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**THE EFFECT OF BANK SECTORAL CREDIT AND EXCHANGE RATE ON
FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN
NIGERIA.**

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Abstract

The study examined the effect of deposit money bank's credit facilities and exchange rate on the corporate financial performance of listed manufacturing firms in Nigeria. Data for the study were sourced from the annual reports and accounts of the sampled firms for the period of ten years spanning from 2013 to 2022, the collected data were analyzed using Panel regression analysis, result of the analysis showed that credit facilities had a significant and negative effect on the financial performance of the sampled manufacturing firms in Nigeria. It was also revealed that the effect of the exchange rate on the return on assets of manufacturing firms in Nigeria is significant and negative. Accordingly, the study concludes that sectoral allocation and exchange rate are significant determinants of financial performance. Considering the negative and significant effect of sectoral allocation and exchange rate on the profit of manufacturing firms in Nigeria the study therefore, recommends that the government of Nigeria should implement policies that would encourage lending and also ensure a stable exchange rate.

Keywords: Exchange rate, financial performance, sectoral allocation,

1.0 Introduction

Manufacturing sector plays catalytic role in a modern economy and has many dynamic benefits crucial for economic transformation. In a typical advanced country, the manufacturing sector is a leading sector in many respects. It is an avenue for increasing productivity related to import replacement and export expansion, creating foreign exchange earning capacity; and it creates investment capital at a faster rate than any other sector of the economy while promoting wider and more effective linkages among different sectors. There has been a growing concern over the continuous decline in the financial performance of the manufacturing sector in Nigeria in recent times, despite the fact that the government embarked on several strategies aimed at improving industrial production and financial performance of the sector. This worry is understandable in view of the fact that it has been generally acclaimed, through the Kaldor's first law, that manufacturing sector is regarded as the engine of growth of the economy

(Safarova, 2010). The unimpressive performance of the sector in Nigeria is mainly due to massive importation of finished goods and inadequate financial support for the manufacturing sector, which ultimately has contributed to poor financial performance of the manufacturing sector in the country. Rehman (2013) argued that the level of the Nigerian manufacturing organization's performance will continue to see a decline because as it is now, the manufacturers will have even more problems in assessing raw materials due to stiff competition from the foreign firms.

To buttress the problems associated with the financial performance of the Nigerian manufacturing sector, the Manufacturing Purchasing Manager's Index (MPMI) hovered around 48.1 percent in the period 1990 to 2020 compared to that of the Non-manufacturing Purchasing Manager's Index (NPMI) which was above the 50 percent for most of the period (CBN, 2021). Specifically, and more recently, the average Manufacturing PMI for the year 2020, stood at 45.1 index points. Among the fourteen subsectors surveyed, only the electrical equipment sector reported growth (above 50% threshold), while the remaining 13 subsectors reported declines. While the average MPMI for the 2021 stood at 46.0 index, that of 2022 stood at 50.2 index and a record low of 38.40 index in February of 2023. These fluctuations in the manufacturing purchasing manager's index have shown that the financial performance of the sector is not satisfactory since the average during the analyzed period did not exceed the 50% threshold set by the Central Bank of Nigeria.

Accordingly, the manufacturing sector in Nigeria is faced with the problem of accessibility to funds. Even the financial sector reform of the Structural Adjustment Programme (SAP) in 1986, which was meant to correct the structural imbalance in the economy and liberalize the financial systems did not achieve the expected results. As Rasheed (2019) reported, financial sector reforms are expected to promote a more efficient allocation of resources and ensure that financial intermediation occurs as efficiently as possible. Augustine (2022) noted that the pitiable performance of the sector in Nigeria also stems from the inability of the financial sector to sufficiently support the sector through the provision of funds for investment purposes. Justifiably, the financial sector is expected to be a major driving force propelling output as well as engineering the growth of the sector through its intermediation roles. This can be achieved by making loanable funds available to manufacturers at an affordable interest rate in order to boost their operating cost and overall productivity however, this has not been the case since the total credit to the manufacturing sector stood at only 12.9 per cent of total banking credit in 2021 (CBN 2021 Statistical Bulletin).

Another noteworthy observation is that the Nigerian manufacturing sector has become increasingly dependent on the external sector for import of non-labor input and which is highly determined by exchange rate conditions, it follows that the depreciation or otherwise of the country's currency is a major player in determining how well manufacturing firms in the country perform financially (Uruakpa, et al, 2006). There is no gainsaying the fact that these observations hold true by the perennial fluctuation of exchange rate and depreciation of domestic currency in Nigeria which has had a highly negative effect on manufacturing activities in the country.

Against analytical background, studies abound in developed and developing countries linking bank credit to the financial performance. In the Africa region and Nigeria in particular, existing studies were mainly qualitative in nature using primary data. The few available studies that utilized secondary data employed method of analysis that were not robust enough to analyze

the data collected. It is against this backdrop that the study intends to investigate the effect of sectoral allocation and exchange rate on the financial performance of manufacturing firms in Nigeria.

The general objective of this study is to investigate the effect of sectoral allocation on the financial performance of listed manufacturing firms in Nigeria

To study the effect of sectoral allocation on the financial performance of listed manufacturing firms in Nigeria.

To determine the effect of exchange rate on the financial performance of listed manufacturing firms in Nigeria.

The following research hypotheses have been formulated for testing during the course of this study. The hypotheses are formulated in null form as follows:

H₀₁: Sectoral allocation has no significant effect on the financial performance of listed manufacturing firms in Nigeria.

H₀₂: Exchange rate has no significant effect on the financial performance of listed manufacturing firms in Nigeria.

2.0 Literature Review and Theoretical Framework

Concept of Financial Performance

Financial performance is one of the most important variables in management research and arguably the most important indicator of the soundness of any organization. According Amake and Ogiedu, (2019) financial performance is the function of the ability of an organization to gain and manage resources in several different ways to develop a competitive advantage. Although the concept of firm financial performance is very common in the academic literature, its definition is difficult because of its many meanings. For this reason, there is no universally accepted measurement of this concept. The financial performance of firms is a main feature that defines their competitiveness, business potentials, economic interest of the management and present of future contractors (Dufera, 2010). Several factors determine the level of firm's performance (profitability) such as the size, ownership, capital structure, equity, age of the firm, experience, new investment in both physical and knowledge capital, managerial efficiency, growth in sales, export activity as well as the industry age (Makarov & Papanikolaou, 2011).

Concept of Sectoral Allocation

All over the world, the banking system plays fundamental roles in the growth and development of an economy, depending on the economic, political and legal system within which the banks operate. As financial institutions, banks perform intermediation roles generally by mobilizing resources from the surplus units and the channeling same to the deficit units for productive activities within an economy. The Deposit Money Banks (DMBs) through their credit policy act as lubricants and promote growth in different sectors of the economy paying attention to the priority sectors of the economy (Akpansung & Gidigbi, 2014). The ability of financial institutions to transfer financial resources from surplus idle sectors to deficit real sectors for investment, growth and development, makes financial intermediation a veritable process, and hence the need for periodic regulation of the financial sector. The ability of the Nigerian

financial subsector to play its role was periodically punctuated by its vulnerability to systemic distress and macro-economic, and policy fine tuning inevitability.

Concept of Exchange Rate

Banerjee et al. (2022) described exchange rate as the price of a currency against the currencies in other countries. The exchange rate can be measured or expressed in any other currency. The exchange rate is also referred to as the comparison value. That is, when the exchange occurs between two different currencies, it will generate a comparison value or price of the two currencies. The name of the other exchange rate is the exchange value of currency (exchange rate).

Sectoral Allocation and Financial Performance

Bello et al. (2021) analyze the impact of sectoral allocation of deposit money bank's credit on manufacturing sector performance in Nigeria, this paper used descriptive statistics, Phillips-Perron unit root test, cointegration test and error correction mechanism to explore impact Deposit Money Bank (DMBs) credit on manufacturing sector performance in Nigeria between 1981 and 2019. The unit root test results show that all the variables are stationary at first difference. It was observed from the Johansen cointegration test that the variables have long run relationship. This provides the pre-condition for fitting the error correction model. The parsimonious ECM results revealed deposit money banks' credit to the manufacturing sector impacted positively on the performance of manufacturing sector. This implies that increase in deposit money banks' credit stimulated output in the sector. It further observed from the results that interest rate was significant in explaining changes in the performance of the manufacturing sector output. This confirms the critical role of cost of funds in investment decision and the performance of the economy at large. Inflation rate was also significant in explaining changes in the performance of the manufacturing sector.

Adebayo and Adofu (2021) examined the impact of the lending and deposit rates in the face of deregulation on the loans and advances of deposit money banks in the country covering the period of 1986 to 2019 using annual time series data. Using the Autoregressive Distributed Lag (ARDL) model, findings from the study revealed that the deregulation of interest rate in Nigeria encouraged the disbursement of loans and advances within the economy, but it was however not significant. In addition, the study found that the policy led to an inverse relationship between deposit rate and loans and advances in the country. Higher deposit rates significantly discouraged deposit money banks from granting loans and advances. To ensure that interest rate deregulation has a much significant effect on the loans and advances of deposit money bank, the deregulation of the sector must be full, as against the partial deregulation being presently practiced, to encourage the desired level of competition which would spur the growth of the sector, and ultimately expand credit facilities for the Nigerian economy.

Cheng and Wu (2021) study the roles of political connection and firm performance in bank credit allocation in China's private sector. Based on data from the 9th Nationwide Survey of Privately Owned Enterprises in China conducted in 2010, it was found out that: Politically connected firms were more likely to gain access to bank credit, but good firm performance did not seem to have improved firms' chances of obtaining bank loans; Good performance did help firms get more loans - of the firms that had access to bank credit, those with better performance in the previous year had larger amounts of bank loans; and politically connected firms performed better; and better performance had a small effect of helping the owner establish

political connection. However, findings from the study may have suffered from small sample bias.

viphindrartin et al. (2021) examine the non-performing loans of rural banks and macroeconomic factors in Indonesia, including inflation, exchange rates, and interest rates. Theoretically, the existence of erratic macroeconomic conditions can affect the level of non-performing credit risk in rural credit banks in Indonesia. The effect of macroeconomic conditions on non-performing loans has a different response for each economic sector. The main objective of this study is to determine the effect of macroeconomic factors (inflation, exchange rates, and interest rates) and bank-specific factors (credit) on the Non-Performing Loans (NPL) of Rural Banks in Indonesia for the period from January 2015 to December 2018. This study uses a Vector Error Correction Model (VECM) estimation to determine the effect of independent variables consisting of macroeconomic factors and bank-specific factors. Based on the estimation results of the Vector Error Correction Model, three variables that have a positive and significant effect on long-term non-performing loans are credit, inflation, and interest rates. Meanwhile, in the short term, there are only two variables that have a positive and significant effect on non-performing loans, namely, credit and interest rates. Inflation and exchange rate variables have a negative and insignificant effect on bad credit in the short term. Robinson and Olulu (2021) researched the impact Deposit Money Bank (DMBs) credit on mining sector performance in Nigeria between 1981 and 2019 was examined. Descriptive statistics, Phillips-Perron unit root test, cointegration test and error correction mechanisms were relied upon for data analysis. The unit root test results show that all the variables are stationary at first difference. It was observed from the Johansen cointegration test that the variables have long run relationship. This provides the pre-condition for fitting the error correction model. The parsimonious ECM results revealed that banking sector credit to the mining and quarrying sector was not significant in explaining changes in mining sector's performance. However, the study failed to consider the effect of financial and economic recession during the scope of the study.

Exchange Rate and Financial Performance

Hasibuan and Harahap (2024) analyze the effect of inflation, interest rates and exchange rates on the rate of the Indonesian Sharia Stock Index (ISSI) for the period 2012-2022. This research method uses quantitative with VAR data type which is causal-distributive in nature, meaning that research is conducted to analyze a past situation and determine the direction of causality of the relationship between independent variables, namely Inflation, Interest Rates, Exchange Rates, and the dependent variable, namely the Indonesian Sharia Stock Index (ISSI). The operational data used by this researcher uses time series data. This research uses a method using the Eviews 12 computer program (software) with the Vector Auto regressive (VAR) model. The results of this study indicate that Inflation has a significant effect on ISSI. Interest rates have no effect on the ISSI. Exchange Rate has no effect on ISSI. Though, the study failed to consider the moderating effect of economic recession.

Ani et al. (2024) empirically examined the effect of foreign exchange rate disruptions on stock market performance of selected manufacturing firms quoted on the Nigerian exchange group. Stock market price and stock volume were proxy for dependent variable, while exchange rates disruptions for independent variable. In pursuit of the objectives of this study, two hypotheses were formulated and tested. This study adopted ex-post facto research design. Secondary data cut from Nigerian stock market reports, 2023. Five (5) selected manufacturing firms quoted in Nigerian exchange group using random sample techniques. The study covered a period of 10

ranging between June and September, 2023. Data were analyzed using simple ordinary regression analytical estimation technique with aid of E-view v8. The empirical results reveal that exchange rate disruption has non-significant negative effect ($t=1.042021$; $PV=0.3013$) effect on stock market price of selected manufacturing firms in Nigeria exchange group. That the disruption of the exchange rate has no appreciable negative impact ($t = 0.789457$; $PV=0.4329$) on the volume of stock transaction of selected manufacturing firms on the Nigerian exchange group. In accordance with the data, we draw the conclusion that disruptions in foreign exchange rate have non-significant negative effects on the market performance of selected manufacturing firms quoted in the Nigerian exchange group. Despite this, the study the following shortfalls; sample is not enough to generalize, the period is not extensive enough, inflation rate and economic recession was also not considered.

Merko and Habili (2023) measured the impact of interest rates, exchange rates, and inflation on the performance of commercial banks in Albania, using monthly data from December 2015 to May 2022 obtained from the Bank of Albania and the Institute of Statistics of Albania (INSTAT). The multiple regression model measures the relationship between the dependent variable (ROA) and independent variables (inflation, interest rate, and exchange rate). The estimation results reveal that the interest rate variability has a high impact on the financial factor ROA. In contrast, the variability of the exchange rate harms it. The effect of variable nominal effective exchange rate (NEER) on ROA is low, and inflation negatively influences it. The model has resulted within all the criteria related to the regression analysis but with a low importance level. The important conclusion of this study is that the combination of variables, inflation, exchange rate, and interest rate, does not measure the impact of inflation on the performance of commercial banks. However, the study failed to consider other macroeconomic factors that can measure this impact.

Michael and Egwu (2023) examined the impact of interest rate, exchange rate, and inflation rate on non-oil export in Nigeria from 1981 to 2021. The ex post facto research design was adopted in the study and secondary time series data obtained from Central Bank of Nigeria (CBN) Statistical Bulletin and the World Bank Data Base were used. The researchers adopted the Ordinary Least Square (OLS) method of multiple regression to assess the extent of relationship between the independent variables and the dependent variable used in the study. Based on the results obtained from the regression estimation, it was found that interest rate has non-significant positive impact on non-oil export; exchange rate has significant negative impact on non-oil export; and inflation rate has non-significant negative impact on non-oil export. The results also indicated that the overall model for the study was significant at 0.05 significance level, therefore, the researcher concluded that the combination of interest rate, exchange rate and inflation rate have a significant impact on non-oil export in Nigeria. However, the study failed to consider the important effect of economic recession.

Theoretical Framework

Theory of Financial Intermediation

This was developed by Gurley and Shaw (1955) to solve the shortcomings that were discovered in the direct financing method. It explains the importance of the intermediation process of credit allocation in the economy as a whole. The theory is based on the assumption that financial intermediation causes more funds to be available to the productive sector of the economy which will increase production, and then lead to eventual growth in the economy. Consequently, efficient allocation of credit has the potential to cause a high level of employment generation and income which invariably enhances the level of economic

development (Nwite, 2014). Thus, the key factor in the growth process of any economy is investible funds. The relevance of this theory to the study is that DMBs are indispensable elements in the economic systems since they are major providers of finance and facilitators to flow of credit.

Based on these, the theory suggests three important roles credit play in economic growth (Levine, 1999; Watchel, 2001). First, it improves the screening of fund seekers and the monitoring of the recipients of funds. This improves the allocation of resources. Second, it encourages the mobilization of savings by providing attractive instruments and saving vehicles. Finally, it provides opportunities for risk management and liquidity. These therefore promote the development of both credit markets and the use of credit instruments with attractive characteristics that enable risk sharing. Moreover, Greenwood and Jovanovic (1990) asserted that efficient credit allocation and development of banks contribute immensely to the growth of the economy by intermediating between the savers and investors. This implies that the banking sector is an indispensable element in the economic systems. Therefore, the development of the financial system plays a role in the economic well-being of any nation (Agu, 1988; Venkati, 2016).

3.0 Methodology

An ex-post facto research design was adopted for the study. Ex-post facto is a quasi-experimental examining how an independent variable, present before the study in the participants affect the dependent variable (Ashfaq, 2019). The study population comprises of all manufacturing firms listed on the Nigeria Stock Exchange (NSE). Panel data was used for this study. The secondary data were obtained from the Central Bank of Nigeria (CBN), Nigerian Exchange and Securities Exchange Commission (SEC) spanning from 2013 to 2022. The statistical technique used is descriptive statistical analysis. The main inferential analysis employed here is Pannel regression analysis, which assesses the effect of deposit money bank's sectoral credit allocation on the financial performance of listed manufacturing firms in Nigeria. Before presenting the regression results, the nature of data suggests the relevance of some pre-regression test such as the tests for serial dependence and the Hausman specification test.

To evaluate the objectives of this study and test the hypotheses, the regression model will be formulated to capture the impact of the independent variables on the dependent variable. Therefore, for this study, the model of Belguith (2016) will be adopted.

The model is stated as follows:

$$ROA = f(STA, EXR) \text{----- (1)}$$

Where:

ROA = Return on Assets

STA = Annual Sectoral Allocation

EXR = Average Annual Exchange Rate of USD/Naira

f = Functional notation

The Schwarz Bayesian criteria on the other hand is based on the following model:

$$SIC = 2l / T + (k \log T) / T \text{----- (2)}$$

Where:

SIC = Schwarz Information Criteria

log = logarithm

l, *T* and *k* are as previously defined

The model with the lowest values for the AIC and SIC will be preferred when Model (2) is estimated using ROA and ROE. As a decision rule, the lower the values of AIC and SIC, the better a model is compared to another with relatively higher values (Agung, 2009; Gujarati, 2003). E-Views 10 econometric software would be used for the analysis.

4.0 Data Presentation and Analysis

Descriptive Statistics

Table 1 *Descriptive Statistics of Variables*

	ROA	ROE	STA	EXR
Mean	0.10	0.25	0.17	0.11
Std. Dev.	0.10	0.32	0.08	0.10
Minimum	-0.11	-0.22	-0.02	-0.01
Maximum	0.54	1.87	0.26	0.29
Skewness	1.78	2.75	-1.26	0.42
Kurtosis	8.47	12.50	3.73	1.86
Probability	0.00	0.00	0.00	0.00
Obs.	150	150	150	150

Source: EViews 10 Output, 2024.

It can be seen from Table 1 that the means (average) value of financial performance proxied by return on asset (ROA) which is one of the dependent variables adopted during the period of this study is approximately 0.10. This means that on average, the ROA generated by Nigerian manufacturing firms over the 10-year considered by this study is approximately 10 percent. Similarly, the standard deviation is also approximately 0.10 which suggests that the degree of dispersion of the Nigerian manufacturing sector’s ROA around the mean is relatively low. In addition, the relatively low variability between the minimum and maximum values of -0.11 and 0.54 further reinforces the low range between the two extreme values. The positive skewness of approximately 1.78 indicates that the observations are dominated by positive values and thus display a longer right tail in terms of the distribution of returns within the series. The high kurtosis of approximately 8.47 which is greater than 3.0 is a clear indication that the observations exhibit leptokurtosis and extreme peakedness at the surface around the means of the distribution.

The table also shows that the mean or average value of ROE, which is the second dependent variable, is approximately 0.25; signifying that on the average, the sampled manufacturing firms offered 25% return on value of their shareholders over the last ten years. However, the standard deviation of approximately 0.32 suggests that there is high dispersion of individual manufacturing firm’s ROE around the mean value. Furthermore, the minimum and maximum values of approximately -0.22 and 1.87 respectively point to the fact that the observations of sampled Nigerian manufacturing firm’s ROE have high rate of variation and thus a wide range gap between the two extreme values. On the other hand, the skewness value of approximately 2.75 is indicative of the fact that distribution of the observation of ROE for the Nigerian manufacturing firms is positively skewed and thus has a longer right tail. In addition, the high kurtosis value of approximately 12.50 which is above 3.0 suggest the extreme peaked Ness of the distribution around the mean, which makes the distribution of observations of ROE for Nigerian manufacturing firms to be leptokurtic in nature.

Model Selection Criteria

Table 2 presents result for model selection between the model with ROA as dependent variable and the one with ROE as the dependent variable.

Table 2 Model Selection Criteria Statistics for Fixed Effect Panel Regression Based on Direct Relationship

ROA			ROE		
Test Statistics			Test Statistics		
Akaike Information Criteria (AIC)		-3.0586	Akaike Information Criteria (AIC)		-1.0621
Schwarz Bayesian Criteria (SC)		-2.5421	Schwarz Bayesian Criteria (SC)		-0.5456

Source: Researcher’s Compilations from Eviews10 Output, 2024.

Table 2 presents model selection statistics based on AIC and SC values respectively. The table further shows that these values are reported for the fixed effect panel models based on ROA as the dependent variable and ROE as dependent variable. From the table, the value of AIC for the model based on the ROA variable is approximately -3.0586 while the corresponding value for the same AIC based on ROE as the dependent variable is approximately -1.0621. On the other hand, the table shows that the value of SC based on the model estimated using ROA as a dependent variable is approximately -2.5421 while the value based on the ROE model is approximately -0.5456.

Comparing the values reveals that the value of AIC for the two models based on the dependent variables are smaller for the ROA model and bigger for the ROE model. Similarly, it can also be seen that the value of SC based on the ROA is lesser in size and magnitude than the value for the same SC based on ROE as dependent variable. Thus, since the value of the fixed panel model based on ROA is consistently lower for both AIC and SC, The ROA model is said to fit better and has higher explanatory power than the model based on ROE. Thus, the ROA model is preferred and thus selected for the analysis of the relationship in this study. The choice is consistent with the model statistics earlier examined because the analysis showed that the ROA-based model has better coefficient of determination, lower standard error and higher fitness value and stronger level of significance than the ROE-based model which is not significant at any of the conventional levels. Thus, the analysis of the findings of this study proceeds based on the fixed effect panel regression based on ROA as dependent variable.

Correlation Matrix

Table 3

Correlation Matrix

	ROA	STA	EXR
ROA	1		
STA	0.03	1	
EXR	0.03	0.38	1

Source: EViews 10 Output, 2024

It can be seen from Table 3 that the direction and magnitude of the correlation between the variables of the study based on financial performance proxied by return on asset (ROA) as the

dependent variable shows positive and negative associations with the variables. The correlation between ROA and STA is 0.03, this indicates that ROA associate positively with STA. The correlation between ROA and EXR is also 0.03. This indicates that ROA associates weakly and positively with EXR. The table equally reveals that EXR has a moderate and positive association of 0.38 with STATA.

Hausman Specification Test

Table 4 shows the result of a Hausman specification test conducted to determine which of the models between Fixed effect and Random effect would be used for estimation.

Table 4 Hausman Test for ROA

* Cross-section test variance is invalid. Hausman statistic set to zero.

ROA			
Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Probability
Breusch-Pagan LM	0.000000	8	1.0000

Source: Researcher’s Compilations from Eviews10 Output, 2024.

The result from Table 4 depicts a probability < chi² of .000000, a value that is less than 0.05. This result implies that the null hypothesis which states that difference in coefficient not systematic is rejected, so the fixed effect model is the more appropriate model for this study. Likewise, the p-value of 1.0000 which is greater than the significance level is an indication that fixed effect model.

Table 5 Fixed Effect Panel Regression Results for Moderating Relationship

ROA		
Variable	Coefficient/ Standard Error	t-Statistics
Constant	-0.476 (0.410)	-1.160
STA	-0.256 (0.125)	-2.049**
EXR	-0.987 (0.514)	-1.920**
AR(1)	0.556 (0.077)	7.269***
R-Squared	0.865	
Adj. R-squared	0.837	
S. E. Regression	0.131	
Durbin Watson	1.991	
F-Statistics	30.887*	

*, **and*** imply significance at the 10%, 5% and 1% levels respectively.

Source: Researcher’s Compilations from Eviews10 Output, 2024

Table 5 shows that the coefficient of Sectoral allocation is approximately -0.256 with a corresponding t-statistics of -2.049 which is significant at 5%. The negative coefficient of sectoral allocation indicates that an increase in sectoral allocation will lead to a decrease of approximately -0.256 in financial performance of the manufacturing firms in Nigeria. The

coefficient of sectoral allocation which is significant suggest that the effect is statistically negligible.

Additionally, it can be seen that the exchange rate has a coefficient of approximately -0.987 with a corresponding t-statistics of -1.920 which is significant at 5% level. The result also shows that exchange rate affects financial performance of manufacturing firms in Nigeria. This implies that a percentage increase in interest rate will result in approximately -0.987 decrease in the financial performance of the manufacturing firms in Nigeria. Similarly, the significance of the coefficient of interest rate suggests that the effect of the exchange rate on the financial performance of manufacturing firms in Nigeria is statistically reasonable.

Discussion of Findings

The study found that sectoral allocation has a negative significant effect on the financial performance of manufacturing firms in Nigeria. This negative effect implies that financial performance decreases as sectoral allocation increases even though it is expected that the more the sectoral allocation the better the financial performance. This negative effect can be attributed to the fact that in Nigeria, banks prefer to lend to low risk ventures; the manufacturing sector is perceived to be high-risk venture, and as such, they are very mindful on how they lend to them. This negative significant effect between the variables could be attributed to the decline in the sector's capacity which serves as a negative indicator to the financing institutions that are expected to provide the credit facilities. This was also supported by Onyekwena (2012) who thinks that where regulatory burdens are lighter, the reallocation of resources towards the highest-productivity firms is stronger. This negative but significant effect of sectoral allocation on financial performance is supported by the findings of Adedigba (2020), Akpansung and Gidigbi (2014), Bebczuk et al., (2017), Chinanuife et al. (2019), and Ndubuisi (2017), but disagrees with the findings of Emmanuel et al. (2015), Nwabuisi et al. (2020), Onyekwena (2012), Obamuyi and Edun, (2012), Odior (2013), and Wu, Joan and Luca (2010).

In addition, the study found that foreign exchange rate significantly has impact on financial performance of manufacturing firms in Nigeria. The result shows that exchange rate negatively have effect on financial performance of manufacturing firms in Nigeria. This negative impact of exchange rate can be attributed foreign dependency problems in developing countries' economies. Most of the inputs used by such countries especially in their production processes are provided through imports. Most of the inputs used by such countries especially in their production processes are provided through imports. For this reason, increases in the exchange rate will augment imported input costs such as machinery and intermediate goods used in the production process. Thus, increasing production costs due to the depreciation of the domestic currency can have a negative impact on the output level and financial performance of these manufacturing firms. This finding is in line with the findings of Anthony Ogbebor and Alalade (2021), Chinanuife et al. (2019), Elhussein and Osman (2019), Osho and Efuntade (2019), and Niomy and Nathaniel (2019) who reported negative effect of inflation rate on financial performance, but disagrees with the findings of Canbaloglu and Gurgun (2018), Harley (2018), Lagat and Nyandema (2016), Uruakpa, Okorontah and Ede (2006), and Zakari (2017),

5.0 Conclusion and Recommendations

The study concluded that sectoral allocation significantly affects the financial performance of manufacturing firms. However, this significant effect is as a result of factors that can emanate from either the manufacturing firms or the banks. On the part of the manufacturing firms' problems such as the absence of accountability, lack of transparency and wasteful spending on

frivolous activities. While from the part of the bank, they prefer to lend to low risk ventures; the mining sector and manufacturing sector are perceived to be high-risk venture, and as such, they are very mindful on how they lend to them. Even if they decide to lend to them, the procedure of securing this loan facilities are cumbersome, the collateral requirements and criteria requested by the loan officer is so stressful that most of this manufacturing firms give up the process along the line. All these put together makes sectoral allocation negatively affect the financial performance of manufacturing firms in Nigeria.

Furthermore, the study concluded with respect to the significant direct effect of exchange rate on financial performance. The significant negative effect of exchange rate is mostly tied to structural problem of foreign dependency, this is evident from the fact that Nigeria manufacturing sector is import dependent for most of their intermediate inputs and their plants and machineries for operation. Thus, leading to increase in production costs due to the depreciation of the domestic currency. This will have a negative impact on the output level which will also affect financial performance negatively.

Recommendations

In terms of sectoral allocation which was found to have a negative significant effect on financial performance of manufacturing firms in Nigeria which contradicts expectation of a positive significant effect. However, it is recommended that government should ensure conducive macroeconomic environment and appropriate investment incentives, as well as encouraging investment-friendly lending and borrowing by the financial institutions. they should also reduce tax rate (import and export duties) that is impose on the manufacturing firms and also provide adequate infrastructures (electricity supply, communication, good roads, etc.) for firms to operate effectively and efficiently. Proper monitoring system should be put in place for effective execution and feedback. The manufacturers should also reciprocate the gesture through commitment to the use of the funds and promptly honoring loan obligations as and at when due.

In line with the finding that exchange rate has a significant negative effect on financial performance of manufacturing firms, government should deploy measures that are focused on increasing the country's national income based on locally funded investments. External funding should be limited to a minimum extent so that the local currency can be strong in the global capital markets. Nigerian government should also encourage or fund manufacturing activities especially the manufacturing for export, so as to encourage appreciation of value of Naira domestic currency against foreign currencies especially the US dollar. Additionally, Nigerian government should grant subsidies and tax holiday to manufacturers to enhance their expansion and quality delivery. This is vital because manufacturing of quality goods for export will result in higher demand for domestic currency, which will result in appreciation of Naira. Managers of manufacturing firms should adopt exchange rate risk management techniques such as currency swaps, future contract, and hedging to advert to exchange rate fluctuation risk.

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