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THE ROLE OF NIGERIAN FINANCIAL SECTOR IN REBUILDING ECONOMIC RESILIENCE IN THE PRESENT SOCIO-POLITICAL DISPENSATION

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Abstract

This paper examined the role of the Nigerian financial sector in rebuilding economic resilience in the present socio-political dispensation. The method applied in this research is the qualitative method which involves collecting and analyzing concepts and opinions from other authors. It was discovered that Nigeria has faced a lot of development challenges that are both structural and institutional. Some of these challenges are linked to issues beyond the financial sector, yet the sector development remains central to achieving inclusive economic growth, sustained poverty reduction, and creating new markets in lieu of rebuilding economic resilience. The development challenges Nigeria faces, calls for a new policy approach with the formulation and implementation of new generation development policies centered on the fostering of production capacities. Financial sector helps in building resilience by providing efficient and secure payment and settlement systems that facilitate the smooth functioning of the economy. A strong and well-functioning financial sector is recommended as it is vital for the country's ability to withstand economic challenges and uncertainties.

Keywords: Economic Resilience, Financial Sector, Economic Growth, Poverty Reduction and Economic Challenges.

Introduction

Nigeria has the highest absolute number of poor people in the world (nearly 90m). Although this poverty is linked to issues beyond the financial sectors, financial sector development remains central to achieving inclusive economic growth, sustained poverty reduction, and creating new markets. Comprehensive indicators of financial development access, depth, and efficiency across financial institutions and markets suggest that Nigeria has witnessed much lower levels of financial development than other large emerging markets. The IMF estimated that improving Nigeria's financial system would increase growth by 0.8% per annum, which, at current rates, would accelerate economic growth beyond population growth IMF (2022).

Looking at the overall performance of the Nigerian economy, it becomes apparent that there are structural and institutional challenges that need to be addressed. Nigerian economy is oil dependent with 90% of exports and this is attributable to fossil fuels. Although oil brings substantial revenue to the State but it makes the country excessively vulnerable towards external economic shocks in the form of the fluctuation of the international price of oil and secondly, it inhibits the country's ability to diversify its economy, create new employment opportunities and advance structural economic transformation to reduce poverty.

With the COVID-19 pandemic, the revenue problem of Nigeria aggravated, and fiscal sustainability is emerging as a major concern to the long-term growth. A closer look at some aspects of Nigeria's economic development and related indicators reveals pressing challenges. According to the African Development Bank Group (AFDB), one of the challenges is that growth will slow, averaging 3.2% from 2022 to 2023 because of the continued low oil

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production and rising insecurity. The conflict between Russia and Ukraine, rising food, gas, and diesel costs, and continuous supply disruptions are all anticipated to play a part in keeping inflation high in 2022 at 16.9% and above pre-pandemic levels in 2023.

While oil exports are anticipated to slightly increase and capital inflows to rebound, an expected positive oil price shock on exports may be substantially outweighed by a poor output effect caused by lower oil production, which is fueled by inadequate infrastructure and increased insecurity. The anticipated 0.1% of GDP marginal current account surplus in 2022 could turn into a 0.2% deficit in 2023. With greater revenue collection, the budget deficit will typically drop to 4.5% of GDP Akiwumi and Onyekwena (2022).

The development challenges Nigeria faces call for a new policy approach and the formulation and implementation of new generation development policies centered on the fostering of productive capacities. This should signal a shift away from short-term, sector and project specific interventions.

STATEMENT OF PROBLEM

Some of the economic challenges facing Nigeria as a country includes slow in growth rate, the effect of other country's war, inadequate infrastructure and insecurity. Most of these challenges are affecting the development of the country, yet the political class seem not to be helping to solve some of the challenges. The essence of this research work is to identify some of the challenges and suggest probable solutions.

OBJECTIVES

The main objective of this study is to identify some of the roles played by the Nigerian financial sector in rebuilding the economic resilience in the present socio-political dispensation, other objectives include:

i. To ascertain the contribution of the Nigerian financial sector towards building the economic growth.
ii. To evaluate the effort of the Nigerian financial sector towards provision of adequate security and support in times of other country's war.
iii. To assess the impact of the Nigerian Financial Sector towards infrastructure development in Nigeria.

CONCEPTUAL REVIEW

Nigerian Financial Sector

A financial system comprises financial institutions, financial markets, financial instruments, rules, conventions, and norms that facilitate the flow of funds and other financial services within and outside the national economy. The Committee set up by the Federal Government of Nigeria in 1976 to review the Nigerian financial system defined the financial system as 'the congeries of financial institutions and arrangements which serve the needs of the economy. The service is rendered through:

a) the provision of financial resources to meet the borrowing needs of individuals and households, enterprises and governments;
b) the provision of facilities to collect and invest savings fund, and;
c) the provision of a sound payment mechanism' Financial system includes the 'environment of rules and regulations governing the interaction of the different categories of the institutions among themselves and with others' Agu (2011)

Financial Sector and the Economy

The importance of the financial sector as a catalyst in economic development is widely recognized by both monetary and development economists. In fact the need to develop domestic financial system and patterns of behaviour necessary to generate and mobilize scarce capital funds as a key condition to economic growth and development originated in the classic work of Schumpeter (1934). Since then such great interest has been aroused among students that the role of financial system in the economic development of African countries has come under increasing scrutiny by students Agu (2011).

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The Structure of the Nigerian Financial System

The Nigerian financial system consists of banks and non-bank financial institutions which are regulated by the central bank of Nigeria (CBN) and the Federal Ministry of Finance, Nigeria deposit insurance corporation (NDIC), securities and exchange commission (SEC),the national insurance commission (NIC), and the federal mortgage bank of Nigeria (FMBN) 17 Generally, the Nigerian financial system has undergone remarkable changes in terms of ownership, structure of its institutions, the menu of instruments traded, and the regulatory framework within which the system operates. The deregulation introduced in 1978 under the structural adjustment programme provided powerful incentives for the expansion of both the bank and the non-bank financial institutions of all sizes, structure and complexity. For instance, the number of commercial banks rose from 41 in 1986 to 115 in 1996,and the branches rose also sharply from 1367 in 1986 to 2551 in 1996 (CBN,1997). By December, 200 3the number of branches was 3247. In addition, 401 community banks 145 mortgage institutions and 618 finance houses were established within this period CBN (1997).

Economic Resilience in the Present Socio-Political Dispensation

Economic resilience in the present socio-political dispensation is a crucial concept, particularly in a world marked by rapid change, uncertainty, and complex socio-political dynamics. It involves the ability of an economy to adapt to various socio-political changes, whether they stem from shifts in government policies, geopolitical tensions, or societal transformations. An adaptable economy can swiftly adjust its structures, policies, and strategies to mitigate risks and seize opportunities.

Nigerian financial sectors play a crucial role in building economic resilience within the country. Financial sectors, including banks, insurance companies, and capital markets, contribute to this resilience in several ways: They facilitate capital formation by pooling savings from individuals and businesses and channeling them into productive investments. This contributes to economic growth, job creation, and the diversification of the economy, all of which enhances resilience. Nigerian banks and other financial sectors provide credit to individuals and businesses for various purposes, including entrepreneurship, expansion, and innovation. Adequate access to credit allows businesses to weather economic downturns and seize opportunities for growth, contributing to overall economic resilience.

Insurance companies play a critical role in managing risk for businesses and individuals. They provide coverage against various risks, such as natural disasters, accidents, and health emergencies. This helps individuals and businesses to recover more quickly after setbacks, reducing the negative impact of unexpected events on the economy. Financial sectors encourage individuals to save money by offering various savings products. Savings provide a safety net for households during economic challenges and can also be a source of investment for businesses. Accumulated savings can be used to support consumption during difficult times, reducing the vulnerability of the economy to external shocks.

The Nigeria Development Update Resilience through Reforms states that reforms implemented by the Nigerian government were critical and timely to alleviate the impact of the recession on the economy and to create additional fiscal space. Reform slippages would threaten the pace of recovery and limit the government's ability to address gaps in human and physical capital. (World bank 2021)

The report discusses policy options to reduce inflation, protect the poor and vulnerable and support economic recovery. Accomplishing these goals will require a big push in exchange-rate management, monetary policy, trade policy, fiscal policy, and social protection. Some specific measures recommendations are the following:

- Increasing the transparency and predictability of exchange rate management policies to reduce distortions in allocations in the private and public sector; and to ensure that agents can access foreign exchange in a timely and orderly manner, at an agreed rate.
- Clearly defined monetary-policy priorities and objectives, with price stability as the primary goal. The resumption of naira-denominated open-market operations (OMOs) based on a transparent issuance schedule, and signal to markets that OMOs will use short-maturity securities to achieve price stability.
- Full and effective reopening of land borders for trade and strengthening regional cooperation to combat smuggling.

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- Facilitation of imports for staple foods and medicines by removing them from the list of foreign exchange (FX) restrictions and replacing import bans and with tariffs that align with the ECOWAS Common External Tariff.
- Establishing mechanisms to monitor and report the federal government's stock of Central Bank overdrafts to control the growth of the money supply.
- Full elimination of the petrol subsidy; and design of sequenced reforms to mobilize domestic nonoil revenue in a way that does not affect the economic recovery, including increasing excise taxes on harmful consumption goods, rationalizing tax expenditures, removing loopholes in tax laws, and improving tax compliance by strengthening revenue administration.
- Leveraging the National Social Safety Nets Program (NASSP) to provide transfers to additional households, and temporarily increase transfers to current beneficiaries
- Complementing the NASSP with the National Home-Grown School Feeding Program (NHGSFP) to strengthen the food security of vulnerable households in 26 States: and rapidly implement the World Bank-supported CARES project to support households, farmers, and firms.

The Nigerian economy was expected to grow by 1.8% in 2021, though there was high uncertainty about the outlook. The recovery would be driven by rise in oil exports and in domestic demand. However, Nigeria's recovery is expected to underperform those of other oil producers, and an unexpected shock to oil prices could threaten the modest growth projected. Moreover, high inflation and high unemployment exacerbate macroeconomic risks, and activity in the tertiary sector will not fully normalize unless COVID-19 is contained. By the end of 2021, Nigeria's GDP is likely to approach its 2010 level, thus reversing a full decade of economic growth. GDP per capita is projected to continue declining because the economy is forecast to grow more slowly than the population.

Financial sectors help in building resilience by providing efficient and secure payment and settlement systems that facilitate the smooth functioning of the economy. Digital payment systems, online banking, and mobile money services enable transactions to continue even during disruptions, thus maintaining economic activity. Nigerian financial institutions, including the Central Bank of Nigeria, play a critical role in managing foreign exchange reserves and exchange rate stability.

This helps shield the economy from volatile external factors and ensures a stable environment for trade and investment. Financial institutions support innovation by providing funding and investment opportunities for startups and emerging industries. Innovation drives economic diversification, which can reduce reliance on a single sector and enhance resilience against sector-specific shocks. During times of crisis, financial institutions can play a role in providing emergency funding, liquidity support, and credit relief to businesses and individuals. This can help mitigate the impact of shocks and promote a faster recovery. Regulatory bodies oversee financial institutions to ensure their stability and prevent systemic risks. Effective regulation and supervision enhance the overall health of the financial sector and contribute to the stability of the broader economy.

THEORETICAL REVIEW

This theoretical review delves into the critical role played by the Nigerian financial sector in fostering economic resilience amidst the challenges posed by the current socio-political dispensation. As Nigeria navigates a complex web of political, social, and economic dynamics, the financial sector emerges as a linchpin for stability and progress.

A significant size of the financial economics literature suggests that financial sector development plays a large role in economic development of any economy as it promotes economic growth by boosting capital accumulation and enhancing technological progress through increasing the rate of savings, mobilizing and pooling of savings, production of information about investments, facilitating and encouraging the inflows of foreign capital, as well as optimizing the allocation of capital. Therefore, Countries with well-developed financial systems ought to grow faster over a long period of time. (Ayadi, 2021).

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Financial intermediation

The financial sector, comprising banks, capital markets, and non-banking financial institutions, serves as a crucial intermediary between savers and investors. Drawing on financial intermediation theories, this section explores how efficient capital allocation and risk management within the financial sector can contribute to economic resilience. Special attention is given to the role of banks in mobilizing savings and channeling funds to productive sectors.

Institutional theory

Institutional theory is employed to analyze the regulatory and policy frameworks shaping the Nigerian financial sector. The paper examines the role of institutions in fostering a conducive environment for financial activities, emphasizing the need for transparent and accountable governance structures. The impact of regulatory reforms on building a resilient financial sector is explored within the context of the present socio-political dispensation

Financial Inclusion and Economic Development

Utilizing theories of financial inclusion and economic development, the review investigates how expanding access to financial services can enhance economic resilience. It explores the potential of digital financial technologies in reaching underserved populations and fostering inclusive economic growth.

Challenges and Opportunities

A critical analysis of challenges facing the Nigerian financial sector is presented, including issues related to regulatory compliance, infrastructure limitations, and geopolitical uncertainties. Concurrently, the review identifies opportunities for innovation, collaboration, and policy reform that can enhance the sector's resilience and contribute to broader economic stability

EMPIRICAL REVIEW

Ikhide (2020) reviewed the impact of financial liberalization on monetary policy in Nigeria, examining in particular the progress made in the transition from direct to indirect forms of monetary management. While recognizing the inherent shortcomings of the previous direct control system, it highlights the difficulties that have been experienced in practice in moving to indirect controls. It argues that Nigeria's inability to meet certain minimum conditions could to a great extent compromise the successful implementation of indirect controls. It concluded that a range of measures is needed, including far-reaching measures on restructuring insolvent banks, the introduction of powers to deal with offending market participants, the development of the secondary market, plus a shift to a realistic exchange rate. Even when all these have been achieved, there remains the need to substantially reduce government fiscal deficits and remove ceilings on interest rates, without which the money market cannot function adequately. The paper raises serious questions about the advisability of implementing open market operations on a large scale at this stage of the economic reform.

Erumebor (2023) asserted that the last seven years (2015–2021) have been tough for Nigerians. During this period, GDP growth averaged 1.1 percent as the country experienced two economic recessions. Unemployment and underemployment rates increased to an all-time high of 56.1 percent in 2020, pushing 133 million Nigerians into multidimensional poverty, according to the latest data from the National Bureau of Statistics. Likewise, economic growth has not been inclusive, and Nigeria's economy faced key challenges of lower productivity and the weak expansion of sectors with high employment elasticity.

Akiwumi and Onyekwena (2022) asserted that despite being the economic powerhouse of Africa, Nigeria has pockets of systemic and structural socioeconomic vulnerabilities which require the fostering of economy-wide productive capacities and structural economic transformation. Although oil brings substantial revenue to

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the state, it makes the country excessively vulnerable towards external economic shocks in the form of the fluctuation of the international price of oil and, secondly, inhibits the country's ability to diversify its economy, create new employment opportunities and advance structural economic transformation to reduce poverty.

Odozi (1993) stated that in the seven years of adjustment and dealing with the problems of restructuring the financial sector, a lot of lessons have been learnt which have implications for the future. The most important lesson is the need for fiscal discipline without which financial sector reform cannot achieve the desired objectives Also, successful implementation of reform measures requires a strong political will. These prerequisites have been aptly summarized by Andrew Sheng in discussing Malaysia's experience as follows: "Without the recovery of underlying enterprise profitability, a high level of national savings, and adequate foreign exchange reserves to cushion the system against shocks, the bank restructuring process would have been much more difficult and protracted. The political will and financial discipline to address the looming twin deficits in the balance of payments and the public

METHODOLOGY

The method applied in this research is a qualitative method which involves collecting and analyzing other writer's concepts and opinions, the information gained from the National Bureau of Statistics (NBS) was used to analyze the contributions of the Nigerian Financial Sector in rebuilding resilience in the face of enormous challenges facing the country.

DATA ANALYSIS

The report of the National Bureau of Statistics (NBS) guided the analysis of the role of financial sector towards rebuilding the economic resilience in the present socio-political dispensation. Nigeria's financial service sector's contribution to Nigeria's Gross Domestic Product (GDP) has increased to N3.8 trillion in 2023, representing 26.5 per cent Year-on-Year (YoY) from N3.01 trillion reported in 2022. . A breakdown of the NBS numbers showed that financial institutions contributed 91.99 per cent of the overall N3.8trillion. This is evidence to show that

Further analysis revealed that financial Institutions contributed N3.5 trillion in 2023, representing an increase of 28.86 per cent from N2.722 trillion in 2022, while insurance sector N305.02billion in 2023, a growth of 4.82 per cent from N290.98 billion in 2022.

Amid macro-economic challenges, the financial service sector recorded an unprecedented contribution to the economy in 2023. The growth in Fintech, foreign exchange unification, and lending to the real sector were major highlights of the banking sector in 2023.

Analysts posits that the banking and insurance sectors are key players in Nigeria's economy, stressing their support in lending to the real sector, creating jobs and facilitating transactions across the country.

The Vice President, Highcap Securities Limited, Mr. David Adnori noted that the banks in nine months of 2023 declared impressive earnings on the backdrop of the foreign exchange policy of the Federal Government.

Recently, the Central Bank of Nigeria (CBN) revealed that banks' credit to the economy rose by 49.77 per cent Year-on-Year (YoY) to N62.52 trillion in December 2023 from N41.74trillion reported in the corresponding period of 2022.

Data from the CBN's Money and Credit Statistics showed that credit to the private sector stood at N62.52 trillion for the month of December, second to the highest recorded last year, with October recording the highest with N63.57 trillion.

A breakdown for 2023 showed that January started off with N41.54 trillion, providing a foundation for financial activities. This initial figure set the stage for subsequent months, indicating the baseline for lending operations. February saw a marginal uptick, with credit increasing to N41.75 trillion. This modest rise of

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approximately 0.51 per cent hinted at a steady pace in financial transactions, setting the tone for the following months.

March witnessed a more pronounced surge, reaching N43.01 trillion. Analysts said the substantial increase of about 2.99 per cent hinted at growing economic activities and a heightened demand for credit in various sectors. Continuing the positive trajectory, April showed a credit figure of N43.66 trillion, marking a further increase of approximately 1.51 per cent.

The upward trend, analysts posited, suggested sustained confidence in the economy. May 2023 brought another boost, with credit reaching N44.79 trillion, signifying an increase of about 2.57 per cent. The consistent climb reflected a robust financial environment and an expanding private sector. June witnessed a significant leap, hitting N52.81 trillion. "This substantial increase of around 17.92 per cent indicated a surge in credit demand, possibly linked to heightened economic activities or strategic investments, "said a market watcher.

Meanwhile, the report by NBS had revealed that Nigeria's GDP growth has remained in positive territory in recent quarters despite the enormous challenges facing the nation amid various policy reforms and implementations.

In specifics, the newly released GDP report by the NBS revealed that the Nigerian economy grew by 3.46 per cent in real terms in the fourth quarter of 2023, below 3.52per cent in the corresponding quarter of 2022 but higher than 2.54per cent in the preceding quarter (Kayode 2024).

FINDINGS

It was found that Nigerian Financial Sector has contributed immensely to rebuild the economic resilience especially in the past two years (2022 and 2023), the presidential election year. Also, Nigerian economy has faced a lot of development challenges that are both structural and institutional. Some of these challenges are linked to issues beyond the financial sector, yet the sector development remains central to achieving inclusive economic growth, sustained poverty reduction, and creating new markets thereby, rebuilding economic resilience.

CONCLUSION

In conclusion, Nigerian financial institutions contribute significantly to building economic resilience by providing essential financial services, promoting investment, managing risks, facilitating payments through Fintech, and supporting innovation. A strong and well-functioning financial sector is vital for the country's ability to withstand economic challenges and uncertainties. The theoretical review underscores the pivotal role of the Nigerian financial sector in navigating the complexities of the present socio-political landscape. By synthesizing diverse theoretical perspectives, the paper provides a foundation for future empirical research and policy considerations aimed at leveraging the financial sector for sustainable economic resilience in Nigeria.

RECOMMENDATIONS

The development challenges Nigeria faces calls for a new policy approach with the formulation and implementation of new generation development policies centered on the fostering of production capacities. Based on the findings of the research, it is recommended that developing financial sector to meet with the global competition remains central to achieving inclusive economic growth, sustained poverty reduction, and creating new markets thereby, rebuilding economic resilience.

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