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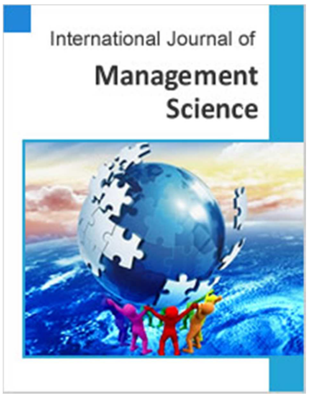

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Macro-Economic Policies and the Performance of Nigerian Financial Institutions

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Abstract
This study was undertaken to determine the effect of macroeconomic policies on the financial sector of the Nigerian economy over a period of ten years (2007-2016). Macroeconomic policies used were monetary, fiscal and commercial and their instruments were deposit rate, government expenditure and import duties respectively. The interrelatedness between the measuring instruments was analyzed using regression analytical tool. The findings revealed that fiscal and commercial policies had significant relationship with deposit liability of money deposit banks thus we concluded that macroeconomic policies affect the operations of financial institutions specifically money deposit banks. Hence, we recommended that government through CBN should institute workable macro-economic policies that will affect the economy in a whole.

1. Introduction

The existence of an effective financial sector is necessary for every economy because it creates the necessary environment of economic growth and development through its role in intermediating funds from surplus sector to deficit sector of the economic units. The financial sector are made up of financial intermediaries whose activities are for collection of savings and lending, thus standing in between the ultimate lender and the borrower and matching the investment requirement of the lender [4]. This stimulates investment as well as international trade and balance of payments. In playing this important role of financial intermediation, the effects of macroeconomic policies such as monetary, fiscal and commercial on their operations will not be overlooked as these policies determine to a great extent their effectiveness in contributing to the national economic bottom line.

1.1. Background to the Study

The extent to which macroeconomic policies affect the activities of financial institutions have been widely argued over the years, it is equally accepted that monetary policy alongside other policies affect economic and financial performance of any economy [4]. There are divergence views on the extent of the effects and the channels through which these effects are achieved. This is particularly relevant in the Nigeria setting where the money and capital market are under-developed and Nigerian government has over the years adopted various instruments of monetary policy to regulate and control the cost, volume, availability and direction of money credit and also the performance of commercial banks.

On the other hand, most financial intermediaries are often apathetic towards channeling resources to productive investment even in the face of lower interest rates. All these factors have been cited as limiting the performance of monetary policy in Nigeria. Meanwhile, severe structural supply constraints are deemed to inhibit expansion of output even when the demand for it increases. An expansionary monetary policy consequently often results in inflation rather than output growth.

1.2. Statement of Problem

The financial intermediation function of the banking sector presupposes the needs to satisfy the ultimate goals of the sector. Like other private sectors or enterprises, banks have private goals (other than the necessity to effectively perfect the intermediation role) of profitability, liquidity and solvency. Profitability is perhaps more important for financial intermediaries, like banks because it is an evidence of strengths and progress and it helps to generate and radiate confidence in the bank.

Banks do not operate in a vacuum; they operate within the framework of the monetary and banking policies provided by the economy. Nigeria has over the years employed these policies at one time or the other to regulate and control the cost, volume, availability and direction of money credit in order to influence the broader objectives of the policy which include price stability, high level of employment, sustainable economic growth development and balance of payments.

According to [13], the management of the Nigerian economy in order to achieve macroeconomic stability has been unproductive and negative hence one cannot say the Nigeria economy is performing. This is evidence in the adverse inflationary trend, government fiscal policies, undulating foreign exchange rates, the fall and rise of gross domestic product, unfavorable balance of payments as well as increasing unemployment rates are all symptoms of growing macroeconomic instability. As such, the Nigeria economy is unable to function well in an environment where there is low capacity utilization attributed to shortage in foreign exchange as well as the volatile and unpredictable government policies in Nigeria [8].

This raises a number of fundamental questions - what are the precise channels through which monetary policy affects the performance of commercial banks in Nigeria? To what extent has the application of monetary policy in Nigeria brought about sanity in the operation of commercial banks?

1.3. Objectives of the Study

This study basically aims at examining the impact of macroeconomic policies on the performance of the financial sector in Nigeria over a period of ten years (2006-2016); however, other specific objectives include;

i. To examine the impact of monetary policy on the performance of financial sector
ii. To examine the effect of fiscal policy on the performance of financial sector
iii. To ascertain the impact of commercial policies on the performance of financial institutions in Nigeria

1.4. Research Questions

i. What is the impact of monetary policy on the performance of financial sector?
ii. Does fiscal policy affect the performance of financial sector in Nigeria?
iii. To what extent do commercial policies affect the performance of financial institutions in Nigeria?

1.5. Research Hypotheses

Based on the research objectives and questions, the following null hypotheses are stated:

H_{01}: There is no significant relationship between monetary policy and the performance of the financial sector in Nigeria.

H_{02}: Fiscal policies do not have significant relationship with the performance of the financial sector.

H_{03}: There is no significant relationship between commercial policies and the performance of the financial sector in Nigeria.

2. Conceptual Framework on Macroeconomic Policies

The cyclical fluctuations in the country's economic activities has led to the periodical increase in the country's unemployment and inflation rates as well as the external sector disequilibria [7]. In other words, fiscal policy is a major economic stabilization weapon that involves measure taken to regulate and control the volume, cost and availability as well as direction of money in an economy to achieve some specified macroeconomic policy objective and to counteract undesirable trends in the Nigerian economy [6].

Fiscal policy is defined as a deliberate use of government taxation and expenditure measures as a means of achieving some derived objectives in the economy. Some of these objectives are; full employment of productive resources, stable price level and economic growth, and balance of payment equilibrium.

Fiscal policy refers to discretionary changes in level and timing of government expenditure and revenue fiscal expenditure if directed at the productive sector of the economy would be capable of increasing output in the desired direction. However, excess of expenditure over revenue results in deficit and should be checked to forestall from occurring. Fiscal deficit tends to have more adverse effects on monetary aggregates and inflation if financial mainly by the banking sectors since the second half of 1980s, the federal government fiscal deficits have been financed by the central bank of Nigeria. Following the adoption of indirect techniques of monetary control, the strategy had been that budget deficit would be finance by the money market [16].

Fiscal policy is undoubtedly one of the most important tools used by government to achieve macroeconomic stability of the economy of most developing countries [15]. Therefore, the attempt to empirically test the efficacy of monetary and fiscal policy in an economy dates back to the pioneering studies of [5] who empirically investigated the responsiveness of general price level on economic activity represented by aggregate consumption to change in money supply and autonomous government expenditure using ordinary simple linear regression model to estimate the US data from 1897-1957. In their conclusion, they found out that a stable and predictable causal relationship existed between demand and money supply while no such significant relationship was observed for government expenditure [3]. Hence, there was a stable aggregate and money supply for the period.

[2] in their study found out that monetary policy rather than fiscal policy exerts a great influence on economic activity in Nigeria. They therefore observed that the emphasis of government fiscal actions on the economy has led to a greater distortion of the Nigerian economy. [10] in his study also confirms that the growth of financial aggregates in real terms have positive impact on economic growth of development countries, irrespective of the level of economic development attained.

Monetary policy refers to the combination of measures designed to control the supply of money and credit conditions in an economy [12]. The purpose of monetary policy includes macro-economic goals of full employment, economic growth, price stability, wealth distribution, efficient resource allocation, favorable balance of payment and industrial development [11]. A key function of Central Bank of Nigeria is to promote and maintain monetary stability and sound financial system [16]. This function has facilitated long term planning, aid infrastructural development, attract foreign investments and engender economic growth [1]. In Nigeria the Central Bank is responsible for the promulgation of sound monetary policies in order to aid the attainment of the set objectives. The formulation of fiscal policies, which also affects the achievement of the above objectives, however falls on the wider government, particularly the Ministry of Finance. Given that both monetary and fiscal policies impact on economic growth and development, it is not surprising that they are entwined [1]. Fiscal policy comprises taxation, public expenditure, reliefs, concessions and fiscal incentive policies. Government fiscal measures can be categorized into two which include Automatic Stabilizers and Discretionary Fiscal Policy Measures. The Automatic stabilizers are government spending or tax actions that take place without deliberate government control which tend to affect the business cycle [12]. Whereas, discretionary fiscal policy are government spending and tax actions that are taken to achieve specified macroeconomic goals [9].

Accordingly, commercial policy (also referred to as a trade policy or international trade policy) is a governmental policy governing economic transactions across international borders. This covers tariffs, trade subsidies, import quotas, Voluntary Export Restraints, restrictions on the establishment of foreign-owned businesses, regulation of trade in services, and other barriers to international trade.

3. Data Presentation and Analysis

According to [14], the major purpose of survey research is to determine general characteristics and opinion of a population. Therefore all data must be summarized to achieve this objective.

The data has to be classified and presented in a form that will make the important features of its variables easy to analyze. However, this chapter deals with the presentation and analysis of the data concerning macroeconomic policies and the corresponding effects of these policies on the financial sector of the Nigerian economy from CBN statistical bulletin for the purpose of empirically testing the hypotheses formulated for the study.

4. Data Presentation

The following data presented below were gotten from Annual reports of the banks under study. The data is presented below:

Table 1. *Instruments of Macroeconomic Policies on the Financial Sector for the period (2007-2016).*

Years	Govt. Spending	Deposit Rate	Import Duty	Deposit Liability
2007	759.2812	8.1025	3911.953	2693.554
2008	960.8901	11.84391	5593.18	4118.173
2009	1152.797	12.84833	5480.656	5763.511
2010	883.8745	5.669766	8163.975	5954.26
2011	918.5489	4.704871	10995.86	6531.913
2012	874.7	7.180838	9766.557	8062.105
2013	1108.386	5.535193	9439.425	8606.611
2014	783.1194	9.16	10538.78	11936.9
2015	818.3525	8.68	11076.07	11363.49
2016	800.735	8.92	10807.45	11650.2

Sources: CBN statistical bulletin Volume 15, December, 2004; Banking Operations Department, CBN Statistical Bulletin Volume 16, December, 2005; CBN Annual Report and Statement of Accounts for various years to 2006

5. Discussion of Data

The above table presents some instruments of the outlined macroeconomic policies and their interrelatedness with the performance of the Nigerian financial sector over a period of 10 years (2007-2016). The policies outlined include monetary policy with deposit rate as the adopted instrument for the period under study, fiscal policy using government expenditure as tool in analysis and commercial policy using import duties as the measurement tool for the period under study.

Table 2. *Model Summary for the Macroeconomic Policies and their respective measures on the Financial Sector.*

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.929[a]	.862	.793	1469.2918073
a. Predictors: (Constant), Import Duty, Govt. Spending, Deposit Rate				

Source: SPSS Output Version 20 (2017)

In table 2 above, the three measures of macroeconomic policies outlined showed significant interrelatedness among the measuring instruments adopted to examine their effect on the performance of the financial sector by resulting in a positive correlation coefficient value (r=.929[a], 0.01). Also the adjusted R^2 indicated that the change in the performance of the financial sector over these ten years can be explained by the interplay of the macroeconomic policies in operation in those years thus the 79.3% (.793) change in the sector' performance as it relates to its deposit liability.

Table 3. *Regression analysis of Macroeconomic Policies on the performance of Financial Sector.*

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-5419.218	4726.403		-1.147	.295
	Govt. Spending	-2.311	3.776	-.096	-.612	.563
	Deposit Rate	528.377	212.805	.434	2.483	.048
	Import Duty	1.261	.214	1.036	5.881	.001
a. Dependent Variable: Deposit Liability						

Source: SPSS Output Version 20 (2017)

From Table 3 above, the regression values for the macroeconomic policies are shown with government spending having a negative beta value thus indicating that there no much effect of it has been evidenced on the performance of the financial sector over the years, the rate given to deposit money banks by the Central Bank of Nigeria (CBN) showed a positive effect with the beta value (B=.434, 0.05), accordingly, import duties also showed a positive effect on the performance of the financial sector over the 10 year period with a beta value (B=1.036, 0.01).

6. Test of Hypotheses

The stated null hypotheses are hereby tested;

Hypothesis One

H_{01}: There is no significant relationship between monetary policy and the performance of the financial sector in Nigeria.

Decision Rule: Accept the null hypothesis (H_0) if the tabulated value is greater than the critical value (P-value) at 0.05 level of significant which indicates 95% degree of confidence, accept the null hypothesis if otherwise reject the null (H_0) and accept the alternate hypothesis (H_1).

Table 4. *Regression analysis between Government expenditure on deposit liability of Money Deposit banks in the period 2007-2016.*

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-5419.218	4726.403		-1.147	.295
	Govt. Spending	-2.311	3.776	-.096	-.612	.563
	Deposit Rate	528.377	212.805	.434	2.483	.048
	Import Duty	1.261	.214	1.036	5.881	.001
a. Dependent Variable: Deposit Liability						

Source: SPSS Output Version 20 (2017)

From Table 4 above government spending is highlighted with a negative beta value of -.096 with a tabulated value in green as .563 thus showing that it is greater than the P-value set at 0.05 therefore we accept the null hypothesis stating that there is no relationship between government expenditure and deposit liability in the sector across the ten year period.

Hypothesis Two

H_{02}: Fiscal policies do not have significant relationship with the performance of the financial sector.

Table 5. *Regression analysis between Deposit Rate on deposit liability of Money Deposit banks in the period 2007-2016.*

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-5419.218	4726.403		-1.147	.295
	Govt. Spending	-2.311	3.776	-.096	-.612	.563
	Deposit Rate	528.377	212.805	.434	2.483	.048
	Import Duty	1.261	.214	1.036	5.881	.001
a. Dependent Variable: Deposit Liability						

Source: SPSS Output Version 20 (2017)

From Table 5 above deposit rate is highlighted with a negative beta value of (B=.434, 0.05) with a tabulated value in orange as .048 thus showing that it is less than the P-value set at 0.05 therefore we reject the null hypothesis stating that there is relationship between deposit rate and deposit liability in the sector across the ten year period.

Hypothesis Three

H_{03}: There is no significant relationship between commercial policies and the performance of the financial sector in Nigeria.

Decision Rule: Accept the null hypothesis (H_0) if the tabulated value is greater than the critical value (P-value) at 0.05 level of significant which indicates 95% degree of confidence, accept the null hypothesis if otherwise reject the null (H_0) and accept the alternate (H_1).

Table 6. *Regression analysis between Import Duties on Deposit Liability of Money Deposit banks in the period 2007-2016.*

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-5419.218	4726.403		-1.147	.295
	Govt. Spending	-2.311	3.776	-.096	-.612	.563
	Deposit Rate	528.377	212.805	.434	2.483	.048
	Import Duty	1.261	.214	1.036	5.881	.001
a. Dependent Variable: Deposit Liability						

Source: SPSS Output Version 20 (2017)

From Table 6 above deposit rate is highlighted with a negative beta value of (B=1.036, 0.01) with a tabulated value in orange as .001 thus showing that it is less than the P-value set at 0.05 therefore we reject the null hypothesis stating that there is significant relationship between import duties and deposit liability in the sector across the ten year period.

7. Conclusion and Recommendation

In line with the objectives of this study, we have been able to examine, determine and analyze the impact of macroeconomic policies such as monetary, fiscal and commercial policies made by the government and often put in place by the Central Bank on the performance of financial institutions specifically Money Deposit Banks in Nigeria. Also the effects of the instruments of such policies were examined to identify the extent to which operations in the financial sector were caused by those policies thus the performance of banking sector in the Nigerian economy by examining the changes in banks deposit liabilities as it results from the changes of macroeconomic policies.

After a thorough empirical investigation of the problem of the study, it was discovered that macroeconomic policies affected the operations of financial institutions specifically money deposit banks however, the indicator of fiscal policy adopted for the study showed no significant relationship with the measure of money deposit banks – deposit liability nevertheless, other policy measures indicated positive relationships with deposit liability of commercial banks.

The negative coefficients of government spending (GOVTSP) and Deposit liability (DL) shows that government expenditure didn't record significant impact on deposit liability of those financial institutions within the period studied and that appropriate and effective economic and monetary policies have not been put in place to promote growth and development in the banking sectors in the Nigerian economy. From the results analyzed, it was evidenced that the measure for monetary policy which is the minimum deposit requirement by CBN on deposit money banks had a significant relationship between the extent of liability recorded in the sector within the periods being studied (B=.434, 0.05) with a tabulated value in as .048 which is less than the P-value of 0.05 error term. Accordingly, import duties a measure of commercial policy recorded a significant relationship with the measure used in the analysis for the money deposit banks with beta value of (B=1.036, 0.01) with a tabulated value as .001.

Following the scope of this present study from 2007-2016, we advocate that future research can go ahead using other policy measures such as taxes (industrial tax), effect of subsidies, open market operation, bank rates as well as other trade instruments obtainable in the commercial policy to get a wider scope of influence on the performance of financial institutions as well as measures of performance such as lending ability as it affects aggregate demand and investment decisions and their multiplier effect in economic growth and development of the nation.

There will be need to also increase the time series to capture perhaps 20 years longitudinal effect of macroeconomic policies to enable government and economists identify areas of improvement to most importantly take the economy out of the current economic recession.

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