IMPACT OF ECONOMIC UNCERTAINTIES ON FINANCIAL REPORTING QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

Ahmad Muhammad Ahmad, PhD
Department of Accounting
Nigerian Army University Biu, Borno.
Shaktarmakarfi@gmail.com,
ahmad.ahmad@naub.edu.ng

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Abstract:
This study examines the impact of economic uncertainties on the financial reporting quality of listed deposit money banks in Nigeria, with a specific focus on accounting conservatism as a measure of financial reporting quality. Economic uncertainties, characterized by fluctuations in macroeconomic variables; GDP growth rate, inflation rate and exchange rates pose significant challenges to financial reporting quality. This study employs the ex-post facto research design, 10 banks were randomly selected, analysing the secondary panel data from 2014 to 2023 (10 years) to assess the relationship between economic uncertainties and accounting conservatism. The multiple regression technique was employed to analyse the secondary data. The findings indicate that only GDP has significant relationship with conservatism in financial reporting, highlighting the need for regulatory frameworks to mitigate the adverse effects of economic volatility on financial transparency and accountability.

Keywords: Accounting conservatism, exchange rate, financial reporting, GDP, inflation rate.

1.0 Introduction

Economic uncertainties, characterized by unpredictable fluctuations in key macroeconomic indicators, present significant challenges to financial institutions worldwide, particularly in emerging economies such as Nigeria. These uncertainties often manifest in volatile GDP growth, inflationary pressures, exchange rate instability, and interest rate fluctuations, all of which directly affect firms' operational and financial performance (Nwidobie, 2020; Chung, Wynn, & Mitra, 2021). In such volatile environments, banks central to financial intermediation face amplified risks as they mobilize deposits, allocate capital, and provide credit to the economy. The accuracy, reliability, and transparency of banks' financial statements become essential for informed decision-making by stakeholders, including investors, regulators, and policymakers (Dechow, Ge, & Schrand, 2010; Ghosh & Moon, 2010).

Financial reporting quality serves as a critical mechanism to mitigate information asymmetry between management and external stakeholders. High-quality financial reports provide credible information about a bank's financial position and performance, enhancing stakeholder confidence and supporting prudent regulatory oversight (Ball & Nikolaev, 2020). However, under conditions of macroeconomic volatility, financial reporting can be compromised due to uncertainties in future cash flows, asset valuations, and earnings projections (Nwidobie, 2020; Chung et al., 2021). Managers may exercise discretion in reporting practices, sometimes engaging in earnings management or other opportunistic behavior that undermines financial statement reliability and stakeholder trust (Ahmed & Duellman, 2013).

Accounting conservatism has emerged as a key approach to maintaining financial reporting quality in such contexts. Conservatism, grounded in the principle of prudence, requires the timely recognition of losses and liabilities while deferring the recognition of gains until they are reasonably certain (Basu, 1997; Watts, 2003). By emphasizing caution in reporting, conservatism reduces the risk of overstated earnings and provides a buffer against the uncertainties inherent in economic volatility (Bushman & Piotroski, 2021). Empirical studies suggest that conservatism enhances the credibility and reliability of financial reports, particularly in emerging economies

where macroeconomic shocks are frequent (Francis, Hasan, & Wu, 2021; Ball & Nikolaev, 2020). In Nigeria, where sudden policy changes, fluctuating oil revenues, and exchange rate instability are common, conservative accounting practices can strengthen stakeholder confidence and contribute to financial stability.

Theoretical perspectives support the link between economic uncertainty and conservatism. The contracting theory of conservatism posits that conservative reporting protects creditors and investors by reducing overstatement of financial performance, thereby mitigating agency conflicts (Watts, 2003; Ball & Shivakumar, 2005). The capital market theory suggests that conservative accounting enhances market confidence by providing timely recognition of losses and liabilities, reducing information asymmetry, and facilitating efficient resource allocation (Bushman & Piotroski, 2006). These theoretical frameworks highlight the critical role of conservatism in ensuring financial reporting quality, particularly in high-risk environments where macroeconomic shocks are common.

Several macroeconomic variables are particularly relevant to understanding conservatism in Nigerian banks. GDP growth reflects the overall economic activity and stability, influencing banks' credit risk and cash flow predictability. Economic contractions increase uncertainty about future cash flows, motivating more conservative reporting to safeguard stakeholders (World Bank, 2023; IMF, 2023). Inflation volatility affects the purchasing power of money and asset valuations, potentially encouraging banks to adopt conservative recognition of gains and assets (OECD, 2023; Federal Reserve Bank, 2023). Exchange rate volatility introduces foreign currency risk, affecting the valuation of cross-border assets and liabilities; banks may respond by applying prudent accounting judgments to mitigate reporting risk (European Central Bank, 2023; Bank for International Settlements, 2023). Interest rate volatility also affects banks' net interest income and debt servicing obligations, further influencing the timeliness and conservatism of reported earnings (Nwankwo & Olagunju, 2022).

Empirical evidence highlights the responsiveness of firms to macroeconomic shocks through conservative reporting. Ahmed and Duellman (2013) found that firms in volatile economies increased accounting conservatism to protect creditors and investors. Similarly, Ball and Shivakumar (2005) demonstrated that conservative reporting reduces earnings overstatement risk in uncertain macroeconomic conditions. In the Nigerian context, preliminary studies indicate that banks may engage in conservative accounting to manage operational and financial risks under macroeconomic volatility (Adeyemi & Asaolu, 2013; Nwidobie, 2020). However, much of the existing literature is either outdated, focuses on non-financial firms, or examines aggregate firm behavior without isolating the effects of specific macroeconomic variables on accounting conservatism in the banking sector. This represents a significant gap in understanding how Nigerian banks respond to contemporary economic shocks in their financial reporting practices (Aminu & Hassan, 2017; Saleh et al., 2022).

This gap is critical given the central role of deposit money banks in Nigeria's economic development. Banks operate in an environment characterized by high information asymmetry and systemic risk, making the accuracy of financial reporting crucial for economic stability. A nuanced understanding of how economic uncertainties influence accounting conservatism in Nigerian banks can inform both theory and practice, contributing to regulatory frameworks, risk management strategies, and the development of policies that strengthen financial transparency and accountability. Investigating this relationship provides empirical evidence on banks' reporting behavior in response to macroeconomic volatility, enhancing our understanding of financial resilience in emerging markets.

By examining the impact of GDP, inflation, exchange rate, and interest rate volatility on accounting conservatism, this study addresses the need for context-specific evidence in Nigeria. It contributes to the literature on conservative accounting by exploring how macroeconomic shocks influence financial reporting decisions in a high-risk, emerging market setting. Moreover, the findings offer practical insights for bank managers, regulators, and policymakers seeking to ensure financial stability and maintain stakeholder confidence amidst economic uncertainty.

The Nigerian banking sector plays a critical role in sustaining economic growth, financial stability, and resource allocation. However, listed deposit money banks operate in one of the most volatile macroeconomic environments in Sub-Saharan Africa. Nigeria's economy has, in recent years, experienced persistent inflationary pressures, severe exchange rate instability, and irregular GDP growth cycles, all of which significantly distort the financial reporting landscape. Inflation volatility consistently above the Central Bank of Nigeria's target undermines asset valuation and erodes the real value of financial information. Similarly, the recurrent depreciation and instability of the naira create substantial foreign exchange (FX) translation risks, affecting earnings, liquidity, and the accuracy of reported financial performance. Furthermore, GDP contractions and slow recovery cycles amplify credit risks and increase the likelihood of asset impairment among banks. These macroeconomic realities raise serious concerns about the reliability, conservatism, and transparency of financial reports produced by Nigerian deposit money banks. Although previous studies acknowledge that economic uncertainties influence reporting practices, very few have examined how Nigeria's unique combination of inflation surges, FX volatility, and unstable growth patterns impacts the application of accounting conservatism within the banking sector. While accounting conservatism provides a mechanism for timely loss recognition and greater prudence, its effectiveness in environments characterized by persistent macroeconomic shocks, such as Nigeria, remains underexplored. Existing literature heavily emphasizes developed economies, leaving a significant gap regarding how banks in emerging markets especially Nigeria respond to economic turbulence through conservative reporting practices.

Given the centrality of banks to the Nigerian economy and the heightened exposure of the sector to macroeconomic instability, there is a clear need to empirically assess how economic uncertainties influence accounting conservatism and financial reporting quality in Nigeria. This study addresses this gap by examining the relationship between Nigeria's volatile macroeconomic indicators GDP cycles, inflation rate volatility, and exchange rate instability and the conservatism inherent in financial reports of listed deposit money banks. Given the practical challenges posed by economic uncertainties, the theoretical need to explore the specific application of accounting conservatism in such contexts, and the identified gaps in existing literature, this study aims to address the following problem:

i. To what extent does GDP rate contribute to financial reporting quality of listed deposit money banks in Nigeria?
ii. How does inflation influence the financial reporting quality of listed deposit money banks in Nigeria?
iii. What is the extent of influence of exchange rate volatility on financial reporting quality of listed deposit money banks in Nigeria?

Objectives of the Study

i. To examine the impact of GDP rate on accounting conservatism of listed deposit money banks in Nigeria.
ii. To investigate the impact of inflation rate on accounting conservatism of listed deposit money banks in Nigeria.

iii. To identify the impact of exchange volatility rate on accounting conservatism of listed deposit money banks in Nigeria.

In order to achieve the aforementioned objectives, the following hypotheses are formulated in null form:

H_{01} GDP growth rate has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria.
H_{02} inflation rate has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria.
H_{03} exchange rate volatility has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria.

In an attempt to investigate the impact of economic uncertainties on financial reporting quality, the dependent variable of this study is financial reporting quality which is proxy by Accounting conservatism while the independent variable of the study is economic uncertainty which proxy by; GDP growth rate, inflation rate, and exchange rate volatility. The period of the study is from 2014-2023 (10years). The domain of the study is listed deposit money banks in Nigeria.

This study will contribute to the existing body of knowledge by filling the theoretical and empirical gaps identified, providing a comprehensive understanding of the dynamics between economic uncertainties and financial reporting quality in the Nigerian banking sector. The findings will offer valuable insights for policymakers, regulators, and banking institutions, guiding the development of robust financial reporting frameworks that can withstand economic volatility and ensure transparency and reliability in financial statements. Understanding the relationship between economic uncertainties and financial reporting quality is crucial for several reasons. For policymakers and regulatory bodies, it informs the development of regulatory frameworks that can mitigate the adverse effects of economic volatility on financial transparency and accountability. For investors and other stakeholders, it enhances the understanding of the reliability of financial statements in volatile economic conditions, aiding better investment and decision-making processes. By investigating the impact of economic uncertainties on the financial reporting quality of listed deposit money banks in Nigeria, this study contributes to the existing literature on financial reporting practices in emerging economies. It also provides practical insights for improving the regulatory and operational frameworks of banks to ensure more robust and reliable financial reporting in the face of economic challenges.

2.0 Literature Review

The quality of financial reporting is critical for the transparency, reliability, and decision-making processes of stakeholders within the banking sector. In emerging markets like Nigeria, where economic uncertainties are prevalent, understanding the impact of these volatilities on financial reporting practices is crucial. This literature review explores the intersection of economic uncertainties and financial reporting quality, with a particular focus on the role of accounting conservatism as a mitigating factor. Economic uncertainties refer to the unpredictable fluctuations in macroeconomic indicators and overall economic growth. These fluctuations can create a challenging environment for financial institutions, particularly banks, which are highly sensitive to economic changes (Chung, Wynn, & Mitra, 2021). Economic uncertainties can lead to increased risk and instability, which in turn affects the accuracy and reliability of financial reporting. In Nigeria, economic instability has been a persistent issue, with banks frequently navigating through periods of high inflation, volatile exchange rates, and fluctuating interest rates. These conditions complicate the task of presenting an accurate financial picture, thereby potentially compromising the quality of financial reports (Nwidobie, 2020). High-quality financial reporting is essential for

stakeholders to make informed decisions, but economic uncertainties pose a significant threat to this objective.

Conceptualisation

Financial Reporting Quality

Financial reporting quality is defined as the degree to which financial reports accurately represent a company's financial performance and position. High-quality financial reporting provides stakeholders with reliable information that is free from material misstatement and bias (Dechow, Ge, & Schrand, 2010). In the banking sector, where the complexity of financial instruments and transactions is high, maintaining reporting quality is particularly challenging. Several factors influence the quality of financial reporting, including regulatory frameworks, corporate governance practices, and economic conditions. In emerging markets like Nigeria, weak regulatory enforcement and governance challenges exacerbate the impact of economic uncertainties on financial reporting (Ghosh & Moon, 2010). As such, understanding the mechanisms through which economic uncertainties affect reporting quality is critical for developing effective regulatory responses.

The literature generally agrees that financial reporting quality reflects the reliability, transparency, and usefulness of financial information (Dechow, Ge, & Schrand, 2010). While there is consensus that high-quality reporting reduces information asymmetry and supports stakeholder decision-making, evidence is mixed regarding its resilience under economic stress, particularly in emerging markets. Some studies suggest that strong regulatory frameworks and governance structures can mitigate macroeconomic pressures, whereas others indicate that volatility may overwhelm these mechanisms (Ghosh & Moon, 2010). This study situates itself within this debate by examining how Nigeria’s macroeconomic realities persistent inflation, exchange-rate volatility, and uneven GDP growth affect the quality of financial reporting among listed deposit money banks.

Accounting Conservatism

Accounting conservatism is a principle in financial reporting that mandates recognizing expenses and liabilities sooner rather than later, and revenues and assets only when they are assured. This cautious approach aims to present a more prudent financial position, reducing the risk of overstating a company's financial health and performance. Accounting conservatism emphasizes the recognition of potential losses more promptly than gains (Basu, 1997). Conservatism in accounting serves as a protective measure against the inherent risks and volatilities in the economic environment. Watts (2003) highlights that accounting conservatism is particularly useful in uncertain economic conditions, as it enhances the credibility and reliability of financial reports by providing a buffer against over-optimistic projections. In the context of Nigerian banks, where economic uncertainties are a constant challenge, conservatism can play a critical role in ensuring the quality of financial reporting (Bushman & Piotroski, 2021; Ball & Nikolaev, 2020; Francis, Hasan & Wu, 2021; Kim & Zhang, 2022; Bushman, Piotroski & Smith, 2022).

Accounting conservatism is widely recognized as a tool to enhance prudence and timely loss recognition, reducing the risk of overstated earnings and asset values (Basu, 1997; Watts, 2003; Bushman & Piotroski, 2021). There is broad agreement that conservatism can improve credibility and protect stakeholders, yet studies diverge on whether excessive conservatism might distort reported performance or create hidden reserves (Ball & Nikolaev, 2020; Francis, Hasan & Wu, 2021; Kim & Zhang, 2022). In the Nigerian banking context, where macroeconomic shocks are frequent, the study investigates how conservatism operates as a stabilizing mechanism in financial reporting, particularly under conditions of inflation, FX instability, and fluctuating economic growth.

GDP Growth Rate

The GDP growth rate measures the annual percentage change in a country's gross domestic product, reflecting the pace at which a nation's economy expands or contracts. It is essential for assessing economic performance, guiding policy decisions, and predicting future economic conditions (World Bank, 2023; IMF, 2023; OECD, 2023; Federal Reserve Bank, 2023; Eurostat, 2023). GDP growth is widely accepted as a measure of economic expansion and stability (World Bank, 2023; IMF, 2023; OECD, 2023; Federal Reserve Bank, 2023; Eurostat, 2023). Studies suggest that robust growth can reduce uncertainty and encourage transparent reporting, while periods of weak or negative growth may heighten reporting risks or managerial discretion. In Nigeria, deposit money banks are particularly sensitive to GDP cycles, which can influence reporting incentives and the application of accounting conservatism. This study assesses GDP growth as both a contextual factor and a determinant of conservative reporting practices.

Inflation Rate

The inflation rate represents the percentage increase in the average price level of goods and services in an economy over a specific period, typically a year. It affects purchasing power and can influence economic stability, monetary policy, and investment decisions (IMF, 2023; World Bank, 2023; OECD, 2023; Federal Reserve Bank, 2023; Eurostat, 2023). Inflation is recognized as a major source of economic uncertainty, affecting purchasing power, asset valuation, and financial reporting (IMF, 2023; World Bank, 2023; OECD, 2023; Federal Reserve Bank, 2023; Eurostat, 2023). While high inflation may incentivize conservative reporting to mitigate valuation risks, its impact on reporting quality is not uniform across studies, with some evidence suggesting it can also encourage opportunistic behavior. This research examines how inflation volatility in Nigeria affects banks' use of accounting conservatism to maintain reliable financial statements.

Exchange Rate Volatility

Exchange rate volatility refers to the extent of fluctuations in the exchange rate of one currency relative to another over a given period. High volatility can impact international trade, investment flows, and economic stability by introducing uncertainty into currency valuation and financial planning (European Central Bank, 2023; IMF, 2023; Bank for International Settlements, 2023; Federal Reserve Bank, 2023; World Bank, 2023). Exchange rate volatility introduces uncertainty into financial reporting, especially for institutions with foreign-currency exposures (European Central Bank, 2023; IMF, 2023; BIS, 2023; Federal Reserve Bank, 2023; World Bank, 2023). Literature shows mixed effects: some studies report that FX volatility encourages prudence, while others find it can lead to earnings smoothing. In Nigeria, frequent naira devaluations and FX instability create a unique context in which banks must balance risk management with accurate reporting. By examining FX volatility as a determinant of accounting conservatism, this study addresses a gap in existing literature and offers evidence from a highly volatile emerging economy.

Empirical Review

Empirical research into the relationship between economic uncertainty and accounting conservatism has produced substantial insights, highlighting both the protective and potentially distorting effects of conservative reporting. Ahmed and Duellman (2013), in a cross-country study of publicly listed firms, found that firms operating in volatile economic environments adopt more conservative accounting practices to mitigate potential future losses. Similarly, Ball and Shivakumar (2005) argue that conservatism improves financial reporting quality by providing more timely and reliable information. However, Ryan (2006) cautions that excessive conservatism may understate financial performance, potentially misleading stakeholders and affecting decision-making.

Focusing on Nigeria, empirical studies confirm the relevance of conservatism under local macroeconomic pressures. Adeyemi and Asaolu (2013), analyzing Nigerian deposit money banks between 2005 and 2011, reported that banks facing high economic uncertainty tend to adopt more conservative reporting practices as a mechanism to manage risk and maintain financial stability. Nwidobie (2020) similarly observes that Nigerian banks resort to conservative accounting under volatile conditions to uphold stakeholder confidence and ensure regulatory compliance. These studies underscore the protective function of conservatism but rely on older data and do not explicitly measure contemporary macroeconomic shocks, such as inflation volatility, exchange rate fluctuations, and GDP cycles.

Recent empirical work further refines our understanding of conservatism in Nigerian firms. Saleh, Mailafia, Tijjani, Bagudo, and Daluma (2022) found that asymmetric timeliness in reporting a measure of conservatism is positively associated with profitability in non-financial firms, suggesting that prudent reporting enhances earnings reliability. Oyetuni, Aina, Ademosun, and Ajagun (2025) documented that conservatism positively affects return on assets in manufacturing firms, highlighting its potential to support firm performance under operational uncertainty. Governance mechanisms and firm-specific factors also shape conservatism: Egbadju (2024) showed that board size, managerial ownership, and audit committee characteristics significantly influence the level of conservative reporting in Nigerian firms, while Isuku Ohiomegwe and Emeka-Nwokeji (2025) found that concentrated ownership and aggressive debt structures may reduce the adoption of conservative practices. Political connections further complicate this relationship, as Akhor, Ogbeide, and Azenabor (2023) demonstrated that such ties can either weaken or reinforce conservatism depending on the nature of the political relationship.

Despite these contributions, significant gaps remain. Few studies have examined how macroeconomic shocks directly influence accounting conservatism in Nigerian banks. Aminu and Hassan (2017) studied conservatism in deposit money banks, but their data (2012–2016) do not reflect recent economic turbulence or the specific effects of inflation volatility, exchange rate instability, and GDP fluctuations. This gap is particularly important given Nigeria's persistent macroeconomic volatility and the banking sector's central role in economic stability.

In summary**,** while global and Nigerian studies converge on the protective function of accounting conservatism, there is a critical need for updated empirical evidence linking specific macroeconomic uncertainties to conservatism and financial reporting quality in Nigerian banks. The current study addresses this gap by investigating how inflation volatility, exchange rate fluctuations, and GDP cycles affect accounting conservatism and, in turn, the quality of financial reporting among listed deposit money banks. This focus not only contributes to the literature on conservatism in emerging economies but also provides insights for regulators, policymakers, and banking practitioners on maintaining reliable reporting under macroeconomic stress.

Theoretical Framework

This study is anchored on the Conservative Accounting Theory (Basu, 1997; Watts, 2003) to explain the relationship between economic uncertainties and accounting conservatism. The theory posits that accountants adopt a cautious and prudent approach in financial reporting, recognizing losses earlier than gains and deferring the recognition of revenues and assets. Such conservatism ensures that financial statements do not overstate the economic position of firms, thereby protecting stakeholders from potential misrepresentation, particularly under uncertain economic conditions.

Economic uncertainties specifically GDP growth rate, inflation rate, and exchange rate volatility can significantly influence the level of accounting conservatism adopted by banks. During periods

of low or negative GDP growth, firms face heightened economic risk, which increases uncertainty about future cash flows. Under these conditions, banks are more likely to adopt conservative accounting practices, such as earlier recognition of expected loan losses and delayed revenue recognition, to signal financial stability and reduce earnings volatility (Adeyemi & Asaolu, 2013; Nwidobie, 2020). This reflects a risk-averse managerial response**,** consistent with Conservative Accounting Theory, where prudence mitigates stakeholder concerns during economic downturns. High and unpredictable inflation erodes purchasing power and introduces uncertainty in asset valuations. Banks operating under high inflation are likely to engage in provisioning behavior, recognizing potential losses sooner and deferring gains, to avoid overstating financial performance (Saleh et al., 2022; Oyetuni et al., 2025). Accounting conservatism, therefore, acts as a protective buffer, reducing the risk of financial misstatement in an inflationary environment.

Fluctuations in foreign exchange rates affect the valuation of foreign-denominated assets and liabilities, potentially impacting banks' balance sheets and income statements. Conservative reporting under FX volatility allows banks to mitigate financial risk**,** provide more reliable information to stakeholders, and maintain regulatory compliance (Akhor, Ogbeide, & Azenabor, 2023). This mechanism aligns with the theory's premise that conservatism serves as a tool to manage uncertainty and reduce the information risk perceived by investors and creditors.

Hypotheses Development

Based on the theoretical linkages described above, the study formulates the following null hypotheses:

> **H_{01}:** GDP growth rate has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria.
> **H_{02}:** Inflation rate has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria.
> **H_{03}:** Exchange rate volatility has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria.

By integrating the Conservative Accounting Theory with Nigeria-specific macroeconomic realities, this framework provides a clear theoretical basis for expecting that banks adjust their accounting practices in response to economic uncertainties. Specifically, the theory predicts that low GDP growth, high inflation, and volatile exchange rates will encourage banks to adopt more conservative accounting practices through risk-averse decision-making, provisioning for potential losses, and careful revenue recognition**,** thereby enhancing the credibility and reliability of financial reports.

3. Methodology

This study employs a panel research design using secondary firm-year data from 2014 to 2023 to examine the relationship between economic uncertainties and accounting conservatism in Nigerian listed deposit money banks. The panel approach is appropriate as it captures both cross-sectional variations across banks and time-series variations across years, allowing for a robust assessment of how macroeconomic shocks influence accounting practices. The 2014–2023 period encompasses significant economic events and policy changes in Nigeria, providing a comprehensive context for analyzing economic volatility and its effects on financial reporting. The population of the study consist of the entire listed deposit money banks in Nigeria as at 31st Dec, 2023. A random sampling technique was employed for the study and only 10 banks were selected. Multiple regression technique is employed for the analysis of the extracted secondary data. Data for the study was sourced from CBN statistical bulletin, bureau of statistics and published annual financial statements of the sample banks.

Model specification

$AC_{it} = a_0 + a_1 GDPR_{it} + a_2 IR_{it} + a_3 ERV_{it} + a_4 FRMSIZ_{it} + \mu_t$

Where:
AC = Accounting conservatism
GDP = Gross Domestic Product Rate
IR = Inflation rate
EXRV = Exchange rate volatility
FRMSIZ = Firm size
a_o = Intercept
$a_1 + a_4$ = Coefficient of independent variables
μ = Error Term

Variables Measurement

Table 1 presents the definitions as well as the measurement of all the variables in this study.

Table 1:
Measurement of Variables

Variable	Proxy/Measurement	Source	Units/Transformation
Accounting Conservatism (AC)	Accrual-based conservatism using Basu (1997) asymmetric timeliness approach: estimates the differential timeliness of loss vs gain recognition. Higher values indicate higher conservatism.	Annual reports of banks	Ratio (dimensionless)
GDP Growth Rate (GDP)	Annual percentage growth of real GDP	NBS; World Bank	% per annum
Inflation Rate (IR)	Yearly percentage change in CPI	NBS; World Bank	% per annum
Exchange Rate Volatility (EXRV)	Standard deviation of monthly Naira/USD exchange rate within each year	CBN; IMF	% (annualized)
Firm Size (FS)	Natural log of total assets	Annual reports	log(NGN)

Source: Authors compilation, 2025.

This measurement approach ensures that the variables are standardized, validated in prior literature, and relevant for the Nigerian banking context (Basu, 1997; Kothari et al., 2010; Saleh et al., 2022).

Accounting conservatism: Using a validated asymmetric timeliness measure aligns with global accounting literature and improves credibility over non-standard measures.

Macroeconomic variables: GDP, inflation, and exchange rate volatility are key indicators of Nigeria's economic environment and directly capture the uncertainties banks face.

Firm size: Included as a control variable, as larger banks may have greater capacity to manage risk and adopt conservative accounting practices (Saleh et al., 2022).

Panel fixed-effects estimation: Chosen to mitigate omitted variable bias, address unobserved heterogeneity, and account for temporal and cross-sectional correlations.

4.0 Results and discussions

This section presents and discusses the descriptive statistics, correlation matrix result of the model, the summary of the regression result is presented, interpreted, discussed and hypotheses of the study were tested accordingly.

Table 2
Descriptive Results

Variable	Mean	Std. Dev.	Minimum	Max	Skewness	Kurtosis
AC	.01828	.0098228	.005	.048	0.0236	0.0157
GDP	141819.3	110492.1	89022	220966.9	0.0489	0.0002
IR	14.641	4.736696	8.05	24.66	0.0229	0.7284
ERV	19.723	21.44919	.16	64.73	0.0000	0.8803

Source: STATA 11 output 2025.

From Table 2, accounting conservatism (AC) has a mean of 0.01828, ranging from 0.005 to 0.048, with a standard deviation of 0.00982, indicating low dispersion across the sample. The skewness (0.0236) and kurtosis (0.0157) values suggest a nearly symmetric distribution. Moreso, the independent variable GDP shows a mean of 141,819.3, with a minimum of 89,022 and a maximum of 220,966.9. The standard deviation of 110,492.1 indicates moderate variation across the observed period. Its skewness (0.0489) and kurtosis (0.0002) indicate a symmetric and flat distribution.

Inflation rate (IR) has a mean of 14.641%, with values ranging from 8.05% to 24.66% and a standard deviation of 4.737. Skewness (0.0229) and kurtosis (0.7284) show a slight positive skew with normal peakedness. In addition, exchange rate volatility (ERV) exhibits a mean of 19.723, with a minimum of 0.16 and a maximum of 64.73, and a standard deviation of 21.449. The skewness (0.0178) and kurtosis (0.8803) values suggest slight positive skew and normal distribution.

Overall, the descriptive statistics indicate that the variables are approximately normally distributed, with low dispersion around the mean and no extreme skewness or kurtosis. This supports the suitability of the data for panel regression analysis.

Table 3
Correlation Matrix

Variable	AC	GDP	IR	ERV
AC	1.0000			
GDP	0.2872	1.0000		
IR	0.2004	0.8098	1.0000	
ERV	0.0017	0.2424	0.5266	1.0000

Source: STATA 11 output 2025.

From Table 3, AC exhibits a positive but weak correlation with all independent variables, suggesting a limited linear relationship at the bivariate level. Among the independent variables, GDP and inflation are strongly correlated (r = 0.8098)**,** indicating potential multicollinearity. The correlation between ERV and inflation is moderate (r = 0.5266)**,** while GDP and ERV show a weak relationship (r = 0.2424).
High correlation between GDP and inflation may inflate the standard errors of the regression coefficients, reducing the precision of estimated effects and potentially obscuring the individual contribution of each variable to accounting conservatism. If unaddressed, multicollinearity can lead to statistically insignificant coefficients, even when the variables are theoretically important. To address multicollinearity, this study adopts several measures:

Variance Inflation Factor (VIF) test: Variables with VIF > 10 are carefully examined, and appropriate remedial steps (e.g., centering, standardization) are applied if necessary.

Panel fixed-effects regression: By controlling for unobserved heterogeneity and including year effects, some sources of collinearity across time are mitigated.

Despite high correlation, both GDP and inflation are retained in the model due to their distinct theoretical roles in influencing accounting conservatism GDP reflects overall economic cycles, while inflation captures price-level uncertainty impacting asset valuation and provisioning behavior (Basu, 1997; Watts, 2003). Overall, while multicollinearity is present between GDP and inflation, the combination of diagnostic checks, panel fixed-effects estimation, and theoretical justification ensures robust and credible inference for the study's hypotheses.

Table 4 VIF

Variable	VIF	1/VIF
GDP	3.36	0.297365
IR	4.38	0.228310
ERV	1.60	0.624255
Mean VIF	3.11	

Source: STATA 11 Output 2025.

In order to determine if there is existence of multi-colinearity between the independent variables of this study, the variance inflation factor test (VIF) is conducted. The VIF test result from the table 4 shows a mean value of 3.11, which is greater than 1 and less than 10. To substantiate this position it implies that the presence of multi-collinearity may not pose a threat to the reliability of the analysis of this study.

Table 5 regression result

Variable	Co-efficient	T-value	P-value
GDP	7.554320	4.073221	0.044
IR	-.0000761	.0004231	0.857
ERV	-.0000271	.0000565	0.631
R-square	0.5177		
Chi2	9.23		

F-Sig	0.0264

Source: STATA 11 output 2025.

The results of the parsimonious model of this study are presented in Table 5. The table shows the relationship between accounting conservatism (AC) and the independent variables GDP, interest rate (IR), and exchange rate volatility (ERV).

From Table 5, GDP shows a coefficient value of 7.554320 with a T-value of 4.073221, significant at 0.044 (95% confidence level). This indicates that GDP has a positive and significant relationship with accounting conservatism of listed deposit money banks in Nigeria. In practical terms, this implies that for every increase in GDP, the level of accounting conservatism in banks increases by the coefficient value, and vice versa. This finding aligns with the Conservative Accounting Theory, which posits that firms adopt a prudent approach to financial reporting to mitigate economic uncertainty and protect stakeholders (Basu, 1997; Watts, 2003). The result is also consistent with the empirical studies of Adeyemi and Asaolu (2013) and Nwidobie (2020), who observed that Nigerian banks exercise caution in financial reporting in response to macroeconomic fluctuations. In reality, this suggests that during periods of economic expansion, banks in Nigeria enhance conservatism to signal stability and maintain stakeholder confidence, reflecting a practical application of theory in a developing economy.

Regarding interest rate, the T-value is 0.0004231 with a coefficient of -0.0000761, which is insignificant ($p = 0.857$). This shows a negative but statistically insignificant relationship between interest rate and accounting conservatism. This implies that changes in interest rates do not meaningfully influence the level of conservatism in Nigerian banks. One possible explanation is that banks may rely more on internal prudential policies and regulatory oversight rather than short-term interest rate fluctuations when deciding on conservative accounting practices. This result partially aligns with theoretical expectations, as the Conservative Accounting Theory emphasizes prudence under uncertainty, but here the economic risk from interest rate changes may not be sufficiently perceived by banks to alter reporting behavior significantly.

Similarly, exchange rate volatility shows a T-value of 0.0000565 and a coefficient of -0.0000271, with an insignificant p-value of 0.631. This indicates that ERV has a negative but statistically insignificant effect on accounting conservatism. Although theoretically, exchange rate volatility could increase perceived economic risk and trigger more conservative reporting, the finding suggests that Nigerian banks may effectively hedge foreign currency exposures or rely on regulatory guidance, minimizing the impact of exchange rate fluctuations on reported conservatism. This is in line with the notion in Conservative Accounting Theory that firms adjust reporting practices in response to economic risks, but the level of perceived risk must be significant to trigger a change in behavior.

To assess overall model fitness, the regression reports an R^2 of 0.5177 and a Chi^2 value of 9.23 ($p = 0.0264$). This indicates that approximately 52% of the variation in accounting conservatism is explained by GDP, interest rate, and exchange rate volatility, while the remaining 48% is due to other factors not captured in the study. The significance of the Chi^2 statistic suggests that the model is fit and that the independent variables were appropriately selected.

In summary, the study finds that GDP is a significant driver of accounting conservatism in Nigerian banks, consistent with theoretical and empirical expectations, while interest rate and exchange rate volatility do not exert significant effects. These findings reflect the Nigerian banking reality, where macroeconomic growth is a dominant factor influencing banks' cautious

reporting, whereas other macroeconomic risks are either hedged or perceived as less critical for reporting decisions.

Test of hypotheses

H_{01} GDP has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria. But from the regression result of this study, it shows that GDP has a significant relationship with AC. Therefore, this study rejects H_{01}.

H_{02} inflation rate has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria. The result of the regression shows that Interest rate has no significant relationship with AC. Therefore this study fails to reject the null hypothesis H_{02}.

H_{03} exchange rate volatility has no significant relationship with accounting conservatism of listed deposit money banks in Nigeria. The result of the regression shows that Exchange rate volatility has no significant relationship with AC. Therefore this study fails to reject the null hypothesis H_{03}.

5.0 Conclusion and Recommendations

This study set out to examine how economic uncertainties affect the financial reporting quality of listed deposit money banks in Nigeria between 2014 and 2023. Financial reporting quality was measured using accounting conservatism, while economic uncertainties were captured through GDP growth rate, inflation rate, and exchange rate volatility. Using multiple regression analysis, several important insights emerged.

Firstly, the study found that GDP growth rate has a positive and significant effect on accounting conservatism. This means that when economic activities expand, Nigerian banks tend to adopt more conservative reporting practices. A possible explanation is that periods of strong economic performance encourage banks to present financial information more cautiously to maintain credibility and reduce risk exposure.

Secondly, the results show that inflation rate does not have a significant influence on accounting conservatism. Although inflation remained high during several years in the study period, banks did not adjust their level of conservatism in response. This suggests that inflationary pressures may already be internalized within banking operations and therefore do not directly alter reporting attitudes.

Thirdly, the findings indicate that exchange rate volatility also has no significant effect on accounting conservatism. Despite fluctuations in the foreign exchange market within the period, banks did not meaningfully change the level of caution applied in their financial reporting.

Based on the findings, the study concludes that economic uncertainties influence financial reporting quality in Nigeria, but the effect is not uniform across macroeconomic indicators. GDP growth rate stands out as the only variable with a significant impact on accounting conservatism, highlighting the sensitivity of banks' financial reporting to broader economic performance.

On the other hand, inflation and exchange rate volatility though important indicators of economic instability did not significantly determine how conservatively Nigerian banks reported their financial information within the study period. This suggests that banks may be relying on internal risk-management practices rather than adjusting their reporting behaviours in response to these specific uncertainties.

Since GDP growth rate significantly affects accounting conservatism, regulators and banks should ensure that reporting practices remain prudent during periods of economic expansion. This can be achieved by integrating GDP trends into reporting guidelines, maintaining strict oversight from regulatory bodies like CBN and FRC, and sustaining macroeconomic policies that promote stable economic growth to support consistent and reliable financial reporting within the banking sector. Although inflation did not significantly influence accounting conservatism, banks should still enhance their inflation monitoring frameworks and adopt inflation-sensitive risk-management tools to prevent inflationary pressures from quietly weakening reporting quality. Regulators should also require better inflation-related disclosures to ensure that the potential impacts of inflation on asset valuation, provisioning, and earnings recognition are clearly communicated to stakeholders.

Given that exchange rate volatility showed an insignificant effect on accounting conservatism, banks should strengthen their foreign exchange risk-management practices and incorporate exchange-rate scenarios into their stress-testing and reporting procedures. Regulators should also mandate clearer disclosures on banks' FX exposures so that even if exchange rate fluctuations do not significantly alter conservatism levels, stakeholders can still assess how well banks manage currency-related risks.

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