Chapter 22
Evaluating the Banking Sector Recapitalization for Economic Growth in Nigeria

Peter I. Ater
University of Agriculture, Nigeria

Benjamin C. Asogwa
University of Agriculture, Nigeria

ABSTRACT
The purpose of this chapter is to assess the contribution of the banking sector’s recapitalization to economic growth. Secondary data of all banks in Nigeria for 1980-2006 from Central Bank of Nigeria were used for the study. The findings of the study revealed higher mean GDP (N86.229 trillion) at post-recapitalization era compared to pre-recapitalization era (N56.860 trillion). Furthermore, 37% and 25% growth in GDP were recorded at post- and pre-recapitalization era, respectively. Selected indicators (bank credit, asset, saving deposit, and total loan) were all higher in the post recapitalization era. The result of t-test showed that there was a significant difference in GDP at pre and post recapitalization era at 5% significance level holding inflation constant. Bank asset had significant effect on GDP in the post-recapitalization era. Bank performance indicators could not fully account for growth and development in Nigeria’s economy though growth was recorded. Under subsequent initiatives, bank asset and total loan increased massively, while bank credit and saving deposits were stepped up via credit and savings incentives provisions for greater impact on growth in Nigeria.

INTRODUCTION
The goal of this article is to provide empirical evidence that will assist the reader develop a thorough understanding of the effects of banking sector recapitalization on the growth of the Nigerian economy. To accomplish this objective an attempt has been made to present the subject in a manner that will be useful to the finance houses and banking sector policy makers and other stakeholders in the banking industry in particular and economic development in general.
The broad objective of this study is to assess the effects of banking sector recapitalization on the growth of Nigeria’s economy. The specific objectives are to:

1. Analyze the Gross Domestic Product (GDP) in Nigeria before and after the recapitalization exercise.
3. Compare the GDP before and after recapitalization.
4. Determine the effect of selected performance indicators on GDP.

The following hypotheses were stated and tested:

1. There is no significant difference in Gross National Product (GDP) at pre and post recapitalization era.
2. Selected performance indicators have no significant effect on GDP.

BACKGROUND

Banking reforms have been on the increase in recent times. This is due to impact of globalization occasioned by continuous integration of the world market and economies. Each country has unique reasons for embarking on banking reforms. This could be based on historical, economic and institutional imperatives. In Nigeria, the reforms in the banking sector was ushered in by banking crisis arising from high undercapitalization of banks, faulty regulatory and supervisory framework; poor result oriented management practices and deficiencies in the corporate governance behavior of banks (Uchendu, 2005).

The proponents of Bank consolidation believe that increased size could potentially increase bank returns, through revenue and cost efficiency gains. It may also, reduce industry risks through the elimination of weak banks and create better diversification opportunities (Berger, 2000). On the other hand, the opponents argue that consolidation could increase banks’ propensity toward risk taking through increases in leverage and off balance sheet operations. According to Ajayi (2005), the need to deepen the financial sector and reposition the Nigeria economy for growth is the reason for banking sector reforms. Another reason is to integrate the economy into the global financial structural design and to evolve a banking sector that is consistent with regional integration requirements and international best practices. The banking sector reform is further aimed at addressing the issue of bad governance in the banking sector, risk management and operational inefficiencies. Above all, the crux of the reforms is centred on strengthening bank capitalization. According to Lemo (2005), the reforms are designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation.

Imala (2005) pointed out that the objectives of banking system are to ensure price stability and facilitate rapid economic development. Unfortunately these objectives achieved in Nigeria owing to some deficiencies in our banking system.

Asedionlen (2004) noted that recapitalization can increase liquidity base in the short term. However, this cannot guarantee conducive macroeconomic environment required for ensuring high asset quality and profitability. Low capitalization of the banks has made them unable to adequately finance the economy thereby making them more prone to unethical and unprofessional practices (Soludo, 2004).

The issue of recapitalization is a major reform objective in Nigeria. Bank recapitalization is the upward review of banking system capital base. The sector witnessed a lot of structural changes
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