positive Effects

There is ample evidence that the deregulation of interest rates has engendered very keen competition in the banking industry, resulting in the adoption of new strategies by banks to attract deposits and encourage savings. As a result, total financial saving have risen from N11.5 billion in 1986 to ₦27.9 billion at the end of 1990. However, the rapid and significant shifts in interest rates observed during the period were of serious concern to the monetary authorities because such high rates could retard productive investments and growth. This led to the slight modification in the policy from total deregulation of interest rates to the present transitory requirement of requesting banks to justify their interest rates by reference to their actual cost of funds. The monetary authorities were compelled to take this step as a cursory observation would show that financial costs could no longer be regarded as an insignificant proportion of total production costs. The effect of high interest rates on domestic output could be negative especially when considered in relation to the cost increases already generated by the measures of trade and exchange rate liberalisation. Also, the authorities felt that the prevailing interest rate levels before the recent guidelines were out of equilibrium. Some of the indications were the rapid decline in the inflation rate and growth in domestic liquidity, as well as the imperfections in the money markets which have encouraged inefficient pricing. It was consequently felt that interest rate management could be productive pending further reforms in the banking system.

Also, in the area of credit policy and portfolio selection, a new sense of rationality has emerged following the gradual deregulation of the policy of sectoral allocation. Ease of access to credit has been widely observed, even though a few banks still default in lending to the preferred sectors. Many entrepreneurs are, however, diversifying their sources of credit away from formal financial institutions to the capital market where the opportunity cost of capital is relatively low. Financial liberalization has also brought about unprecedented growth in the number of banks operating in Nigeria, especially since 1986. The trend is that many more banks are likely to come into the scene, in spite of the increase in paid-up capital requirements. This is likely to ensure even keener competition in the industry, through the emergence of new financial products in the money market.

(b) Some Associated Problems

In spite of the improvements highlighted above, the banking sector is still be set with a number of problems, although these have not been due solely to but probably accentuated by the process of deregulation. Prominent among these are poor management, increase in fraudulent practices, inadequate infrastructure and scarcity of professional staff. The problem of dearth of managerial staff has manifested in frequent turnover of bank executives, frauds, forgeries, litigations, weak internal controls and contravention of statutory banking regulations. Large scale frauds in the system also derive from the predominance of banking of banking documents most of which could easily be forged. It is also pertinent to state here that banking services are still relatively inefficient. The expectation that the increase in the number of banks would result in a significant improvement in the quality of bank services has unfortunately not materialized. Rather, the general impression appears to be that, even though the so-called era of "armchair" banking has gone, the quality of banking service in terms of the promptness of the services and courteousness to customers has not improved appreciably. One factor which is largely responsible for long delays in the provision of banking services is the unduly voluminous documentation which customers have to deal with before simple transactions are effected. This is partly because many banks are yet to get involved with the computer technology and partly because the momentum of change has not been thoroughly appreciated by many of the banks. It is expected, however, that as deregulation progresses further, the documentation problem will be moderated. Lastly, there is the question of whether the country is now over-banked. Many have argued that, in spite of the sharp increase in the number of banks and bank branches, the bank density per population has been stagnant if not declining, given the high rate of population growth. There is also the fact that most of these banks and their branches are located in urban centers, while the rural areas are still grossly starved of banking service.

PART IV
SUMMARY AND CONCLUDING REMARKS

This paper has reviewed the various measures of deregulation in the Nigerian banking industry against the background of the excessive regulations which characterized the industry in the last four decades. It was clear that banking regulations during the early evolution of the industry in Nigeria served some useful purpose, especially in ensuring the viability and stability of the industry. However, with prolonged use of some regulations, a number of negative effects emerged prominent among which was the loss of competitiveness and therefore efficiency in the banking industry. Furthermore, excessive regulations led the banks to adopt various methods to circumvent the direct credit controls by window-dressing statutory returns to the monetary authorities, practices which severely lowered the impact of the banking system while taxing the resources and efforts of the Central Bank in trying to monitor compliance with the various regulations. Perhaps, the most serious shortcoming of the banking industry under the spell of regulations was the tendency towards the promotion of a sub-optimal pricing and allocation system of financial resources resulting in disincentives the savings and inadequate resources for investment.

On the other hand, deregulation of the banking industry has encouraged savings mobilization and improved access to bank loans. Available evidence has shown that financial intermediation has improved significantly since deregulation started about five year ago. Deregulation has also brought about a significant increase in the number of banks operating in Nigeria. There is consequently keener competition in the industry, resulting in the emergence of a range of new products. Indeed, as it is now widely acclaimed, the era of "armchair" banking is gone. There are of course a number of problems which have emerged or accentuated with the deregulation. Among these are the high cost of bank lending with its attendant adverse impact on domestic investments and the general business climate. There is a consensus too that the quality of banking services has not improved to the extent anticipated, while fraudulent practices in the industry have escalated. On balance, however, there is no gainsaying the fact that the advantages of deregulation have so far out-weighed the negative effects, given the background of the economic problems which led to the adoption of SAP. And as with SAP itself, there is hardly a more viable alternative strategy to the on-going process of deregulation in the banking industry for structural growth and development of the Nigerian economy.

Certainly, the transition from intensive banking regulation in Nigeria has been highly demanding. One must hasten to add that the efforts so far made to deregulate the banking industry have mainly served to clear the ground for a fuller deregulation. As we are all aware, the final stages in the process of deregulation of the banking system would involve the use of indirect instruments of monetary and credit control which relies on market-base instruments such as the cash reserve and liquidity ratio requirements and open market operations to regulate the monetary base and therefore the banks' money creation capability. Although it has its limitations, this system of monetary management has overwhelming advantages. The instruments involved are easy to administer and flexible. Moreover, they do not interfere with competition among banks, while they encourage greater efficiency in the use of funds. However, the successful manipulation of these instruments required prompt availability of reliable date on the liquidity position of banks. Banks would therefore render returns to the monetary authorities more efficiently than at present. The performance of banks with regard to efficient rendition of returns to the CBN has been very poor which limits the ability of the Bank to effectively monitor monetary and credit developments. This is neither in the interest of the industry nor of the economy as a whole. The use of market- based instruments of monetary and credit control is also incompatible with the existence of insolvent banks. Such banks must improve their performance in order to survive under the new control system. The monetary authorities would still need to make regulations to ensure the stability of the system. This is likely to take the form of prescribing new financial reporting standards, and prudential guidelines which have already been introduced, for all banks and even non-bank financial institutions. This underscores the desirability of strengthening the monitoring and supervisory powers of the monetary authorities in order to ensure that the deregulation of the banking industry does not lead to anarchy. Consequently, banks should be aware that full banking deregulation would involve some regulations initially. However, these regulations only help to strengthen the infrastructural base of the system and once they are implemented they need not subject the operations of the banks to the instability observed in the past. The application of the regulations demands maximum cooperation between the banks and the monetary authorities.

From the foregoing, it is obvious that deregulation of the banking industry would in fact impose more responsibilities on bank executives than hitherto. Bank executives must continue to be effective and innovative in the way they manage the affairs of their banks if they must stay in business. Besides, bank officials must now see themselves as being jointly responsible for any illegal activities involving their banks. Furthermore, one would expect that, since the effective use of instruments of indirect monetary and credit control would require prompt supply of reliable data from banks, bank executives must ensure that the accounts of their banks are balanced promptly. This would call for a comprehensive computerization programme of banking operations if such statutory returns are to be made as required. Finally, it is necessary to emphasize the importance of a comprehensive training scheme for all cadres of bank staff in different aspects of the knowledge and skills involved in effective banking operations under the regime of deregulation.

In conclusion, it needs to be restated that the health of an economy depends on its ability to generate growth, ensure price stability, boost employment and enhance equitable distribution of income in the medium to long-term. It is against this criterion that the success of Nigeria's experiment with economic deregulation must inevitably be assessed. We have the firm view that the pace of attaining a self-sustained growth and stability is enhanced in an environment which is devoid of inhibiting bureaucracy and where private initiative and creativity through unfettered and dynamic entrepreneurship is enthroned. Owing to the pivotal role of a viable banking system in the development of the economy, bank executives must see themselves as having a unique opportunity in helping to shape the direction of the Nigerian economy. While it is legitimate for bank executives to want to derive maximum short-run benefits from the system, it should be recognised that it is only when the economy experiences a genuine and lasting transformation that such benefits can be sustained. It is therefore of utmost importance for banks and their executives to regard themselves as part of a whole that is in dire need of tangible progress.

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