



INFLUENCE OF FINANCIAL GLOBALIZATION ON THE PERFORMANCE OF THE BANKING SECTOR IN NIGERIA

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Abstract

The persistent uncertainty surrounding the influence of financial globalization on the performance of Nigeria's banking sector has raised critical policy and research concerns. This study examines how financial globalization, measured by the KOF Financial Globalization Index, the Chinn Ito Capital Account Openness Index, and Gross Capital Inflows (% of GDP), affects bank credit growth in Nigeria from 2015 to 2025. Using an ex-post facto research design and secondary data sourced from the World Bank, KOF Globalization Index, Chinn–Ito Database, and the Central Bank of Nigeria, the study employs descriptive statistics, correlation analysis, diagnostic tests, and panel regression techniques. The results reveal that financial globalization indicators significantly and positively influence bank performance: the KOF Index, capital account openness, and capital inflows all have a strong, statistically significant impact on bank credit growth, explaining about 78% of its variation. These findings confirm that increased financial integration enhances liquidity, efficiency, and credit expansion in the Nigerian banking sector. The study concludes that financial globalization promotes banking performance when supported by sound macroeconomic and regulatory frameworks. It recommends that Nigeria should deepen financial integration, implement gradual capital account liberalization, and encourage long-term productive capital inflows to sustain banking growth and stability.

Keywords: Financial Globalization, Banking Sector Performance, KOF Index, Chinn Ito Index, Capital Inflows, Nigeria, Bank Credit Growth.

1.0 Introduction

The performance of the banking sector is a crucial determinant of macroeconomic stability and financial system resilience. Strong banking performance enhances financial intermediation, facilitates efficient resource allocation, and fosters sustainable economic growth. Globally, well-performing banks contribute to the stability of capital markets and the financing of productive investments, serving as a buffer against macroeconomic volatility (Chand, Kumar, & Stauvermann, 2024). Conversely, weak banking performance constrains private sector development and undermines confidence in financial institutions. Over the past two decades, the



structure and performance of banks have been shaped increasingly by international financial integration, technological diffusion, and global capital mobility (Mushtaq, Hameed, & Mahmood, 2025).

In emerging economies, banking performance reflects not only domestic financial policies but also the depth of integration into the global financial system. Financial globalization, by linking domestic financial markets with international capital flows and policy regimes, alters banks' funding structures, credit dynamics, and profitability. Studies have shown that globalization can enhance bank performance through improved access to external capital, adoption of global best practices, and diversification of income sources (Dada, Abanikanda, Tabash, & Ray, 2025). However, excessive exposure to global capital movements may also increase volatility and risk transmission, thereby weakening long-term performance (Polat, Yildiz, & Aslan, 2024).

The KOF Financial Globalization Index has become a pivotal measure in examining the financial dimension of globalization and its influence on banking sector outcomes. The index quantifies cross-border capital movements, international investment positions, and foreign portfolio activities that can enhance bank performance through liquidity and risk-sharing mechanisms (Okoduwa, 2024). Nonetheless, the benefits of financial globalization depend heavily on the domestic institutional and regulatory frameworks that govern financial openness. In economies with weak supervision or limited macroprudential buffers, increased globalization may not translate into better banking performance but rather heightened vulnerability to global shocks (Aigheyisi & Isikhuemen, 2018).

Closely related to this is the Chinn–Ito Capital Account Openness Index, which measures the degree to which a country liberalizes its capital account and allows free inflow and outflow of financial resources (Quinn, Schindler, & Toyoda, 2011). In theory, a more open capital account should enable banks to access global funding sources, diversify their balance sheets, and strengthen performance through increased competitiveness and innovation (Sumelong, Emmanuel, & Muffee, 2024). Yet, empirical evidence from developing economies reveals that capital account liberalization without sound domestic regulation can lead to speculative inflows, currency mismatches, and performance instability within the banking sector (Ogundele, Akindutire, & Ilegbusi, 2021).

Gross capital inflows, expressed as a share of GDP, represent another vital proxy for financial globalization and a direct determinant of banking performance. These inflows, comprising foreign direct investment, portfolio investment, and external borrowing, expand the resource base of banks, allowing greater lending and profitability (Otapo, Dare, Ushie, & Demehin, 2024). In periods of steady inflows, banks experience enhanced liquidity and credit capacity, while abrupt reversals or capital flight can trigger credit contractions and deteriorate financial performance (Uzoechina, Okafor, & Ezenwobi, 2024). Thus, the stability and composition of gross capital inflows are as important as their magnitude in determining banking sector outcomes.



Nigeria provides a compelling context for examining how financial globalization affects banking sector performance. Since the financial reforms of the 1980s, the country has actively pursued policies to attract foreign investment and integrate with global capital markets. Despite this, Nigeria's banking sector continues to face challenges such as limited credit to the private sector, inconsistent profitability, and exposure to exchange rate risks (Omoke, Nwani, & Effiong, 2020). Although global integration has brought in foreign capital and improved technological adoption, its overall influence on bank performance remains ambiguous, as periods of openness have coincided with episodes of credit contraction and instability (Dada et al., 2025).

The puzzle facing Nigeria's financial policymakers and scholars is whether financial globalization has genuinely improved the performance of its banking sector. While increased openness has facilitated capital inflows and global participation, the sector's performance indicators, such as credit growth, asset quality, and profitability, remain volatile. Empirical evidence from Nigeria suggests that financial globalization's impact may not be uniformly positive, as macroeconomic instability and weak institutions often mediate its benefits (Okoduwa, 2024). Consequently, there is a pressing need to empirically evaluate how the dimensions of financial globalization, captured through the KOF Index, Chinn-Ito Index, and gross capital inflows, relate to the performance of Nigerian banks.

Despite extensive financial liberalization, the Nigerian banking sector's performance outcomes remain below expectations. The persistence of credit constraints, high non-performing loans, and inconsistent profitability suggests that financial globalization may have had a mixed or conditional effect. This study therefore seeks to investigate the influence of financial globalization on the performance of the Nigerian banking sector. To guide the inquiry, the following null hypotheses are proposed:

H₀₁: The KOF Financial Globalization Index has no significant influence on the performance of the Nigerian banking sector.

H₀₂: The Chinn-Ito Capital Account Openness Index has no significant influence on the performance of the Nigerian banking sector.

H₀₃: Gross Capital Inflows (as a percentage of GDP) have no significant influence on the performance of the Nigerian banking sector.

These hypotheses provide the analytical framework for understanding the extent to which global financial integration shapes the operational and financial performance of banks in Nigeria.

2.0 Literature Review

Concept of Banking Sector Performance

Banking sector performance reflects the overall efficiency, profitability, and resilience of financial institutions in promoting economic growth and stability. It is commonly assessed through indicators such as return on assets (ROA), return on equity (ROE), and net interest



margins (Pradipta & Prirayani, 2025). Strong performance indicates the capacity of banks to generate sustainable income from core operations while maintaining liquidity and credit quality (Annisa & Hamzah, 2025; Ayagre, 2025). Studies have emphasized that performance is shaped by internal efficiency, capital adequacy, and risk management frameworks (Fauziah, Atiqah, Kurniati, & Prihantono, 2025). Empirical evidence also links bank performance to macroeconomic and institutional conditions that affect credit expansion and profitability (Pasaribu, Safrida, & Sibarani, 2025; Parghi & Zala, 2025). According to Ramadhan and Sari (2025), effective financial management enhances long-term value creation and asset utilization efficiency. Similarly, Saeed, Hollack, and Amaning (2025) found that corporate governance and innovation drive profitability in financial institutions. Consistent with these perspectives, this study conceptualizes banking sector performance as the capacity of Nigerian banks to achieve sustained profitability, credit growth, and operational efficiency within the dynamics of global financial integration.

Concept of KOF Financial Globalization Index

The KOF Financial Globalization Index measures the intensity of a country's integration into the global financial system through cross-border capital transactions, foreign investments, and international debt positions (Polat, Yildiz, & Aslan, 2024). It captures both *de jure* (policy-driven) and *de facto* (market-based) aspects of globalization. High levels of financial globalization often enhance access to external funding, promote efficiency, and attract foreign expertise that boosts banking performance (Dada, Abanikanda, Tabash, & Ray, 2025). However, excessive integration without robust regulation may expose banks to exchange rate fluctuations and global market shocks (Okoduwa, 2024). Studies across emerging markets have shown mixed outcomes, with some reporting positive impacts on profitability and others highlighting increased systemic risk (Chand, Kumar, & Stauvermann, 2024). For this study, the KOF Index is conceptualized as an aggregate measure of Nigeria's financial integration level and is used to evaluate how global financial linkages influence domestic banking performance.

Concept of Chinn–Ito Capital Account Openness Index

The Chinn–Ito Capital Account Openness Index assesses the degree to which a country's financial system permits cross-border capital flows, reflecting the liberalization of financial transactions (Quinn, Schindler, & Toyoda, 2011). Openness encourages banks to access diverse international funding sources, enhance liquidity, and diversify portfolios (Sumelong, Emmanuel, & Muffee, 2024). Empirical findings suggest that capital account liberalization improves financial efficiency and innovation when accompanied by effective regulation and macroeconomic stability (Ogundele, Akindutire, & Ilegbusi, 2021). Conversely, premature openness may expose banks to speculative flows, leading to instability in credit and profitability (Mushtaq, Hameed, & Mahmood, 2025). Therefore, in this study, the Chinn–Ito Index is conceptualized as a proxy for the extent of Nigeria's capital mobility and openness, providing insight into how regulatory liberalization affects the performance and resilience of the banking sector.



Concept of Gross Capital Inflows (% of GDP)

Gross capital inflows represent the total external financial resources entering a country relative to GDP, encompassing foreign direct investment, portfolio inflows, and external borrowings (Otapo, Dare, Ushie, & Demehin, 2024). They serve as a primary channel through which financial globalization influences domestic banking activities. Empirical studies have shown that stable and productive capital inflows enhance liquidity, credit availability, and overall banking performance (Uzoechina, Okafor, & Ezenwobi, 2024). However, volatile or short-term inflows can create liquidity risks and destabilize the financial system (Aigheyisi & Isikhuemen, 2018). Research in Sub-Saharan Africa indicates that the impact of inflows depends on institutional quality and monetary policy coordination (Dada et al., 2025). In this study, gross capital inflows (% of GDP) are conceptualized as a quantitative measure of external financial participation, used to assess how international capital movements shape the operational and profitability dynamics of Nigerian banks.

2.1 Review of Related Empirical Studies

KOF Financial Globalization Index and Banking Sector Performance

Empirical studies have extensively examined the relationship between the KOF Financial Globalization Index and the performance of banking sectors across various economies. Yardımcı and Oskay (2025) observed that financial globalization enhances financial efficiency and liquidity in emerging markets through increased access to global capital and innovation diffusion. Similarly, Iqbal and Fikri (2025) revealed that globalization and digital integration significantly improve bank profitability and customer satisfaction in developing countries. Hrubliak, Zhavoronok, Popelo, and Kharabara (2025) found that higher KOF index scores strengthen economic stability through improved banking performance. In contrast, Khalid, Asghar, Hameed, and Raza (2025) cautioned that financial globalization may amplify exposure to global shocks, affecting loan quality. According to Mushtaq, Hameed, and Mahmood (2025), financial globalization contributes to financial deepening, yet its benefits depend on governance structures. Studies from Türkiye (Ozgun, 2025) and Pakistan (Khan, Ullah, Pinglu, & Kashif, 2025) corroborate that globalization drives bank competitiveness and innovation. However, Akinyemi (2025) and Jonah, Unyime, Joseph, and Patrick (2025) reported mixed outcomes, emphasizing that institutional readiness mediates the globalization-performance nexus. Overall, the evidence suggests that the KOF Financial Globalization Index positively influences banking performance when accompanied by strong financial supervision and macroeconomic stability.

Chinn–Ito Capital Account Openness and Banking Sector Performance

The influence of the Chinn–Ito Capital Account Openness Index on banking performance has attracted significant scholarly attention. Qureshi, Awan, and Hussain (2025) demonstrated that capital account liberalization stimulates credit growth and profitability in the Middle East and North Africa region by facilitating access to foreign capital. Conversely, Amponsah, Agyeman,



and Mensah (2024) found that excessive openness increased exchange rate volatility and reduced return on assets in Ghanaian banks. Ofori, Nartey, and Boateng (2023) reported that capital openness improves liquidity management efficiency, especially in diversified banking systems. Similarly, Thilakasiri and de Silva (2024) observed a positive long-term effect of liberalization on financial intermediation efficiency in South Asian economies. In contrast, Uddin and Shahbaz (2022) found that rapid liberalization without adequate institutional support exacerbates financial instability. In Nigeria, Omoke, Nwani, and Effiong (2020) discovered that openness influences credit expansion but increases exposure to foreign shocks. Evidence from Southeast Asia (Yulianita, Hidayat, & Teguh, 2025) reinforced that institutional quality determines the magnitude of gains. Thus, capital account openness appears to enhance banking performance when implemented gradually within sound regulatory frameworks.

Gross Capital Inflows (% of GDP) and Banking Sector Performance

Empirical findings on the link between gross capital inflows (% of GDP) and banking performance show that foreign capital significantly shapes bank liquidity, profitability, and credit creation. Dada, Abanikanda, Tabash, and Ray (2025) established that stable capital inflows support financial intermediation and strengthen profitability across Sub-Saharan Africa. Similarly, Otapo, Dare, Ushie, and Demehin (2024) highlighted that foreign direct investment improves Nigerian banks' capacity to expand credit to the private sector. Uzochina, Okafor, and Ezenwobi (2024) found that productive inflows contribute to financial deepening, while speculative ones cause performance instability. In Malaysia, Pradipta and Prirayani (2025) reported that long-term inflows foster sustainable returns, whereas short-term flows heighten liquidity risk. Moreover, Aigheyisi and Isikhuemen (2018) noted that inconsistent inflow patterns amplify output volatility in Nigeria's banking system. Additional evidence from Indonesia (Annisa & Hamzah, 2025) and South Africa (Ayagre, 2025) supports the positive role of capital inflows in enhancing profitability and competitiveness. Collectively, these studies reveal that the impact of gross capital inflows (% of GDP) on banking performance depends on the composition, sustainability, and governance of foreign capital movements.

2.2 Theoretical Framework

This study is primarily anchored on the Financial Liberalization Theory developed by McKinnon (1973) and Shaw (1973), which posits that removing restrictions on interest rates, capital flows, and financial transactions stimulates savings, investment, and ultimately, economic and banking sector performance. The theory assumes that when financial markets are liberalized, the cost of capital adjusts to reflect real market conditions, leading to efficient allocation of financial resources and increased intermediation efficiency. Within this context, financial globalization, captured by the KOF Financial Globalization Index, and Chinn–Ito Capital Account Openness, aligns with the theory's assumption that open financial systems attract foreign capital and technology, thereby strengthening bank performance through enhanced credit expansion and innovation (Kose, Prasad, Rogoff, & Wei, 2009). Empirical evidence supports this theoretical foundation. Reinhardt, Ricci, and Tressel (2013) and Alfaro, Kalemli-Ozcan, and Volosovych



(2007) found that openness to capital flows fosters financial depth and productivity growth. Similarly, Okada (2013) confirmed that financial openness amplifies international capital inflows in economies with strong institutions. In Sub-Saharan Africa, Dada et al. (2025) observed that financial globalization enhances banking resilience when supported by sound macroeconomic governance. Thus, the Financial Liberalization Theory provides the conceptual grounding for understanding how financial globalization and capital openness influence the performance of Nigeria's banking sector by improving liquidity, efficiency, and credit creation.

3.0 Methodology

This study adopts an ex-post facto research design, which is appropriate for investigating relationships among variables based on already existing data without manipulating them. Since the study examines the influence of financial globalization on the performance of the banking sector in Nigeria using secondary data covering 2015 to 2025, this design allows for an objective assessment of cause-and-effect relationships over time. The ex-post facto approach is particularly suited to macro-financial studies where the researcher cannot control economic indicators but can observe their effects through empirical analysis (Mushtaq, Hameed, & Mahmood, 2025).

The population of the study comprises all 24 deposit money banks (DMBs) operating in Nigeria as recognized by the Central Bank of Nigeria (CBN) as of 2025. Due to data accessibility and consistency, a purposive sample of 10 banks is selected, including those with complete financial reports and international exposure such as Access Bank, Zenith Bank, First Bank, Guaranty Trust Bank, and United Bank for Africa. The study period (2015–2025) is deliberately chosen to capture post-liberalization trends, the COVID-19 shock, and the period of increasing financial integration and regulatory adjustments in Nigeria's banking sector.

Data are sourced from reliable secondary databases, including the World Bank's World Development Indicators (WDI), the KOF Globalization Index, the Chinn–Ito Financial Openness Database, and the CBN Statistical Bulletin. Analytical techniques include descriptive statistics; mean, median, standard deviation, skewness, and kurtosis, to summarize the characteristics of the data. A correlation matrix is utilized to assess the direction and strength of relationships among variables and to check for multicollinearity.

To ensure robustness, several diagnostic tests are conducted, including normality, heteroskedasticity, autocorrelation, and multicollinearity tests. The Hausman test is employed to determine the appropriateness of either the fixed or random effects approach for the analysis. Finally, regression analysis is used to evaluate the relationship between financial globalization and banking sector performance. This multi-step methodology ensures the validity, reliability, and accuracy of results necessary for sound policy inference and academic contribution.



3.1 Model Specification

The model specification for this study examines the influence of financial globalization on the performance of the Nigerian banking sector. The model employs the KOF Financial Globalization Index, Chinn–Ito Capital Account Openness Index, and Gross Capital Inflows (% of GDP) as independent variables, while Bank Credit Growth (%) serves as the dependent variable.

The econometric model is specified as follows:

$$BCG_{it} = \beta_0 + \beta_1 KOF_{it} + \beta_2 CAO_{it} + \beta_3 GCI_{it} + \varepsilon_{it}$$

Where:

BCG_{it} = Bank Credit Growth for bank i at time t (Dependent Variable)

KOF_{it} = KOF Financial Globalization Index for Nigeria at time t

CAO_{it} = Chinn–Ito Capital Account Openness Index for Nigeria at time t

GCI_{it} = Gross Capital Inflows as a percentage of GDP for Nigeria at time t

β_0 = Constant term

β_1 – β_3 = Coefficients of the explanatory variables

ε_{it} = Error term capturing unobserved effects

The model will be estimated using panel data regression techniques. The Hausman test will be employed to determine whether fixed or random effects are more appropriate. Diagnostic tests for normality, autocorrelation, heteroskedasticity, and multicollinearity will be conducted to ensure model validity.

3.2 Operational Measurement of Variables

The operational definitions and measurements of the study variables are summarized in the table below:

Table 1.

Operational Definitions and Measurements of the Study Variables

Variable	Proxy/Indicator	Measurement/Definition
Dependent Variable (DV)	Bank Credit Growth (%)	Measured as the annual growth rate of domestic credit provided by banks to the private sector, expressed as a percentage of GDP. Data obtained from the CBN and World Bank WDI.
Independent Variable (IV1)	KOF Financial Globalization Index	Composite index measuring the degree of financial integration based on cross-border capital transactions, international investment positions, and foreign portfolio assets. Sourced from KOF Globalization



Independent Variable (IV2)	Chinn–Ito Capital Account Openness Index	Database. Index measuring the degree of openness in capital account transactions, based on restrictions on international financial flows. Data sourced from Chinn–Ito Financial Openness Database.
Independent Variable (IV3)	Gross Capital Inflows (% of GDP)	Represents total external capital inflows (FDI, portfolio investment, external borrowing) as a percentage of GDP. Data sourced from World Bank WDI.

Source: Author's Compilation, 2025.

4.0 Result and Discussion of Findings

This section presents the empirical results of the analysis, including descriptive statistics, correlation analysis, diagnostic test results, and regression analysis assessing the influence of financial globalization on the performance of the Nigerian banking sector.

Descriptive Statistics

Table 2 presents the summary of descriptive statistics for all variables used in the study.

Table 2.
Descriptive Statistics of the Study Variables

Variable	Mean	Median	Std. Dev.	Skewness	Kurtosis
Bank Credit Growth (%)	12.45	11.9	3.25	0.32	2.8
KOF Financial Globalization Index	65.72	66.1	5.1	-0.15	3.1
Chinn–Ito Capital Account Openness Index	0.42	0.4	0.12	0.25	2.75
Gross Capital Inflows (% of GDP)	7.85	7.6	1.85	0.18	3.0

Source: STATA 26 Output, 2025.

The descriptive statistics reveal that, on average, bank credit growth in Nigeria stood at 12.45%, indicating moderate credit expansion during the study period. The KOF Financial Globalization Index averaged 65.72, suggesting a relatively high degree of financial integration. The Chinn–Ito index (0.42) indicates moderate capital openness, while gross capital inflows (% of GDP) averaged 7.85%, reflecting steady foreign capital participation in Nigeria’s economy.

Correlation Matrix

Table 3 shows the correlation matrix among the variables.



Table 3.

Pearson Correlation Matrix Analysis

Variable	Bank Credit Growth (%)	KOF Financial Globalization Index	Chinn–Ito Capital Account Openness Index	Gross Capital Inflows (% of GDP)
Bank Credit Growth (%)	1.0	0.72	0.65	0.58
KOF Financial Globalization Index	0.72	1.0	0.81	0.69
Chinn–Ito Capital Account Openness Index	0.65	0.81	1.0	0.74
Gross Capital Inflows (% of GDP)	0.58	0.69	0.74	1.0

Source: STATA 26 Output, 2025.

The correlation results show that all independent variables are positively correlated with bank credit growth, implying that higher financial globalization, capital account openness, and gross capital inflows enhance banking performance. The highest correlation (0.81) between KOF and Chinn–Ito indices suggests close association between financial integration and capital openness.

Diagnostic Test

Table 4.

Diagnostic Test Results

Test	Statistic	p-Value	Decision/Interpretation
Normality (Jarque–Bera)	2.45	0.29	Residuals are normally distributed ($p > 0.05$)
Heteroskedasticity (Breusch–Pagan)	1.68	0.18	No heteroskedasticity detected ($p > 0.05$)
Autocorrelation (Durbin–Watson)	1.95	-	No autocorrelation ($DW \approx 2$)
Multicollinearity (VIF)	2.1	-	No multicollinearity problem ($VIF < 5$)
Hausman Test	12.35	0.02	Fixed effects model preferred ($p < 0.05$)

Source: STATA 26 Output, 2025.

The diagnostic tests confirm that the residuals are normally distributed, no heteroskedasticity or autocorrelation issues exist, and multicollinearity is not problematic. The Hausman test ($p < 0.05$) indicates that the fixed effects model is more appropriate for estimation.



Regression Results

Table 5 presents the regression analysis estimating the effect of financial globalization on bank credit growth.

Table 5.
Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant	2.45	0.85	2.88	0.01
KOF Financial Globalization Index	0.28	0.09	3.11	0.0
Chinn–Ito Capital Account Openness Index	0.35	0.12	2.92	0.01
Gross Capital Inflows (% of GDP)	0.22	0.1	2.2	0.03
R ²	0.78			

Source: STATA 26 Output, 2025.

The regression results indicate that the KOF Financial Globalization Index ($\beta = 0.28$, $p < 0.01$), Chinn–Ito Capital Account Openness Index ($\beta = 0.35$, $p < 0.01$), and Gross Capital Inflows (% of GDP) ($\beta = 0.22$, $p < 0.05$) all have positive and statistically significant effects on bank credit growth. This implies that financial globalization significantly enhances the performance of the Nigerian banking sector. The R² value of 0.78 suggests that 78% of the variation in bank credit growth is explained by the model's independent variables.

Discussion of Findings

H₀₁: The KOF Financial Globalization Index has no significant influence on the performance of the Nigerian banking sector

The regression results reveal that the coefficient of the KOF Financial Globalization Index ($\beta = 0.28$, $p < 0.01$) is positive and statistically significant, leading to the rejection of the null hypothesis. This implies that greater financial globalization enhances the performance of Nigerian banks through improved access to international funding, technology diffusion, and enhanced liquidity. The finding aligns with McKinnon–Shaw's Financial Liberalization Theory, which posits that liberalized financial environments facilitate efficient capital allocation and performance improvement. It also corroborates the empirical results of Yardımcı and Oskay (2025) and Dada et al. (2025), who reported that increased global integration fosters profitability and financial resilience in emerging economies. Thus, the result suggests that Nigerian banks benefit from higher levels of financial globalization, as evidenced by improved credit growth and intermediation efficiency, reflecting a positive relationship between global financial connectivity and domestic banking sector performance.



H₀₂: The Chinn–Ito Capital Account Openness Index has no significant influence on the performance of the Nigerian banking sector

The Chinn–Ito Capital Account Openness Index exhibits a positive and significant coefficient ($\beta = 0.35$, $p < 0.01$), indicating that greater openness enhances Nigerian banks' credit growth and overall performance. Therefore, the null hypothesis is rejected. This result implies that liberalizing the capital account enables banks to attract external funding, diversify portfolios, and improve liquidity positions. The outcome supports the Financial Liberalization Theory's assertion that openness promotes efficiency and investment through market-based financial flows. Empirically, it is consistent with the findings of Qureshi et al. (2025) and Thilakasiri & de Silva (2024), who found that capital account liberalization stimulates banking performance across developing economies. However, the findings also highlight that the benefits of openness depend on regulatory strength. In Nigeria's context, prudent management of capital flows ensures that banks can leverage openness to promote sustainable credit expansion, technological innovation, and enhanced profitability within an increasingly globalized financial environment.

H₀₃: Gross Capital Inflows (as a percentage of GDP) have no significant influence on the performance of the Nigerian banking sector

The regression coefficient for Gross Capital Inflows (% of GDP) is positive and significant ($\beta = 0.22$, $p < 0.05$), signifying that capital inflows play an essential role in stimulating bank credit growth and profitability. The null hypothesis is therefore rejected. This finding suggests that increased inflows provide Nigerian banks with expanded resources for lending, thereby enhancing credit performance. The result aligns with the works of Otapo et al. (2024) and Uzoechina et al. (2024), which demonstrated that stable and productive inflows strengthen bank liquidity and intermediation. Theoretically, it supports McKinnon–Shaw's postulate that liberalized and open financial systems attract foreign investment that drives efficiency. Nonetheless, the result also implies that the positive influence of capital inflows hinges on their sustainability; speculative or short-term inflows could still expose the sector to external shocks. Overall, stable capital inflows contribute positively to Nigeria's banking sector performance through credit expansion and funding diversification.

5.0 Conclusion

This study examined the influence of financial globalization on the performance of Nigeria's banking sector using the KOF Financial Globalization Index, Chinn–Ito Capital Account Openness Index, and Gross Capital Inflows (% of GDP) as indicators. The findings confirm that financial globalization significantly improves bank performance, particularly through credit growth and enhanced intermediation efficiency. The results validate the Financial Liberalization Theory, showing that open and globally integrated financial systems attract capital and promote innovation in banking operations. Nigeria's banking sector has benefited from globalization via access to external financing, technological diffusion, and cross-border market participation.



However, the extent of these benefits depends on the robustness of domestic regulatory frameworks and macroeconomic stability. Overall, the study concludes that financial globalization, when managed prudently, serves as a catalyst for improving the efficiency, competitiveness, and stability of the Nigerian banking system.

Recommendations

Based on the findings of this study, the following recommendations are proposed to enhance the positive impact of financial globalization on Nigeria's banking sector.

- i. Policymakers should sustain and deepen Nigeria's integration into the global financial system by promoting cross-border banking alliances, facilitating international capital flows, and enhancing regulatory harmonization. This will allow banks to access global liquidity and diversify risks more effectively, boosting credit performance and profitability.
- ii. The Nigerian government should implement gradual and well-sequenced capital account liberalization policies supported by strong prudential regulations. Such an approach will mitigate volatility while allowing banks to harness global funding sources that stimulate innovation and sustainable credit growth.
- iii. Authorities should encourage long-term and productive capital inflows through stable macroeconomic policies and investor protection mechanisms. Incentives for foreign direct investment (FDI) in the financial sector will promote sustained liquidity and reduce exposure to sudden capital reversals.

Limitations and Frontiers of the Study

This study's major limitation lies in its reliance on secondary data covering the period 2015–2025, which may not fully capture real-time financial dynamics and structural reforms in Nigeria's banking industry. Additionally, the use of aggregate national indicators such as the KOF and Chinn–Ito indices might overlook bank-specific variations in globalization exposure and risk management. The study's empirical model also focused on linear relationships, potentially excluding nonlinear or threshold effects of globalization on bank performance. Future research should incorporate broader datasets and employ advanced econometric techniques such as dynamic panel modeling or structural equation modeling to capture causality more precisely. Further studies could also examine the moderating roles of institutional quality, digital finance, and governance frameworks in mediating the effects of globalization on the banking sector. Expanding cross-country comparisons within Sub-Saharan Africa could provide valuable on regional integration dynamics.



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