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ARTICLE

Nexus Between Financial Liberalization, Balance Of Payment And Economic Growth In Nigeria

Danladi Jonathan   Faweya Kolapo Vincent*

Department of Economics, Afe Babalola University, Ado Ekiti, (ABUAD), Ekiti State, 360231, Nigeria

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ABSTRACT

The objectives of this paper are to examine the nexus between financial liberalization, balance of payment and economic growth in Nigeria. The scope of this study due to data availability, especially on measures of balance of payment, covers the period of 1986-2017. This study adopts econometrics techniques of analysis by using Panel Unit Root Tests and Co-integration analysis which is used to determine the long run relationship among economic variables. To test the co-integration relationship this study followed the system proposed by Pedroni (1991) who expands the Engle and Granger [9] two stage technique to heterogeneous board information structure. The study adopts annual time series secondary data for the period of 1986 to 2017. Balance of payment, Official Exchange Rate, Inflation rate (%), Balance of trade, Trade openness, Real Gross Domestic Product growth, and Term of Trade, all data used were obtained from the World Development Indicators. The findings of this study revealed that an increase in exchange rate,interest rate, inflation rate, and trade openness have negatively affect economic growth. Hence, changes or movements in these variables do not necessarily prompt the liberalization decision in the real sector. Therefore, the need to address balance of payment is important, in accordance with the low rate of development in Nigeria. We therefore, recommend that government should monitor both Fiscal and Monetary policies' variables that can significantly influence economic growth in Nigeria.That is, adequate balance of payment that can encourage appropriate financial liberalization should be put in place with, Official Exchange Rate, Inflation rate (%), Balance of trade, Trade openness.

JEL Classification: F36, F41, O47

1. Introduction

Background of the Study

The relationship between the governments and commercial banks was so pungent with the financial sector regularly financing government public expenditures. There was low savings rate in the developing economies with poor availability of organizations to credit which added to hinder major growth in the economy [2]. Therefore, in the early 1980s many of these countries started monetary advancement with the target of achieving better macroeconomic destinations and higher financial improvement through the connection of money related framework dredging and advancement. Okpara [23] states that the concept of financial liberalization is stems

**Corresponding Author:*
Faweya Kolapo Vincent,
Department of Economics, Afe Babalola University, Ado Ekiti, (ABUAD), Ekiti State, 360231, Nigeria;
Email: faweyak@gmail.com

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back from the works of McKinnon and Shaw in 1973 who attribute economic development in developing countries to financial liberalization. The developing countries have adopted different programs in order to reshape their economies due to debt burden and external imbalances. Among the programs is financial liberalization with aim of greater role attributed to market forces in the distribution of financial resources [25]. These include exchange rate liberalization, interest rate deregulation, and nullification of rule of direct credits. Therefore, if their financial system is weighty enough to accumulate such savings, the countries with more savings will spring up respectively. However, some researchers believed that a rising savings rate might affect the recovery of economic if consumer expenditures contribute a higher aspect of aggregate demand [17]. As a result of these, the major factor affecting economic growth is characterize to low savings rate which has been identified in some studies. Due to the introduction of financial liberalization policy, the requirements for establishing a bank and other financial institutions were relaxed, resulting in increase of banks.

In 1993, there were 120 banks totally established in Nigeria. Between 1994 and 2000, about 33 banks collapsed in Nigeria. Most of these banks went into liquidation because of mismanagement of funds, lack of corporate governance, undercapitalization and the country's economic crises [19]. It was believed that economic growth of a country helps in her financial system development. Therefore, the limitation kind of restrictions on the financial sectors have policies connection which includes increasing savings, investment, and growth. Two factors have been identified to have heightened this focus, on one hand is the global financial crises on which the economies of the world have been revived, most particularly the western world and the evident powerlessness of both old style and neo-old style monetary models to enough address the emergency. On the second hand is the government interventions in the activities of the financial systems and institutions of respective countries across the globe which has called to scrutinize the McKinnon-Shaw speculation of financial liberation as an impetus for economic development and the Schumpeterian' inventive obliteration' rationale of free and changed economies [22]. All over sub-Sahara Africa region, countries are adopting structural adjustment programs (SAP) with the aim of correcting decades of economic crises. The major strategies for achieving the objectives of SAP emphasized market oriented development strategy with focus on private sector led development, government efficient resource of allocation and determined prices including interest and exchange rates. Pre-eminent to these structural adjustment programmes has been the liberalization of trade and payments. Structural Adjustment Programme popularly known as (SAP) was adopted in Nigeria in 1986 as a corrective measure. Between 1973 and 1985, the growth rate of real GDP was standing at 1.5% per annum lead to negative development rate in 6 years during the period [1]. The aim of SAP was to transform the Nigeria economic growth to rapid and effective development. Okpara [23] affirmed that the fundamental push of the monetary changes encapsulated in SAP is deregulation and all the expected results were not achieved. These might not be connected with the proper preparation of socio political reasons. Since the mid-1980s developing countries have been liberalizing their financial systems. Financial liberalization like interest rates, exchange rates, capital and current accounts among others, determine the greater scope granted to market forces.

Financial liberalization might not be connected with balance of payment, therefore, balance of payment's role in an economy of any nation cannot be over emphasized. Balance of payments is a process that summarized the information of a country international transaction with the rest of the world annually. In 1964, before amalgamation, Nigeria economic was at its peak in agricultural products such as palm oil, groundnut, and cocoa was making its debut in the national accounts. In the early 1980s, the oil market weakened the values of these agricultural products and substantial external and fiscal imbalances emerged. However, a policy was introduced, the structural adjustment programme (SAP), as a result of fluctuation of the Nigeria economic in early 1980. This made the subject of exchange rate, a topical issue in Nigeria. A country's macroeconomic goal is to have a stable, and a balanced of payment. Timothy, Inaya, Emma [32] posit that prior the advent of structural adjusted programme (SAP) in Nigeria, Nigerian's exchange rate policy tended to encourage over valuation of the Naira, because in 1981, it was 0.90 percent which seemed to encourage imports and non-oil export and over reliance of Nigerian economy on imported input over exported output were discouraged. An economy that its imports are greater than exports will experience low balance of payment and such economy currency will be devalue against other country currencies that are involved in trades; the exchange rate of that economy to other currencies will be low in terms of value, for instance the Nigeria Naira to dollars is ₦306.9 to $1, pounds-sterling is £1 to ₦402.99, euro €1 to ₦347.103 (CBN, 2019). Development in export and investment development in substitution of import are the main part of total interest that can increment. This has been expressed in a critical position of balance of payment model that a nation's fi-

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nancial development rate is compel by the need to create remote trade and repeat the capacity of interest as the inspiration for household development [10]. This emerges on the grounds that development in export and investment in import substitution are the main part of total interest that can expand GDP growth and lessen outside requirements. This infers development rate is obliged by the balance of payment as the economy can't become quicker than what is reliable with the parity of balance of payment equilibrium.

However, several studies have been carried out without the consideration of balance of payment on the financial liberalization. Charles (2017) stated that the fact is that most of the results from studies on impact of financial liberalization on economic growth have not been clearly identified. The insignificant of these findings have been attributed to several reasons, among are, exchange rate restrictions, difficulty of measuring policies of capital accounts liberalization and the issue of distortions in the foreign capital transaction. According to Biodun (2008), restrictions on current accounts transitions have negative effects on the ability of foreign direct investors to repatriate interest earrings and other profits; thereby reducing the propensity to invest. Some scholars find out that financial liberalization may impede economic growth: Igbinoba [10], Rayyanu [25], Anthony, Onyinye and Peter (2012), Shuaib, Ekeria and Ogedengbe [27]. Agbaeze and Onwuka [2] suggested in their work that there is no significant in financial liberalization on economic growth. Therefore, the nexus between financial liberalization in Nigeria continued to generate series of arguments over the years. Financial deregulation has said to have a negative impact on GDP given the assertion by Jebuni, Oduro and Tutu (1992) about the poor state of trade balance in Nigeria, it may not be out of place to attribute the non-performance of financial sector to growth in some studies to poor balance of payment. It may also be plausible to argue that even in cases where positive results were recorded, they could have better if balance of payment had been considered. Therefore, this study tries to examine the nexus between financial liberalization, balance of payment and economic growth in Nigeria.

2. Literature Review

2.1 Conceptual Review

2.1.1 Financial Liberalization in Nigeria

Johnston and Sandararajan [13] seen financial liberation as a lot of operational changes and strategy estimates set up to deregulate and change the money related framework and its structure in order to accomplish a changed market arranged framework inside a fitting administrative system. Sulaiman, Oke and Azeez [30] define financial liberalization in a layman term as the removal or loosening of restrictions imposed by the government on the domestic financial market. It is however observed by Robert (2005) that financial liberalization has both household and outside measurement by saying that those measures include official government policies which pays attention to deregulating credit and interest rate controls, privatizing financial institutions, evacuating passage boundaries and restrictions for remote monetary organizations and foreign monetary transactions respectively as well as introduction and strengthening the market price mechanism and improvement of market competition's condition. It tends to be concluded from the definition above that financial liberalization tends to put an end to those controls that hinders the effective performance of financial activities by allowing the market to fill in as the value component for money related administrations. Agbaeze and Onwuka [2] posit that Nigeria's financial sector liberalization process can be categorized under major headings – change of the money related structure, fiscal approach changes, remote trade changes, advancement of capital development and capital market. Financial liberalization can likewise be named to mean the deregulation of the monetary framework. In the 1980s, the financial system in Nigeria was repressed. Repression in this context means the manifestations of financial repression is not only in terms of low quantity of savings and investment but also that the degree of movement which it occurs is of low quality. It led to introduction of Structural Adjustment Programme like every other developing nations in order to liberalize the financial system aiming at among others: designed measures for increment rivalry, fortify the supervisory job of the administrative specialists, fiscal approach and outside trade changes, progression of capital development and capital market changes. These were however achieved by allowing licenses to more banks to work which increased the number of banks in Nigeria from 40 in 1986 to 120 in 1992 and gave birth as well number of non-bank financial institutions [2]. Controversy is said to exists regarding whether the World Bank and IMF prescribed SAP to help developing nations accomplish the normal and wanted benefits. A view exists that SAP is a trick for nations actualizing it, notwithstanding, various exact investigations have demonstrated the structural programs to be great – yet for the most part the writing is uncertain as there are other people who have indicated something (Suileman, Migiro & Aluko, 2014). However, Ogbonna (2012) in Suileman et al (2014) express that SAP by its inclination, is inflationary, in light of the fact that it expands the measure of the local money required in return for a unit amount of nearby products and imports.The structural programme is said to have failed to restore economic growth and confidence [11].

There are several policies, reforms and laws put in place in Nigeria to regulate and to stabilize the economy. Among those laws were stated by Agbaeze and Onwuka [2] as, CBN Decree No. 24 of 1991 and the Banks and Other Financial Institutions Decree (BOFID), No. 25, 1991 (CBN, 2004) laws were declared with impact from June 1991. Another major reform was the Interest rate liberalization introduce in 1989 when banks were approached to pay enthusiasm on current record stores. Others are, introduction of open-market operations popularly known as (OMO) in June 1993. The aim of this was to replace the use of direct to backhanded arrangement of fiscal control in managing liquidity in the economy. Rationalization of credit controls, elimination of exceptions within the ceiling on bank credit expansion and were other major reforms embarked in the financial sector of the economy as well. Inflation Rates is one of the main goals of Central bank of Nigeria [5,6] is to achieve and maintain stable prices (low inflation) at single digit rate. However, the target has never been achieved over the past years. Nigerian inflation has been fluctuating at 5.4% experienced in 2007 and the lowest attained was 16.6% in 2017 (CBN, 2017). Nigeria has witnessed high and volatile inflation rates since 1970s. However, recapitalization was embarked on in 2004 to strengthen the capital base of Nigerian banks. He moved the capitalization from N2billion to N25billion which resulted in placing Nigerian bank among the top banks across the globe in terms of capitalization. Despite these numerous controls however, empirical evidence opined that there are mixed impact of financial liberalization on private venture in Nigeria.

2.1.2 Balance of Payments in Nigeria

The balance of payment in Nigeria lives at the core of advancement. A country's balance of payment is the point where its exchange and fund streams unite. The expression "balance of payment" alludes to an "announcement demonstrating the entirety of a country's exchanges with the remainder of the world for a given period. It incorporates purchases and offers of products, administrations, gift, government exchanges, and capital developments" [4]. Balance of payment lives at the core of improvement. It shows the crossing point of exchange and money and uncovers the relationship of an offered economy to the worldwide commercial center [7]. Mabior [16] said it can be partitioned into the current account and the capital account. The current account streams comprise essentially products and services while capital account streams are streams in the responsibility for foreign and local. A balance of payment problem subsequently happens when a drop sought after for a nation's cash is steep to the point that it makes descending weight. The export's volume of agricultural commodities in Nigeria had constantly grown at faster rates before the era of oil boom in Nigeria. The huge volume of exports resulted to surpluses in the balance of payment. Though, Nigeria from the year 1956 to 1965 had a persistence merchandise trade deficit which later changed to a surplus as a result of crude oil rapid demand between the years 1966 to 1977. In order to overcome the trade deficit being faced quotas measures were imposed on imports and local producers were encouraged with subsidies to encourage exportation, imposing restrictions and taxes on capital outflows and reduction in amount of foreign aids. It is worth mentioning that import substitution strategy has been adopted in Nigeria since 1970s. Demand for Nigeria crude oil declined in the late 1977 and 1978 as a result of oil discovery in Mexico, Alaska and North Sea. In the year 1979-1980 when there was an increase in oil prices resulting from low supply, demand for Nigeria crude oil remain low until 1990. Imiosi (2012) stated that the early 1980 witnessed weakness in oil market thereby creating a substantial external and fiscal imbalances which were financed by public castor borrowing, depleting international reserve and large accumulation of payment arrears on external trade credit and as such created problems In balance of payment. Trade deficit in Nigeria continued from 1978 to 1983 when the country witnessed the greatest economic mismanagement as a result of transition in government.

One of the major challenges militating against developing countries is the trade gap–a conflict between accelerating internal development and maintaining external balance. However, Nigeria trade gap problem has not been as acute as it has been for some other developing countries, except for 1978 where she recorded a deficit of N2147.3million. Nigeria's balance of trade for the period 1970 – 1977, was characterized by a favorable balance of trade with the trade surplus rising from N130million in 1970 to N1697.6million in 1976 and falling to N537million in 1977. Between 1981 and in 1983, Nigeria sustained a deficit in her trade account each year amounting to N1816.3million, N2564.1million and N1401.2million for 1981, 1982 and 1983 respectively [21].

In early 1984, Nigeria government took a reactive measure by closing land boarders and international airports for days, replaced the naira notes with a new currency bills. Exchange-control regulations to avoid repatriation of old naira currencies taken abroad were put in place as well as

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measures to prevent future convertibility to other currencies. However, from that year 1984, all through 1986 and in 1990 Nigeria had surplus balance of payment as a result of economic breakdown which compelled her to adopt severe imports restrictions known as structural adjustment programme under the auspices of World Bank [33]. Domestic and International economy under SAP witnessed some stability at the expense of reduction in government social spending for much of the late 1980s and not because of expansion in trade or export. Ogboru [21] stated that Nigeria's trade balance experienced surplus in 1996, N746916.8million except for 1998 which recorded a deficit of N85562million, the periods 1999 – 2006 recorded trade surpluses with an all-time high between 2003 and 2006. In 2003, N1007651.1million was recorded while N2615736.2million, N3892729.9million and N3224661.7million were recorded for the years 2004, 2005 and 2006 respectively. However, the situation has worsened since 2008 due to the worldwide monetary and financial emergency combined with the falling costs of crude oil in the global oil market, Nigeria balance of payments records have been deficits. In order to minimize the effects of deficit posed by high consumption of foreign goods over locally produced and processed goods, Nigerian government over the years adopted policies that will stabilize domestic prices and discourage superfluous imports while empowering trades through assessments and strategy gauges that would improve the general competitiveness of the economy in the worldwide market.

2.2 Theoretical Framework

2.2.1 Financial Liberalization Theory

This hypothesis contends for monetary development through budgetary extending and money related area change, the key relations of financial liberation worldview are: positive rate raise the reserve funds rate, a positive connection between the level of budgetary deepening and the development rate, expanded the genuine rate raise the degree of investment, and expanded real deposit rate which advance economic growth [24]. The main focus of the interest rate liberalization hypothesis is financial repression which is mainly concerned with advanced economies. The McKinnon [17] and Shaw [26] hypothesis asserts that repression is harmful for long-term economic growth, because of the reduction in the amount of funds made available for investments. They argue for abolition of any form of financial repression and interest rate liberalization in contrast to Keynes [15] and Tobin (1965). They expressed in their recommendation that a curbed budgetary segment meddles with improvement and growth through reserve funds culture are which are not well developed, disappointment of money related middle people to apportion reserve funds productively among contending uses and discouragement of investors from investing due to monetary policies suppression that diminish the profits on ventures. The implementation of financial liberation, in its conventional type of loan rate and capital-account advancement, is relied upon to prompt an expansion in economic growth.

2.2.2 The Neoclassical Theory

These are theories that portends that financial liberalization will reduce the cost of capital and at the same time increase productivity and output. In the view of neo-classic theorists like, W.S Jevons, Friedrich Von and Alfred Marshall, liberalized money related markets would animate reserve funds, and improve physical capital detailing [14]. This means that financial system should be stirred to make available credit required by investors with little or no cost. It is however expected that financial liberalization should expand the growth and capital base of existing firms as well as facilitate an enabling environment for industry entry for new firms. Anthony, Peter, and Onyinye [3] set that both the real financing cost and supply of credit of the non-exchanged merchandise sector increase after financial liberalizations. Robert Solow [28] in his development model places that economic growth relies upon capital amassing, expanding the load of capital merchandise to extend profitable limit, and the urge for adequate reserve funds to back expanded allotment of assets towards investment. Neoclassical growth model is aimed at explaining the possibility of having a permanent growth in GDP per capital when there is technical development that increases productivity of labour which contradicts the classical view of unsustainable increase in GDP in the long term.

2.2.3 AK Growth Theory

AK hypothesis was the primary rendition of endogenous development hypothesis by Frankel (1962) which consolidated both the physical and human capital whose gathering is considered by neoclassical hypothesis together with the scholarly capital that is aggregated when advancements happen that is, there's no explicitly differentiation between capital amassing and innovative advancement. He contended that the total generation capacity can display a consistent or in any event, expanding marginal product of capital since, when firms aggregate increasingly capital, a portion of that expanded capital will be the scholarly capital that makes mechanical advancement, and this innovative advancement will counterbalance the inclination for the peripheral result of cash-flow to lessen. In the exceptional situation where the negligible result of capital is actually consistent, total yield Y is relative to the total stock of capital k :

2.3 Review of Empirical Literature

Igbinoba [10] in his paper, Balance of Payments Constrained Economic Growth in Nigeria since the late 1980s and finds that balance of payment process when all is said in done has facilitated money related imperatives looked by enormous firms in these nations. With Nigeria adoption of import substitution industrialization policy in 1960 the study expands the trend by testing the Thirwall BOPC model on Nigerian economy from 1960-2012 using time series data to estimate the long-run relationship between Nigeria's real GDP (output) and its real export. Results show co-integration between the variables. The findings however, show that the main factor that restricts growth in an open economy is the balance of payments and as such, long run growth is determined by export growth and income elasticity of imports and with improved export performances and a lower income elasticity of demand for imports, its growth performance will be faster.

Rayyanu [25] empirically examine the financial liberalization experience in Nigeria with analyses on motivation for implementing a financial liberalization policy using the ARDL structure with yearly perceptions over the period 1981-2012. The study uses financial openness index- ,money supply and credit to the private sector as proxies to financial liberalization. The findings show that, there is a noteworthy and positive connection between economic growth and financial liberation.The experimental investigation further shows that budgetary freedom improves financial development in Nigeria just over the long-run and has no huge impact in the short-run. Anthony, Peter and Onyinye [3] studied the effect of money related progression on yield development in Nigeria over the time of 1986-2011. Ordinary Least Square strategy for estimation was utilized in its investigation, the exact discoveries indicated that money related advancement policy (proxied by credit to private sector/GDP) is contrarily identified with yield development in Nigeria inside the period under survey. This implies credits meant for private division more likely than not been utilized for utilized for something else or invested in unproductive businesses which have no effect on economic growth. Additionally, the co-integration test uncovers that there is a since a long time ago relationship among the factors in the model. Okpara [23] in his study researched the impact of money related progression on some macroeconomic factors in Nigeria. Real GDP, budgetary developing, gross national reserve funds, foreign direct investment and inflation rate were chosen and given pre/post advancement relative investigation utilizing the discriminant an examination procedure. The pre-advancement period covers 1965 – 1986 while the post-progression period proceeded from 1987 to 2008. The discoveries show that the variable that effects most on the economy attributable to money related advancement is the real GDP which recorded emphatically the most elevated commitment. This infers money related progression emphatically expands the development of the economy.

Shuaib, Ekeria and Ogedengbe [27] adopted secondary and time series data from 1960-2012 to examine balance of payments; the Nigerian Experience. The data was analyzed using group unit root test and co-integration technique in assessing the co-integrating properties of variables, especially in a multivariate context to determine the long-run relationship among the variables examined. The result of the findings discovered that RGDP causes no effect on BOP, EDR, EXCH and only EXCH causes effect on EDR and EDR on EXCH. This is an indication of insignificant relationship showing that BOP indeed has an inverse impact on economic growth. This means the demand for the products is inelastic and supply of the products is inelastic. Imiosi (2012) examined Nigeria's trend in Balance of Payments status from 1970-2010 using an econometric analysis. Log linear multiple regression (OLS) was adopted for his analysis. From the findings, it was revealed that the explanatory variables appeared with the right signs and thus conforming to economic theory. However, it was discovered that out of the explanatory variables, only Inflation rate was not statistically significant at 5% level of significance.

Nwani [18] explores the long-run determinants of balance of payment elements in Nigeria between 1981 and 2002, utilizing econometric technique for co-integration and mistake revision system. He found that every one of the factors with the exception of balance of payment, displayed non-stationarity. The outcomes likewise demonstrate that balance of payment co-incorporated with all the recognized logical factors, proposing that balance of payment changes in Nigeria could be brought about by the degree of exchange transparency, foreign obligation deficiency, conversion scale development and inflation. The examination inferred that so as to decrease the impact of negative vacillation in the Nigerian's balance of payment, there ought to be a decrease in monetary shortfalls, an expanded local manufacture through private investment,inflation focusing on and directed capital market coordination. Tijani [31] in his examination, exact investigation of equalization of installment alteration components: money related divert in Nigeria, 1970–2010 endeavors to com-

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prehend the utilization of financial methodology as change instrument to address balance of payment disequilibrium in Nigeria with an audit of experimental investigations of the hypothesis and furthermore focused on nullification of fiscal hypothesis in Nigeria's balance of payment utilizing straight relapse investigation of information from 1970 to 2010. The discoveries show a positive connection between the dependent variable (Balance of Payments) and the Independent variable (Domestic Credit, Exchange Rate and Balance of Trade while Inflation Rate and Gross Domestic item) are something else. The investigation infers that however not so much, money related measures comprise colossally to the situation of BOP, cause aggravations and furthermore fill in as change component to carry BOP to disequilibrium contingent upon it application and strategy blend by fiscal position.

Sulaiman, Oke and Azeez [30] critically investigates the effect of financial liberalization on the economic growth in developing nations focusing on Nigeria. The study utilizes a model which intermediary Gross Domestic Product as the reliant variable and embraced loaning rate, conversion standard, inflation rate, budgetary extending and level of receptiveness as its monetary advancement files.The empirical investigation is done using the Johansen Co-integration test and the Error Correction Mechanism (ECM). The Co-integration test reveals the existence of a long-run equilibrium relationship among the variables. The study concludes that financial liberalization has a growth-stimulating effect on Nigeria's growth. It recommends that economic stability should either be maintained or pursued before implementing any form of financial liberalization measures and the regulatory and supervisory framework for the financial sector should be strengthened.

Egbetunde, Ayinde and Balogun [8] examined auxiliary cooperation of the interest advancement development nexus through the consideration of money related improvement factors, for sub-Saharan African economies from 1980-2012.Panel unit-root tests,Panel co-integration and panel corrrection models were utilized for observational examinations. The discoveries uncovered that transparency on exchange and price stability are substantially more noteworthy for interest rate advancement and monetary development in sub-Saharan African nations.Thus, the degree just as level of budgetary improvement moderately helped with lessening financing cost; further encourages investment and afterward incited development. The outcomes additionally show that open establishments have been found essentially inconvenient at driving the development procedure of the sub-Saharan African economies. Furthermore, thusly recommend that the degree of budgetary advancement, price stability and institutional course of action ought to be appropriately taken care of for compelling and expansive strategy recommendations in sub-Saharan African economies. Obute, Adyorough and Itodo [20] assess the impact of interest rate deregulation on economic growth in Nigeria sequel to the financial sector reforms beginning in 1986. They study found out that interest rate deregulation has no significant influence on economic growth in Nigeria and therefore recommend an effective deregulation of interest rate to ensure growth and development.

3. Methodology and Model

3.1 Methodology

This study adopts both descriptive and econometrics techniques of analysis by using Panel Unit Root Tests and Co-integration analysis which is used to determine the long run relationship among economic variables. To test the co-integration relationship this study will follow the methodology proposed by Pedroni (1991) who extends the Engle and Granger [9] two step procedure to heterogeneous panel data framework. This study on nexus between financial liberalization and balance of payment in Nigeria adopts annual time series secondary data for the period of 1986 to 2017. Balance of payment (BOP), Official Exchange Rate, Inflation rate (%), Balance of trade, Trade openness, Real GDP growth, External debt growth, and Term of Trade, all data used were obtained from the World Development Indicators (WDI).

3.2 Model Specification

The model specification used in this study is rest on neoclassical production function which has its origin in the work of Ramsey (1928). The neoclassical model was popularized by Solow [28]. This model assumes technological change as exogenous and returns to scale are considered to be constant. Therefore, based on the Solow model analyzed above the model specification that will capture objective 1 is modified as

(1)

Where GDP is gross domestic product used as proxy for economic growth, BOP is Balance of Payment. Balance of Payment from equation 3.2.1 above is a function of balance of payment (BOP), Official Exchange Rate, Inflation rate (%), Balance of trade, Trade openness, Real GDP growth, External debt growth, and Term of Trade. In the functional notation, balance of payment could be expressed as

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$$BOP_{it} = f(OER_{it}, IF_{it}, BOT_{it}, TO_{it}, ED_{it} TT_{it},) \quad (2)$$

Where BOP is Balance of Payment, IF is Inflation rate, BOT is Balance of trade, TO is Trade Openness, ED is External debt and IT is Term of trade. Substituting equation 3.2.2 in equation 3.2.1 thus becomes,

$$GDP_{it} = f(FINL_{it}, OER_{it}, IF_{it}, BOT_{it}, TO_{it}, ED_{it} TT_{it},) \quad (3)$$

The above equation 3.2.3 is used to capture objective 2 as regards to the model specification. Therefore, it can be written in econometric model and in their respective natural log form as thus

$$\ln gdp_{it} = \alpha + \beta_1 finl_{it} + \beta_2 \ln oer_{it} + \beta_3 \ln if_{it} + \beta_4 \ln bot_{it} + \beta_5 \ln to_{it} + \beta_{it} \ln ed + \beta_{it} \ln tt_{it} + \varepsilon_{it} \quad (4)$$

Where i=1,2,…,N; and the time periods t=1,2,…,T

In $finl_{it}$ is the log of financial liberalization in country i at time t

In gdp_{it} is the log of gross domestic product in country i at time t

In oer_{it} is the log of Official Exchange Rate in country i at time t

In if_{it} is the log of Inflation rate (%) in country i at time t

In bot_{it} is the log of Balance of trade in country i at time t

In to_{it} is the log of Trade openness in country i at time t

In ed_{it} is the log of External debt growth in country i at time t

In tt_{it} is the log of Term of Trade in country i at time t

a_{it} is the constant term

β is the long run coefficient of dependent

ε_{it} is the error term

4. Analysis of Data and Interpretations

Table 1. Unit Root Test

VARIABLES	T-STATISTICS	CRITICAL VALUE	ORDER OF INEGRATION
DGP	-3.661661	-2.881300	I(0)
OER	1.883738	-3.653730	I(1)
INF	-3.063183	-3.752946	I(0)
BOT	-2.982803	-3.653730	I(0)
TO	-5.304623	-3.661661	I(1)
TTA	-5.542853	-3.661661	I(1)
BOP	-2.881300	-3.661661	I(0)
IR	-3.434781	-3.653730	I(0)

Source: Author's computation, 2019.

Table 1 shows the result of the Augumented Dickey Fuller unit root test. The results show that variables are statistically significant at 5% and 1% levels, the null hypothesis indicte that panel contail unit root. The implication of this in economic terms is that any government policy to the variables will not be sustained for a long period of time.

Table 2. ARDL Bound Co-integration Test

NULL HYPOTHESIS	F- STATISTIC	CRITICAL VALUE BOUND		
No Long Run Relationships Exist	3.446794	10%	2.45	3.52
		5%	2.86	3.51
		2.5%	3.25	4.49
		1%	3.74	5.06

Source: Author's Computation, 2019.

Table 2 shows the computed F-stat of 3.446794 which is less than the upper bound table value at any % level of significance, hence the null hypothesis is rejected. This translate to mean that there is long run relationship among the variables in other word, the variables co-move on the long run.

4.1 Long and Short Run Estimation Coefficients

There is a need for estimate of long and short run parameters by general to specific procedure ARDL model, having established the presence of long-run relationship among the variables.

Table 3. Long Run Co-integrating Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOP	0.659777	0.132289	4.987399	0.0016
IR	0.011811	0.074450	0.158638	0.8784
BOT	0.032207	0.042292	0.761530	0.4712
TTA	-0.000000	0.000000	-1.727672	0.1277
C	1.225026	1.704195	0.718830	0.4955

Source: Author's Computation, 2019.

Table 3 shows that the coefficient of Balance of Payment (BOP), Interest Rate (IR), and Balance of Trade (BOT) are positive. BOP is statistically significant while other variabls are not statistically significant. It also shows the existence of a positive and significant long run relationship between Balance of Payment and others variables of financial liberalization except Term of Trade Adjusted (TTA). A percentage increase in the Balance of Payment and others variables except TTA will increases financial liberalization by 0.65%, 0.01% and 0.03%. While Term of Trade Adjusted will decrease financial liberalization by 0.01%.

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Tables 4. Long Run Co-integrating Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
OER	-0.003427	0.008164	-0.419811	0.6857
INF	-0.180334	0.044796	-4.025717	0.0038
BOT	-0.137263	0.057466	-2.388586	0.0440
TO	0.000000	0.000000	0.792090	0.4512
C	14.201124	2.924323	4.856209	0.0013

Source: Author's Computation, 2019.

Table 4 shows that the coefficient of Official Exchange Rate (OER), Inflation Rate (INF), and Balance of Trade (BOT) are negative and statistically not significant, which shows there existence of a negative and INF and BOT are statistically significant while OER is insignificant. This shows that there is no long run relationship between Inflation Rate and Balance of Trade and Economic growth except Official Exchange rate Rate and Trade Openness. Therefore, a percent increase in the Official Exchange Rate (OER), Inflation Rate (INF), and Balance of Trade (BOT) variables will decreases Economic growth in Nigeria by 0.003%, 0.18% and 0.13%. While Trade Openness has no effect on economic growth.

4.2 Discussion of Findings

It is expected that change in financial liberalization and balance of payment should have positively impact on the economy which also conforms to the theoretical assumption. This means that as Nigeria naira continue to devalue, this will bring about a continuous decrease in the level of investment. The Real Gross Domestic Growth Rate shows a negative relationship with the financial liberalization and balance of payment which is in line with the findings of Obute, Adyorough and Itodo [20] Nwani [18] Shuaib, Ekeria and Ogedengbe [27] and Anthony, Peter and Onyinye [3]. The reason for this can be attributed to mismanagement of funds and corruption in Nigeria's financial sectors. Also the balance of payment rate shows a positive relationship with the level of growth. Though there is certain level of balance of payment that serves as stimulant to the economy but the one lacing experienced in Nigeria is beyond the acceptable of range. The result for the official exchange rate shows that there is a positive relationship between economic growths. This is in contrary to the theoretical and empirical findings. The reason for this can be as a result of weak monetary framework and policy contradiction. Also existence of dual economy i.e. parallel market for loanable fund from non-financial institution. The result for Real Gross Domestic Product Growth Rate over the years covered by the research work shows that there was a considerable increase in the level of GDP from 1980 to 1985, but right from 1986 through 1988 there was a great decline in the level of the GDP. This might be as a result of the depression of the late 80s and the adoption of Structural Adjustment Program (SAP) which led to the deregulation of virtually all the sectors of the economy accompany with liberalization whereby the forces of the demand and supply are left to regulate the price.

5. Conclusion and Recommendation

This study theoretically and empirically set out to determine the financial liberalization, balance of payment and economic growth in Nigeria. Theoretical and conceptual propositions of the financial liberalization which mean that the relationship between governments and commercial banks was so pungent with the financial sector regularly financing government public expenditures. There was low savings rate economies in the developing countries and poor attainable of business to credit which contributed to hinder significant economic growth. Therefore, in the early 1980s many of these countries started financial liberalization with the objective of achieving better macroeconomic objectives and higher economic development through the link of financial system dredging and development. In order to achieve the objectives of the study, we adopted a long run approach of econometric analysis using the unit root test to the stationery of the variables and Auto Regressive Distribution Lag (ARDL) test to establish the presence of long run relationship among the variables. The result and findings emanating from the analysis of data of this study indicated that the variables considered in the model are stationary and have long run co-movement. The study revealed that an increase in official exchange rate, interest rate, inflation rate, and trade openness have a negatively affect financial and growth, these variables do not significantly impact the economic growth, Therefore, changes or movements in these variables do not necessarily prompt the liberalization decision in the real sector.

This findings is against the view that financial liberation assumes an essential role during the process of economic development. The financial liberation process in Nigeria has not so much animated budgetary improvement prompting huge commitment to financial development. Sequel to the findings of this study, which empirically set out to investigate the financial liberalization and balance of payment in Nigeria, the study therefore recommends that; (1) Government should monitor both Fiscal and Monetary policies' variables that can significantly influence economic growth in Nigeria (2) provide the right environment that will make the real sector attractive to prospective investors, this will prompt the companies and other private entrepreneur to invest in building of new factories and (3) use possible combination of policies such as deregulation, commercialization, privatization etc. to attract both local and foreign investors to the real sector of the economy.

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