

An Econometric Model of Nigeria's Financial Sector.

Ikhide, Sylvanus Ihenyen

Ph.D. Economics

Department of Economics

Obafemi Awolowo University, Ile Ife, Nigeria

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Abstract:

This study has attempted to construct a model for the financial sector of the Nigerian economy. Three subsectors were identified - the commercial banks, the non-bank public and the monetary authorities. Using data collected on a quarterly basis from the economy between 1968 and 1983, equations were formulated to explain the behaviour of these sectors within a general portfolio analysis.

Due to the interactive nature of the three subsectors, two-stage least squares method of estimation was employed. To test the validity of the model, a historical simulation of the major endogenous variables was performed in order to find out how well the model tracked actual series. Based on the results of the historical simulation, an unconditional forecasting of the same variables was attempted from the first quarter of 1984 to the last quarter of 1985 to ascertain the forecasting ability of the model.

Among others, the study confirmed that the money supply may not be strictly under the control of the Central Bank since it is affected by rich variables as government expenditure and the balance of payments. The study also confirmed the sensitivity of the non-bank public to the yields or returns on government securities. The results also show that the money supply narrowly defined is better approximated by working through its components - Currency and Demand deposits than through a money-multiplier equation.

The policy implications of the findings are two-fold. Since there are variables outside the control of the Central Bank affecting the supply of money, the monetary authorities could employ a defensive monetary policy by using open market operations which hitherto has not been used consistently to control the effects of these variables. In addition to this, the Central Bank could easily identify variables determining Currency and Demand deposits holding and through these forecast the level of money supply from time to time.

Keywords: financial sector/ monetary authorities/ balance of payment / commercial banks/
monetary policy

Supervisor: O. Ojo

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