International Journal of Academic Accounting, Finance & Management Research(IJAAFMR)
ISSN: 2643-976X
Vol. 8 Issue 10 October - 2024, Pages: 22-33

Financial Institutions Regulations and Economic Performance of Nigeria

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Abstract: *This study examined financial institutions' regulations and economic performance of Nigeria from 1987 to 2021. The study used ex-post facto research design. The reason is that the data collected are already in existence in annual reports and CBN statistical bulletin of Nigeria. The study adopted The ARDL Methodology. Meanwhile, the study subjected to descriptive statistics, correlation analysis, multi-collinearity test-Variance Inflation factors-VIF, and the Ramsey Reset Test-RRT, and Heteroscedasticity test-HET. The study applied the ARDL and found that, Capital adequacy, credit to private sector, and liquidity ratio have direct but significant effect on economic performance of Nigeria both on the short and long run. Meanwhile, lending rate-interest rate have indirect yet minimal effect on economic performance of Nigeria both on the short and long run. Hence, the study conclude that, financial institutions regulation have a positive significant effect on economic performance of Nigeria within the periods under investigation. Consequently, the paper submitted that, the Central Bank of Nigeria should ensure that, the current capital adequacy ratio should be sustained. Lastly, the CBN should ensure that, more greater incentives for banks which extend credit facilities to the private sector.*

Keywords: **Financial Institutions' Regulations, Capital adequacy, credit to private sector, liquidity ratio and Economic Performance**

1.0. Introduction

Universally, financial institutions regulations play crucial roles in the improvement of every economy since the institutions helps to curb the corrupt practices of financial institutions and also ensure that the macroeconomic objectives are achieved. It can bring about positive or negative effects on the economic performance and stability. Due to the 2008-2009 global financial crisis that resulted into myriad of inefficiencies in the structures of economic management in major aspect of the economy led to the re-enforcement of the financial institution regulations in the economy. According to Anthony-Orji, Orji, Ogbuabor, and Uka (2023), financial institutions and governments spent a lot of money on regulations but it could not prevent the global financial crisis. Financial institutions could be government or self-imposed. The government imposed is less expensive and formalized while self -imposed is more expensive and less formalized and the USA adopted self-regulation. According to Grajzl and Murrell (2007), self-regulation makes firms profits higher and it can leads to higher well -being of staff.

In trying to ensure sound and safe financial system, the regulations mitigate risk associated with different investment; ensure economic stability and protection of the populace Erhijakpor, Enakirerhi and Eferekeya (2022). Mitigation of risk presupposes that adequate financial institutions regulations and policy framework are put in place by the regulatory authorities (Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), etc.). Economic performance may be difficult to achieve in a developing country like Nigeria without proper, purposeful and radical financial regulations by the regulatory bodies. In this regards, the aim of the financial institutions regulations is attain economic performance in the country and if economic performance is achieved, it enhances the standard of living of the Nigerians. Heritage Foundation (2012),in an economy where the activities are regulated and supervised, the firms are in an ideal banking and financing environment where a minimum level of government interference exists, independent central bank supervision and regulation of financial institutions are limited to enforcing contractual obligations and preventing fraud

Furthermore, the reason why banks are highly regulated is because the sector is the prime mover of economic growth and development. Adetiloye (2008) calls for the usage of regulation different from apex regulatory body by using modernized self -financial regulation. Much unlike Nigeria, the Office of Thrift Supervision (OTS) deals with the regulation and supervision of Thrift Institutions and its major is to that the institution are proper registered and also adhere to laid down principles and ensure healthy competition. According to Brauilt, 2002, the Financial Services Authority (FSA) in U.K. operate a self-regulatory financial system that is concern with product fairness, consumer protection and also ensure that the system is not available to those who want use illicit practices. Reports has shown that apart from banks, other financial institutions render returns to Central Bank after being audited with clear evidence from Nigeria Deposit Insurance Corporation (NDIC) (The Guardian, 2008, The Punch 2009, &The Punch, 2007).

Economic performance is the total production of economic goods and services at particular period of time compared with previous period. Without doubt economic performance is key aspect of the country which the financial regulators need to look into so as to ensure the populace are not suffering from criminal personnel. When an economy is well regulated the welfare of the consumers will

be taken care of the need of the populace. According to Erhijakpor and Oko (2021), economic performance is mostly associated with capital and labor factors of production.

Justifications (Rationalization) of the Study

Although, financial institutions regulations plays vital roles in the economic activities of Nigeria and other countries of the world but there are still shortfalls that bedevil the economy which needs to be harnessed so as to achieve the macroeconomic objectives that the nation is clamoring for. Though, a lot of researchers have investigated the effects financial regulations on banks and economic growth but from the works reviewed the findings seems to be contradictory. For example, Igbinosa, Sunday, and Babatunde (2017), revealed that capital adequacy have negative impact on banking sector performance but not significant. Ejura and Nwankwo (2021), monetary policy rate had negative effects on economic growth, Nwokediuko, Ikeora, and Atueyi (2019) found that financial regulation positively affects the economy of Nigeria. According to Umar (2018) affirmed that, financial regulations improve banking sector's performance. Justifiably, the reason why there is contradictory results in the work reviewed might be the time frame, data sourced and the methodology used.

In view of the above identified gaps, the study deemed it fit to examine how financial institutions regulations affects economic performance in Nigeria from the period of 1987-2021 using ex-post facto research design and panel data.

2.0. Literature Review

2.1. Conceptual Framework

The term "financial Institutions' regulations "are specific guidelines or agreed conducts that institutions needs to adhere to when carrying out its operations, which are imposed by government or self-imposed by explicit or implicit agreement within the organization which restrict the activities of the financial organization in the country. Some of the regulatory bodies are Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), Federal Ministry of Finance (FMF), etc. The financial institutions regulations are proxy by capital adequacy, liquidity and interest rate. FIR can bring either positive or negative effects on economic performance in Nigeria. When regulators strictly apply the laws in checkmating the operations of the financial institutions, it will total eradicate crimes rate to a large extent and this can bring safety and soundness to the economy of a nation. Nwokediuko, Ikeora, and Atueyi (2019) are of the opinion that, the higher the financial regulation, the more the economy grows. According to Umar (2018) and Erhijakpor (2021), there is a positive relationship between financial regulation and banking sector in the country. In a case where regulators are partial or preference in exercising their obligations towards the institutions, there be room for corruption and cover up of loopholes that ought to be review and necessary sanctions to be imposed are neglected in the system. Igbinosa, Sunday, and Babatunde (2017), revealed that capital adequacy have negative impact on banking sector performance but not significant.

2.1.2. Economic Performance: Economic performance is measured by gross domestic product (GDP). Economic performance is refers to the ability of a country to produce goods and services that enhance the achievement of macroeconomic objectives. The major indicators of economic performance are economic growth, unemployment, balance of payment equilibrium and low and stable inflation (Anyanwu & Erhijakpor, 2009). Results showed that 1% increase in money supply amount to 0.15% increase in GDP. When financial institutions are over regulated, it can result to both positive and negative effects, in sense that when the regulations are too rigid on the organizations they may find it difficult to comply to and this leads to window dressing of their financial reports that birth false criminal acts in the economy.

2.1.3. Capital Adequacy: Capital adequacy refers to the percentage of capital that banks or other financial institutions needs to hold against its assets and it is used to measure the financial condition of the institution (Olalekan & Adeyinka, 2013). It is expressed as total equity divided by total loan and advances of the institutions. When an institution has enough capital the better the economy reason been that it has more money to buy machineries and raw materials needed to produce goods and services to the general public at lesser rates which increase the standard of living of the populace. From the work reviewed, Igbinosa, Sunday and Babatunde (2017) found that capital adequacy negatively affects economic growth but it is insignificant.

2.1.4. Monetary Policy Rate: Monetary policy rate is one of the tools that regulatory bodies apply to combat the supply of money so as to achieve economic performance in the nation. According to Ejura and Nwankwo (2021), monetary policy rate had negative effects on economic growth. This implies that lower monetary policy rate results to higher GDP.

2.1.5. Interest Rate: This is calculated as earnings before interest and taxes (EBIT) by the total interest owing on all its debts. The financial institutions use interest rate to checkmate the activities or operations of the financial institutions. If the regulatory authorities allow banks or other financial institutions to administer higher interest rate on the money lend to customers the more the earnings of such organizations which brings about positive effects on the economy in the same vein it can bring about negative effects because it will results to high volume of money in circulation pursuing fewer goods. . Nwokediuko, Ikeora and Atueyi (2019) found out interest rate has a positive effects on gross domestic products (GDP). Ejura and Nwankwo (2021) observed that interest rate deregulation (INTD) had negative effects but insignificant relationships on GDP.

2.2. Theoretical Framework

The two theories that were used to underpin the study are: endogenous Growth Theory (EGT) and the Regulatory Dialectic Theory. First, the EGT was developed by Rome (1986), Lucas (1988), and Rebelo (1991). This theory opined that economic performance is driven by internal regulations and not the external regulations as in neoclassical theory of thought. The study adopted this theory because strong financial institutions regulations enhance economic performance of a nation. The implication of this theory is that

regulations that bring about competitions, innovation, creativity, profit maximization and curtailing of crime rates will advance economic performance.

Conversely, the Regulatory Dialectic Theory was propounded by Edward Kane in 1980. The theory captures the struggles between regulatory authorities and financial institutions in Nigeria and other countries. The main purpose why financial institutions exist is to make profit, add to the gross domestic product (GDP) of the nation, improve standard of living of their citizens, etc. in order to ensure that institutions achieve the purpose why they exist, laws and guidelines are put in place by government to checkmate economics activities. This process brings about cost and benefit effects for government bodies. In all the theory examined, the contention between regulatory authorities and financial institutions in achieving their goals, in the process, the regulators impose some regulations on the financial institutions so as to achieve economic growth and stability (Erhijakpor, 2021). The implication of this theory on the study is that when regulators considerably apply the regulations on the economy without bias, the better the economic performance of the nation and across the world.

2.3. Empirical Review

Kladakis, Chen, and Bellos (2022) studied the effect of bank regulation, and supervision on liquidity creation using data from 2019 Bank Regulation and Supervision Survey published by the World Bank. The study uses OLS regression method and the findings showed that banks create more liquidity in countries with stronger supervision policies while they create less liquidity in countries with tighter regulatory regimes.

Ejura and Nwankwo (2021) investigated effects of financial sector reform on economic growth in Nigeria using time series data from quoted banks for the period of 1981 to 2019. The work adopted correlational research design and ordinary least square. It was revealed that bank capitalization had positive and significant relationships on gross domestic product (GDP) while interest rate deregulation (INTD) and small and medium enterprises loans (SMEL) reduce economic performance minimally whereas Liquidity (LQ) improved economic performance minimally.

Ezeocha (2020) studied the effect of banking sector reforms on economic growth of Nigeria. The study adopted ordinary least square multiple regression method and the results reveal negative relationship between the Loan and the GDP which means they are inversely related.

Nwokediuko, Ikeora, andAtueyi (2019), assessed the Effect of Financial Regulation on Economic Growth in Nigeria. The study used OLS to analyze the data sourced from the CBN Bulletin for the period of 1981 to 2017. It was found that financial regulation has a positive significant effect on the Nigerian economy.

Fan, Ma, and Wang (2019) analyzed institutional reform and economic growth of china: 40-year progress toward marketization. It was found that marketization reforms contributed 1.3% to China's annual economic growth rate and accounted for 35% of the increase in TFP. This signifies that the institutional reforms significantly make resource allocation better.

Adetiloye, Taiwo and Adegboye (2018) investigated regulations of other financial institutions in a banking system growth. The study used both primary and secondary data to assess the effect of the growth and regulation on the Other Financial Institutions (OFIs). The paper adapted the Regulatory Pressure Index to assess the perception of regulation and supervision of the OFIs with granger causality and regressions and the main techniques of estimation. The OFIs have the most negative impact on banking system growth. A further investigation revealed that operators agree that there is inadequate supervision in the areas of capital adequacy, liquidity and products offerings of the OFIs.

Igbinosa, Sunday and Babatunde (2017) examined the effect of Financial Regulations on the Banking Sector Performance. In order to find the results of the study, its adopted unit root test, co-integration and error correction model (ECM). The results revealed that the four-period lag of capital adequacy negatively affects banking sector performance and is not statistically significant.

Umejiakuand Ezie (2017) analyzed Financial Sector Reform and the Growth of Nigerian Economy. The results from the study revealed that consistent fall in real deposit rate (RDR) had increased the mobilized credit that was invested in the economy and all the variables was insignificant to the growth of Nigeria Economy. Despite the insignificant effect of RDR on GDP, if RDR is given an enabling environment free of inflation; it could encourage savings and probably economic growth.

For better comprehension, the summary of empirical literatures on the study, financial institutions regulation and economic performance in country and cross country studies is presented below.

Table2.1.Summary of Empirical literature

S/N	Authors	Country	Sample	Results
1	Kladakis, G. Chen, L. & Bellos, S.K. (2022).	France, China, Italy and Germany	721 banks	CAP-REG: positive significant SUPERVISION: negative
2	Igbniosa, S. Sunday, O. & Babatunde, A. (2017).	Nigeria	All the banking sectors in Nigeria.	CAD: negative insignificant SIZE: negative insignificant MPR: negative insignificant
3	Nwokediuko, O.K., Ikeora, J.J. E. and Atueyi, C.L. (2019)	Nigeria	Not specified	MPR: positive insignificant CPS: positive significant LR: positive significant

				INT: positive significant
4	Ezeocha, C.M. (2020)	Nigeria	Not specified	INT: positive insignificant MRR: negative insignificant CAB: negative insignificant CRR: negative insignificant
5	Ejura, S.E. & Nwankwo, O. (2021).	Nigeria	Quoted commercial banks	CAP: positive significant INTD: negative insignificant SMEL: negative insignificant LIQ: positive insignificant
6	Umejiaku and Ezie (2017)	Nigeria	Not specified	RDR: positive insignificant RLR: positive significant M2/GDP: positive insignificant CPS/GDP: positive insignificant
7	Adetiloye, K.A., Taiwo, J.N. and Adegboye, F.B. (2018).	Nigeria	PMI, FIH and 9 out of 10 metrics of RPI	CAD: insignificant LIQ: insignificant PRO: insignificant FIH: negative insignificant PMI: negative insignificant
8	Fan,. Ma, G. Wang, X. (2019)	China	Number of graduates from primary, secondary and tertiary school	6.83% physical capital, 0.37% Lab. Quantity, 0.64% educational level and 3.70% TFP.

Source: Authors' Compilation (2024)

3.0. Research Methodology

: The study used ex-post facto research design. The reason is that the data collected are already in existence in annual reports and CBN statistical bulletin of Nigeria. The study adopted The ARDL Methodology/techniques. Meanwhile, the study subjected to descriptive statistics, correlation analysis, and Multi-collinearity test-Variance Inflation factors-VIF, and the Ramsey Reset Test-RRT, and Heteroskesticty test-HET. The study modeled after the works of Nwokediuko, Ikeora, and Atueyi (2019). Their model reads:

$RGDP = \beta0 + \beta1MPR + \beta2CPS + \beta3LR + \beta4INT + \mu$ --- 1

However, the current study differs from their model as it used capital adequacy ratio to replace monetary policy rate-MPR since data for MPR spanned from 2006 down to 2021. Hence, the modified model reads:

$RGDP = \beta0 + \beta1CAR + \beta2CPS + \beta3LIR + \beta4INT + \mu$ --- 2

Econometrically, the ARDL form is presented thus:

Note: Table presents how each variable was operationalized:

Table 1: Variable Measurement and Expected Sign

S/N	Variables	Denotations	Measurement	Nature of Data	Expected Sign
1	Real Gross Domestic Product	RGDP	Annual RGDP	Annual/Time Series-Descriptive, Correlation, Trend Analysis; & Regression	Nil
2	Capital Adequacy Ratio	CAR	Annual CAR	Annual/Time Series-Descriptive, Correlation, Trend Analysis; & Regression	Positive
3	Credit to Private Sector	CPS	Volumes of Private Sector	Annual/Time Series-Descriptive, Correlation, Trend Analysis; & Regression	Positive
4	Interest Rate	INTR	Prime Lending Rate	Annual/Time Series-Descriptive, Correlation,	Negative

				Trend Analysis; & Regression	
5	Liquidity Ratio	LIR	Volumes of Liquidity Ratio	Annual/Time Series-Descriptive, Correlation, Trend Analysis; & Regression	Positive

Source: Authors' Compilation (2024)

RESULTS AND DISCUSSIONS

4.1. Preliminary Analysis

4.1.1. Trend Analysis

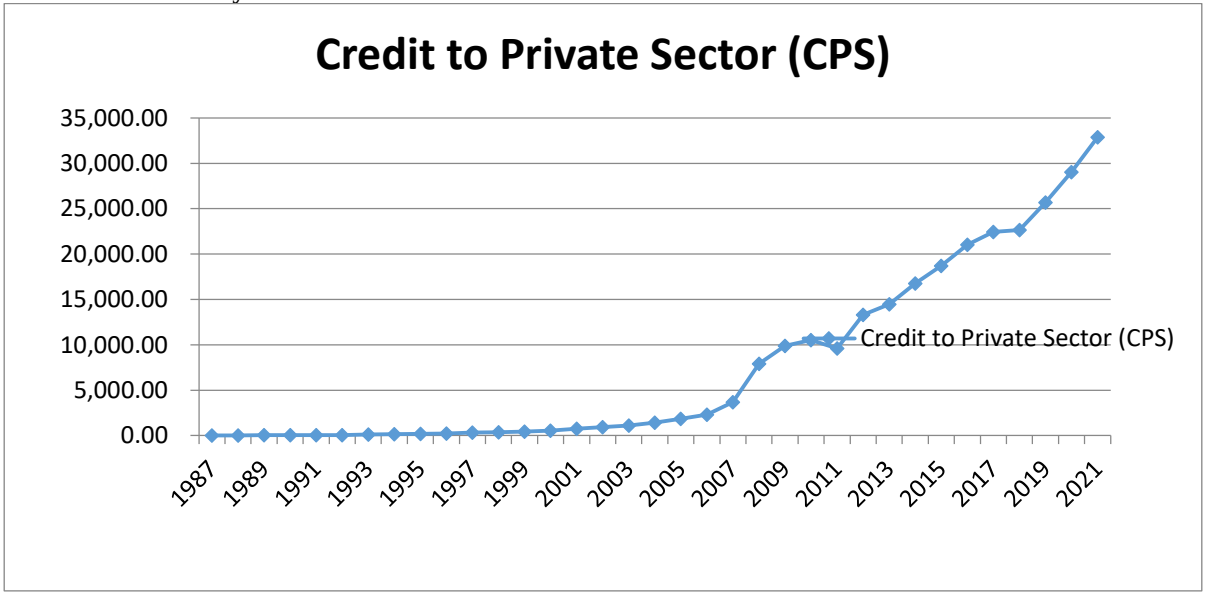

Figure 1-CPS Trends from 1987 to 2021
Source: CBN Bulletin Statistical Bulletin Financial Sector (2021)

From Figure 1, CPS moves in upward fashion. This implies that, as part of the policy of the Nigerian government to improve the state of the Nigerian economy, the private sector remains one of the greatest hubs in the country. It is quite obvious that from 1987 to 2021, the proportion of CPS to GDP moves in linear fashion. This suggests that, both CPS and GDP moves in linear fashion.

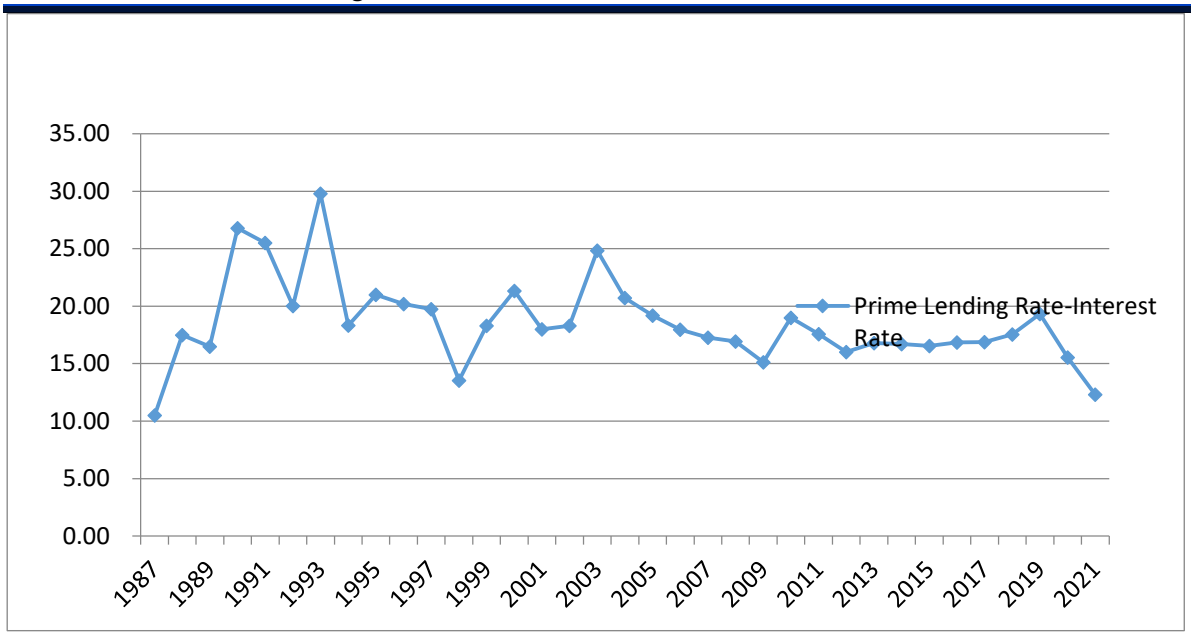

Figure 2-IINTR Trends from 1987 to 2021
Source: CBN Bulletin Statistical Bulletin Financial Sector (2021)

Figure 2, interest rate unlike CPS moves in zig-zag fashion. This suggests that, the lending rate moves in tandem with changes in economic fundamentals. This is because to address economic fundamental issues, low lending rate must be considered. Evidently, INTR had a maximum value of 29.80 percent as at 1993 but was as low as 12.32 percent in 2021.

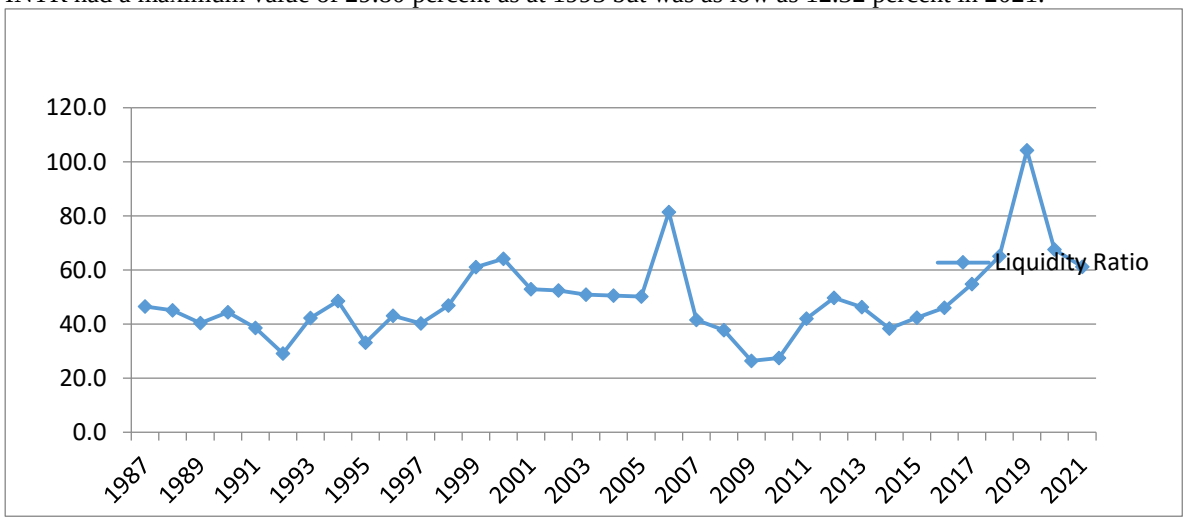

Figure 3-LIR Trends from 1987 to 2021
Source: CBN Bulletin Statistical Bulletin Financial Sector (2021)

From Figure 3, liquidity ratio just like interest rate moves in zig-zag fashion throughout the reviewed periods. This suggests that, the liquidity ratio moves in tandem with changes in lending rate. This further reaffirmed the fractional reserve banking approach which suggests that, for banks to be liquid and remain as a going concern, banks must keep a proportion of their deposits as reserve with a view to meet their liquidity objective. The zig-zag fashion is further reaffirmed by the profitability liquidity dilemma facing banks all over the world in that, in a bid for banks to be highly profitability, banks may become illiquid and vice versa. Hence, striking a balance between both extreme financial objectives remains a major reason why banks liquid base are parabolic in nature. Justifiably, figure 2 affirmed that, the LIR of the whole Nigerian banks moves in zig-zag fashion in every two years.

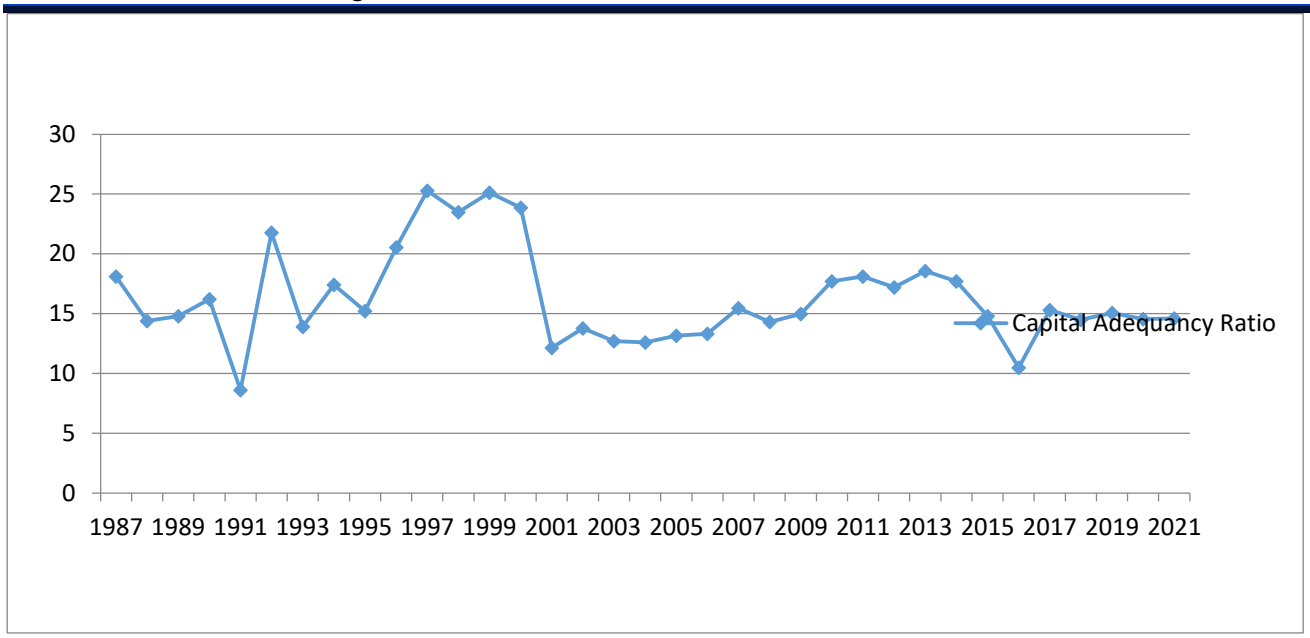

Figure 4-CAR Trends from 1987 to 2021
Source: CBN Bulletin Statistical Bulletin Financial Sector (2021)

From Figure 4, capital adequacy ratio just like interest rate moves in zig-zag fashion throughout the reviewed periods. This suggests that, the capital adequacy ratio moves in tandem with changes in lending rate. This further reaffirmed that, the essence of financial regulations is to ensure that, banks are highly capitalized.

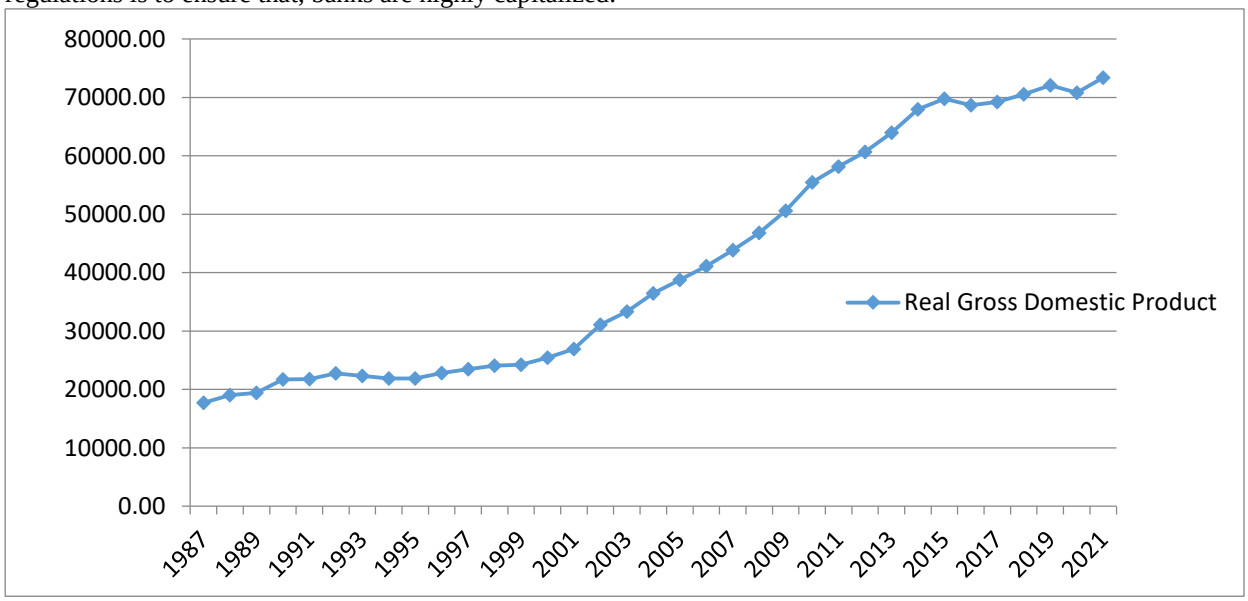

Figure 1-RGDP Trends from 1987 to 2021
Source: CBN Bulletin Statistical Bulletin Financial Sector (2021)

From figure 5, RGDP moves in upward trend throughout the study (reviewed) periods despite the global financial crises of 2009 and the subsequent Covid-19. Justifiably, RGDP fell slightly from 2016 to 2021. On the average, the monetary value of all produced goods from 1987 to 2021 increased significantly. This further suggests high economic performance was recorded within the reviewed periods of 1987 to 2021.

4.1.2. Descriptive Statistics

Table 2: Descriptive Statistics

Variables	Mean	Maximum	Minimum	Std. Dev.	Observations
RGDP	41657.45	73382.77	17730.34	20223.13	35

CAR	16.27714	25.29000	8.610000	3.940816	35
CPS	7695.758	32868.49	21.08299	9963.464	35
INTR	18.52572	29.80000	10.50000	3.806866	35
LIR	48.90133	104.2024	26.39276	15.06571	35

Source: E-Views version 9.0 (2023)

From table 2, RGDP, CAR, CPS, INTR, & LIR has average values of ₦41657.45 Billion, 16.28%, ₦7695.76 billion, 18.53%, and 48.90% and a standard deviation value of 20223.13, 3.94%, ₦9963.46 Billion, 3.81%, and 15.07%. This suggests that, all the study variables clustered around their average values. Meanwhile, RGDP reported the highest maximum and minimum value while CAR reported the least maximum and minimum value. To further revalidate it, table 3 accounted for the normality test.

Table 3: Normality Test

Variables	Jarque-Bera	Probability	Observations	Conclusion
RGDP	4.069438	0.130717	35	Normally Distributed
CAR	3.476246	0.175850	35	Normally Distributed
CPS	6.713582	0.034847	35	Deviated from Normality
INTR	8.084838	0.017555	35	Deviated from Normality
LIR	35.36517	0.000000	35	Deviated from Normality

From table 2, RGDP & CAR are normally distributed while CPS, INTR, & LIR deviate from normality. Meanwhile, the residuals show that the model is free from normality problems. This further substantiate that, the model is feasible for policy formulation.

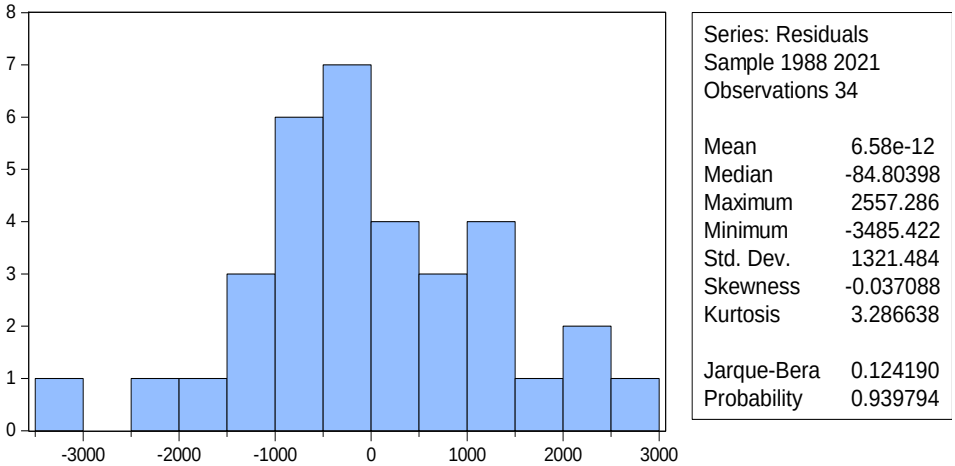

Figure 7: Normality Test for all Variables
Source: Eviews Version 9.0 (2023)

4.1.3. Correlation Analysis

Table 4: Correlation Analysis

	RGDP	CAR	CPS	INTR	LIR
RGDP	1.000000				
CAR	-0.243748	1.000000			
CPS	0.934611	-0.218497	1.000000		
INTR	-0.387851	-0.162347	-0.413609	1.000000	
LIR	0.302838	-0.074785	0.379009	-0.083086	1.000000

Source: Eviews Version 9.0 (2023)

From table 4, CAR has a weak adverse effect on RGDP while CAR has a moderate effect on economic performance. Also, CPS has a direct strong effect on Economic Performance of Nigeria. Furthermore, LIR has a moderate relationship with RGDP of Nigeria. When considered the relationship among the independent variables/regressors, none of the variables are faced with Multi-collinearity problems since their coefficient values are not up to 70% as evidenced by Ighosewe, Uyagu and Iyere (2021); Ighosewe (2020). This is revalidated by the outcome of table 5.

Table 5: Multi-collinearity Problem

Variables	VIF	Tolerance Value	Decision
CAR	1.1716	0.8535	No Multi-collinearity Problem
CPS	1.7655	0.5664	No Multi-collinearity Problem
INTR	1.5094	0.6625	No Multi-collinearity Problem
LIR	1.2004	0.8330	No Multi-collinearity Problem

Source: Eviews Version 9.0 (2023)

The VIF values for all the study variables are all below 10. Evidently, CAR has a VIF value of 1.1716, CPS has a VIF value of 1.7655, and INTR has a VIF value of 1.5094 while LIR has a VIF value of 1.2004. This was reaffirmed by TOV that were less 1. This connotes that, the model is free from Multicolinearity problems.

Table 6: Other Diagnostic Tests

S/N	Diagnostic Tests		Chi-Square/F-Stat	P-Value	Decision
2	Ramsey Reset Test	2.005172	(5,28)	0.1087	No omitted Variables
4	Heteroskedasticity Test	1.010334	(1, 27)	0.3268	Homoskedastic

Source: Eviews Version 9.0 (2023)

The various diagnostic tests above as reported in table 6 evidenced that the model is fit for prediction. Meanwhile, the Unit root test in table 7 has mixed integration.

Table 7: Unit Root Test

At Level 1(0)				
Variables	**ADF T-Statistic**	**MacKinnon Critical Value**	**P-Value**	**Decision**
CAR	-3.555290	-2.951125	0.0123	Stationarity
CPS	-1.806180	-2.951125	0.3713	Non-Stationarity
INTR	-4.360282	-2.951125	0.0015	Stationarity
LIR	-3.100070	-2.951125	0.0360	Stationarity
RGDP	0.378590	-2.951125	0.9789	Non-Stationarity
First Difference 1(1)				
Variables	**ADF T-Statistic**	**MacKinnon Critical Value**	**P-Value**	**Decision**
CAR	-4.156161	-2.986225	0.0037	Stationarity
CPS	-4.252535	-2.986225	0.0021	Stationarity
INTR	-5.629621	-2.986225	0.0001	Stationarity
LIR	-7.215683	-2.986225	0.0000	Stationarity
RGDP	-3.112527	-2.986225	0.0353	Stationarity

Source: Eviews Version 9.0 (2023)

Table 8: ARDL Bounds Test

ARDL Bounds Test			Critical Value Bounds		
Test Statistic	**Value**	**K**	**Significance**	**I0 Bound**	**I1 Bound**
F-statistic	4.638937	4	5%	2.86	4.01

Source: Eviews Version 9.0 (2023)

From table 6, ARDL Bounds Test has an f-value of 4.638937 and I1 Bound test of 4.01 suggests that, financial regulations have a long run effect on economic performance of Nigeria.

4.2. Regression Result

Having affirmed that, the model is Homoskedastic, and satisfies all econometric analysis, the ARDL methodology is presented in table 8:

Table 9: ARDL Cointegrating And Long Run Form

Dependent Variable: LOG(RGDP)

Selected Model: ARDL(1, 0, 0, 0, 0)

Sample: 1987 2021

Included observations: 33

Cointegrating Form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(CAR)	0.368792	0.048654	7.579939	0.0000
D(CPS)	-0.000006	0.000001	-4.429508	0.0002
D(INTR)	-0.003474	0.002260	-1.537123	0.1392
D(LIR)	0.001518	0.000459	3.304294	0.0034
CointEq(-1)	0.101607	0.030920	3.286136	0.0035

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CAR	0.189469	0.090809	2.086455	0.0462
CPS	0.548058	0.100959	5.428501	0.0000
INTR	-0.012280	0.034188	-0.359191	0.7230
LIR	0.311206	0.141909	2.193001	0.0397
C	10.070771	1.012999	9.941536	0.0000

R-squared	0.995672	Durbin-Watson stat	1.94680
Adjusted R-squared	0.994899	S.D. dependent var	20223.13
F-statistic	1288.351	Prob(F-statistic)	0.000000

Source: Eviews Version 9.0 (2023)

From the cursory examination of the model, the R^2 given to us as 0.995672 approximately 99.57% systematic variation in the regressed (RGDP) using these four (4) regressors while only 1.43% is left unexplained (error term). More so, the adjusted R2 reaffirmed that, the model has a high predictive power. The F-ratio of 1288.351 evidenced that, the model passed the test of significance. By implication, financial institution regulations have high statistical significant effect on economic performance of Nigeria both on the short and long run. Meanwhile, the DW value of 1.94680 suggests that, the series are not serially correlated.

In terms of relative statistics, the coefficient, t-value, and p-values were considered. The coefficient value measures linearity (positive or negative), both t-value and p-values measure statistical significance. The decision rule here is that, the beta coefficient has a direct effect wherein its value is positively signed but if its value is negatively signed suggests the regressor has an inverse effect on the regressed. Meanwhile, a variable is considered statistically significant. Justifiably, CAR has a positive coefficient value of 0.368792 on the short run and 0.189469 on the long run. By implication, CAR is highly instrumental to the higher economic performance of Nigeria both on the short and long run. By implication, a higher CAR is instrumental to higher economic performance both on the short and long run. More so, the model affirmed that, higher credit expansion result to higher economic performance. By implication, the more credits are extended to the private sector, the more the economy grows provided that, lending rate is relatively low. It further confirm to Apriori expectation. Lastly, liquidity ratio is statistically significant and therefore has not contributed significantly to the growth of Nigeria economy. This result is in tandem with the findings of Kladakis, Chen, and Bellos (2022); Ejura and Nwankwo (2021); Ezeocha (2020); Nwokediuko, Ikeora, andAtueyi (2019), Fan, Ma, and Wang (2019); Adetiloye, Taiwo and Adegboye (2018) but deviated Igbinosa, Sunday and Babatunde (2017) and Umejiaku and Ezie (2017)

5. Conclusion and Recommendations

This empirical study seeks to investigate the effect of financial institution regulations on economic performance of Nigeria from 1987 to 2021. The study applied the ARDL and found that, Capital adequacy, credit to private sector, and liquidity ratio have direct yet significant effect on economic performance of Nigeria both on the short and long run. Meanwhile, lending rate-interest rate have indirect yet minimal effect on economic performance of Nigeria both on the short and long run. Hence, the study conclude that, financial institution regulation have a positive significant effect on economic performance of Nigeria within the periods under investigation. Consequently, the following submissions were made. The Central Bank of Nigeria should ensure that, the current capital adequacy ratio should be sustained. Also, the CBN should ensure that, more greater incentives for banks which extend credit facilities to the private sector. In order to encourage more investors to borrow from discount windows, the current rising interest rates reduce since it is reduced; more investors would seek for more loans which in turn will increase the productive capacity of the Nigerian economy both on the short and long run. The CBN should ensure that, the current liquidity ratio of banks should be sustained since the current LIR has the capacity to trigger (spur) economic performance of Nigeria not on the short run only but on the long run.

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APPENDIX 1: RAW DATA

YEAR	CPS	INTR	LIR	RGDP	CAR

1987	21.08	10.50	46.5	17730.34	18.1
1988	27.33	17.50	45.0	19030.69	14.4
1989	30.40	16.50	40.3	19395.96	14.8
1990	33.55	26.80	44.3	21680.20	16.22
1991	41.35	25.50	38.6	21757.90	8.61
1992	58.12	20.01	29.1	22765.55	21.76
1993	127.12	29.80	42.2	22302.24	13.91
1994	143.42	18.32	48.5	21897.47	17.42
1995	180.00	21.00	33.1	21881.56	15.22
1996	238.60	20.18	43.1	22799.69	20.53
1997	316.21	19.74	40.2	23469.34	25.29
1998	351.96	13.54	46.8	24075.15	23.49
1999	431.17	18.29	61.0	24215.78	25.12
2000	530.37	21.32	64.1	25430.42	23.86
2001	764.96	17.98	52.9	26935.32	12.15
2002	930.49	18.29	52.5	31064.27	13.77
2003	1,096.54	24.85	50.9	33346.62	12.7
2004	1,421.66	20.71	50.5	36431.37	12.59
2005	1,838.39	19.18	50.2	38777.01	13.17
2006	2,290.62	17.95	81.42	41126.68	13.31
2007	3,668.66	17.26	41.56	43837.39	15.47
2008	7,899.14	16.94	37.72	46802.76	14.3
2009	9,889.58	15.14	26.39	50564.26	14.97
2010	10,518.17	18.99	27.39	55469.35	17.7
2011	9,600.02	17.59	42.02	58180.35	18.1
2012	13,293.64	16.02	49.72	60670.05	17.2
2013	14,461.41	16.79	46.23	63942.85	18.56
2014	16,753.00	16.72	38.27	67977.46	17.7
2015	18,688.42	16.55	42.35	69780.69	14.8
2016	21,025.24	16.85	45.95	68652.43	10.48
2017	22,459.18	16.87	54.79	69205.69	15.3
2018	22,646.33	17.56	65.04	70536.35	14.5
2019	25,676.87	19.33	104.20	72094.09	15.05
2020	29,030.01	**15.53**	67.6	70800.54	14.55
2021	32,868.49	**12.32**	61.2	73382.77	14.6