

Evaluation of the Nigerian Financial Sector Reforms Using Behavioral Models

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ABSTRACT Recently, the Nigerian financial system has become very volatile in an attempt to keep pace with the global economic phenomenon. To this effect, the sector has been adorned by various reform strategies. Consequently, with the classical least squares technique, this paper sets out to assess the effects of these reforms on the effectiveness and efficiency of the Nigerian financial institutions with emphasis on the banking sub-sector. The results show that the performance of the financial sector has been greatly influenced over time by these reforms that began in 1986. The adoption of market determined cash reserve requirement caused cash intensity and domestic savings to increase by 5.54 and 5.00 percent respectively. The gradual increase in the capital base of these firms has rekindled the public confidence in the sector by increasing savings by 3.6, percent. Also, as government reduce her ownership of financial institutions, most financial development indicators perform better including; financial deepening. However, interest rate deregulation in Nigeria has been accompanied with decline banks credits due to negative (or very high) lending rate with its attendant crowding out effect. The policy implication therefore, is that, monetary authority should direct their efforts towards achieving a positive interest rate regime, increase the scope of financial reforms and these reforms should be seen as a process rather than event to consolidate the emerging confidence in these institutions.