DETERMINANTS OF FORMAL FINANCIAL SAVINGS IN NIGERIA. (1970 1990). AN EMPIRICAL ANALYSIS.

BY

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OCTOBER 1992

DECLARATION

I hereby declare that this thesis is a product of my own research. It has not been accepted anywhere, to the best of my knowledge, for the purpose of awarding a higher degree. All references have been duely acknowledged by way of bibliography at the end of the thesis.

CERTIFICATION

This thesis entitled "Determinants of Formal financial Savings in Nigeria (1970-1990)" by SIMO KABA KENNETH, meets the regulations governing the award of the degree of MASTER of SCEIENCE of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

TO MY DAD,

MR. B. K. SIMO.

FOR HIS

HEALTH

AND

GOD'S PROTECTION

TABLE OF CONTENT

		PAGE
	TITLE	i
	DECLARATION	ii
	CERTIFICATION	iii
	DEDICATION	iv
	ACKNOWLEDGEMENTS	v
	ABSTRACT	vii
	LIST OF TABLES	ix
	LIST OF FIGURES	x
	LIST OF APPENDICES	xi
	CHAPTER ONE:	
1.	INTRODUCTION	1
1.1	Background to the Problem: Determinants of Financial Savings	1
1.2	Statement of the Problem	2
1.3	Objectives of the Study	3
1.4	Justification of the Study	3
1.5	Hypotheses	3
1.6	Data Sources and Limitations of the Study	4
1.7	Scope and Methodology	4
1.8	Organisation of the work	6
	CHAPTER TWO:	
2	LITERATURE REVIEW	7
	CHAPTER THREE:	
3.	THE DEVELOPMENT AND EVOLUTION OF THE FINANCIAL SECTOR IN NIGERIA	30
3.1	Introduction	30

3.2 Measuring the size of the Nigerian Financial Sector 32

3.3 An Overview of the Nigerian Financial System 42

3.4 Evolution of the Nigerian Financial System 45

3.5 Conclusion 58

CHAPTER FOUR:

4. STATISTICAL ANALYSIS 59

4.1 Empricial Analysis of the determinants of financial savings model of Analysis 60

4.2 Period 1970-1990, Using Simple Time series data 65

4.3 Period 1970-1990, using a Three year moving average as the dependent variable 69

4.4 Conclusion 72

CHAPTER FIVE:

5. SUMMARY AND POLICY RECOMMENDATIONS 74

BIBLIOGRAPHY 78

APPENDIX I 87
APPENDIX II 88
APPENDIX III 89
APPENDIX IV 90
APPENDIX V 91
APPENDIX VI 92

LIST OF TABLES

TABLE		PAGE
3.1	Size of the Nigerian Financial Sector (The Ratio of deposit money to total money supply 1970-1990	33
3.2	Size of the Nigerian Financial Sector (The Ratio the banking system's credit to the Economy, to the Gross Domestic Product 1970-1990	35
3.3	The trend in the New Issues Market of the Lagos stock Exchange Market (1970-1990)	39
3.4	The trend in the secondary market for securities in the Lagos Stock Exchange Market 1970-1990	40
3.5	Growth in Major Financial Institutions	46
3.6	Commercial banks and Branches (1970-1990)	49
3.7	Trends in the Structure of the Financial system by type of institution (1970-1990)	52

LIST OF FIGURES

FIG.1 Real Financial Savings per Capita in Nigeria 1970-1990 (₦).

LIST OF APPENDICES

Appendix I: Real Financial Savings Per Capita in Nigeria 1970-1990. (₦)

Appendix II: Real GDP per Capita in Nigeria Nigeria 1970-1990.(₦)

Appendix III Real Value of Exports in Nigeria 1970-1990 (1980 US dollars)

Appendix IV: Estimates of the Bank/Population Ratio in Nigeria. 1970-1990 (ie Bank per 100,000 inhabitants)

Appendix V: Average real and nominal interest rates on savings and time deposits in Nigeria 1970-1990. (%)

Appendix VI: Net Foreign Investment in Nigeria. 1970-1990. (₦million)

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ABSTRACT

Development economists hypothesize that savings is a key determinant of economic growth. These economists, however, have different opinions when they examine financial savings, the factor influencing the trend of financial savings, and the relation of savings to particular determinants. In fact, their opinions differ most when they seek to consider the most potent factors determining real financial savings per capita. The main objective of this work is to determine the major factors or variables determining formal-sector financial savings in Nigeria and relate the findings to what development economists have postulated on the issue of determinants of financial savings. Two multiple regression tests were run, using data from 1970-1990. The first uses simple time series data of real financial savings per capita as the dependent variable, and the second, a three year moving average of the real financial savings per capita as its dependent variable. Seven explanatory variables were tested on these dependent variables. In the first regression it was found out that the number of financial institutions per community (degree of penetration of financial institutions into the economy), the urbanization rate and the net foreign investment in the country are the most potent factors

determining real financial savings in Nigeria. In the second regression, the net foreign investment and the number of financial institutions in the country proved to be the most potent factors.

The conclusion to be drawn is that, in the Nigerian context, most people save because the opportunities to save are made available to them. Both regressions equally prove that the dependency ratio in Nigeria has the most retarding (negative) effects on real financial savings. The high rate of population growth tends to retard the ability of households to save- The other variables proved to be positively related to real financial savings but not very significantly viz, the real interest rates, and the export performance.

The results generally meet conventional theory on the determinants of financial savings in developing countries.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Problem: Determinants of Financial Savings.

Savings, according to conventional development theory, are the key determinant of economic growth. Much of the advice to low-income countries is to increase their savings efforts as a means of attaining a satisfactory rate of economic growth. Yet not so much is known about the nature of savings behaviour in these countries in order to formulate policies designed to increase their saving propensities.

Chandavarkar (1981) attempted to identify the problem when he says: "One of the basic problems facing most less developed countries is the scarcity of domestic capital in relation to the size of investment required to achieve high and self-sustaining rates of growth of national and per capita real income." Developing countries in general have always attributed the intrinsic problems of development to the inadequate savings capacity of their populace. This is a factor which most economists have accepted as constituting a major retarding force on economic development. Mbat (1985) has, for example, attributed the slow process of growth of national and per capital real income."

The perceived importance of the savings factor in economic development has made research on the issue

very important. Most of the literature suggest that variables like the level, distribution and rate of growth of disposable real income, wealth, price levels, industrialization and urbanization, etc, are the most potent factors determing real financial savings. They have often produced different degrees of effects on financial savings as a result of the varying socio-economic and cultural factors prevailing in different areas.

1.2 STATEMENT OF THE PROBLEM:

Although many agree that an increase or decrease of particular factors is likely to lead to an increase in the level or rate of financial savings, their degrees of elasticity are open to dispute. Most of the theories of financial savings and their determinants were prepared under the unique conditions prevailing in the advanced economies which are hardly applicable to developing countries, Nigeria inclusive.

Existing literature on the other hand seems to pay more attention to the level of real income as the principal determinant of financial savings, whereas evidence from developing countries, including Nigeria, tends to contradict this hypothesis, by proving that most increases in tends to induce more consumption than saving.

1.3 OBJECTIVES OF THE STUDY:

The principal objective of this thesis is to test the most significant factors affecting formal-sector real financial savings in Nigeria. The factors tested include: the real income, the export performance, the number of financial insitutitons in the country, the real interest rates, the net foreign investment in the country, the dependency ratio, and the urbanization rate.

1.4 JUSTIFICATION OF THE STUDY:

In Nigeria, as elsewhere in the developing world, due to the limited availability of real and financial resources, increased attention is being paid to domestic financial savings and the mobilization of these financial savings by the banking system. Appropriate policy measures are required to be put in place before savings can be effectively mobilized. By establishing whether or not financial savings are more sensitive to movements in particular variables than others, this study would be providing a useful guide to the appropriate variables to take into account while formulating a savings policy for Nigeria.

1.5 HYPOTHESES:

The following hypotheses will be tested in the study:

(i) Formal sector financial savings in Nigeria are very sensitive to the availability of financial institutions in the economy (bank/population ratio) and

the urbanization rate.

(ii) The level of real income per capita is not the most significant factor determining the level of real financial savings per capita, though it has a positive impact on real financial savings per capita in Nigeria.

(iii) The dependency ratio is the factor that has the most undermining effect on real financial savings per capita. Its effect on real financial savings per capita is negative.

1.6 DATA SOURCES AND LIMITATIONS OF THE STUDY:

It is needless to overemphasize the fact that an assessment of the factors determining real financial savings in a country like Nigeria is rendered difficult by the fact that the data available for making tests and analysis are, because of statistical deficiencies, insufficiently reliable.

The data used in this study were drawn from secondary sources, largely from published articles, journals, financial magazines and texts. These publications include; the Central Bank of Nigeria, for various years. Information was also collected from the Federal Office of Statistics publications.

1.7 SCOPE AND METHODOLOGY:

The study covers the period 1970-1990. An ordinary least squares (OLS) regression model was used to test the influence of seven independent variables on the real financial savings per capita in Nigeria. Two

multiple regressions were run: One using simple time series data for 1970-1990, the other a three-year moving average also for 1970-1990 for the dependent variable. Values for real financial savings per capita and the real GDP per capita were got by deflating their nominal values against the appropriate consumer price indices and dividing each value by the total population for that year.

The real interest rate variable was got by equally deflating the nominal values by the appropriate consumer price indices.

To capture the bank/population ratio or the degree of penetration of financial institutions into the economy, the economy was divided into communities of 100,000 inhabitants. The total number of bank branches was divided by the total population and the result multiplied by 100,000 to give us the bank/population ratio.

The export performance of the nation was used in 1980 US dollars. The net foreign investment was calculated as the balance between the inflow and outflow of capital into the economy within the study period. The urbanization rate was computed as the ratio of the population living in communities of over 20,000 inhabitants, Finally the dependency ratio was calculated as the proportion of the population between the 1-15 age bracket and above 64 years of age. This was later divided by the proportion of the population

in the economically active labour force (E.A.P.).

The results of the two regressions provided the basis of our analysis and conclusions as to the determinants of real financial savings per capita in Nigeria.

1.8 ORGANISATION OF THE WORK:

The thesis has been divided into five chapters. This section in which the ideas of the outline is brought out constitutes the chapter one.

Chapter two surveys the literature on the determinants of financial savings in developing countries with special reference to Nigeria.

Chapter three discusses the overview and evolution of the Nigerian financial system with special emphasis on the measurement of the size of the Nigerian financial sector. It brings out the growth rate of savings institutions in both the money and capital markets and gives a look at the interest rates structure in the Nigerian economy.

Chapter four provides empirical results from the regression tests.

Chapter five summarizes the main findings of the thesis and provides the policy recommendations.

CHAPTER TWO

LITERATURE REVIEW:

DETERMINANTS OF FINANCIAL SAVINGS

2.1 Introduction: One of the fundamental problems facing developing countries is that of low savings capacity. The importance of savings as a major growth stimulant needs not be overemphasized and this therefore explains researchers' growing interest in the subject especially in developing countries where knowledge of the determinants of national savings rate seems rather inadequate.

From elementary economic definitions, savings refers to all income not spent on current consumption. Savings are generally categorized into two types namely:

(i) Public sector savings; and

(ii) Private sector savings.

The public sector savings is made up largely of government savings, while private sector savings comprises mostly corporate (business) savings and personal (household) savings. Household savings are equally subdivided into voluntary and involuntary savings as explained by Ligeti (1989). Involuntary savings are savings that households make independent of their will to save. Voluntary savings, on the other hand, are savings made by households willingly. These include bank deposits, credit associations, fixed fund

contributions, emergency fund contributions and so on.

2.2 Forms of Savings:

Savings generally can be held in three distinct forms namely: real assets, financial assets (financial savings) and hoarding. Savings can either be productive or unproductive and this is very characteristic of household saving. (Fischer, 1989). Savings in real assets and cash hoards are often regarded as unproductive because they donnot raise capital funds in the economy. In other words they donnot earn any return. Here we are concerned with financial savings, which is an interest earning asset. This type of saving is often recommended by development economists as opposed to the unproductive savings because it enhances financial deepening in the economy (Holst, 1990).

2.3 Theories of Savings and Income:

Savings are commonly regarded as a residual, that is the excess of income over consumption. Several income theories have been formulated due to the widespread controversy over what should most appropriately be considered as income.

Keynes (1935) in his absolute income hypothesis posits that savings is a stable linear function of current income. Macro time series tests of the hypothesis have been made possible by the publication of national income data. Cross section tests have been conducted from household budget surveys at the micro

level. Virtually all of these studies find current income to be a statistically significant determinant of savings.

The permanent income hypothesis by Friedman (1957) attempts a break down of current income into two components - permanent income and transitory income. The theory postulates that the level of consumption is a result of habits formed over a long time, that is consumption is a constant proportion of permanent income while transitory income is saved in whole. Durojaiye (1991) tested the hypothesis based on household data in Nigeria. His estimates yield an MPC of 0.67 for transitory and permanent incomes respectively. These results partially lend credence to the hypothesis. Synder (1974) surveys empirical tests of the hypothesis in the context of developing countries and concludes as follows:

(1) that the evidence on the hypothesis appears to be in its favour.

(2) that Friedman's assumption of a unitary merginal propensity to save out of transitory income finds little support.

Duesenbury (1949) in his relative income hypotheis posits that individual consumption behaviour, hence saving, is not independent but interdependent upon the behaviour of other individuals, which he called the Emulation Effect. He also said consumption relations are irreversible in time, as such individuals would

prefer to dissave in order to maintain their immediate past standards of living. This he referred to as the Ratchet Effect. Thus the highest income achieved in the past will play an important role in determining the present level of consumption and therefore savings.

Ando and Modigliani (1963) formulated a consumption theiry known as the life-cycle hypothesis. According to this theory consumption is a function of the life time expected income of the consumer. The consumption of the individual consumer depends on the resources available to him, the rate of return on capital, the spending/expenditure plan, and the age at which the plan is made.

The present value of his income includes income from assets and from current and expected labour income. However, this analysis has hardly been tested in developing countries except for the case of Indonesia. Kelley and Williamson (1968) cast some doubt on the applicability of the hypothesis to developing countries' households.

Though these theories may not have perfect validity and applicability on Nigeria, by and large they provide some insights into the determinants of savings in Nigeria and developing countries generally. It is important to point out, however, that the saving process occurs in qhite unique socio-economic environment in the third world countries. Specifically, third world economies tend to display features of

heterogeneity and fragmentation in the socio-economic structures. This suggests that one must be careful about using imposing theories relevant to the monetized economy in explaining the process of saving in the LDCS.

2.4 Financial Dualism:

In developing countries the coexistence of a formal and an informal sectors within the economy makes the concept of financial dualism very important. This means both sectors operate along-side each other or simultaneously. As noted earlier, because of the problems of data availability, our treatment here will centre on the formal sector (modern or organised sector), where data on financial savings is more available. This does not in any way mean the informal sector is not important. There is indeed a strong link between the two sectors. Holst (1990) explains that inducing households to hold a large part of their savings in the form of financial assets, and ensuring the efficient allocation of these assets and to investment is known as Mobilization of personal savings. Savings mobilization to rural dwellers refers to the provision of secure keeping of rural surpluses and sources of investible funds for rural borrowers.

Most formal financial institutions are located in the urban areas and this has often had repercussions on the development of the financial sector. Rural

households make little use of formal savings institutions where they do exist. This reluctance is often due to the low returns on formal savings, secrecy and the inadaptability of the institutions to local needs and references (Mbat, 1985). Given the popularity of informal savings and loan associations as mobilization channels in developing countries, banks can only succeed in mobilizing rural savings if they reflect the banking needs and preferences of the rural folk (Akaah, 1987). The opportunity to save offered by banks must equally be accompanied by incentives to save. These should include: high real interest rates, diversification of saving instruments, price stability and increased access to credit (Fischer, 1989).

The informal sector mobilizes a sizeable amount of domestic rural savings. Generally this sector in Africa is larger than the formal sector. The existence of the informal financial markets has been seen as a feature of an underdeveloped economy. They are scattered over the rural areas and urban centres with little or no relationship between the participants in the different localities. Wai (1958) has pointed out that the less developed an economy is, the greater the ratio of informal to formal financial markets. There is a dearth of the branches of the formal financial market institutions in the rural areas. This has not made the financial markets of the developing countries well adapted to the orthodox monetary management as an

instrument of economic policy. However informal savings structures still enjoy much popularity amongst rural dwellers though not necessarily because of the existence of savings instruments but because of a variety of other economic and social benefits they offer. (Fischer, 1989).

2.5 Financial markets and interest rates:

Interest rates are defined as the price of credit. It is regarded by most authors as the most important price and the most frequently controlled price in market economies which has great influences on economic decisions. Keynes argues that interest rates are determined through the interplay of the demand for and supply of loanable funds. Financial markets are characterized by many and different streams of demand and supply of credit. The mere existence of a wide array of suppliers with multiple interests dealing with borrowers who are heterogenous in socio-economic activities produces a wide spectrum of interest rates. This complexity is further compounded or reinforced by the fact that even a given supplier charges varying rates of interest on loans of same size, duration, purpose etc granted to different investors. Thus the interest rates structure generally is very complex and varied. There are as many interest rates as there are financial institutions and what they offer and charge investors (borrowers) vary from one institution to the other (Wai, 1958).

It is therefore needless to overemphasize the fact that in developing countries more attention should be paid to the availability of real and financial sources of credit. The theoretical evaluation of savings in LDCs is made difficult by the application of theories built in Europe under specific conditions and applied directly here. This, coupled with financial dualism, makes peculiar the whole financial system (Ligeti, 1989). Accordingly, savings are affected by other factors and those factors are manifest differently than in the developed countries. It must be noted clearly that taking into account of interest rates and assessing the relationship between interest rates and other economic categories is very difficult, since in the developing countries there is hardly any developed capital market functioning. Because of the high inflation rates in most LDCs, real interest rates are generally negative. It is a general belief that high interest rates are indeed found in developed countries, especially for consumer financing, but the amount of lending at high rates usually is relatively much smaller in developed than in developing countries (Wai, 1958).

The structure of interest rates in the organised money markets in LDCs is usually more or less the same as in the developed countries. The short term rate of interest is generally much below the long term rate (Meier, 1976).

2.6 Financial Savings and Intermediation

Financial intermediation is a process of mediation through institutions and instruments between primary savers and lenders and ultimate borrowers (Agu, 1984). It is the process of collecting and chanelling savings to investors. There is a controversy in the literature as to what should be regarded as financial intermediation or not. Chandavarkar (1981) advanced that financial intermediation only occurs in the context of formal financial institutions and hence any lending outside the institutional sector amounts to financial disintermediation. This position has however been seriously questioned by other researchers. It is argued that in so far as the activities of the informal market compensate for the rigidities and deficiencies of the formal institutions, they facilitate the conversion of savings into productive investment (Holst, 1990). The informal - sector furthermore offers saving and credit instruments that are generally in line with the needs of those who constitute it (Fischer, 1989). Based on the foregoing argument, therefore, financial intermediation simply refers to the process whereby an institution (formal or informal) links up surplus spending units or SSUs with deficit spending units or savers with investors, due to the diachotomy in saving and investment decisions. This aids the development process in the following ways:

(a) increases the rate and volume of savings.

(b) encourages the creation of a wide variety of financial instruments, differentiated by liquidity, yield, maturity and safety.

(c) ensures the most efficient transfer of funds to real capital formation, and

(d) augments households' liquidity through credit which allows households to maintain consumption and make lumpy purchases of consumer durables (Abbok, 1985).

The degree of financial intermediation in an economy is measured using two parameters, which are: The proportion of financial savings to total savings, and secondly the bank/population ratio (Ragazzi, 1981). It is however generally recognized that the extent of financial intermediation in rural economies is very low due to the limited monetization of this type of economy or sector. As discussed earlier formal financial institutions in rural Africa have contributed very insignificantly to rural savings mobilization due to their urban location bias. Regrettably enough where such savings are mobilized, they are exported to urban areas and abroad. Commercial banks in Nigeria have mobilized the largest volume of deposits than any other financial intermediary due to both the territorial spread of their branches and the influence of monetary function on deposit expansion (Mbat, 1985). Their rate of growth within the economy from the days of the

expatriate banks to date has been enormous.

2.7 Financial repression:

Administrative interventions in the financial market either by the government or the Central Bank is known as financial repression. These interventions are usually in the form of interest rate ceilings, credit rationing, subsidized credit, reserve requirements, loan targeting, differential rediscount rate, credit floors, the proliferation of specialized financial institutions etc (Holst, 1990). The legally restricted entry and exit into the financial market and discrimination against foreign banks are equally aspects of financial repression (Fischer, 1989). It is generally accepted that financial repression inhibits savings mobilisation and results in massive capital flight. It has the following set backs on the economy:

(a) It leads to an excessive demand for institutional credit.

(b) It leads to inequity. Large borrowers enjoy larger subsidies.

(c) Credit rationing retards innovations and flexibility.

(d) Interest rate ceilings leads to risk aversion and high liquidity preference in commercial banks.

Holst (1990) argues that financial repression discourages financial intermediation and retards the development of security markets. It impedes the

extension of banking activities into rural areas and results in a strong fragmentation and segmentation of the economy. As a result of these drawbacks it becomes necessary and imperative for governments to aim at liberalizing the financial system. Fischer (1989) advocates for a practice of positive real interest rates, the dismantling of administrative obstacles which impede the establishment and functioning of banks and an integrated financial market. Holst (1990) on the contrary contends that positive real interest rate will not increase the level of financial savings if depositors have little confidence in the financial system. He advocates for selective credit rationing as a solution to inherent inadequacies in the financial market.

2.8 Determinants and uses of Financial Savings:

The determinants of financial savings are often analysed in two levels of abstraction. These are the micro and macro levels. From the macro level it depends on the extent of the financial market, price stability and the appropriate level of interest rates. On the other hand, from the micro level it depends mainly on socio-economic considerations like religion, traditional beliefs, customs etc.

A combination of both perspectives or abstractions provides us with our conventional postulation that financial savings is a function of three main issues viz; the ability, the willingness and the opportunity

to save (Wai, 1958).

The ability to save is determined by disposable income, that is an individual cannot even think of saving when he does not have an excess of income over consumption. In other words his income after taking care of his taxes (disposable income), must be positive. The willingness to save depends on a variety of social and cultural considerations and the opportunity to save by the degree of development of the financial system (ie the financial market). From a survey carried out in New Delhi-India on household savings determinants, it was discovered that the strongest motive for saving was the desire to make provision for emergencies. The second motive was the desire to prepare against old age (based on Modighiani's Life Cycle hypothesis), and the the third motive was the desire to take care of children's education. Most research on LDCs have tended to involve aggregate level modeling of savings behaviour with the Current and /or permanent income hypothesis as the modeling framework.

While income is an important factor in explaining savings behaviour, other factors besides income do exist. Household size is thought to have a negative impact on savings. Evidence showing the relationship between family size and savings is almost non-existent. The probability for positive savings rates for a sample of Sierra-Leone households is unaffected by family size

(Synder, 1974). The same results were reported by Durojaiye (1991) in Ago-Iwoye, Ogun State of Nigeria. Indeed under particular assumptions, the impact of increased family size on savings rates is ambiguous, ie it might increase, decrease or remain the same (Kelley, 1976).

The dependency ratio is often hypothesized as being related to savings, that is, an inverse relation between the number of persons in a household who consume more than they produce (dependents), and the average savings rate. Durojaiye (1991) confirms this in his study of Nigerian households. This however was found not to apply in Ghana (Akaah, 1987). It is equally argued that children have no negative impact on savings as such, because they may contribute directly to household income, substitute for other forms of consumption, motivate parents to work harder etc (Kelley, 1976).

The role of the rate of interest in determining savings in households still remains very inconclusive. But there is no doubt that movements in the interest rate regimes have some effects on real savings, though not very significantly. This was confirmed by Richard Reichel (1991) in his investigations of the macroeconomic impact of negative real interest rates in Nigeria.

Prvate savings, especially in the form of financial assets are generally far less restricted by

low income than has been assumed before by both economists and policy makers. On the contrary, as argued by Fischer (1989), there is strong empirical evidence that the savings behaviour of all private households is highly sensitive towards attractive incentives to save. This is especially true with regard to the composition of private savings (savings in real or unproductive assets), higher interest rates can stimulate financial savings substantially. This point on interest rates is further buttressed by Abbot (1985) who says there is a positive relationship between the real returns on financial savings and the level of such savings. Average real deposit rates, he argues, have been low and static or negative in many Asian developing countries in the last two decades because of the combination of low nominal rates and high inflation rates. Improving real rates involves reducing inflation rates and increasing nominal deposit rates. He emphasizes that low interest rates have depressed savings in most LDCs, both directly and indirectly. High interest rates however may discourage investment because it makes lending more expensive (Abbot, 1985).

Generally therefore most authors tend to zero down on factors such as the expansion of the coverage of depository institutions, the introduction of new financial instrument by banks to provide better incentives to savers through tailoring their procedures

to the needs and preferences of the various savings groups. They equally talk of the provision of higher real returns for savers, e.g. through higher interest rates; the improving of the allocative efficiency of financial institutions through the reduction of administrative controls; and finally the establishment of new financial institutions to act alongside the banks so as to reduce the monopoly effects and the overburdening of the banks (Lewis, 1977).

Data on financial savings include not only currency holdings but also bank deposits, life insurrance and government securities (Wai, 1958). In view of the limited choice of financial assets available in LDCs such as government bonds and private securities at attractive rates of return, and also as the income of the household sector is not large enough to make it worthwile to have large savings in the these forms, most of the savings in financial assets are in the form of currency holdings and deposits with the banking system. Wai further emphasizes that the uses of household savings are important in determining the rate of investment in the short-run and the rate of economic growth in the long-run. Savings in currency can be important for the household sector, partly because currency is held mainly by this sector and not by business units or government agencies and partly because there may be few opportunities for holding other financial instruments. He says savings thus in

the form of currency is more important in developing countries than in developed countries.

2.9 Interest rates and Financial Savings:

Positive interest rate policies have been conspicuously lacking in developing countries and interest rates as a savings mobilising agent has long been forgotten in these countries (Chandavarkar, 1981). He posits that interest rates can be viewed as a social rate of discount to determine the optimum allocation of savings between consumption and investment and as a rationing device for efficient allocation among alternative forms of investment. Equally in several LDCs the combination of overvalued exchange rates, high inflation, controlled interest rates or underdeveloped capital markets have stimulated the outflow of national savings. (capital flight). Ligeti (1989) indentifies the problem by saying that empirical work on interest rates and savings generally faces significant short comings due to the inavailability of data, and has thus led to many conflicting results. Holst (1990) said this may be as much due to wrong underlying hypotheses as to the inherent difficulties in covering all possible policies in a single analytical framework and relating them simultaneously to the various macroeconomic variables.

With regard to the short and long-term effects of interest rates, it is interesting to note that various studies have demonstrated that significantly negative

interest rates donnot always have the adverse effect on economic growth suggested by the conventional theory. In some LDCs a relatively high growth rate coexisted with negative real interest rates. With regard to the effect of positive real interest rates on savings, empirical studies have yielded more conclusive results and strengthened the argument that while positive real interest rates donnot significantly affect the level of savings they increase the proportion of savings held in the form of financial assets and facilitate thereby a more effecient allocation of savings (Ligeti, 1989). This in turn will stimulate economic growth which will increase the disposable income of households and thereby lead to a higher overall level of personal savings (Holst, 1990). One of the earliest researchers on interest elasticity of savings in LDCs were Kelley A.C and Williamson (1968). Generally however, until recently, evidence as to the effects of interest rates in determing savings is sketchy. In his analysis, Williamson did not define his interest rate variable. He found that short run savings are more sensitive to interest rate changes than long-run savings. In a later article based on the same data, Williamson examines the effect of interet rates in the context of some distributed lag and wealth consumption models. There the interest variable proves to be non significant. His findings of a negative non significant interest effect on Indian saving is

disputed by Dasgupta (1978) who questions both his saving data and his use of a single rate of interest. He finds that per capita saving not investigated by Williamson is significantly and positively influenced by treasury bill and long-term government bond rates. He introduces a permanent interest rate variable (defined as a three year moving average of nominal interest rates) which also displays a positive significant relationship to saving. Saving in this study is most responsive to the rate on commercial bank savings deposits. As stated earlier, Reichel (1991), in an article makes allusion to C.C. Agu's article where he stressed the view that persistent negative real interest rates in Nigeria during the period from 1970-1985 caused a number of unfavourable macro economic effects (Agu, 1988). Agu's considerations were based on the Mckinnon/Fry model of 'Financial Repression' arguing that interest rate ceilings combined with high and even rising rates of inflation cause an excess demand for investment and simultaneously restrict the supply of savings.

Agu points out that the issue of the interest elasticity of savings is inconclusive. Here he was making special reference to empirical studies of Willianson and Gupta where he examined Nigerian time series data thus yielding inconclusive results. However he does not give any empirical support for the second hypothesis concerning the impact of negative

real interest rates on investment efficiency.

Reichel (1991) therefore examined the impact of the Nigerian interest rate policy on savings and growth in the period 1960-1987 by applying regression analysis to Nigerian time series data. His results strongly support the 'classical' predictions of the theory of financial repression. He found the domestic savings rate to be positively affected by the real interest rate although the effect is relatively weak. He said financial savings however show a stronger positive response.

Still on the issue of the interest elasticity of savings in Nigeria, many authors hold contrary views. It is often described as a mere falacy to expect that high deposit rates will generate high domestic savings to be channelled to investors through the banking system.

Giovanni (1983) says in his view that doubts may be raised as to a positive interest rate elasticity of savings and in general interest rate elasticity is difficult to assess because of data problems.

It is also viewed that the changes in interest rates influence only definite groups of savings and savers while the greater part of savings are insensitive to interest rate changes (Ligeti, 1989). Similar problems emerge in the Hungarian literature too where the widespread view is held that the change (raising) of interest rate does not result in

increasing the size of savings but in expanding the possibility of choice among the forms of saving. Taking a stand based on the view published in the literature one comes to the conclusion that according to the majority, the raising of interest rates increases savings and it has a positive impact on growth. The empirical analysis however does not conclude things this way e.g. in Indonesia, the abrupt growth of deposits was attributed in the first place to easing the controls on the deposits in foreign currencies.

Empirical investigations by Leite and Makonean (1986) on savings and interest rates in Francophone West African Countries, proved that savings are affected by real interest rates though not very significantly. It proves to be a function more of the level of disposable income.

Generally opinions on the role of interest rates on savings vary more than all other factors influencing it. Ligeti (1989) says various experts want to have low interest rates to benefit from higher investments while others prefer higher rates because they encourage savings, and thus urge investors to engage in such efficient activities from whose returns they can pay the higher rates of interest.

Moving slightly away from the rate of interest as determining financial savings, Thirlwall (1974) said in his analysis of saving, inflation and growth in LDCs,

that the two key approaches to savings could be reconciled. These he said were the classical prior saving versus the keynesion forced saving approaches. He said the development of financial intermediaries and an organised money market can raise the rate of saving and reduce the overall interest rate at the same time by diminishing the importance of the unorganised sector. He emphasized on building up the financial infrastructure. It has been remarked that experience shows that the amount of savings depends partly on how widespread savings institutions are (Lewis, 1968). The existence of banks and monetary assets frees saving from the problem of finding investment opportunities if that is the only alternative form of saving. (Speight, 1964).

On a conclusive note therefore, it is quite obvious that no single factor can claim to be the sole determinant of financial savings in Nigeria. Researchers, basing their analyses on various methodologies have arrived at the conclusion that besides other economic factors, most financial savings depend on three main sociological factors as explained by Wai (1958, 1980) namely; the ability to save, the willingness to save and the opportunity to save. The greatest emphasis as to the most potent individual factor was placed on the level of development (and availability) of financial institutions in the economy. Next was on the level of real disposable income. Most

authors agree that the development of the financial infrastructure will have a much more direct impact on the financial savings rate than other variables.

Demographic factors too have been identified to affect financial savings, most significant of which is the dependency ratio and the family size. It is almost unanimously accepted that the dependency ratio is inversely related to the size of financial savings, though contrary arguments hold that children are instead an incentive for parents to work harder, earn more and therefore save. Thus they say the relationship is not inverse.

There is equally heated debates by authors about the interest-elasticity of savings in Nigeria and other developing countries. Some say it is significantly related whereas others deny this premise by pointing to the existence of financial repression in the country as a major reason for its inelasticity.

On the whole however there are no universally accepted set of variables thought to determine financial savings because all the tests carried out were done with different socio-economic and cultural backgrounds.

CHAPTER THREE

THE DEVELOPMENT AND EVOLUTION OF THE FINANCIAL SECTOR IN NIGERIA

3.1 Introduction

The financial system is a complex network that involves a payments mechanism, and the borrowing as well as lending of funds. From a broad perspective, the composition of a financial system incorporates financial instruments, financial markets and the institutions and organs which operate therein. Very often the public associates financial intermediaries as the soul of the financial system whose principal role is the channelling of funds from those wishing to save to those wishing to borrow.

The development of a financial system is closely related to the economy within which it evolves. The factors according to Olashore (1988) which necessitate the evolution of the financial system within an economy include:

(i) increasing specialization of people and activities, and therefore a greater necessity for exchanges.

(ii) the need to eliminate the lag between the period of time it takes to achieve a given production and the time it appears on the market.

(iii) the need to provide resources for investment for future production.

(iv) the desire to save while still working,

particularly in the case of employees on fixed period income.

(v) the desire to consume currently on the basis of expected future income.

In every country, there exists a body of public and private laws and rules governing financial transactions between financial agents and between them and non-financial agents. The financial system in which financial instruments and markets operate has as its main role, the mobilization of funds from the surplus spending units (savers) and channelling them to deficit spending units (investors) for investment in profitable economic activities. It is generally recognised that the financial system plays a catalytic role in the process of economic growth and development. As the economy grows, the financial system becomes increasingly deep and broad and its structure also becomes increasingly sophisticated. In the process the system offers a wider range of portifolio options for savers and issuable instrument for investors - a function often referred to as financial intermediation.

The financial system features a wide array of banking and non-bank financial intermediaries. The banking sub-sector of the system comprises commercial and merchant banks, development banks and the central bank as the apex institutions. The non-bank financial institutions sub sector includes a wide variety of

organisations and institutions which include; the Securities and Exchange Commission (SEC), the Stock Exchange, Stockbrokers, registrars, insurance companies, pension and provident funds and investment companies.

3.2 MEASURING THE SIZE OF THE NIGERIAN FINANCIAL SECTOR

The financial sector can be conceptually divided into (a) the money market; and (b) the capital market.

(i) The money market:

The money market, narrowly defined, consists of commercial banks and the Central Bank of Nigeria. The size of the money market may be indicated by either or both of the following ratios, although neither ratio is perfect: the ratio of deposit money to total money supply; or the ratio of banking systems credit (mostly loans, advances, and bills discounted) to the domestic sector, to national income. The first ratio measures the liability side of the balance sheet of the banking system, and the second the assets side.

It should be pointed out, however, that the ratio of deposit money to money supply actually measures the development of the banking system rather than that of the money market. However in Nigeria, as probably in developing countries, the development of the commercial banking system is synonymous with that of the money market. Since the commercial bank deposits take upwards

of 70-80 per cent of total financial assets, this ratio may be taken as a good proxy of the development of the money market. Wai (1958,1980) says therefore that the ratio of the banking systems credit to the domestic sector to national income is a more reliable indicator.

The following tables attempt a presentation of these ratios to portray whether or not there has been growth in the Nigerian money market between 1970-1990.

Table 3.1: Size of the Nigerian Financial Sector

	Deposit money(1) (Nmillion)	Money supply(2) (Nmillion)	Ratio of 1:2	%
1970	336.8	608.4	0.55	55.0
1971	371.8	629.0	0.58	58.0
1972	461.2	700.2	0.65	65.0
1973	582.3	827.2	0.70	70:0
1974	973.2	1,178.4	0.82	82.0
1975	1,302.3	2,044.1	0.63	63.0
1976	1,979.1	3,293.0	0.60	60.0
1977	2,255.1	4,794.4	0.47	47.0
1978	2,601.7	5,089.7	0.51	51.0
1979	3,702.1	6,146.6	0.60	60.0
1980	5,163.1	9,226.8	0.55	55.0
1981	6,023.5	9,744.9	0.61	61.0
1982	6,838.2	10,048.5	0.68	68.0
1983	8,082.9	11,282.4	0.71	71.0
1984	9,391.3	12,204.1	0.76	76.0

1985	10,550.9	13,267.8	0.79	79.0
1986	11,487.9	13,103.0	0.87	87.0
1987	15,088.7	14,726.2	1.02	102.0
1988	18,397.2	21,148.6	0.87	87.0
1989	16,976.9	25,697.6	0.66	66.0
1990	23,137.1	37,233.7	0.82	82.0

Source: Computed from CBN Economic and Financial Review Various issues.

Based on our earlier assumptions and the trend portrayed on the table above of the percentage of money supply made up of time and savings deposits with commercial banks, we can see that it is increasing in the long-run. A conclusion could be drawn therefore that the Nigerian money market is experiencing some growth in the long run. The ratio was initially on an almost yearly increase up to 1987 when it started experiencing a gradual decline.

Moving to our next indicator of the size of the Nigerian financial sector, it is important to note here also that in most developing countries the major proportion of domestic bank credit represents loans and advances given to the private sector and only a small amount represents credit to the government. Most of the domestic bank credit to the private sector is for short-term loans for commerce and industry and to a lesser extent for financing agriculture. Commercial banks are reluctant to purchase government securities

unless they are short-term or unless there is a guarantee by the Central bank to repurchase them. However these banks have been persuaded or legally made to hold larger portfolios of government securities. The CBN requires commercial banks to hold a certain percentage of their deposit liabilities in government securities, as such our data includes both credit to the private and public sectors.

Table 3.2: Size of the Nigerian Financial Sector

(The banking System's Credit to the Economy, and the National Income)

Year	1 Banking systems Credit (₦ million)	2 GDP Current Prices (₦million)	Ratio of 1:2	%
1970	310.0	78,738.6	0.00039	0.039
1971	500.00	116,118.1	0.00041	0.041
1972	615.0	20,388.7	0.031	3.1
1973	1,114.1	51,981.7	0.02	2.0
1974	1,570.7	149,346.0	0.01	1.0
1975	2,083.3	413,296.8	0.0005	0.05
1976	2,948.1	320,443.2	0.0009	0.09
1977	3,078.6	282,490.6	0.01	1.0
1978	4,969.9	334,192.2	0.01	1.0
1979	5,924.7	160,615.8	0.03	3.0
1980	7,957.2	91,693.9	0.08	8.0
1981	10,025.2	296,408.3	0.03	3.0

1982	12,351.0	106,539.9	0.12	12.0
1983	15,327.5	188,939.5	0.15	15.0
1984	18,793.1	209,603.2	0.14	14.0
1985	21,377.0	58,070.6	0.36	36.0
1986	22,326.3	77,231.8	0.28	28.0
1987	22,742.2	133,854.6	0.16	16.0
1988	27,155.8	204,769.7	0.16	16.0
1989	26,844.1	297,477.9	0.15	15.0
1990	29,230.0	187,422.3	0.16	16.0

Source: Computed from CBN Economic and Financial Review Various years.

The measure of the size of the financial sector in relation to the gross domestic product represents the size of the sector in relation to the size of the economy itself. Changes that are observed over time as seen in table 3.2 above would thus show whether or not the sector is expanding as rapidly as the economy as a whole. Our data shows a remarkable increase between 1970 and 1980 when banking credit to the economy increased from a very insignificant percentage of the national income (less than 1 percent) to 3 percent in 1979 and 8 per cent in 1980. This was a more than eight hundred percent increase. The financial sector again, even after 1980 continued to expand remarkably and by 1985 it accounted for up to 36 per cent of the total national income and thenceforth it realized a decline down to about 16 per cent by 1990. This was most probably due to the economic recession and the high

inflationary pressures on the financial sector. Judging by the ratio of domestic bank credit to national income, it can be concluded that it appears there has been growth in the long-run in the Nigerian financial sector.

Our first ratio in table 3.1 equally present a similar picture. the ratio of deposit money to the total money supply indicates that there has been growth in the sector as a whole. The data provides an almost yearly increase in this ratio and a long-run indication of a growth from about 50 per cent of total money supply in 1970 to more than 80 per cent in 1990.

Though the two ratios differ in statistics, they provide a good picture of the growth trend and size of the Nigerian financial sector. This rising trend can be expected because as an economy develops, the size of the typical businesses and industrial units are likely to expand; the amount of self-financing declines, and greater use is made of the money market to finance business operations.

(ii) The Capital Market:

The capital market is essentially one which deals in long-term credit. This may take the form of loans or may also cover the issuance of stocks and bonds. The capital market in developing countries deals mainly in long-term loans and advances given by specialized institutions such as development banks, savings banks,

insurance companies and stock exchanges. In view of the relative underdevelopment of the capital market in Nigeria, our treatment here will be narrowly concerned with the development and activities of the Lagos Stock Exchange market. It is the most important component of the capital market in Nigeria. In due respect of the long term nature of loans in the capital market, their interest rates are often higher than those of the money market where loans are of shorter term and interest rates lower. The capital market can be dichotomized in two ways: the new issues market (the initial public sale of securities supplied by newly listed firms or of new issues by previously listed firms) versus the secondary market (trading in issues previously issued publicly); and the private securities market (trading in stocks and bonds of privately owned corporations) versus the government securities market (normally government bonds).

Size of the primary market;

The size of the primary market for bonds in Nigeria has grown tremendously down the years. In terms of the absolute size, the nominal value of issues has grown from around ₦60 million in 1970/71 to ₦415 million in 1977, to ₦692.3 million in 1982, to 211.0 million in 1988 and to approximately ₦1,627.7 million in 1990. the number of new issues dropped in 1988 to just 12, but by 1990 it sprang to an all time high of 138

issues. The issue of government bonds had always dwarfed all other issues of all securities (shares as well as fixed interest securities), but recently this dominance has been competed away by the growing importance of industries in the capital market transactions. In fact by 1978, issues of government bonds and stocks represented up to 88 per cent of total new issues of all securities, and by 1988 and 1990 it represented just 36 per cent and 42 per cent respectively. The table below indicates the trend in the new issues market of the stock exchange between 1970 and 1990.

Table 3.3: New Issues Market

	1970	1975	1978	1982	1988	1990
Total						
Number	8	8	10	20	12	138
Value(Nm)	48.5	451.5	220.0	306.5	211.0	1,627.7
Public Sector						
Number	5	6	4	12	3	60
Value(Nm)	30.0	450.0	105.0	290.5	21.0	39.5
% of Total	70.0	99.7	36.0	60.0	36.7	42.1
Private Sector						
Number	3	2	6	8	9	78
Value(Nm)	18.0	1.5	115.0	16.0	190.0	98.5
% of Total	30.0	0.3	64.0	40.0	64.3	58.9

Sourcce: computed from CBN,Annual Report. Various Issues.

Giving a look at the transactions on the market the picture is generally the same. In 1972 for example the number and value of transactions in government stocks were 28.1 per cent and 96.3 per cent respectively of the total dealings in the market. In 1977, the number of transactions in government stocks was 377, representing 20.4 per cent of total dealings and the value was ₦178.8 million representing 99.3 per cent of the total transactions. The break in the number came in 1974 when transactions in government stocks stood at only 8.4 per cent of the total dealings but the value was still high. In the 1980s (ie up to 1989/90), the dominance of the government transactions still persisted, though to a much lesser extent. This again was due to rapid upsurge of industries which can afford to deal in long-term securities. Table 3.4 portrays this trend.

Table 3.4: Secondary Market for Securities (1970-1990)

	1970	1975	1978	1982	1988	1990
Total Transactions						
Number	636	695	2,492	4,842	4,904	6,078.1
Value(Nm)	8.3	63.7	197.8	386.0	399.0	1,976.0
Public Sector						
Number	303	193	229	3,880	2,290	3,460
Value(Nm)	8.2	62.8	187.2	286.0	286.0	1,308.0
% of Total	98.8	98.8	94.6	81.0	87.1	88.0

Private Sector

Number	331	501	2,263	962	2,615	2,540.0
Value(Nm)	0.1	0.9	10.6	106.0	113.0	668.0
% of Total	1.2	1.4	5.4	18.0	19.0	11.5

Sourcce: computed from CBN annual Report and Economic and Financial Review. Various years.

In terms of value, therefore both in the primary as well as in the secondary market for securities, government stocks constitute the cornerstone of the stock market. In terms of the number of issues and the number of listings and of the transactions, private (industrial) securities have been growing in importance but this has not been reflected in the values.

One can conclude here that, the stock exchange plays a vital role in the mobilization of capital and the channelling of investment. While it is true that they have sometimes facilitated speculation in stocks, especially during a period of inflation, on the whole they have performed a useful function in promoting economic development. As the amount of capital required for a business enterprise increases, one finds that individual private fortunes are not sufficient to finance investment in industries requiring modern equipment. The joint stock company with shares open to the public for subscription is therefore needed. The subscription to the capital of joint stock companies

will be more easily available if there is a stock exchange where an investor can follow the activities of his company and if need be sell his shares for cash without undue loss of capital. In addition to providing a market place for the purchase and sell of existing shares, a stock exchange also facilitates the floatation of shares of new companies and new shares of existing companies.

3.3 AN OVERVIEW OF THE NIGERIAN FINANCIAL SYSTEM

The Nigerian economic environment and the entire regulatory framework within which the system operates has undergone substantial changes over the past two decades in terms of the number and variety of financial intermediaries, the depth and breadth of instruments as well as the structure of its capital and ownership. Nevertheless the financial system remains relatively under-developed as it is yet to acquire the required degree of financial intermediation for the rapid development of the economy.

There were 12 commercial banks operating in the country in 1960 with a total asset of ₦235.8 million and about 190 branches. the only merchant bank, then known as Phillip Hill (Nigeria) Limited which later merged with the Nigerian Acceptances Limited (NAL) did very little business as such. A few non-bank financial intermediaries operating on a very modest scale existed, but no specialized development banks. The Post

Office savings Bank was the largest single non-bank financial intermediary at that time, with over 160 branches spread all over the country. However it made limited impact on the economy because its funds were invested largely in London.

The number of commercial banks rose exponentially across the years, and by 1988 there were 41 commercial banks with assets of ₦59.2 billion and a network of 1,665 branches. By 1990 the number had risen to 38 commercial banks scattered across the nation with 1, 939 bank branches. Merchant banks at the end of 1988 numbered 24 with a total of 46 branches and total assets of ₦17.2 billion. By 1990 there were 35 merchant banks and 1,965 branches. The four development banks, viz, Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI), Federal Mortgage Bank (FMB) and the Nigerian Agricultural and Co-operative Bank between them had assets amounting to ₦2.8 billion at the end of 1988 and ₦3.1 billion at the end of 1990. (Oke, 1989).

A total of ninety-nine companies are currently in the insurance sector and they are engaged in both life and non-life businesses. Whereas 64 of these companies were solely in non-life insurance companies, 35 were in both. The total assets of all insurance companies at the end of 1986 stood at ₦2.5 billion while the National Provident Fund had a total investment of

₦976.1 million by 1988 and ₦1,015 million by the end of 1990.

(a) The ownership Structure of Banking Institutions

The ownership structure of institutions in the banking system has evolved with the development of the sector as a whole.

In 1960 five of the 12 commercial banks in the country were indigenously owned. Of the 48 commercial banks in 1989, 18 were under foreign-Nigerian joint ownership. 7 of these were jointly owned by the Federal Government and foreign interests, 3 were jointly owned by foreign and state Government enterprises while 8 were joint ventures between private Nigerian and foreign interests. Of the remaining 30 commercial banks, 21 were wholly owned by state Governments, 1 was a joint venture between a state government and the Nigerian private sector, while 8 were wholly under Nigerian private sector ownership. 10 of the 31 merchant banks had foreign participation. All but 2 of the remaining 21 merchant banks were wholly Nigerian private sector enterprises. The commercial and merchant banking sub-sector therefore features a mix of government, private Nigerian as well as private foreign participation. Foreign participation remains significant but no longer dominant. There is substantial government presence in commercial banking while private Nigerian interests dominate merchant banking in terms of the number of institutions. The

four development banks continue to be public enterprises owned jointly by the Federal Government and the Central Bank of Nigeria. Of the 99 insurance companies, 79 are wholly Nigerian enterprises while 20 are joint foreign-Nigerian owned.

(b) Capital Structure

The total paid-up capital of commercial banks grew rapidly from ₦29.0 million in 1965 to ₦87.9 million in 1975 and to ₦861.4 million in 1988. The banks' reserve funds grew even more rapidly as a result of high profitability and regulatory requirements or statutory reserves. They rose from ₦0.6 million in 1965 to ₦33.7 million in 1975, ₦140.8 million in 1980, ₦783.9 million by 1988 and ₦1,356.0 million 1990. Merchant banks' paid-up capital rose from ₦68.5 million in 1984 to ₦128.0 million in 1987, to ₦222.5 million in 1988 and ₦287.1 million in 1990.

3.4 EVOLUTION OF THE NIGERIAN FINANCIAL SYSTEM

The Nigerian financial system as seen so far has continued to expand. Various kinds of savings institutions have sprouted out in response to this massive expansion, and along trend the assets of these savings institutions have been rising tremendously. Since independence therefore new institutions have emerged in response to this growing, diverse and more sophisticated needs of financial intermediation. There are now a growing number of merchant banks, development

banks (meant for specialized projects), money and capital market institutions such as the Stock Exchange, the Security and Exchange Commission and a number of stockbroking finance and investment companies as can be seen in the table below:

Table 3.5: Growth in Major Financial Institutions(N^{MS}):

BANKS	1960	1970	1980	1987	1990
CBN	1	1	1	1	1
Commercial banks	12	13	20	33	58
Merchant banks	1	1	6	16	35
Dev't banks	/	4	4	4	4
Insurance Companies	/	43	75	84	99
Fed.Savings bank	1	1	1	1	1
Stock Exchange	/	1	1	1	1
Stock Brokers	/	8	10	20	138

Sources: CBN Economic and Financial review. Various Issues.

The financial system in Nigeria has assumed changing roles, brought about by the changing views of the monetary authorities which include the creation of local money and capital market instruments, the introduction of the Rural Banking Expansion Programme; the requirement that banks should allocate specific

proportions of loans to designated sectors and sub-sectors of the economy; and changes in the ownership structure of banks. The structural Adjustment programme (SAP) among other things saw Nigeria change from a rigorously controlled economy involving large government intervention to a virtually decontrolled economy and floating exchange rate. Of particular interest in the post-SAp era is the enormously increased emphasis and responsibility that has developed on the banks in the era of interest rate and exchange rate determination as well as foreign exchange and external debt management.

(a) The Central Bank of Nigeria:

The Central Bank at its inception in 1959, as earlier stated, inherited a rudimentary financial system in which there were a few commercial banks, and non-bank financial intermediaries but with no organised money and capital markets. During the first decade of its existence, therefore, the CBN concentrated on the important task of promoting the transformation of the rudimentary financial structure of the economy. In fostering the development of the money market the CBN introduced treasury bills (1960), produce bills (1962), treasury certificates (1968), all of which it stood ready to rediscount. It introduced a call money Scheme in 1962.

The CBN actively promoted the growth of the capital market, starting with that of the Lagos Stock Exchange and the Capital Issues Committee which later evolved into the Nigerian Securities and Exchange commission (NSEC) in 1978. The CBN also influenced the course and pace of development of the Nigerian financial system via the promotion of the establishment of and continued assistance to development banks, four of which have been discussed already in the review viz NIDB (1964), NBCI (1973), NACB (1973) and FMB (1977).

The CBN has therefore contributed tremendously to the growth and expansion of the financial system.

(b) Growth Trend of commercial Banking:

The physical growth of the commercial banking system has already been highlighted earlier in the overview. Here more attention is focused on the trends in the systems assets and liabilities.

Re-examining the growth of branch network of commercial banks in Nigeria is still quite necessary since it will provide a snapshot of the physical structure of the commercial banking system and the scope for effective mobilization of savings. Nigeria operates on a nation-wide branch banking system as opposed to the unit banking system and there is no law limiting the branching of commercial banks within and among the thirty states. There were 20 banks and 740 branches in 1980 and by 1990 it had risen to 58 banks

and 1,939 bank branches registering an average annual growth rate of about 38 per cent. The table below provides a picture of the growth rate of commercial banks and their branches in the country from 1970 to 1990. The table equally provides the growth rate of branches, the average branch per bank, and the number of persons per branch that is, the bank/population ratio. It is an indicator of the degree of development of the financial sector.

Table 3.6: Commercial banks and branches 1970-1990

YEAR	NO. OF BANKS	NO OF BRANCHES	GROWTH RATE OF BRANCHES	AVERAGE BRANCH PER BANK	POPULATION (millions)	NO OF PERSONS PER BRANCH
1970	13	318	5.3	24.5	66.2	206,097
1971	16	340	7.0	21.3	68.2	200,470
1972	16	358	5.2	22.4	70.2	196,103
1973	16	383	7.4	23.9	72.3	188,801
1974	17	403	5.2	23.7	74.5	184,914
1975	17	433	7.4	25.5	76.7	177,169
1976	18	450	3.9	25.0	76.8	170,687
1977	19	508	12.9	26.7	78.6	164,638
1978	19	585	15.2	30.8	80.6	137,715
1979	20	672	14.9	33.6	82.6	122,948
1980	20	740	10.1	37.0	84.7	114,503
1981	20	917	23.9	45.8	86.2	94,002
1982	21	991	8.1	47.2	88.9	89,707
1983	24	1,108	11.8	46.2	93.7	84,566

1984	27	1,198	8.1	44.4	95.4	79,632
1985	28	1,288	7.5	46.0	97.6	75,776
1986	28	1,367	6.1	48.8	100.6	73,591
1987	33	1,483	8.5	44.9	110.8	74,713
1988	42	1,665	12.3	39.6	112.2	67,387
1989	47	1,855	11.4	39.5	114.6	61,778
1990	58	1,939	4.5	33.4	115.3	59,463

NOTE: The population figures are projections of the 1963 population census figures

Source: 1. Population Bureau, Office, Lagos

2. CBN (i) Annual Report and Statement of Accounts. Various issues

ii. Monthly Report. August 1976, pp.9.

3. P.N.C. Okigbo (1981): Nigeria's Financial System.

The very encouraging increase in bank offices in 1978 was due to the first phase of the Rural Banking Scheme which lasted for the period 1977-1980. By the end of December 1980 for instance a total of 200 bank branches had been established and out of the 917 bank offices by November 1982, 273 were located in the rural areas, all of which were opened under this programme.[5] By 1970 the number of branch offices has been increasing from 25 in 1970 and 26 in 1975. By 1980 branch offices per bank were up to 37 and in 1985 there were 46 offices per bank. By December 1990 it stood at 34 per bank.

The volume of deposits held by the Nigerian banks registered a two-hundred and fifty-nine fold increase from 1960-1990. It increased from N8,042.7 million in 1980 to N13,938.5 million in 1983 to N17,627.1 million in 1985 and to N35,594.4 million in 1990. It has recorded an overall annual growth rate of 25.5 per cent. The growth rate was higher in the period 1970-1980 when the average annual growth rate was 32.5 per cent than earlier. Between 1970-1990 the average annual growth rate was about 42.5 per cent.

Inflation produces an automatic increase in bank deposits so that bank deposits outstanding may increase because of inflation without any increase in the quantity of services provided by the banks. This then justifies our distinction between inflation-induced growth in deposits and real growth in deposits. To correct the current deposits series for price effect the index of consumer prices is used as price deflator. This is seen clearly from most nominal values. The price deflated deposits series exhibited a seven-fold increase during the period 1960-1990 ie rising from N391.4 million to N2,714.0 million as opposed to a 259-fold increase in the nominal values.

The expanding scale of private sector deposits should however not mislead us to believe that the Nigerian financial sector is well developed. The larger proportion of most of Nigeria's financial savings is in the form of time and savings deposits; this category

has about 70% and above of institutionalised savings in the economy. the next largest category is time deposits with the Merchant banks whose share in total institutionalised savings is quite impressive. The figures below indicate the dominance of the time and savings deposits category to the total deposits.

Table 3.7: Trends in the Structure of the financial system by type of institution (1970-1990) (₦m)

YEAR	Comm.Banks (T/s deposits)	Merchant banks time deposits	Federal Savings Banks	Insurance Companies	National Provident Fund	Federal Mortgage Bank
1970	336.8	n.a	4.9	n.a	67.3	2.6
1971	371.8	7.1	4.5	n.a	76.5	4.0
1972	461.2	10.7	4.3	n.a	89.1	5.3
1973	582.3	17.1	4.5	n.a	109.7	6.4
1974	973.2	20.4	4.6	n.a	121.1	6.9
1975	1,302.3	36.2	5.7	n.a	143.4	10.4
1976	1.979.1	58.9	6.9	0.1	193.9	16.3
1977	2,555.1	82.4	8.0	0.1	230.4	16.9
1978	2,601.7	109.8	8.2	0.1	252.5	18.2
1979	3,702.1	114.4	8.0	0.1	289.0	22.6
1980	5,163.1	219.7	7.3	0.1	338.9	40.7
1981	6,023.5	328.0	5.8	0.1	405.1	57.2
1982	6,838.2	522.6	5.5	0.1	425.7	66.0
1983	8,082.9	793.7	5.0	0.1	472.8	89.7
1984	9,391.3	970.6	8.0	0.1	504.7	114.9

1985	10,550.9	1,145.1	8.1	0.1	525.6	113.9
1986	11,487.9	1,561.6	8.1	0.1	562.8	121.3
1987	15,088.7	2,822.8	20.2	0.1	614.0	133.7
1988	18,397.2	3,982.8	22.4	0.1	651.0	195.5
1989	16,976.9	3,970.7	n.a	0.1	669.2	213.2
1990	23,137.1	3,298.0	n.a	0.1	695.1	257.8

Note:
n.a. = not available.

The table above indicates clearly the dominance of time and savings deposits to total deposits in the Nigerian financial sector.

(c) Merchant Banking:

One of the principal motives for the development and influx of merchant banks into the Nigerian financial system was to fill the credit gaps which commercial banks could not satisfy and which were beyond the scope, ability and resources available to development banks. They were expected in particular to provide long term and some medium lending and corporate finance that the economy badly needed for its rapid economic transformation.

The number of merchant banks rose from one in 1960 through 2 in 1975 to 12 in 1977 and then to 35 in 1990. This rapid expansion has often been attributed to the positive influence of the Structural Adjustment Programme (SAP).

In 1976, the government partially took over majority of the interests in some commercial banks and this also applied to the foreign controlled merchant banks, then in operation. However, as indicated earlier, private Nigerian enterprises either alone or in partnership with foreign interests dominate the merchant bank business. The banks in 1976 were brought under the CBN control and credit guidelines.

The growth rates of merchant banks' operations were much higher than those of commercial banks reflecting the massive expansion of merchant bank activities. Between 1965 and 1988 total assets/liabilities deposit liabilities and loans and advances rose by compound growth rates of 42.0, 44.3 and 45.2 per cent respectively. Between 1968 to 1988 their total investments grew by a rate of 40.3 per cent.

(d) THE DEVELOPMENT BANKS

(i) The Nigerian Industrial Development Bank (NIDB)

Established in 1964, the NIDB was the first development bank in the country. It was a private concern with a paid-up capital of N4.5 million held both within and without the economy. The ownership structure remained until 1978 when the government and the CBN acquired 79.3 and 20.2 percent of the equity capital respectively. In that year the capital was raised to N200 million and N400 million in 1988.

Public sector holding however is expected to drop to about 70 per cent following the on-going privatisation programme. The bank had total assets of N693.7 million by 1989. Its loans and advances stood at N391.4 million and N34.2 million as investments in all equity.

(ii) The Nigerian Bank for Commerce and Industry (NBCI;

This was set up a wholly owned public sector enterprise to undertake development and merchant banking as well as some commercial banking functions. It took off with an initial capital of N50 million held 60 and 40 per cent by the Federal Government and CBN, respectively. It was raised to N200 million by 1984 and there are moves to increase it further. The banks total assets/liabilities amounted to N592.5 million at the end of 1988 while total loans and advances and investments amounted to N203.0 and N20.1 million respectively.

(iii) The Nigerian Agricultural and co-operative bank (NACB)

This bank was set up to channel credit to agricultural production. The bank commenced effectively in 1973 with an initial capital of N12 million from the Federal government, of which N1 million was equity and the rest was loan capital. In 1978 the share capital of the bank was raised to N150 million, subscribed in the ratio of 60 and 40 per cent by the

Federal Government and CBN respectively. At the end of 1988/89, the banks total credit stood at ₦736.6 million. Loans and advances amounted to ₦557.5 million whilst investment stood at ₦2.5 million.

(iv) The Federal Mortgage Bank (FMB):

The FMB emerged from a reconstitution of the Nigerian Building Society which had been established in 1957 as a joint venture by the Federal Government and the Former Eastern Regional Government and the Commonwealth Development Corporation (CDC). Created by decree in 1977 it was to provide mortgage credit and co-ordinate mortgage lending on a nation-wide basis. It had an initial capital of ₦20 million of which ₦12.5 million was paid up. In 1978, the equity capital was expanded to ₦150 million, held in ratio of 60 to 40 per cent by the Federal government and the CBN respectively. Its total assets/liabilities stood at ₦753.9 million in 1988 while its total loans and advances stood at ₦572.2 million.

(e) Other Non-Bank Institutions:

(i) Insurance Companies

This had become a very important source of credit since the 1970s. It has become a major investor in Government Securities, private sector equity and bonds as well as housing mortgage. Their investment in government securities more than doubled from ₦212.2

million in 1984 to ₦460.6 million in 1988 and ₦822.6 million in 1989. The investment in equity and bonds and mortgages stood at ₦290.6 million and ₦279.6 million respectively.

(ii) The National provident fund:

This has continued over the years to be a major source of savings and an important investor in government securities. The Fund's total investments which stood at ₦3.5 million in 1963 rose sharply to ₦20.6 million in 1965 and ₦72.0 million in 1970. It grew steadily thourhgout the 70s and 80s and by December 1988/89 it stood at ₦976.1 million.

(iii) The Lagos Stock Exchange:

It was incorporated in 1960 under the companies Ordinance as an association limited by guarantee. Its activities remained sluggish between 1960 and 1971 as only 14 companies were listed. Between 1972 and 1974, the number of listed companies rose to 34. Today it is a multi million corporation. With eleven dealing members and 168 Securities on the list, it is made up of 58 Government Stocks, 17 industrial loans and preference stocks and 93 equities.

The last long-term financial institution (non-bank) is the Nigerian Securities and Exchange Commission (NSEC). Its main function was to include the valuation of shares and debentures determination. It

also asssited in the orderly growth of the capital market in the country.

Conclusion:

The above institutions (bank and non-bank), dealing in various kinds of assets and liabilities give us an idea of the overall performance of the Nigerian financial sector. With the growing sophistication of the economy the Nigerian financial system has, to a large extent managed to cope with its demands. This can be seen from the rising trends in most of the indicators which draw us to the conclusion that the financial sector in Nigeria has actually exhibited growth, both in the short-run and in the long-run. So one can say therefore that financial savings in Nigeria play a vital role in economic development, because the existence of the various financial institutions is derived from the desire and savings capacity of the populace.

Chapter four presents the empirical analysis of the determinants of real financial savings per capita in the country. It is from the results that concrete statements and policy recommendations will be made.

CHAPTER FOUR

STATISTICAL ANALYSIS

A test was conducted to determine the longrun time trend of the growth of financial savings per capita, based on the following model:

$$S/N = a + bt + \epsilon$$

where S/N = Real Financial savings per capita

a = constant

b = growth rate of per capita real financial savings

t = time (in years).

ϵ = error term.

A three year moving average of real financial savings per capita was linearly regressed on the number of years in the study period, 1970-1990. It gave the following results

$$S/N = 31.4 + 5.13t$$

$$\frac{\delta S/N}{\delta t} = 5.13$$

∴ growth rate of real financial savings per capita

= 5.13% per annum

To calculate the overall national financial savings rate in the country we add the 5.13 to the growth rate

of the population.

This gives us

$$5.13 + 3.5 = 8.5\% \text{ per annum}$$

Therefore it can be concluded that the growth rate of real financial savings in Nigeria during the period under study is 8.5%.

4.1 EMPIRICAL ANALYSIS OF THE DETERMINANTS OF FINANCIAL SAVINGS.

MODEL OF ANALYSIS

In this section, we specify the model for analysing the determinants of financial savings in Nigeria. There are three levels of absraction in trying to analyse the determinants of financial savings. At the macro level there are usual considerations about the growth of the economy, the extent of financial and price stability and the appropriate level of interest rates which would encourage more financial savings. Then at the micro level there are considerations which lie in both the economic and social spheres.

Wai (1958, 1980) postulates savings as a function of three sociological factors, namely ability (A), willingness (W) and opportunity (O) to save. Savings would increase with increases in each of these determinants. It was also postulated that each of these factors are themselves dependent on economic and non-economic variables. The U Tun Wai model is written as follows:

$$S = \phi(A,W,O) \ldots\ldots (1)$$

$$A = \gamma(Y,N,K..) \ldots. (2)$$

$$W = \beta(i,L,C,k_f..) .. (3)$$

$$O = h(F,Ir) \ldots\ldots (4)$$

In equation (2), the ability to save (A) is stated to depend on Y, national income, N, structure of population according to age groups or dependency rate, and K the stock of wealth, etc. The ability to save would be positvely dependent on Y and K, but negatively on N.

In equation (3), the williness to save (w) depends on i interest rates, L stage of person in his life cycle, C cultural factors such as position in class or social ladder, and K_f inflow of capital etc. The willingness to save is positively related to interest rates and negatively to capital inflow. As to cultural factors it is inconclusive.

Finally, the opportunity to save (O) depends on F the financial institutions, and Ir the profitability of investment, both positively.

In the present study, we adopt the Wai model but make certain changes, to fit the Nigerian conditions as well as availability of data. We therefore postulate the following model of the determinants of financial savings:

$$Sf = f(A,W,D)$$

$$A = f(Y,X,Dp)$$

$$W = f(i.\ I_f)$$

$$D = f\ (F.Urb)$$

Where

SF = Financial savings as a function of A.W,D (defined as before), Y per capita real GDP, X export performance, DP dependency ratio, i interest rates, I_f net foreign investment, F financial institutions, Urb urbanization rate.

(i) Real per capita GDP: From the literature this variable is expected to exert great influence on financial savings. The figures for nominal GDP were deflated by their corresponding consumer price indices within the study period, to arrive at the real GDP and then divided by the population, to arrive at the per capita real GDP. This stood as a proxy for per capita real income.

(ii) Export Performance: The real volume of exports for the country, calculated in 1980 US dollars was used as a proxy for our export performance. This variable was used because export expansion/Shrinkage has an impact on domestic incomes through the export multiplier effect and hence on financial savings.

(iii) the dependency ratio: Data for the dependency ratio was got by dividing the actual size of the population within age brackets 1-15 years (youths) and over 64 years with the size of the economically active population (EAP). The time-series data gave the number of people dependent on a working member of the labour force.

(iv) The real interest rate:

Since approximately 89 per cent of financial savings in Nigeria is in the form of time and savings deposits with commercial banks, the average deposit rate of these assets was used to represent the interest rate on financial savings in the country. The nominal interest rate was deflated by the appropriate consumer price indices to get the real rates.

(v) net foreign investment:

This was calculated as the balance between the outflow and inflow of capital in the country. The nominal values were used.

(vi) Financial Institutions:

The degree of penetration of financial institutions into the economy was used to estimate the level of development of the financial sector. This was done by calculating the bank/population ratio. That is, the number of banks per 100,000 inhabitants. This was done by dividing the number of banks by the total

population per year, times 100,000.

(vii) Urbanization rate

This variable is closely linked to that of financial institutions. This was calculated as a proportion of the population living in settlements of 20,000 or more inhabitants as a proportion of the total population. The assumption here is that the banking habit spreads with the growth in urbanization.

The following savings function incorporating these variables is thus posited.

$S/N = f(Y, X, F, i, I_f, Dp, Urb)$.

To use the above model it takes the functional form of a linear regression function as follows:

$S/N^* = bo + b_1Y + b_2X + b_3F + b_{4i} + b_5 I_F + b_6Dp + b_7Urb + e$

where

S/N^* = observed per capita real financial savings

bo = constant of the model

b_1-b_7 = regression coeficients to be estimated

Y = real income per capita

X = export performance

F = financial institutions

i = real interest rates

I_f = net foreign investment

Dp = dependency ratio

Urb = urbanization rate

ϵ = error term.

Based on previous studies and a priori economic knowledge, the regression coefficients are expected to have the following sings:

Coefficients	Sign
$b_0 > 0$	+
$b_1 > 0$	+
$b_2 > 0$	+
$b_3 > 0$	+
$b_4 > 0$	+
$b_5 \gtrless 0$	± (inconclusive a' priori)
$b_6 < 0$	−
$b_7 > 0$	+

Two regressions are run: One uses simple time series data for 1970-1990, the other, a three year moving averages also for 1970-1990 for the dependent variable. the results are specified below:

4.2 PERIOD: 1970-1990, using Simple time series data

$$S/N^{*} = \underset{(2.38)}{198.91} + \underset{(91.35)}{0.0738Y} + \underset{(2.16)}{0.00026X} + \underset{(1.25)}{5.865F} + 0.005i$$

$$+ \underset{(3.12)}{0.00394IF} - \underset{(-0.06)}{48.052Dp} + \underset{(3.12)}{1.17urb} + \epsilon$$

$R^2 = 0.69$

$F = 4.14$

$DW = 1.37$

(t-ratios in parenthesis).

The results indicate that the most potent positive structural determinants of financial savings in Nigeria from 1970-1990 are the rate of urbanization, the net foreign investment in the country and the degree of penetration of financial institutions (commercial banks) into the economy in that order. This meets a priori expectations except for net foreign investments which was inclusive a priori. These positive elasticities can be seen from their respective positive and high t-ratios.

The results prove that the urbanization rate is significant at the 1 per cent level. The net foreign investment is equally significant at the 1 per cent level. The degree of penetration of financial institutions into the economy is also significant in the model at the 1 per cent level of significance. In other words, we can say that we are 99 per cent confident that these three variables significantly influence the level of real financial savings per capita in Nigeria.

The results underscore the strategic role of financial institutions as agents for mobilising financial savings. It confirms what is in the literature about the positive institutions - elasticity of savings in both developed and developing countries. The degree of penetration of financial institutions into the economy improves on individuals' saving institutions available to the population, the more

likely the rate of growth of financial savings.

The urbanization rate is another very important variable that gave us a positive elasticity coefficient and which is also associated with the opportunity to save. This high and positive significance level (as depicted by its t-ratio) can be attributed to the fact that the savings habit more available/common in the urban population than in the rural population. Besides, capitalist or market oriented production tends to be more widespread in the urban areas than in the rural areas.

The net foreign investment variable whose a priori expectations were inconclusive proved to be very significant than most other variables. Thus it can be said to complement real financial savings in Nigeria. That is net foreign investment significant affects financial savings in Nigeria.

The level of real income, as seen in the results is the next most potent variable affecting real financial savings per capita in Nigeria. It has a positive t-ratio of 1.82 which proves from calculation that it is significant at the 5 per cent level. In other words we are 95 per cent confident that the level of real income positively affects real financial savings per capita in Nigeria. This result meets a priori expectations that the level of real income significantly influences real financial savings per capita.

The export performance proves to be less

significant in determining real financial savings per capita. It is significant at the 10 per cent level and this is an indication that though positive, its impact is not as much as those of the aforementioned variables.

The effect of real interest rates on real financial savings is not very different from that of the export performance. It is equally significant at the 10 per cent level which is an indication that it's influence is not very strategic nor significant. This variable was expected to have a significant and strong relationship with an individual's willingness to save. The results however suggest a weaker link between real financial savings per capita and real interest rates (returns on savings). This could be explained from the fact that due to the inflation rates in the country, there has almost always been negative real interest rates in the country mostly as a result of the administrative controls, at least before SAP. This low and less significant interest elasticity of savings in Nigeria could also be explained by the underdeveloped nature of the financial infrastructure in the country. From this result it could be concluded that most savers save not because of the financial reward of savings but due to other structural reasons, at least comparing the results with those obtained for other variables.

The last explanatory variable meets a priori expectations. It is the dependency ratio. The

elasticity coefficient for this variable is greater than unity in absolute terms, suggesting a rather strong negative influence originating from the development of this variable. It has a very low and insignificant t - ratio of -0.06, suggesting that the variable is not significant in explaining variations in real financial savings per capita in Nigeria. As expected therefore the dependency ratio is one of the most undermining factors affecting financial savings in Nigeria. This could be explained from the high birth rates in the country and the unprecedented high unemployment rates in the country since the 1970s. Also advancements in medical sciences has accounted for the high dependency ratio because it has increased the life expectancy of the population, thus more old people are available now and they all depend on the meagre earnings of the relatively small working population (labour force). The high dependency ratio, it must be noted has adverse effects on the ability of wage earners to save and thus on the overall domestic financial savings.

4.3 PERIOD 1970-1990 USING 3-YEAR MOVING AVERAGE FOR THE DEPENDENT VARIABLE

$$\underset{(2.09)}{S/N_2^{*}} = \underset{(2.09)}{215} + \underset{(1.38)}{0.089Y} + \underset{(0.56)}{0.00031X} + \underset{(2.33)}{3.27F} + \underset{(0.75)}{0.16i}$$

$$+ \underset{(2.71)}{0.00031I_F} - \underset{(-1.16)}{50.59D_p} + \underset{(1.22)}{9.208U_{rb}}$$

R^2 = 0.78

F = 6.78

DW = 1.23

(t - ratios in parenthesis).

The test provides us with a better fit that is a higher R^2 of 0.78. From the results obtained there is no major or significant alteration in the elasticity coefficients, except that of urbanization which proves here to be far more positive than in the earlier model. The t-ratios however which indicates the significance levels of the seven explanatory variables altered a bit. The results here again prove that the net foreign investment in Nigeria is most significant in determining real financial savings per capita. It's t-ratio of 2.71 is significant at the one per cent level of significance. In other words we are 99 per cent confident that this variable fits the model.

From the results the next most significant variable is the degree of penetration of financial institutions into the economy. It is significant too at the one per cent level. These two results meet a priori expectations based on the fact that in the literature it is evident that the number of banks in an economy provides an opportunity for savers to save. The expectations of net foreign investments were inconclusive a priori, but our results prove here that it greatly complements savings.

The level of real income is the next variable in order of significance. With a positive t-ratio of 1.38, the variable is significant at the 10 per cent level. This goes to lend more credence to what is in the literature that savings is a function of income. The results thus meet a priori expectations and we can say we are 90 per cent confident that real income fits our model. The level of urbanization also proves to be significant, though not very positively, in our model. With a t-ratio of 1.22 it is significant at the 10 per cent level. Though not very significantly (probably due to data constraints), the result meets a priori expectations. It confirms what is in the literature that there are more opportunities to save in the urban than in the rural areas. That is there are more banking services in cities, and this has an impact on their propensities to save.

The real rate of interest proves to be insignificant here in this model. With a low t-ratio of only 0.75, it is not significant in the model. This is probably due to the underdeveloped financial infrastructure in Nigeria wherein, incentives in the form of returns on savings does not seem to have any major impact on their savings habit. Its positive elasticity coefficient however meets a priori expectations.

The export performance is the next variable which proves to be insignificant in the model. It has a low

t-ratio of 0.56 which makes it insignificant in explaining variations in real financial savings per capita. It's positive elasticity coefficient too however meets a priori expectations.

The least responsive or significant variable in the model is the dependency ratio. It's negative t-ratio of -1.16 makes it very insignificant in influencing real financial savings per capita. In fact it could be said to be the most undermining factor determining financial savings in Nigeria. This meets a priori expectations in the sense that the dependents divert the incomes of those in the labour force from going into savings to being spent on consumption.

CONCLUSIONS

A conclusion could therefore be drawn from our analysis that the two tests provide good models for investigating the determinants of financial savings in Nigeria. The results generally prove that net foreign investments in Nigeria significantly complements financial savings. It equally proves that the degree of penetration of financial institutions into the economy is very significant in determining financial savings in Nigeria. The dependency ratio is seen to greatly undermine real financial savings per capita in the country.

From the results obtained, the Durbin Watson statistic test for autocorrelation proved to be very low, i.e 1.23, but we took this low statistic to avoid

losing one more degree of freedom since our sample in this regression is made up of twenty years only. Put generally the results meet arguments in conventional economic theory.

CHAPTER FIVE

SUMMARY AND POLICY RECOMMENDATIONS

The importance of financial savings in the development of any nation are indeed enormous and it is a main indicator of economic development. Its role in allocating resources to deficit spending units through deposits at financial institutions need not be overemphasized. It is because if this leading role that its principal determinants are of much concern to researchers and economists as a whole.

Our results lead us to the conclusion that financial savings in Nigeria is more significantly, a function of the net foreign investment in the country and the degree of penetration of financial institutions into the economy.Two ordinary least squares multiple regression tests were conducted which confirmed the results. The first, using simple time series data for 1970-1990 as the dependent variable proved that the most potent determinant of real financial savings in Nigeria is the degree of penetration of financial institutions (commercial banks) into the economy, and the net foreign investment in the country. This confirms the hypothesis that financial savings are institution-elastic that is, most financial savers do so because of the availability of banking institutions near them. Thus a growth in the bank/population ratio means more financial savings.

The high positive coefficient and high t-ratios for the urbanization rate also confirms the argument that most financial institutions in Nigeria are located in the cities. The real rate of interest, and the export performance, also showed positive elasticities of financial savings. Their elasticity coefficients and t-ratios however were not very significant, indicating that they do not account significantly for the level of financial savings. Their influences are small and negligible.

The dependency ratio on the other hand has proven to be the greatest disincentive to financial savings. Its elasticity coefficient suggest that it undermines the financial savings capacity a great deal. This is therefore an indication that most of the Nigeria's population is made up of children below 15 years (youths) and above 64 years (aged). Economically, these are all dissavers, as explained in the Life-Cycle hypothesis of Ando and Modigliani (1963), and they depend on the relatively very small labour force, who are then forced to divert their incomes to consumption than to saving. This then reduces national financial savings.

The results of the second test using a three-year moving average for the same period 1970-1990 as the dependent variable on the same independent variables gave us almost similar results. It provided a better fit generally, and the most significant disparity was

in the urbanization rate. It indicated that the net foreign investment was the most potent determinant of financial savings per capita in Nigeria, followed by the number of financial institutions (bank/population ratio). It still however, conforms with our earlier conclusion that financial savings depend a lot on the willingness and opportunity to save. The elasticity coefficients for the other variables remained almost the same, thus bearing the same conclusion.

A time-trend analysis was equally attempted to depict the long-run growth rate of real financial savings per capita in the country. It proved to be growing at 5 percent per annum. This rate was added to the growth rate of the population (ie approximately 3.5 per cent) to arrive at the conclusion that the growth rate of national real financial savings is 8.5 per cent per annum.

Based on these results one can recommend to the government to realize that commercial banks are the most important component of the Nigerian financial system and the most important saving mobilization and financial resource allocation institutions consequently. These roles make them an important phenomenon of development. In performing these roles it must be realized that banks have the potential, scope and prospects for mobilising financial resources and allocating them to productive investments. These scope and prospects have to be exploited quickly by enlarging

the number of bank offices and also by the banks branching into the rural areas where a lot of savings lie idle or dissipated and where productive investment projects donnot take off because of lack of financial institutions to mobilize and channel these funds so mobilized to productive activities.

It is however recognised that while the increase in the number of bank offices and variety of financial instruments are important for savings mobilization and resource allocation, the adoption of appropriate policies by the monetary authorities is very essential, for example a relaxation of the requirements for opening and operating a bank or secondly granting tax concessions to banks in rural areas to attract more banks there. These will go a long way to reduce the over reliance of the government on fiscal policies than monetary policies for development.

In order to reduce the defects of the high dependency ratio on financial savings, the government should revive its policies on unemployment benefits, pensions and scholarships to children. This will increase the real disposable income, thus savings capacity, of the economically active labour force.

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APPENDIX I

REAL FINANCIAL SAVINGS PER CAPITA IN NIGERIA (₦)

1970	17.9
1971	15.7
1972	17.6
1973	21.1
1974	30.4
1975	37.1
1976	43.7
1977	44.9
1978	35.7
1979	41.2
1980	47.9
1981	50.3
1982	52.1
1983	48.3
1984	38.6
1985	40.6
1986	39.5
1987	44.6
1988	40.3
1989	30.8
1990	28.3

SOURCES: (1) Central Bank of Nigeria, Annual Reports and Statements of accounts. 1970-1990.

(2) Central Bank of Nigeria, Economic and Financial Review. Various issues.

APPENDIX II

REAL GROSS DOMESTIC PRODUCT PER CAPITA (₦)

1970	132.6
1971	133.2
1972	170.8
1973	181.7
1974	193.4
1975	201.4
1976	218.2
1977	234.1
1978	252.5
1979	274.7
1980	207.9
1981	182.0
1982	178.8
1983	153.7
1984	116.9
1985	117.9
1986	158.6
1987	141.6
1988	119.1
1989	76.5
1990	75.0

SOURCES: (1) Central Bank of Nigeria, Annual Reports and Statements of accounts, 1970-1990.

(2) World Development Report 1986.

APPENDIX III

REAL VOLUME OF EXPORTS (1980 US $ BILLION)

1970	14.014
1971	14.570
1972	15.126
1973	15.682
1974	16.238
1975	16.795
1976	18.834
1977	20.874
1978	22.913
1979	24.953
1980	26.993
1981	23.936
1982	20.879
1983	17.822
1984	14.765
1985	11.708
1986	11.403
1987	11.140
1988	11.619
1989	11.973
1990	12.071

SOURCES: (1) African Development bank Report 1990
(2) Federal Office of Statistics, Lagos. 1979

APPENDIX IV

ESTIMATES OF THE BANK/POPULATION RATIO IN NIGERIA
(ie BANK per 100,000 inhabitants).

1970	0.48
1971	0.49
1972	0.51
1973	0.53
1974	0.54
1975	0.56
1976	0.58
1977	0.65
1978	0.73
1979	0.82
1980	0.87
1981	1.06
1982	1.14
1983	1.26
1984	1.35
1985	1.43
1986	1.42
1987	1.47
1988	1.56
1989	1.95
1990	1.97

SOURCES: (1) Computed from Central Bank of Nigeria, Annual Reports and Statement of Accounts various issues, and from Federal Office of Statistics, Lagos, 1986.

APPENDIX V

AVERAGE REAL AND NOMINAL INTEREST RATES ON SAVINGS AND TIME DEPOSITS (%)

	Real	Nominal
1970	-9.5	3.0
1971	-11.3	3.0
1972	0.4	3.0
1973	-2.6	3.0
1974	-8.4	3.0
1975	-22.2	4.0
1976	-16.1	4.0
1977	-13.0	4.0
1978	-16.4	4.0
1979	-5.6	5.0
1980	-1.2	5.0
1981	14.8	6.0
1982	-0.2	7.5
1983	-15.5	7.5
1984	-30.0	9.5
1985	4.0	9.5
1986	4.6	10.5
1987	2.05	14.5
1988	-26.3	12.0
1989	-24.4	16.5
1990	-11.1	17.8

SOURCES: Computed from Central Bank of Nigeria, Economic and Financial Review. Various Issues.

APPENDIX VI

NET FOREIGN INVESTMENT (N)

1970	512.5
1971	743.5
1972	762.5
1973	932.5
1974	642.5
1975	1,045.0
1976	1,160.0
1977	1,380.3
1978	2,070.2
1979	1,630.1
1980	-3,670.0
1981	2,655.0
1982	2,150.0
1983	1,725.0
1984	1,050.0
1985	329.7
1986	2,499.6
1987	680.0
1988	1,345.6
1989	-439.4
1990	650.0

SOURCES: Central Bank of Nigeria, Economic and Financial Review. Various issues

REAL FINANCIAL SAVINGS PER CAPITA IN NIGERIA
(₦)

