CHALLENGES AND OPPORTUNITIES OF INTEGRATING NIGERIA'S BANKING SECTOR SERVICES INTO GLOBALIZED ECONOMY

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Abstract

The extreme protagonists of globalization considers it as a high speed elevator to universal peace and prosperity while its critique charge it with impoverishing the world's poor, enriching the rich and devastating the environment (World Bank, 2000). Nevertheless, realizing the opportunities of globalization is not automatic for any economy; as such opportunities depend on a number of fundamental requirements. Following from the foregoing statements, this paper investigates the challenges and benefits of integrating Nigerian banking services sector into the globalized economy. In doing so, the paper questions the extent to which Nigeria became integrated into the globalised economic environment. This investigation provided further direction to understand the position of the Nigeria's banking financial services in relation to their integration into the globalised economy.

The paper draws on secondary data to analyze the depth of financial integration of Nigerian banking sectors into the globalised world. The paper discovers that in the short-term period, it is unlikely that Nigerian Banking Services Sector amidst current reforms cannot satisfy most of the globalization requirements particularly in the areas of provision of favourable macroeconomic environment, sound state of infrastructure, effective corporate governance, transparency and accountability; as well as adequate and effective regulatory and supervisory framework of banking services. The paper also finds that the problem with financial globalization is not that it is harmful itself but that increase risk comes with its opportunities.

The main contribution of this paper to knowledge lies in the fact that the Nigerian banking sector services require the support of the regulatory financial authorities (at home and abroad) in order to minimize the incidence of risks associated with integration into the financial globalised systems to be able realize the gains of globalization of the banking sector services.

1.1. Introduction

Until financial globalization gained currency, financial liberalization was the key policy believed to accelerate efficiency in the financial sector. In fact, many less developed countries (LDCs) embarked on financial liberalization reforms as part of their recommended structural adjustment programmes (Soyibo, 1994; Aryeetey, 2000; Beck, 2006).

The rapid growth of international transactions and capital flow is one of the single most profound outcomes of globalization (Beck and Demirguc-Kunt, 2009). For instance, global gross capital flows in 2000 amounted to $7.5 trillion, a four fold increase over 1990. The growth in cross border capital movement also resulted in larger net capital flows, rising from $500 billion in 1990 to $1.2 trillion in 2000. The causes of this growth has been attributed to the removal of statutory restrictions on capital account transactions, economic liberalization and financial deregulation in both industrial and developing countries, macroeconomic stabilization and policy reform in developing countries, enterprise privatization, multi lateralization of trade and growth of financial instruments (IMF, 1998).

In support of the argument above, Feldstein (2000) argues that free capital movement permits a more efficient global allocation of savings and direct resources toward its most productive uses because capital is allowed to seek the highest rate of return. Capital mobility strengthens portfolio diversification, risk sharing and intertemporal trade. Free capital flow allows the global economy to reap the efficiency gains created by specialization in the production of financial services. Similarly, capital mobility promotes the dynamic efficiency of the financial sector, arising from increased international competition (ibid).

On the contrary, large capital inflow has its inhibitions; it leads to greater risks, thereby raising the potential for systematic disturbances in the financial system as well as capital flow reversals (sudden outflows). Capital inflow may create diff[illegible]es for monetary policy management, inflation control and exchange stability and export comp[illegible]eness. Moreover, free capital mobility can also be associated with costly financial crisis and payment difficulties as the case of the Asian tigers. This is particularly true in countries with vulnerable financial sectors and inappropriate macroeconomic policies (Beck, et al, 2009).

Beck et al. (2011) posited that financial systems across the continent have become deeper, more efficient, and more stable over the past several years. While the global crisis will affect sub-Saharan Africa as much as other developing countries in the world-though mostly through real rather than financial channels-today its financial sectors are in a better position to weather the global turmoil than they have been in the past and can help their host economies smooth the impact of the crisis. Still, the increasing integration of Africa into the global economy through capital flows and foreign direct investment in the financial sector poses new challenges for policymakers and underlines the importance of well-informed financial-sector policy.

Therefore, the objective of this paper is to examine the challenges and opportunities involved in integrating banking services sector of Nigeria into globalized economic system. Apart from the general introduction, the structure of the paper is arranged as follows: section two (2) present trends in global capital flows. Section three (3) captures previous studies on the flow of capital into globalized economy while section four (4) highlight benefits and challenges of globalization. Section five (5) and Six (6), focuses on: Nigeria and globalization drive and globalized status of Nigerian financial services sector respectively. The last section is devoted to conclusion and policy recommendations.

1.2. Trends in Global Capital Flows

Today, the principal constraints on national policies are created by the activities of multinational companies and banks (Streeton, 2001; Beck et al., 2008). The great depression of the 1930s made some countries, including the UK and US, to abandon the gold standard, devalue their currencies and pursue expansionary policies. Some European countries still stayed on gold but they raised tariffs and used exchange controls to create a series of bilateral trade agreements. The rejection of constraints, such as fixed exchange rate and limits on the discretion of monetary and fiscal policies, led to greater integration of national economies by encouraging full employment and creation of a welfare state. However, this also led to international disintegration among countries of the world, particularly as some were recording deficits and macroeconomic instability while others had surpluses were generated in the 1970s by a few oil-rich countries, later by Germany and Japan and more recently by Japan, including the Asian Tigers. On the other hand, many less developed countries were experiencing current account deficits.

In many respects, the financial markets of today are more closely integrated than those of the past. The range of financial instruments that are traded internationally is broader today. Whereas bonds were more important than equity claims before 1914, the two types of instruments contribute roughly in equal proportion to international investment today. Similarly, FDI is now undertaken by multinational firms in various manufacturing and service sectors. The differences between 19th century finance market behaviour and the current behaviour underscore the importance of information asymmetries. When information is highly symmetric, investors will concentrate on projects and companies whose assets are tangible and whose operations are most transparent (See Oshikoya, 2008).

The deeper and broader financial integration today can be partly explained by the diminution of information asymmetries. The recent changes in information technology have played an important role in accessing and processing information at cheaper cost. Technology has also made it increasingly difficult for governments to control international capital flows. For example, computer trading complicates the task of monitoring or attempting to control or tax foreign exchange transactions. Although information asymmetry remains, it is easier to obtain information on finance markets, companies and transaction now than it was several years ago.

There was an explosive growth of capital flows, especially private capital flows, to developing countries during the 1990s. Advanced countries are the largest suppliers and also the largest recipients of foreign investment, both FDI and portfolio investment, in the global economy. The channels for private capital flow have also changed. For many years, commercial bank lending accounted for nearly two-third of private capital flowing to developing countries. It has now been overtaken not only by FDI but also portfolio capital flows (see Table 1). Table 1 shows that both FDI and portfolio investment have increased sharply in both regions in recent years.

The composition and destinations of capital flows during the recent surge were different from the surge that preceded the 1982 debt crisis. In the 1970s, bank lending was the largest component of capital flows, the most important recipient of which was the public sector. In the 1990s, in contrast the surge was dominated by bonds, foreign direct investment and portfolio investment, and portfolio investment and the private sector did most of the external borrowing (Lopez-Meija, 1999). Today, bonds and equities account for more than a third of total private capital flows to developing countries, whereas bank lending accounts for less than a third (IMF, 1998). This development can be adduced to technological change, privatization, and deregulation of financial markets, growth of institutional investors like pension funds and mutual funds and macroeconomic and trade reforms in developing countries. Cross-border transactions in bonds and securities of the industrial countries have grown as well from about $50 billion in 1979-82 to nearly $550 billion in 1993-96.

Capital mobility is much more problematic in developing countries, because supply constraint and volatile international capital flows can take place. Net flows to developing countries have tripled from roughly $50 billion a tear in 1987-89 to more than $150 billion between 1994 and 1996 (IMF, 1998). Private flows now dominate official flows, private flows accounted for only 3 per cent of developing countries' domestic investment in 1990, but by 1996 they accounted for 20 per cent (World Bank, 1997). Out of these flows, just 10 countries receive about 80 per cent or 14 countries account for 95 per cent of net private flows to developing countries. Table 2 shows that the surge of inflows has been widespread and especially strong in East Asia and Latin America and Caribbean, particularly after 1990. The factors driving foreign private investment to the region include investors' desire for portfolio diversification and higher profits, availability of guarantees from host government, export credit agencies, sound policies and macroeconomic and structural reforms in these countries (World Bank, 1997). Capital inflows have been sluggish and small in South Asia and sub-Saharan Africa throughout the review period. Table 2 shows that SSA enjoyed more than tenfold increase in net capital flow between 1990 and 1996, before it fell to single digits in 1997, 2000 and 2001.

Only few developing countries have benefited from growing private foreign investment and capital inflow. These countries are concentrated in East Asia and Latin America/Caribbean such as Brazil, Mexico, Indonesia, Taiwan, South Korea, China, etc. For example, five countries accounted for more than 50 per cent and 12 countries accounted for 75 per cent of total flows, while 140 of 166 developing countries accounted for less than 5 per cent of capital flows (Lopez-Mejia, 1999). The large, poor masses of the sub-Saharan African region have not benefited substantially from the growth of foreign investment and capital. For example, only about 4 per cent of FDI to developing economies during 1995-2000 went to Africa, and the region remains a marginal recipient of global FDI (Collins, 2002). Africa's share of FDI in total FDI to developing countries has remained as low as 3 per cent (Ajayi, 2001). The reasons for Africa's situation are the unconducive business environment, high production costs, inadequate legal framework, slow economic growth and small domestic market, capital control, slow progress on privatization, inward orientation, macroeconomic instability, civil strife, bureaucracy in business licensing, rigid tax and investment laws, poor infrastructural base, etc.

Table 3 shows that average foreign investment inflow between 1970 and 1979 and from 1986-90 increased in every region by three to seven times. Developing countries like advanced countries experienced large increases in FDI inflow in the 1990s. However, the growth in FDI inflows to industrialized countries slowed down in 1990 and fell in 1991 and 1992 from the 1990 level, mainly in response to slow economic growth in major home countries (United Nations, 1993). A feature of investment flows is that they are highly concentrated. For instance, four-fifths of inflows went to the advanced countries receiving 70 per cent of the share of all developing countries in total FDI flow. Another sign of concentration is that the European Community, Japan and United States are the major sources of outflows. The surge of FDI, particularly from Japan, the Netherlands and the United Kingdom, to the United States as a major host country has influenced the distribution of FDI to the developing countries. Particularly, it has helped to increase the position of South-East Asian Countries (a major destination of Japanese FDI).

The recent rapid increase of FDI flows has been accompanied by a transformation in the sectoral composition of both the flows and stocks of this investment. Service industries received about one quarter of total FDI stock in the early 1970s; by the late 1980s, the share of services in the world FDI stock was about half and services accounted for some 55-60 per cent of annual flows. The same trend continued in the early to mid 1990s. The growth of the services sector in the world economy has been partly due to technological advancement in the information and knowledge components of services industries to transnational services companies such as banking, financial services and hotels; and the structural and long-term factors responsible for sustaining the shift towards services industries, particularly in developed countries (United Nations, 1993).

1.3. Literature Review

There are several arguments surrounding the efficacy of flows of capital into global economy. Each argument tries to justify the reasons for international capital flow. The review below presents different perspectives that have shaped the flow of capital from various sources into the globalised economy.

(Deepak et al, 2001) argues that the classic case for international capital mobility holds when capital flows from capital-abundant to capital-scarce countries raise welfare in the receiving countries. This is based on the assumption that the marginal product of capital is higher in the latter than the former. That is, the returns on new investment opportunities are higher where capital is limited. Relocation of capital from capital-abundant to capital-scarce countries will boost investment in the recipient country. However, in practice, this theory is not always true, as we find that new investment is more productive infrastructure. This explains why capital does not flow from rich to poor countries (Lucas, 1990). Thus, a consistent finding is that new capital flows tend to go to countries that have received large flows in the past and that investors also seek countries where there are favourable business environments (Mody and Scrinivasan, 1998). This explains why capital flows to low income countries are declining (Deepak et al, 2001).

In accordance with the submission of Montiel (1994), a country could be said to be fully integrated into external financial markets when its residents are free to trade in financial assets with residents of different countries. This analysis would allow residents of the country to pursue an optimal pattern of consumption and investment over time. In the light of this, several methods exist to assess the extent to which countries are integrated into external financial market and four methods were identified by

Montiel (1994). Existing evidence for developing countries suggests that few can be considered financially closed. For the majority of developing countries, however, either formal tests of financial integration have not been conducted or only very limited evidence is available. In the study conducted by Montiel (1994), the evidence suggests that a substantial number of developing countries can be considered financially open.

According to IMF (1998), of 136 IMF-member developing countries, 113 were classified as maintaining formal restrictions on capital account transactions. Empirical evidence suggests that during 1967-97, capital flows to industrial countries were strongly positively correlated with the share of industrial countries classified as open. But no such correlation exists for LDCs. However, there are periods when the series behaved unexpectedly, which imply that the indicator may reveal less about the degree to which a country is financially globalized. In support of this, Quinn (1997) argued that the indicator of capital accounts have become steadily more open since 1958, while on the other hand, capital account openness among developing countries are more complex. This suggests that one should not be surprised if the relationships between this measure of capital account openness and other variables of interest (e.g. net capital inflow, economic growth, productivity, etc.) are sensitive to time period and country sample (Collins 2002; Beck et al., 2011).

Edison et al (2002) provide evidence on the relationship between financial integration and economic growth using different indicators of financial integration, as well as quantitative measures such as gross capital flows and accumulated stocks of capital flows where they explore a wide range of interaction effects. They find that financial integration is not robustly linked with growth, although there were isolated exceptions. They conclude that "we do not reject the null hypothesis that international financial integration is unrelated to economic growth even when allowing for this relationship to vary with economic, financial, institutional and macroeconomic characteristics" (p.26). Bennett (1996), attempts to ascertain the extent to which countries of the Caribbean Community (CARICOM) are integrated into external financial markets, using different tests of financial integration between 1972 and 1993. The findings indicate a relatively high degree of integration, which implies that CARICOM countries should be able to attract private capital in the current era of financial globalization; however, the underdeveloped state of capital markets in the region is a constraint to portfolio capital inflow.

There is abundant literature on why some countries or regions are able to attract capital inflow more than others. Mody and Murshid (2001) find that developments within an individual developing country such as financial market development, economic growth, exchange rate regime or stability, current/capital account openness, tax levels, business incentives, legal and other institutional factors (corruption and governance), political regime, security and peace, infrastructure, geographical location, size of market and factor price, availability of certain resources, transaction costs, etc., are important factors. Other factors external to the country include economic growth, interest rates and financial market conditions in industrial countries (Calvo, et al., 1993). Gruber and McLeod (1998) tested the relationship between growth and capital inflows using Granger causality approach for 18 emerging market countries and find that higher capital inflows are associated with faster growth, as faster growth is also associated with higher capital inflows.

Mordy and Murshid (2001) find that FDI inflows seem less sensitive than other types of inflows to changes in indicators of macroeconomic policy and performance. This explains why a number of developing countries, such as those with natural resources, have been able to attract significant FDI inflows despite relatively poor policy indicators and low credit rating (country risk). Furthermore, Mode (2002) finds that FDI inflows are correlated with the existing stock of FDI. He associates this to a combination of agglomeration effects, information effects and a type of herding behaviour among foreign investors. Carlson and Hernandez (2002) find that faster GDP growth is associated with increased FDI inflows only in countries with persistently high real growth, such as in East Asia. They find no such correlation for countries where GDP growth is very volatile.

There is along-standing concern that capital inflows will boost consumption and reduce saving, with little effect on investment and growth. Bosworth and Collins (1999) study the effects of capital inflows on investment and saving for 58 developing countries 1978-95. They find that capital inflows have been directed to investment, and there is a small, not statistically significant negative impact on national saving. An increase of a dollar in capital inflows is associated with an increase in domestic investment of about 50 cents. Similar conclusions have been made by Gruben and McLeod (1998). Bosworth and Collins (1999) also find that FDI seems to increase investment one-for-one, while portfolio inflows have no discernable impact on investment and the effect of additional loan is between the two. In support of this, Collins (2002) concludes that FDI inflows do seem to be associated with increases in domestic investment. Mody and Murshid (2001) find a strong link between FDI and investment, but find that portfolio flows and loans have similar effect. They also find significant differences by region, with relatively strong effect for South Asia and Africa, but weaker effects of capital flows on investment in East Asia and the Pacific as well as in Latin America. They conclude that the differences may reflect different composition and volatility of flows to these different regions.

In majority of the cases, empirical evidence suggest that capital flows are more productive in countries with skilled workforce and well developed physical infrastructure (Deepak et al. 2001). For example, Borenstzein et al. (1998) confirm that FDI is more productive (increase economic growth) in countries with better educated labour force. In the same vein, Eichengreen (2001) also finds that studies support the hypothesis that private capital flows are more efficient in higher-income countries. Collins (2002) finds that capital inflow in SSA could boost domestic productivity, which implies that rapid capital accumulation per worker is growth enhancing in Africa. Similarly, the evidence suggests that private flows, especially portfolio flows, have been associated with the development of domestic capital markets, which in turn, bolster growth. However, private capital flows can increase the vulnerability of a country with weak financial markets to banking and exchange rate crises (Deepak et al. 2001). This explains the importance of strengthening the domestic financial sector as a country integrates financially with the rest of the world.

The impact of international capital flow on an economy is less definitive and clear. Despite the ambiguities, private capital flows are generally found to have significant impact on domestic investment, with the relationship being strongest for foreign direct investment and foreign bank credits and weaker for portfolio flows (Bosworth and Collins 1999). Private capital flow may increase either domestic consumption or investment, or increase a country's foreign exchange reserves. When a country is poor and saves little, additional capital from outside the country can help it realize higher investment. For example, a study by Deepak et al. (2001) has found that 1 per cent increase in capital inflows to Africa boosts investment by more than 1 per cent. However, very little private capital is directed to Africa and because of the low productivity of investment in many SSA countries, the long-term impact of foreign capital on growth may be small. They also found that over time, as a country becomes better integrated with the rest of the world, a dollar of foreign capital raises investment less than it did in the past, which is due mainly to the changing composition of capital flows to the region.

1.4. Benefits and Challenges of Globalization

Several benefits and challenges of financial globalization have been documented so far based on the views of (Clarke et al. 2001, Peek and Resengreen 2000, Negro and Kay 2002, Focarelli and Pozzolo, 2000).

1.4.1 Benefits

A. Efficiency Argument

One of the main benefits related to globalize banking is the increased efficiency of the financial system. This view suggests that efficiency increases after foreign bank entry into developing countries. For one thing, banks that expand abroad are typically the “best of the crop” in the country of origin (Focarelli and Pozzolo, 2000). Hence, they are likely to export improved management and information technology practices to the host country. The literature finds also that foreign banks are generally more efficient than domestic competitors (Barajas, Steiner and Salazar, 2000). A number of other studies find that foreign bank entry has been associated with increased efficiency of domestic financial intermediaries. As Levine (2000) argues, there is substantial empirical evidence supporting the following causal chain first, foreign bank entry enhances the efficiency of the banking sector; second, efficiency in the intermediation sector spurs growth by boosting productivity.

Generally, under the global advantage hypothesis, some efficiently managed foreign banks are able to overcome cross-border disadvantages and operate more efficiently than the domestic institutions in other nations. These institutions may have higher efficiency when operating in other nations by spreading their superior management skills or best practice policies and procedures over more resources, lowering costs (Berger et al., 1999). They may also raise revenues through superior investment or risk management skills by providing superior service quality, the variety that some customers prefer, or by obtaining diversification of risks that allow them to undertake higher risk-higher expected return investments (ibid).

B. Access to Diversified Source of Funds

Global banks are generally larger and have a more diversified portfolio of assets, than local banks. The international portfolio diversification of global banks is advantageous for the host country’s financial system both ex post, in the event of a crisis, and ex ante. If a crisis occurs, global banks are likely to have less portfolio exposure to the domestic economy and greater access to liquidity than local banks. Ex ante, according to standard portfolio theory, the presence of international banks may imply that the interest rate paid on loans by domestic firms is lower, other things being equal, than when only local banks are present.

Since local banks have all their eggs in one basket, they are willing to add one more egg to that basket only if the price is high enough to compensate them for the additional risk they are undertaking. Global banks have all their eggs in many baskets. Hence, the additional risk undertaken by international banks of putting one more egg in the domestic basket is lower than that undertaken by a local bank, so the international banks might be willing to demand a lower return.

C. Improvement in Financial and Regulatory Reporting

Proponents of banking globalization refer to the multitude of banking crisis during the last two decades and point to the weaknesses of the regulatory and supervisory environment in many emerging markets. They thus argue that by allowing foreign bank entry, emerging markets indirectly benefit from the more advanced supervisory and disclosure environment in the country of origin. These improvements in financial reporting are likely to have positive spillover effects, as personnel switch to domestic competitors and as regulators, investors and depositors become aware of differences between the operators of domestic and foreign banks.

D. Reduction in Severity of Domestic Shocks

The presence of well-capitalized foreign banks may lessen the severity of domestic shocks by mitigating the extent to which the funds of worried domestic savers and investors flee the country when adverse shock is anticipated. Foreign banks provide a safe haven for depositors who might otherwise choose to remove their funds in a failing domestic bank. Such a “flight to quality” would, however, cause further pressures on foreign exchange rates and liquidity, draining the country of hard currency (Peek and Roseengren, 2000). In countries that allow foreign currency deposits, depositors may be more comfortable placing such deposits in foreign banks that have more ready access to foreign currency during a banking crisis, with the lender of last resort for the bank being the central bank in the banks home country rather than that of the host country (ibid).

1.4.2 Costs

While banking globalization confers considerable benefits to both the domestic economy and local banks, it also engenders considerable risks. Unless these risks are properly understood, managed and priced very efficiently, they may lead to banking instability. These include;

A. Lending Discrimination to Small Enterprises and Domestic Borrowers.

One of the most cited arguments against foreign banks is that they are “niche” players often catering for foreign companies (usually the multinationals). They concentrate on international trade and business while neglecting small customers whose contributions to the process of economic growth have often been found to be very critical to the local economy. Berger, Klapper and Udell (2000) find that small businesses are indeed less likely than larger one to receive credit from foreign banks. The problem from the “cherrypicking” of customers by foreign banks is twofold; first, they leave domestic banks with a worse pool of potential creditors than before; second, indigenous firms (usually small) that are often relied upon as catalysts of economic development are frustrated.

B. Competition with Local Banks

Most time, domestically owned banks are unable to compete with international banks. This because they operate with outdated technology and services in a protected environment that does not penalizes efficiency. They were able to accept smaller profit margins than their domestic competitors because of their greater ability to use leverage. By squeezing the interest margins and profitability of domestic banks, the entry of foreign banks may push local banks out of market. This reasoning implies that entire sectors that were previously dependent on local banks (small firms for instance), may find themselves without access to credit, with detrimental consequences for the economy.

C. Instability

Opponents of globalized banking argue that the presence of foreign banks may mean that the host country may inherit global shocks. By permitting foreign banks to enter, host countries open themselves up to the possibility that economic fluctuations in the home countries of their entrants might have an impact on foreign lending and, thus, on their general level of economic activity. Although it is often mentioned that even in the absence of foreign banks, emerging markets are not isolated from global financial shocks, as shown in the Asian crisis, yet some argue that the presence of foreign banks exacerbates the host country's exposure to global shocks. In summary, a country that opens its banking system to foreign banks may become less sensitive to its own shocks but at the same time increase its exposure with respect to shocks generated elsewhere.

D. Domestic Capital Flight

The fact that international banks are perceived to be sounder than local banks in times of crisis has led some to argue that foreign bank presence opens the possibility of a capital flight at home. Before the appearance of foreign banks, investing abroad was the only safe haven for domestic depositors, given the lack of credible deposit insurance. Now, under the assumption that foreign banks are strong enough to withstand a crisis, all depositors need to do is transfer their savings from local to foreign banks. Kane (2000) reports some evidence of such a "flight of quality" during the Asian crisis and during the Tequila crisis in Argentina.

E. Lack of Domestic Regulatory Control

Another frequently raised issue is that regulatory and monetary authorities may have less control of the baking sector if there is sizable foreign bank presence (Peek and Rosengreen, 2000). In many countries, the banking system is an instrument for government credit allocation schemes, with lending directed to sectors viewed as major by the government. This can be done directly through government controlled lending agencies or mandates to domestic banks, or indirectly by encouraging lending to preferred sectors. Furthermore, the central bank's ability to engage in moral suasion may be lessened when dealing with an entity more focused on the expected financial returns than the domestic goals promulgated by government.

In view of the above discussed benefits and costs, still, integration into international financial markets has been a second important and controversial aspect of financial sector policy over the past decades. Although capital account limitations are still in place in many countries, these are often more de-jure than de-facto. And while capital account liberalization has many benefits, it has to be managed carefully on the macroeconomic level and accompanied with appropriate regulatory policies. The benefits of increased capital inflows will be reaped only in the presence of well-developed local financial institutions and markets, but capital inflows can in turn accelerate financial and institutional deepening (Kose et al., 2009). As in the case of government interventions, a context-specific and pragmatic approach is therefore called for (Beck et al., 2009).

Nigeria's global competitiveness has also been undermined by a weak financial sector. In the past two years, Nigeria's financial sector has undergone major restructuring with the number of banks reduced from 89 to 25 and with minimum capital requirements increased tenfold. The financial sector reform process has been widely and acknowledged as one of the most far-reaching in the world. As a result of the reforms, Nigeria now has the fastest growing banking sector in Africa, attracting over $1.5 billion of foreign investment since 2005 (Oshikoya, 2008). Before the reforms, there was no Nigerian bank among the top global 1000 banks. By 2006, 12 Nigerian banks were in the top global 1000. The financial sector, however, remains under-developed relative to the size of the economy. For example, South Africa's largest bank, Standard Bank Group, in 2004 had about the same capital base and three times the combined assets of all the current 25 banks in Nigeria. Mortgage loans represent less than one percent of GDP in Nigeria compared to 20 percent of GDP in South Africa (Soludo, 2006).

1.5. Nigeria and the Globalized Economy

There are several indices by which a country's level of integration into the global economy can be measured. One of such measure is the extent of participation of a country in international trade. This extent is measured by the ratio of the value of imports and exports of a given country to its gross domestic product (Adegbite, 2003)

$$PIIT = \frac{(M + X)}{GDP} \quad \text{------------------------------} \quad (1)$$

Where M = value of imports
X = value of export
GDP = gross domestic product

Another measure is the extent to which a country has been a participant in international capital markets either as a source or a recipient of capital. When a country experiences a surplus in its current account, it implies that the country has been involved in capital outflow as its residents acquire financial assets outside the country. Also, it implies that there has been an inflow of capital as the country's residents have sold assets to foreigners. Hence, the absolute value of a country's current account balance is a reflection. On the other hand, when a country experiences current account deficit, it of the extent of the country's participation in the international capital market, either as a source or a recipient of capital. The level of such capital inflow or outflow can be compared with the overall level of economic activity in that country, given both the cross-national and cross-temporal comparisons of the country's participation in international capital markets:

$$PICM = \frac{\text{Absolute Value of Current Account Balance}}{\text{Gross Domestic Product}} = \frac{CAB}{GDP} \text{ --------------- } (2)$$

A third measure of globalization of an economy is the extent of penetration of foreign capital into that economy. This is the ratio of foreign capital to the gross domestic product:

$$PFCDE = \frac{\text{Foreign Capital}}{\text{Gross Domestic Product}} = \frac{FC}{GDP} \quad \ldots\ldots\ldots\ (3)$$

The higher this ratio, the more globalized an economy is. A proxy for this measure is the ratio of foreign direct investment to gross domestic product:

$$PFCDE = \frac{FDI}{GDP}$$

Where FDI = Foreign Direct Investment

A fourth measure of globalization of an economy is the extent to which the country's real rate of interest equals the world's rate of interest. In fully integrated international capital markets, investors are different (at the margin) as to whether they invest in asset in country 1 or in country 2, because real interest rate equality is supposed to hold when capital moves freely across borders (Obstfield and Taylor, 2001).

Hence, the extent to which domestic real interest rate equals the world's real interest rate is a measure of globalization of a country's capital market. The focus here is usually on the long-term bond yield.

Let

$$r_{td} = i - TI_{td} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ (4)$$

where

r_{td} = real interest rate for the domestic economy at time t.
i_{td} = nominal interest rate for the domestic economy at time t.
TI_{td} = the inflation rate for the domestic economy at time t.
then

$$r_{tw} = i_{tw} - TI_{tw} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (5)$$

defines the world's real rate of interest at time t.
The extent to which r_{td} exactly equals r_{tw} is a measure of globalization.

$$RIP = rtd = r_{tw} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ (6)$$

Equation 6 maintains that for interest rate parity to obtain, the real domestic rate of interest (rtd) must be identical with the world; real rate of interest (rtw). Another way to measure equation 6 is to calculate the real interest differential. The closer to zero the differential, the more globalized the focus country's capital market:

$$r_{twd} = r_{tw} - r_{td} = 0 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ (7)$$

where r_{twd} = real interest differential

Equation (6) maintains that for the identity required in equation (6) to hold then the differential between the domestic real rate of interest and the world real rate of interest must be exactly zero.

Table 4 measures Nigeria's level of globalization in terms of its degree of participation in international trade. The table covers a period of 40 years (1970 – 2010). It is evidenced from the table that Nigeria has a high degree of openness. From statistical perspective, the values of Nigeria's international trade hover from 32 to 47 percent between 1970 and 1981 of its GDP. Relative to the industrially developed countries, even Nigeria's degree of openness in terms of international trade is really high. Regrettably, the degree of openness nosedived to as low as 20 per cent in 1986, in face of excruciating external-debt burden, Nigeria made tremendous efforts to reduce the level of its imports (Adegbite, 1998) but unfortunately was not successful in increasing the level of exports. This led to reduced participation in international trade. However, with the adoption of structural adjustment programme and the accompanying liberalization policies of the last trimester of the 1980s, came renewed and increased participation in world trade, which increased the index of openness to as high as 71 per cent and above in the 1990s.Between 1999 when Nigeria embraced democratic administration and 2004, the level of participation of the former declined from 61 percent to 25 percent owing largely to acute political turmoil as a result of structural reforms orchestrated by the government. The figure rose to 75% in 2005 and consistently fell from 2006 to 2010 from 60%, 55%, and 48% to 38% respectively.

Employing the ratio of absolute value of its current account balance to its GDP to measure the degree of globalization of the Nigerian economy in terms being a recipient of capital or capital mobility, Nigeria's participation in, or integration into, the global economy is still very low. With reference to **Table 5**, Nigeria's level of integration with the global capital market is extremely low. Between 1970 and 1973, the ratio of international capital (flowing into or out of Nigeria) was less than 5 per cent of Nigeria's GDP. The 1980s on the other hand witnessed an improvement, even though the ratio of international capital flowing in and out of Nigerian in the 1980s was only about 10 to 26 percent. Most of the increase probably reflects how much Nigeria was paying for international services, especially interest payments on loans. The situation in the 1990s was discouraging as international capital relative to GDP slashed from 11 per cent; in 1990 to 9.8 per cent in 1999. The magnitude improved from 14 to 21 percent between 2000 and 2004. The magnitude fell to 18% in 2007 and nosedived to 16% and 14% in 2008 and 2009 respectively until it picked up to 16% in 2010.

On account of flow of foreign direct investment as a measure of the penetration of foreign capital into the domestic economy, we found that as maintained by Ajayi (2001), Africa (which is inclusive of Nigeria) gives foreign direct investment (FDI) pride of place because of the belief that FDI has the potential to stimulate economic growth. However, from the 1980s, there has been a gradual decline in the inflow. This seems to confirm the position of developing countries' economists that the flow of capital in general (foreign direct or otherwise) to developing countries has been skewed in favour of the middle-income developing countries and against the poor developing countries of which sub-Saharan Africa is key (Ojo, 1999). **Table 6** reveals the extent of penetration of direct foreign investment into the Nigeria economy as a measure of globalization of investment in Nigeria. The extent of foreign capital penetration into the Nigerian economy seems to be noticeable. From a high level of 22 per cent in 1972, the level fell to as low as 4 per cent in 1996 and 1997 and 3 per cent in year 2000, rising marginally to 4 percent in 2004 and surprisingly rose to 17% in 2010.

In consideration of the globalized nature Nigeria's financial assets coupled with their perfect substitutability for those of the rest of the world, they considers two financial instruments at the short-end of the financial market, the bank deposit rate and the Treasury bill rate. A careful look at the configuration of real rates of interest on bank deposits for Nigeria and ten of her principal trading partners from **table7** reveals that real rates of interest on bank deposit in Nigeria were negative most of the time given her high rates of inflation, while those of her trading partners were positive. This clearly removes any possibility of parity between the real rates of interest on deposit in Nigeria and that of the world, where we can use the US rates as a proxy for the world rate, or use the average of these principal partner's rates as a proxy for the world rate. The assessment of the real return on treasury bills produces similar results during the period of financial crises, by reference to **table 7.**

1.6. Why weak Globalization of the Nigeria's Financial Services Sector

From section 1.5, it is obvious that while Nigeria could be considered fairly global, in terms of international trade given the extent of the country's openness to trade, in terms of capital flow and investment the country cannot be termed global. The Nigerian capital market is not in any way integrated with the international market. In terms of participation in the international capital market , the level is still as low as 21 per cent in 2004. The level of participation of the country fell to 16% and 14% in 2008 and 2009 respectively. However, it will not amount to overstatement to argue that the global financial crises also contributed to the challenges which Nigeria's financial sector encountered in reaping the potential of financial globalization. In terms of penetration of foreign capital into the domestic economy, the rate is as low as 4 per cent. This latter phenomenon is even of greater concern, given that the rate used to be as high as 19 per cent in the early 1970s.

Two factors are fundamental to movement of capital both within and outside national boundaries, two factors are very important. The first is the return on assets and the second is the associated risk. For any investment, the investor must consider the return and the risk. The theory on return states that when returns on any assets are identical across countries (when expressed in a single currency), then capital moves freely. From Tables 7 and 8, it is obvious that returns on Nigeria's assets are not at par with those of her trading partners. First, the level of inflation in Nigeria is much higher than those of her principal trading partners (who all turn out to be developed, industrial countries and who are also the principal countries in the global capital market). Given this much higher level of inflation, the real rate of return in Nigeria is very low. In fact, from Tables 7 and 8, the real rates of return are more negative than positive. For instance, on bank deposits, the real rates of return were negative for 9 out of the 15 considered. For treasury bills, the real rates were negative for five out of the nine years considered. Given this scenario, there is no way a rational foreign investor will put his money in the Nigerian asset market. Rather, he will prefer the principal trading partners.

Several so many factors affect the risk of an investment. Some of these factors are (see Odozi, 2002): inappropriate macroeconomic policy; inconsistent and unstable policy; policy infidelity; fiscal indiscipline; inadequate policy coordination; social political instability; flawed incentive regime inadequately and inappropriately targeted and inefficiently administered incentives; and high cost of doing business and multiple taxes and levies. All of these factors prevail in the Nigerian financial services sector and make the risk of investing in Nigeria high. This discourages the penetration of foreign direct investment into the Nigerian economy and discourages other capital flows. Three examples are sufficient to demonstrate the kind of risk foreign investors' face, which discourages them from investing in Nigerian assets. First, the level of fiscal indiscipline in Nigeria is legendary. According to Egwakhide (2003), fiscal deficits in the year 2000 was N103.8 billion and this rose to N221 billion in 2001, an increase of over 100 per cent. What is more, most of this excess expenditure has been, in the words of Egwakhide, "wastefully substantial". This kind of fiscal indiscipline fuels inflation and makes real rates of return on assets negative. Second, in 1994, the federal government announced that he exchange rate in the IFEM had been pegged to N22 per dollar. Exactly a year after, government announced that the rate had been let loose again. In 1997, the monetary authorities announced that interest rates had been capped as they used to be prior to 1986. However, within 12 months they changed their minds and uncapped the interest rates again. In June/July 2003, there were social crises as a result of increase in the price of petroleum products, which led to many deaths. The crises led to the closure of banks and other institutions in the country closed for almost seven days, leading to the loss of several millions of naira. No foreign investor would be willing to carry such heavy risks. Such policy reversals and social/political conflicts make investment in Nigeria a very dicey affair and discourage the flow of capital (either short or long-term) into the system. A third reason for the poor level of integration of Nigeria's financial services sector with the international capital market is the low level of Nigeria's participation in international services. In the current account section of the balance of payments, payments are made for insurance, banking, shipping and all such services (non-factor services). Payments are also made on interest, royalty (factor services), etc., but Nigeria hardly provides insurance, banking and shipping services for other countries that she would be paid for, nor does she provide any significant factor service that she would receive factor payments for. Hence, low level of Nigeria's participation in international services.

1.7. Conclusion and Policy Recommendations

Attempts have been made in this paper to examine the trends of global capital flows, several arguments surrounding the efficacy of capital flows into globalized economy, benefits and challenges of globalization, several indices by which a country's level of integration into global economy can be measured and factors responsible for weak globalization of Nigeria's financial services sector. With respect to the degree of financial globalization the paper finds that inappropriate macro economic policy, policy infidelity, fiscal indiscipline among others are responsible for poor level of integration of Nigeria's financial services sector into globalized economy.

The paper recommends that for Nigeria financial sector services to take substantial benefits of broad participation in globalization, the following conditions need to be fulfilled.

- Provision of sound macro economic policy framework with high degree of certainly the future of investment. This factor is premised on absence of sudden policy and lack of policy infidelity.

- The flow of FDI can be increased if there are some measures of stability (social and political) and some degree of willingness on both the past of government and the private sector to make the Nigerian economy especially the banking services sector.

- There is also need to reduce fiscal deficits and improve monetary management in order to prone down inflation rates and bring about a more competitive real returns on Nigeria's asset vis-à-vis Nigerian's trading partners.

- The private sector participation also needs to be strengthened to compliment government's efforts in the liberalization process of banking sector. However, the more private operators take advantage of the liberal policies of government in the financial sector, the more there will flow in, fresh, foreign capital in form of equity and other portfolio investment.

- More fundamentals is the need on the part of multilateral institutions including IMF and world Bank to create a more supportive operating environment for private business and funding in support of long term investors in infrastructure. In the face of increased capital transaction as a result of globalization, developing economy like Nigeria might be susceptible to balance of payment difficulties; in which case IMF should be supportive through provision of funds without strangulated conditionality.

- The banking sector also needs to sack up by adequate supervision and regulation. The on going reforms in the banking sector will help in this direction in no small measure.

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Table 1: Portfolio and Direct Investment Flows, 1973-2000 ($billion)

	Gross Outflow			Gross Inflow								
	1973-78	1979-82	1983-88	1989-92	1993-96	1997-2000	1973-78	1979-82	1983-88	1989-92	1993-96	1997-2000
Ind. C.		46.9	88.2	201.3	259.6	867.9	17.9	36.6	69.3	141.9	173	704.3
PI	28.6	35	126.5	272.6	436.4	Na	24.2	51		343	549.9	Na
Dev. C.	11.8								15.5			
DI		1.1	2.3	10.4	19.2	16.4	5	14.6	4	37.8	106.4	210.4
PI	0.4	17.8	-5.1	10.3	19.2	Na	1.3	3.1		27.5	95.9	na
	5.5											

Note: Ind.C. – Industrial Countries, DI – Direct Investment, PI – Portfoilio Investment, Dev.Countries. – Developing Countries

Source: IMF, Balance of Payments Statistics 1998; IMF, World Investment Repot 2002.

Table 2: Annual Long-Term Private Net Capital Flows by Region (US$Billions), 1978-2001

Annual Long-Term Private Net Capital Flows by Region (US$ Billions), 1978-2001														
Flow by Region	1978-81	1982-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
SSA	4.7	2.5	0.9	1.5	0.7	2.1	5.2	9.5	11.8	7.4	10.4	13.7	5.8	6
EA & P	7.9	9.6	20.5	25.6	42.5	62.8	71	74.3	108.7	79.8	73.2	68.6	65.7	Na
LA & C	28.9	10.3	10.7	22.8	27.9	57.7	53.6	55.5	74.3	5.7	69.5	79.3	97.3	Na
ME & NA	4.1	3.5	0.2	-0.1	1.6	1.6	5.8	4.5	6.9	4.9	10.4	-3.9	1.1	0.2
SA	0.7	2.8	2.6	3	1.8	5.6	8.5	7.8	10.7	8.2	2.4	6.3	9.3	15.5
E & CA	7.3	5.8	9.6	4.6	24.3	27.8	17.2	21.3	31.2	28.3	14.5	29.8	32.9	20.9

Note: SSA – Sub-Saharan Africa, EA&P – East Asia and the Pacific; LA&C – Latin America and the Caribbean; ME&NA – Middle East and North Africa; SA – South Asia: E&CA – Europe and Central Asia.

Source: World Bank 1998; Eduardo and Monitel 1996; and IMF/World Economic Outlook 2003.

Table 3

Average/Annual Inflows of Foreign Direct Investment (FDI), by Host Region, 1970-2001 (US$ Billion)														
Region	1970-79	1980-85	1986-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Ind. C.	17	38	130	113.3	118.4	143.2	138.2	216.6	193.9	267.9	484.2	837.7	1227	503.2
Dev. C.	5	13	26	41.8	63.4	74.4	98.8	101.6	119.3	191	187.6	225.1	237.9	204.8
L.A.&C.	3	6	9	12.8	14.4	13.4	27.5	28.8	40.2	56.7	62.1	69.2	75.1	77.5
E.S.&SEA	1	5	13	20.9	25.9	45.6	56.4	64.7	73.6	96.3	86.2	99.9	131.1	94
Africa	1	1	3	2.5	2.6	2.9	4.2	4.4	4.6	10.7	9	12.8	8.7	17.2
Others	0.5	0.7	0.9	0.4	0.6	1.8	2.5	3.4	1.2	na	Na	na	Na	na

Note: Others include West Asia, Oceanic, Malta, Yugoslavia and least developed countries, L.A. and C. – Latin America and the Caribbean, E.S.&SEA – East South and South East Asia.

Source: UNCTAD, IMF Balance of Payments Statistic and world Investment Directory, United Nations, 1992; IMF, World Investment Report, 2002.

Table 4: Extent of Nigeria's Participation in International Trade (1970-2010)

Year	Import (M) (N'million)	Export (X) (N'million)	(M + X) (N'million)	GDP at Current Mkt Price (N'million)	M + X / GDP (N'million)
1970	756.4	885.4	1,641.8	5,203.7	0.32
1971	10,789	1,29.4	2,372.3	6,670.9	0.36
1972	990.1	1434.2	2424.3	7208.3	0.34
1973	1224.8	2278.4	3503.2	10990.7	0.32
1974	1737.3	5764.8	7532.1	18298.3	0.41
1975	3721.5	4925.5	8647.6	21558.8	0.40
1976	5148.5	6751.1	11899.6	27297.5	0.44
1977	7093.7	7630.7	14724.4	32747.3	0.45
1978	8211.7	6064.4	14276.1	36083.6	0.40
1979	7472.5	10836.8	18329.3	43150.8	0.42

1980	9095.6	14186.7	23282.3	50848.6	0.46
1981	12839.6	11023.3	23862.9	50749.1	0.47
1982	10770.5	8206.4	18976.9	51709.2	0.37
1983	8903.7	7502.5	16406.2	57142.1	0.29
1984	7178.3	9088.0	16266.2	63608.1	0.26
1985	7062.6	11720.8	18783.4	72355.4	0.26
1986	5983.6	8920.6	14904.2	73061.9	0.20
1987	17861.7	30360.6	48222.3	108,885.1	0.44
1988	21445.7	31192.8	52638.5	145243.3	0.36
1989	30860.2	57971.2	88831.4	224796.7	0.40
1990	45717.9	109886.1	155604.0	260636.7	0.60
1991	87020.2	121535.4	208555.6	324010.0	0.64
1992	145911.4	207266.0	353177.4	54980.8	0.64
1993	166100.4	218770.1	384870.5	697090.5	0.55
1994	162.788.8	206,059.2	368,848.0	914940.5	0.40
1995	755127.7	950661.4	1705789.1	1977740.0	0.86
1996	562626.6	1309543.4	1872170.0	2823900.0	0.66
1997	845716.6	1241662.7	2087679.3	2939650.0	0.71
1998	837418.7	751856.7	1589275.4	2881310.0	0.55
1999	860523.3	1189006.5	2051531.8	3352650.0	0.61
2000	692232.8	2287433.0	2979633.1	4980943	0.60
2001	1240241.3	2006498.9	3346740.2	5639865	0.58
2002	-1,311,382.9	1882668.2	571285.3	6398907.7	0.09
2003	-1,356689.6	2924134.9	1,567,445.3	6255470	0.25
2004	-1,474518.2	3,143800.8	1,669,282.6	6665040	0.25
2005	3772963.72	7246534.80	11019498.5	14572240	0.75
2006	4247349.17	7324680.63	11572029.8	18564598	0.62
2007	4349676.31	8120148.07	12469824.4	20657320	0.60
2008	4991393.74	8495056.53	13486450.3	24296323	0.55
2009	5243578.54	8903456.65	14147035.2	29724726	0.48
2010	3456789.43	9834521.56	13291311	34567847	0.38

Sources: CBN Statistical Bulletin, 2004, 2005,2006 and CBN Annual Report and Statements of Account, 2009, 2010 and 2011.

Table 5: Participation as a Source or Recipient of International Capital (1970-2010) (Nm)

Year	**CAB**	**GDP at Current Market Price**	**CAB / GDP**

1970	-50.0	5,203.7	0.009609
1971	-229.4	6,670.9	0.034913
1972	-322.7	7208.3	0.44768
1973	52.7	10990.7	0.004795
1974	4671.5	18298.3	0.255297
1975	42.6	21558.8	0.001976
1976	-2584	27297.5	0.009466
1977	-647.5	32747.3	0.010773
1978	-1157.4	36083.6	0.032076
1979	9427.3	43150.8	0.218473
1980	13057.9	50848.6	0.2568
1981	19970.3	50749.1	0.198433
1982	7980.9	51709.2	0.154342
1983	6752.3	57142.1	0.118167
1984	8234.3	63608.1	0.129454
1985	10738.9	72355.4	0.146419
1986	8006.6	73061.9	0.109587
1987	17138.2	108,885.1	0.157397
1988	31586.1	145243.3	0.21747
1989	59112.0	224796.9	0.262948
1990	79810.1	260636.7	0.114374
1991	51969.8	324010.0	0.160396
1992	93680.5	54980.8	0.170387
1993	-3414.7	697090.5	0.049369
1994	-52304.3	914940.0	0.057167
1995	-186084.6	1977740.0	0.940990
1996	240180.0	2823900.0	0.085053
1997	36033066	2939650.0	0.122576
1998	-330108.7	2881310.0	0.1145689
1999	-330108.7	3352650.0	0.098462
2000	706977.0	4980943.0	0.14
2001	269309.7	5639865.0	0.05
2002	69,838	6398907.7	0.01
2003	1054,635.1	6255470	0.17
2004	1374769.7	6665040	0.21
2005	1996757	14572240	0.13
2006	2667845	18564598	0.14
2007	3890680	20657320	0.18
2008	4023730	24296323	0.16
2009	4456789	29724726	0.14
2010	5867431	34567847	0.16

Sources: CBN Statistical Bulletin, 2004, CBN Statistical Bulletin, 2004, 2005,2006 and CBN Annual Report and Statements of Account, 2009, 2010 and 2011.

Table 6: Extent of Penetration of Foreign Capital into the Nigerian Economy (1970-2004)

Year	FDI	GDP at Current Market Price	FDI/GDP
1970	1003.2	5,203.7	0.19
1971	1322.8	6,670.9	0.20
1972	1571.1	7208.3	0.22
1973	1763.7	10990.7	0.16
1974	1812.1	18298.3	0.10
1975	2287.5	21558.8	0.11
1976	1339.0	27297.5	0.09
1977	2531.4	32747.3	0.08
1978	2863.2	36083.6	0.08
1979	3153.1	43150.8	0.07
1980	3620.1	50848.6	0.07
1981	3757.9	50749.1	0.07
1982	5382.8	51709.2	0.10
1983	5949.5	57142.1	0.10
1984	6418.3	63608.1	0.10
1985	6804.0	72355.4	0.09
1986	9313.6	73061.9	0.13
1987	9993.6	108,885.1	0.09
1988	11339.2	145243.3	0.08
1989	10899.6	224796.7	0.05
1990	10436.1	260636.7	0.04
1991	12243.5	324010.0	0.04
1992	20512.7	54980.8	0.04
1993	66787.0	697090.5	0.10
1994	70714.6	914940.5	0.08
1995	119391.6	1977740.0	0.06
1996	122600.9	2823900.0	0.04
1997	128331.9	2939650.0	0.04
1998	152409.0	2881310.0	0.05
1999	154188.1	3352650.0	0.05
2000	157535.0	4980943	0.03
2001	160882.2	5639865	0.03
2002	225972	6398907.7	0.04
2003	259250.4	6255470	0.04
2004	249157.7	6665040	0.04
2005	473878.1	14572240	0.03
2006	624000.5	18564598	0.03
2007	759000.4	20657320	0.04
2008	460000.2	24296323	0.12
2009	572000.5	29724726	0.12
2010	584320.6	34567847	0.17

Source: CBN Statistical Bulletin, 2001; Annual Reports and Statement of Accounts, 2009,2010 and 2012.

Table 7: Real Rates of Interest on Bank Deposits (1986-2000)

Year	Nig.	USA	UK	Japan	Germany	France	Netherlands	Switzerland	Italy	Spain	Belgium
1986	-7.96	2.62	1.45	1.72	3.61	2.90	3.33	3.41	6.49	0.55	2.80
1987	2.59	3.16	4.47	1.66	3.00	1.20	4.25	1.68	2.30	3.77	3.40
1988	-41.55	3.71	3.65	1.06	1.99	1.80	2.78	2.60	1.59	4.26	3.34
1989	-35.82	4.29	3.71	-0.33	2.70	1.00	2.39	5.28	0.73	2.75	2.03
1990	11.88	2.75	3.04	0.46	4.37	1.10	0.81	2.58	0.30	3.96	2.63
1991	1.92	1.64	4.38	10.84	5.92	1.30	0.08	1.73	0.34	4.27	3.05
1992	-26.56	0.68	3.76	11.65	2.91	2.10	0.00	1.50	2.01	4.53	3.85
1993	-32.96	0.17	0.84	1.87	2.40	0.51	0.20	13.29	13.29	5.03	18.31
1994	-43.91	2.03	1.16	1.00	1.67	2.80	11.90	2.73	2.20	2.00	2.46
1995	-59.29	3.12	0.71	1.00	2.15	2.70	2.50	0.52	1.25	2.18	2.54
1996	-16.24	2.49	0.65	0.20	1.43	1.67	1.54	0.54	2.49	2.52	0.56
1997	-1.03	3.32	0.53	-1.40	0.79	1.30	0.98	0.50	2.83	1.96	1.26
1998	0.81	3.87	1.08	-0.33	1.98	2.51	1.10	0.59	1.16	-0.45	1.32
1999	6.21	3.13	2.88	0.42	1.83	2.89	0.54	0.54	-0.09	-0.45	2.01
2000	4.10	3.06	1.58	0.67	1.50	0.90	0.34	1.40	-0.66	-.45	1.08
2008	4.10	2.8	1.5	3.2	Na	Na	2.4	0.5	4.2	Na	6.9
2009	23.8	1.9	-0.7	2.2	Na	Na	1.9	3.2	2.6	Na	8.2
2010	-7.3	2.5	-2.2	3.8	Na	Na	0.7	2.2	3.6	Na	Na

Sources: Computed from IMF International Financial Statistics Yearbook 2001 and World Bank (2013)

Table 8: Real Rates of Interest on Treasury Bills (1992-2000)

Year	Nig.	USA	UK	Germany	France	Switzerland	Italy	Spain	Belgium
1992	-26.71	0.46	5.24	13.22	8.09	3.41	9.22	6.54	6.90
1993	32.70	0.02	3.65	1.82	6.31	1.45	6.08	6.08	5.72
1994	-44.13	1.67	2.65	2.25	4.09	3.07	5.17	3.41	3.17
1995	-60.30	2.71	2.93	2.70	4.78	0.98	5.65	5.09	3.17
1996	-17.05	2.12	3.37	1.90	1.84	0.92	4.46	3.63	1.09
1997	3.80	2.77	3.38	1.42	2.15	0.95	4.33	3.02	1.78
1998	1.96	3.22	3.42	2.52	2.71	1.22	2.59	1.99	2.51
1999	11.22	2.42	3.44	2.28	2.22	0.47	1.31	0.21	2.62
2000	8.10	2.32	2.50	2.12	2.31	1.21	1.52	0.61	1.52

Source: Computed from IMF International Financial Statistics Yearbook, 2001.