BANKING SECTOR REFORMS AND ECONOMIC GROWTH: THE CASE FOR NIGERIA

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ABSTRACT

This research work is on banking sector reforms and economic growth, with particular focus on Nigeria. Focusing on the Nigerian economy, a country whose banking industry has witnessed a large number of reforms in a relatively short time, the aim of this study therefore, is to attempt to analyze whether the banking sector reforms have had any significant effect in stimulating economic growth in the country. The study attempts to ascertain the effect of banking sector reforms on financial deepening, as well as determines its relationship with the real sector financing. The study relies mainly on secondary data for the analysis, and the hypotheses formulated are tested using ordinary least square multiple regression method. The results reveal that there is a negative relationship between the Loan and the Gross domestic product which signifies that they are inversely related. An increase in commercial bank loan and advances will reduce the GDP. More so, there is a significant relationship between banking reforms and real sector financing. The study establishes that there is a great link between the reforms in the banking sector and the Nigerian economy. Among other things, the study recommends that time lag should be permitted to exist from one reform period to another in order to allow for appropriate planning, and as well, there should be policy consistency by the appropriate Authorities.

Keywords: Banking Sector Reforms, Economic Growth, Financial Deepening

Background of the Study

In Nigeria, the ability of the financial sub-sector to play its role has been periodically punctuated by its vulnerability to systemic distress and macroeconomic volatility, and policy fine tuning inevitability. Consequently, the banking reforms were focused on liberalization of banking business; ensuring competition and safety of the system; and proactively positioning the industry to perform the role of intermediation and playing a catalytic role in economic development. It is unarguably a fact that the banking system is the engine of growth in any economy, given its function as financial intermediation. Through this function, banks promote economic growth, employment, facilitate capital formation and lubricate the production engine turbines of any economy.

Reforms connote a mechanism to drive a desired change; a shift from one normative course of action to another in a social or economic system so as to control the operations and operators of the system and enhance system performance (Okafor, 2011). Banking Sector Reforms has been an on-going phenomenon. It has however, recently been intensified due to forces of globalization which are guiding the integration of world's financial markets and economy.

The banking sector reforms are fundamentally to improve the scope and potentials of the sector and enhance its ability to perform developmental roles in the economy. The primary objective of the reforms is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system to develop the required resilience to support the economic development of the nation by efficiently performing its function as fulcrum of financial intermediation. The government aimed to establish a reliable and efficient banking sector so as to guarantee the safety of the depositors' money and become major players in the sub-region, regional and global financial market.

Therefore, since 1988, many emerging economies, including Nigeria, embraced banking sector reforms (Sundararajan and Balino, 2013). Starting in 1986, Onwioduokit (2012) stated that Nigeria‘s financial system began to be deregulated and by (1992) substantial changes had taken place. Sylvanus, Ikhide and Abayomi (2011) stated that the reforms involved liberalizing interest and exchange rates, promoting a market-based system of credit allocation, enhancing competition and efficiency in the financial system, and strengthening the regulatory and supervisory framework. Consistent with trends in other developing countries, institutions and markets are growing and developing, leading to an increasing role being played by the financial system in the development of Nigeria‘s economy.

When Prof Chukwuma Soludo, took over at the nation's apex bank (CBN) in 2004, he initiated the Banks' Consolidation exercise, an effort aimed at ensuring strong banks with strong capital base. The exercise raised the minimum capital requirement of banks from N2 billion to N25 billion, with 18-month notice from official announcement of the banking reform policy on July 6th, 2004. There were 89 banks as at then. The most capitalised bank then had capital of \$240 million, when in Malaysia; the least capitalised bank had capital of \$526 million. However, the industry was heavily concentrated, with the 10 largest banks controlling 50 per cent of the assets and deposits in the Nigerian banking system.

Because of the much larger capital requirement there was the consolidation of banks into larger entities, through mergers and acquisitions among them, in order to meet up with the new status and only 25 banks emerged eventually with a full compliance deadline of 31st December, 2005. The number later further reduced to 24 at the end of 2007, with the merging of Stanbic bank plc and IBTC Bank to form Stanbic IBTC Bank plc

The CBN in 2009 also initiated banking sector reforms and set up the Asset Management Corporation of Nigeria (AMCON), a unique institution that combines buying non-performing loans (NPLs) with loan restructurings and recapitalising troubled financial institutions. The CBN intervention was necessary due to weak risk management and corporate governance in the banks on the back of oil and equities market slump with NPLs rising as high as a third of total banking loans.

Generally, the financial system is more than just institutions that facilitate payments and extend credit. It encompasses all functions that direct real resources to their ultimate user. The government aimed to establish a realiable and efficient banking sector so that it could guarantee the safety of the depositor's money. However, there remains a gap in understanding the causal relationship between Banking Sector Reforms and economic growth in Nigeria. Focusing on the Nigerian economy, a country whose banking industry has witnessed a large number of reforms in a relatively short time, the aim of this study therefore, is to attempt to analyze whether recent banking sector reforms have had any significant effect in stimulating economic growth in Nigeria.

Statement of the Problem

There have been conflicting results from available studies on banking sector reforms in general and its effect on economic growth. The studies were not clear on the impact of banking sector reforms on economic growth. Instead, most studies review the link between finance and economic growth. It is also evident that more empirical studies have appeared, but the field is still relatively sparse, and the studies still focus largely on the characteristics of banking sector reforms, reasons for banking sector reforms and challenges therewith.

This work therefore attempts to fill up the big gap in the econometric-based empirical analysis on the effects of banking sector reforms in Nigeria, picking specifically at financial deepening and the finance of the real sector.

Objectives of the Study

The specific objectives of the study are to:

i. Ascertain the effect of banking sector reforms on financial deepening.

ii. Determine the relationship between banking sector reforms and real sector financing.

Research Hypotheses

1 H_{O1}: Banking sector reforms do not have significant effect on financial deepening.
2 $H0_2$: There is no significant relationship between banking sector reforms and real sector financing in Nigeria.

CONCEPTUAL FRAMEWORK

Meaning of Banking Sector Reforms

Banking sector reforms refer to the changes or shifts in banking processes and practices imposed on banks by banking systems regulators (Okafor, 2011). Reforms are predicated upon the need for reorientation and reposition of existing status quo in order to attain an effective and efficient state. Reforms are deliberate actions by the government to fast track, jump start and consolidate specified sector of the economy to achieve desired objectives. Thus, banking reforms are deliberate policy response to correct perceived or impending financial crises and subsequent failure.

Reforms in the financial industry are aimed at addressing issues such as corporate governance, risk management and operational inefficiencies. The vortex of most banking reforms is around firming up capitalization. Banking reforms are primarily driven by the need to achieve the objective of consolidation, competition and convergence in the financial architecture. Banking reforms are normally carried out through banking sector deregulation. Deregulation of the banking sector requires a set of indicators that can be used for effective policy formulation, implementation and evaluation (Sanusi, 2012). As such, there is no precise definition in the literature of ―banking sector development. Fry (2008) observed that the key to banking sector development is the reduction and ultimate unification of fragmented financial markets. This involves a complete set of indicators mainly covering credit intermediation, liquidity management and the risk management characteristics of the financial system. Onwioduokit (2012) posits that it is hard to find an indicator that can directly measure the development of the banking sector.

However, from recent literature, measures of banking sector reforms include the ratio of broad money (M2) to GDP, currency outside bank as a ratio of broad money (M2), interest rate spread, real interest rate and gross savings as a ratio of GDP. From the literature, it has been observed that well-spaced and implemented banking reforms have the ability to boost these banking sector reform indicators. However, some studies have shown that the Nigerian financial system has benefited largely from these reforms, but all the same, the system is still yawning for improvement (Robinson, 2012).

An Overview of Banking Sector Reforms in Nigeria

The chequered history of Banking Sector Reforms in Nigeria had its roots in the quest for repositioning of the financial institutions to meet the challenges in the competitive global market. Much as the Central Bank of Nigeria tried to evolve a seamless system capable of enthroning a regime of stability in the monetary policy, the results have created need for further reforms, to meet the challenges of the time.

It is important to note that the reforms of the 'Banking Consolidation Era' which began in 2004 with the consolidation programme were necessitated by the need to strengthen the banks. The policy thrust at inception, was to grow the banks and position them to play pivotal roles in driving development across the sectors of the economy. As a result, banks were consolidated through mergers and acquisitions, raising the capital base from N2 billion to a minimum of N25 billion, which reduced the number of banks from 89 to 25 in 2005, as earlier mentioned.

But beyond the need to recapitalize the banks, the regulatory reforms also focused on the following: Risk-focused and rule-based regulatory framework; Zero tolerance in regulatory framework in data/information rendition/reporting and infractions; Strict enforcement of corporate governance principles in banking; Expeditious process for rendition of returns by banks and other financial institutions through e-FASS; Revision and updating of relevant laws for effective corporate governance and ensuring greater transparency and accountability in the implementation of banking laws and regulations, as well as; the introduction of a flexible interest rate based framework that made the monetary policy rate the operating target. The framework has enabled the bank to be proactive in countering inflationary pressures. The corridor regime has helped to check wide fluctuations in the interbank rates and also engendered orderly development of the money market segment and payments system reforms, among others.

Mallam Sanusi Lamido Sanusi took over in 2009 and barely two months in office, he empanelled a special joint committee of the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation to conduct a special examination of all 24 universal banks in Nigeria. The result showed weak corporate governance, operational indiscipline and global financial crisis as the major causes of the weakness and prescribed further decisive Banking Sector Reforms to forestall total collapse of the sector. There are strong indications that another banking reforms is being muted by the current CBN Governor, Mr. Godwin Emiefele, before the end of 2023. He was quoted in THISDAY Newspaper of 27th June, 2020, to have said:

"…What we are trying to say is that recapitalization has weakened substantially and there is need for us to say it is time for us to recapitalize Nigerian banks again. It is a policy thrust which will discussed at the committee of Governors meeting and of course, the framework for the recapitalization of Nigerian banks will be unfolded for the whole World to see" (Chima, 2019).

Role of Banking Sector Reforms

Banking sector reforms refers to measures or series of measures taken to correct distortions in the banking system. Mainly, banking reforms usually set to achieve macroeconomic goals of price stability, full employment, high economic growth and internal and external balances the reforms in Nigeria, according to CBN (2012), have been directed towards financial intermediation, financial stability and confidence in the system. The banking sector reforms are fundamentally to improve the scope and potentials of the sector and enhance its ability to perform developmental roles in the economy.

The primary objective of the reforms is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system to develop the required resilience to support the economic development of the nation by efficiently performing its function as the fulcrum of financial intermediation. The government aimed to establish a reliable and efficient banking sector so as to guarantee the safety of the depositors' money and become major players in the sub-region, regional and global financial market. The reforms have since commencement introduced several structural adjustment and policy shift.

Challenges of Banking Sector Reforms

The Nigerian Banking Sector Reforms faced some challenges despite its laudable achievements. First and foremost is the wrong perception of the intent of the reforms. The introduction of the new banking model, especially specialized banking (non-interest banking), is intended to broaden the scope of financial services offered by banks in Nigeria. However, it has been given a religious connotation. The wrong perception and stiff resistance to the policy could potentially determine prospective investors in the banking industry, more so, the reluctance of Nigerians to accept positive changes in global dynamics. Evidence shows that the excessive liquidity in the system measured by broad money (M2), narrow money (M1) and currency in circulation is partly attributed to the high cash transactions for economic activities, which has continued to undermine the efforts to achieve price stability. Yet the cash-less policy has faced tremendous resistance, despite its prospect for economic good and development and the global trend in the intensity of usage of e-payment.

Another key challenge is the quality of manpower. Real strategic change can only take place with competent and committed workforce that is constantly exposed to training and development. The competitive banking sector environment requires a highly skilled workforce that can effectively contribute to value creation within financial institutions. Hitherto, employee recruitment was merely to comply with regulatory requirement, while training was viewed as a non-revenue function that was costly and unnecessary.

Theoretical Framework

The theoretical framework for this study is hinged on the theoretical paradigm known as 'supply-following' hypothesis. The 'supply-leading' hypothesis posits a unidirectional causation that runs from financial deepening to economic growth implying that new functional banking sector reforms will increase the supply of banking services. This will definitely lead to high but sustainable real economic growth. The study is also rooted in 'Endogenous Growth Theory', which suggests that a strong banking sector promotes economic growth and holds that policy measures can have an impact on the long-run growth rate of an economy. The main implication of this theory therefore, is that banking policies which embrace openness, competition, change and innovation will promote economic growth.

Empirical Review

There exists an extensive body of literature on the link between finance sector development, economic growth. Beck, Cull and Jerome (2012) examines the long-run causal relationship between banking sector reform and economic growth for three South Asian countries namely India, Pakistan and Bangladesh. The study employed a cointegrated vector autoregressive model to assess the long-run relationship between banking sector reform and economic growth. The results indicate causality between banking sector reform and economic growth but running from banking sector reform to economic growth. Ariyo, Ademola (1997) investigates the role of banking sector reform on economic growth in South Africa. The study uses three proxies of banking sector reform namely; the ratio of M2 to GDP, the ratio of currency to narrow money and the ratio of bank claims on the private sector to GDP against economic growth proxied by real GDP per capita. He employed the Johansen Cointegration approach and Vector Error Correction Model to empirically reveal overwhelming demand-following response between banking sector reform and economic growth. The study totally rejects the supply leading hypothesis.

Darrat (2011) investigates the direction of causality between banking sector reform and economic growth in Turkey using Granger non-causality in the context of VEC model. The study finds that in the long run, there exists bi-directional causality between financial deepening and economic growth. Most studies review the link between finance and economic growth. For example, Akinlo and Olufisayo (2011) using Johansen Cointegration, established positive relationships between banking sector reform and economic growth in the long run and short run for Cameroon for the period 1970-2005. The result agreed that banking sector development cause economic growth in the long run and the short run. Economic growth is as a result of banking sector development.

Empirical studies on Nigerian finance-growth dynamics are not only limited in number but restricted in scope in terms of the measure of financial development. Ndebbio (2014), using an Ordinary Least Square Regression framework, finds that banking sector development weakly affect per capita growth of output. He attributed the result to shallow finance and the absence of well-functioning capital markets. Similarly, Ariyo and Ademola (1997), based on two stages least analytical framework for a period starting from 1986 to 2007, concluded that financial deepening did not support economic growth in Nigeria. However, Ayanwale (2007), using three stage least square estimation technique on a data spanning 1970 to 2005, found that a developed financial system alleviates growth financing constraints by increasing bank credit and investment activities with resultant rise in output.

The finding of Agu and Chukwu (2014) is quite different from other authors in Nigeria. They employed the Augmented Granger Causality Test to ascertain the direction of causality between financial deepening and economic growth in Nigeria between 1970 and 2005. Their findings revealed evidence to support both demand- and supply-leading hypotheses, depending on the financial deepening variable that is used.

METHODOLOGY

Research Design and Data Sources

The exploratory survey research *(ex-post facto* research design) was used because the research study involves collection of data from published work such as financial report and collected from Central Bank of Nigeria Statistical bullentins, various issues, and National Bureau of Statistics. The data used for analysis is time-series data, covering 1975-2018.

Method of Data Analysis

The Ordinary Least Square Regression method was employed in analyzing the model. First, we test for the stationary state of our data using the Levin, Lin and Chu t* stationary test. Second, we employed the Johansen Co-integration test to investigate the existence of a long run relationship among the variables. The researcher used E-view and SPSS 17.0 software packages to run the ordinary least square (OLS) for the models

Model specification for hypothesis 1: Financial Deepening Model

M2/GDP = f (INT, CAB, MRR, CRR) ……………………………1
(+) (-) (-) (-)

PSC/GDP= f (INT, CAB, MRR, CRR) ……………………………2
(+) (-) (-) (-)

From the above formulation, our hypothesis was verified using the transformed econometrics model and introducing the dummy variables of the following form:

Financial Deepening Model

(M2/GDP)=αo+α1Di+α2INT+α3DiINT+α4CAB+α5DiCAB+α6CRR+α7DCRR+α8 MRR+α9DiMRR+μ…………………………………………………………...3

(PSC/GDP)=βo+β1Di+β2INT+β3DiINT+β4CAB+β5DiCAB+β6CRR+β7DCRR+β8 MRR+β9DiMRR+μ…………………………………………………………...4

GDP=αo+α1Di+α2INT+α3DiINT+α4CAB+α5DiCAB+α6CRR+α7DCRR+α8MRR +α9DiMRR+μ ……………………………………………………………………5

(M2/GDP) is the Ratio of Broad Money to Gross Domestic Product, (PSC/GDP) is the Ratio of Private Sector Credit to Gross Domestic Product and GDP is Real Gross Domestic Product. While CAB represents Capital Base, MRR stands for Minimum Rediscount Rate, CRR for Cash Reserve Ratio and D represent the various phases of the banking sector reforms programmes. Values of =0‘ and =1‘ are assigned to the various years. =0‘ represents other periods while =1‘ represents phase(s) of the banking sector reforms under consideration.

U is the white noise term with the usual stochastic assumption of ut~ N(o, σ2) and E(ui, uj) =0; B0 and αo = constant intercept, Bi and αi = slope or regression co-efficient of the independent variables to be estimated.

Model Specification for Hypotheses II

GDP=*f* (CRD, INV, LOAN, LEND)

The Ordinary least Square (OLS) method of multiple regression analysis was used with the dependent variable as Gross Domestic Product while the explanatory variables were Interest rate, Credit allocation to the private sector and Investment rate.

The model was specified in a linear estimation form as;

LGDP = β0 + β1 **L**CRD+ β2 INV+ β3 LOAN+ β4 LEND +μt

Where;

$\beta0$ = Intercept
$\beta1$, $\beta2$, $\beta3$ are the various slope coefficients and;
μ = stochastic disturbance factor
CRD= Credit allocation to private sector
INV= Investment rate.
LOAN= Commercial bank loan and advances
LEND= Lending rate
The a Priori expectation are:
$\beta0 > 0$, $\beta1>0$, $\beta2<0$, $\beta3>0$, $\beta4>0$
GDP/LOAN >0: there is a significant relationship between GDP and loan and advances. Therefore, the higher the magnitude of loans, the more the investments resulting in an increase in the GDP and vice versa.
GDP/ LEND<0: there is a negative relationship between GDP and Lending rate such that the higher the rate, the lower the GDP and vice versa. Where the lending rate is too high, it discourages investment.

Regression Results and Analysis

Table 1: Summary of Statistics

	(M2/GDP)	INT	MRR	CRR	CAB	(PSC/GDP)
Mean	22.79220	17.29439	10.82366	7.694634	166204.4	14.90024
Median	21.40000	18.36000	10.00000	6.000000	646.0000	12.92000
Maximum	38.14000	31.20000	26.00000	32.00000	987053.4	36.89000
Minimum	9.320000	6.000000	3.500000	1.000000	5.800000	4.780000
Std. Dev.	7.319604	6.813294	5.381245	6.156296	276843.0	7.018990
Skewness	0.438197	0.253305	0.479881	2.133077	1.701559	1.353847
Kurtosis	2.326428	2.050213	2.754263	8.684065	4.776885	4.937645
Jarque-Bera	2.087181	1.979527	1.676778	86.28563	25.17833	18.93871
Probability	0.352188	0.371665	0.432407	0.000000	0.000003	0.000077
Observations	41	41	41	41	41	41

Source: Computed by the Author

The summary statistics as presented in the table above indicated that the mean of M2/GDP and PSC/GDP are 22.79220 and 14.90024 respectively. While the mean of INT, MRR, CRR and CAB are 17.29439, 10.82366, 7.694634 and 166204.4. On the other hand, their maximum values for these variables are 31.2, 26, 32 and 987053.4. Their minimum values are 6, 3.5, 1 and 5.8 while their standard deviations are 6.81, 5.38, 6.16 and 276843.

Table 2: Banking Reforms Empirical Results: I

Dependent Variable: M2/GDP
Method: Least Squares
Date: 01/07/2020 Time: 03:09
Sample(adjusted): 1975 2018

Included observations: 40 after adjusting endpoints
Convergence achieved after 20 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	30.90413	5.127661	6.026946	0.0000
PLR	-0.145282	0.626377	-0.231940	0.8182
MRR	-1.149113	1.767150	-0.650263	0.5205
CAB	0.046369	0.075693	0.612591	0.5448
CRR	-0.081082	0.182002	-0.445500	0.6592
D*PLR	-0.323405	0.670878	-0.482062	0.6333
D*MRR	1.350699	1.801785	0.749645	0.4593
D*CAB	-0.046358	0.075693	-0.612442	0.5449
D*CRR	-0.340551	0.566557	-0.601088	0.5523
AR(1)	0.818503	0.120727	6.779780	0.0000

R-squared	0.779544	Mean dependent var	22.98825
Adjusted R-squared	0.713407	S.D. dependent var	7.303014
S.E. of regression	3.909625	Akaike info criterion	5.777078
Sum squared resid	458.5549	Schwarz criterion	6.199298
Log likelihood	-105.5416	F-statistic	11.78682
Durbin-Watson stat	1.651322	Prob(F-statistic)	0.000000
Inverted AR Roots	.82		

Source: Computed by the Author

Note: D represents period of phase I, II, III, IV and V of the banking reform

Table 3: BANKING REFORMS EMPIRICAL RESULTS: II

Dependent Variable: PSC/GDP
Method: Least Squares
Date: 01/07/2020 Time: 05:34
Sample(adjusted): 1975 2018
Included observations: 40 after adjusting endpoints
Convergence achieved after 19 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.16988	4.560177	3.984469	0.0004
INT	0.175033	0.505364	0.346350	0.7315
MRR	-0.442757	1.427625	-0.310135	0.7586
CAB	-0.000479	0.061375	-0.007800	0.9938
CRR	-0.107284	0.145418	-0.737765	0.4664
INT*D5	-0.528788	0.543414	-0.973085	0.3383
MRR*D5	0.902753	1.450875	0.622213	0.5385
CAB*D5	0.000497	0.061375	0.008094	0.9936
CRR*D5	-0.706309	0.465699	-1.516665	0.1398
AR(1)	0.835013	0.111020	7.521299	0.0000

R-squared	0.841262	Mean dependent var	15.10300
Adjusted R-squared	0.793641	S.D. dependent var	6.985752
S.E. of regression	3.173399	Akaike info criterion	5.359802
Sum squared resid	302.1138	Schwarz criterion	5.782021
Log likelihood	-97.19603	F-statistic	17.66569
Durbin-Watson stat	1.341627	Prob(F-statistic)	0.000000
Inverted AR Roots	.84		

Source: Computed by the Author
Note: D represents period of phase I, II, III, IV and V of the banking reform

Interpretation of Results

The estimation results of financial deepening model are presented in table 2 and 3. The results reveal that during the pre-reforms period none of the variable has significant impact on the development of the banking sector as represented by the ratio of M2/GDP and PSC/GDP in the first and second models. This is obvious since none of the t-value is greater than 2. Only CABB and CRR were found to have significant impacts on real sector development represented by the ratio of GDP. This implies that the higher the capital base of bank and the lower the cash reserve ratio the higher the output level or economic growth.
However, the impacts of the reforms were not as expected. This is indicated by the insignificance of the differential co-efficient in the models, for their t ratio is less than 2 as well as their prob-ratios are greater than 5 percent. Also, the reform did not positively influence the level of economic growth, it resulted to a positive increase on the MRR and lower CABB. This is as a result of the fact that the banking reform did not follow the due process of implementing a successful reform documented as well as there was lack of time lag between one period of reform to another period of reform.

Overall Effect of the Banking Reforms on the Economy (GDP)

The empirical result shows that a 1% rise in money supply would induce 0.15% rise in GDP and the variable is statistically significant, this is in line with theoretical expectation. With this positive relationship, one would have expected the various efforts to increase the level of money supply to have sparked up economic growth; instead the GDP has been very unsteady and declining overtime. One possible reason for this in Nigeria could be the attitudes of banks towards given long term loans. Banks in Nigeria prefer financing short term projects with prospect for quick loan recovery because of fear of default. The prevalence of short-term portfolio has been the cause of the slow development of the Nigerian real sector.

The coefficient of loans to deposit ratio is positive but not significant. This implies that a 1% rise in ratio of loan to deposit would lead to 0.09% rise in GDP. The ratio of loan to deposit as a measure of level of financial intermediation showed a significant relationship with economic growth. The coefficient of domestic investment is positive; this is in line with a priori expectation but not significant in explaining economic growth. A 1% rise in domestic investment would induce GDP by 0.14%. The insignificant relationship between domestic investment and economic growth could be attributed to the poor lending attitudes of the banks as well as banks portfolio management to meet liquidity for prudential purposes.

This means that less money would be available to banks for lending operations. In addition are the high lending rates, multiplicity of interest rates; and a variety of banks' charges that have compounded the interest rates which banks charge their customers. All these will further worsen the investment climate as the rental cost of capital will be too high for investors and as such negative effects on the non-oil sector. The implication is that the prevailing interest rate structure in Nigeria encourages investment in commerce to the detriment of productive activities which are expected to propel growth. Investment may also be slowed down due to the low level of inflow of Foreign Direct Investment (FDI) into the country resulting from macroeconomic and socio-political instability.

The coefficient of domestic credit showed significant relationship between domestic credit and economic growth but not statistically significant. This insignificant relationship may be explained by the low level of credit to the private sector occasioned mostly by the crowding out effect as a result of government competition for credit and which ultimately undermines the efficiency of credit resource utilization.

The coefficient of interest rate is positive; this is not in line with a priori expectation. The positive sign of the coefficient of interest rate indicates that a rise in interest rate would lead to increase in GDP, this is not consisted with theoretical expectation of inverse relationship. The direct relationship between interest rate and GDP may be traced to the structure of interest rate in Nigeria.

The R^2 (0.89) indicated a good fit since it shows that 89% of the variation in economic growth is explained by banking sector component. In the same vein, the F-statistic (14.09) is high, this is significant and it is an indicative of the overwhelming significance of the R2 and the overall integrity of the estimated regression model. The DW statistic (1.19) is low; it implies the presence of serial correlation, that is, the stochastic error term is correlated with itself over time.

Findings, Conclusion and Recommendations

Findings reveal that there is a negative relationship between the Loan and the Gross domestic product which signifies that they are inversely related. An increase in commercial bank loan and advances will reduce the GDP by -9.00E-08. More so, there is a significant relationship between banking sector reforms and real sector financing, measured by loans and advances, in Nigeria. Therefore, there is a significant relationship between banking reforms and real sector financing. Similarly, banking sector has contributed to the real sector of the economy through credit given to the private sector. It shows that credit is significant to economic development

It has been established from the study that there is a great link between the reforms in the banking sector and the economy of a nation. In Nigeria, it was discovered that the banking sector is a great determinant of level of development in the economy. The rate of lending was however found to be insignificant, that is, it has so far been unstable, but credit granted to the private sector has increased tremendously. Thus, it can be said that the importance of this sector cannot be over emphasized as total credits to the private sector are still on the increase in spite of the major constraints posed by the government regulations, institutional constraints and other macroeconomic factors.

Based on the findings, it is recommended that:

1. Time lag should be permitted to exist from one reform period and the next reform period to allow for appropriate planning, and as well there should be policy consistency.
2. Furthermore, the Monetary Authority should not rely excessively on the interest rate to trigger development in the banking sector as well as growth to the real sector.

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