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BANK REFORMS AND ECONOMIC GROWTH: A CRITICAL REVIEW OF THE IMPACT OF BANKING SECTOR REFORMS ON ECONOMIC PERFORMANCE IN NIGERIA

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ABSTRACT

The study analyzed the effect of Bank Reforms on Economic Growth of the Nigerian economy. To achieve the above objective bank liquidity(BLQ), bank asset quality (BAQ), deposit money banks' credit to the private sector (CAPS) and Interest rate (INTR) are considered as independent variables while GDP is the dependent variable. The study adopted descriptive and causal research designs. Secondary data was obtained from CBN Statistical Bulletin from 1981-2012 and was analyzed using descriptive and inferential statistical tools. Normality Test, Heteroscedasticity test and Serial Correlation were used for data diagnosis. Using the ordinary least square regression technique for data analysis it was found that Reforms in the banking during the period under study had positive and significant impact on Capital, Credit allocation to the private sector, Liquidity, Interest rate had significant positive impact on the Gross domestic product (GDP) in Nigeria. However reforms in the banking sector had a negative and insignificant impact on bank asset quality of the banking sector in Nigeria. Based on the findings the study recommended that the capital of deposit money banks should be reviewed regularly in line with economic realities to ensure adequate and sustainable capital of Nigeria banking sector. The credit allocation to the private sector should be sustained as the financial intermediation process of the deposit money banks proved significant. The regulatory authorities should continue with their oversight function to ensure the banking sector remain liquid. The various deposit money banks and the regulatory authorities should ensure the entire banking sector adhered to the tenets of asset quality management to improve on the bank asset quality of Deposit Money bank's and avoid financial distress.

Key words: Bank Reforms, Economic Growth, Private Sector,

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1. INTRODUCTION

Banking sector reforms is that aspect of financial regulation that focuses mainly on getting incentives right for the banking sector to take the lead role in empowering the private sector to contribute more effectively to economic growth through the provision of loans to the deficit sectors of the economy (Adegbite, 2005).

Economic growth, according to Aiguh (2013), means an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth is a process by which a nation wealth increases over time. The most widely used measure of economic growth is the rate of growth in a country's total output of goods and services gauged by the gross domestic product (GDP). Hence the nexus between banking sector reform and economic growth is based on the premise that a well-functioning financial system would stimulate improvements in investment because it has the ability to select and finance viable businesses that will enhance economic growth (Okpara, 2010). Given the development dynamics both in Nigeria and other economies around the world, the Nigerian banking sector requires periodic reforms that would position it to drive economic development in the face of changing realities (Sanusi, 2010). In view of the foregoing the Nigeria Financial sector in general have witnessed various reforms all aimed restructuring the general financial sector i.e. (regulators and operators) via institutional and policy reforms (Ajayi, 2005).

The prominence of banking sector reforms is evident in the fact that the before the first reforms in the Nigerian banking sectors of 1952, the sector was absolutely unregulated. The lack of regulation had apparently resulted in a number of bank failures and attendant fatalities to depositors. In fact, there are inconsistencies in the records of how many banks were in existence or failed during that era (Ayanwele, 2007, Okpara 2010). The Central Bank of Nigeria (CBN) for instance, identified a total of 22 banks as being registered between 1947 and 1952. Also, "between 1947 and 1952 Nigeria experienced a rapid expansion of indigenous banking companies. This was quickly followed by a high rate of bank failures which by 1954 had claimed 21 of 25 established banks with 16 of them collapsing in 1954 alone". As high as 185 banks were quoted from government records and was confirmed as the number actually registered as banking companies between 1947 and 1952, of which 145 were registered in 1947 and 40 in 1952. The 1952 Banking Ordinance was however ineffective in supervising the existing banks, thus, the Central Bank of Nigeria was subsequently established by virtue of the Central bank Act of 1958 to provide a solid foundation for banking sector regulation in Nigeria (Okpara, 2010). In a bid to strengthen to avert the above mentioned fatalities the Nigeria banking sector subsequently witnessed series of pragmatic reforms all aimed at enhancing its role in promoting private sector-led growth that spur economic growth in general.

It can be rightly contended that even in the face of continuous overhauling of the banking system by the Central Bank of Nigeria as stated in the foregoing through major reform programmes that changed the structure and size of deposit money banks in Nigeria with the primary objective of guaranteeing a platform that support banks to efficiently carry out their financial intermediation, ensure safety of depositors' money, position banks to play active developmental roles in the Nigerian economy, become major players in the sub-regional, and global financial markets have seemingly been a mirage. (Lemo, 2005, Afolabi, 2004)

Considering the series of banking sector reforms in Nigeria with apparently infinitesimal or no meaningful effect on output of the economy is what constitutes the research problem which the researcher seeks to examine. Specifically the study seeks to resolve the lingering problem of whether or not the banking sector reforms carried out over the years have significant effect on economic output. In view of this, the general objective of the study is to examine the effect of the banking sector reforms on economic growth in Nigeria with specific consideration to credit allocation to the private sector, bank liquidity, interest rate and bank asset quality on the gross domestic product (GDP) during the banking sector reform in Nigeria.

1.2 Research Hypotheses

This study is be guided by the following hypotheses.

Ho1: There is no significant effect of credit allocation to the private sector on Gross domestic product.

Ho2: There is no significant effect of bank liquidity on Gross domestic product.

Ho3: There is no significant effect of interest rate on Gross domestic product.

Ho4: There is no significant effect of bank asset quality on Gross domestic product.

2.1 Conceptual Clarification

Bank reforms are essential tools for the growth of any economy because of the crucial role it play especially the intermediation function. Considering the foregoing, bank and economic reforms in general are meant to guarantee that every aspect of the economy is efficient in order to make sure the realization of macroeconomic goals is achieved. Thus, banking reform is an essential component of the country's reform program undertaken to reposition it for better performance (Olokoyo, 2013). In a developing economy such as Nigeria, financial sector development has been accompanied by structural and institutional changes with the banking sector occupying a central position of the reform process. This is because it is recognized to play a crucial role in economic development of the developing nations (Lemo, 2005).

There is no doubt that bank reforms have been an ongoing phenomenon around the world, but it is intensified in recent time because of the impact of globalization which is precipitated by continuous integration of the world market and economies. (Adegbaju and Olokoyo, 2007). The reforms in this sector involve several elements that are unique to each country based on historical, economic and institutional backgrounds. In most cases, bank reforms are embarked upon to avert banking crises or mitigate the effects of unforeseen crisis. Banking sector reforms have come into play due to banks inability to meet up to required obligations or satisfy their stakeholders which overtime have led to subsequent failures and crises. A banking crisis can be caused by weakness in banking system characterized by persistent illiquidity, insolvency, undercapitalization, high level of non-performing loans and weak corporate governance, among others.

Lemo,(2005), Deccan (2004) Omoh (2007) posit that banking reforms are strategic decision leading to the maximization of economic growth and banking efficiency by enhancing effectiveness in its operations. Also in the face of high level of unemployment, low capital levels and high political risk, a well-developed financial system will enhance investment: by identifying and funding good business opportunities, mobilizing savings, enabling trading,-hedging diversifying risk and facilitating the exchange of goods and services. These functions result in a more efficient allocation of resources, rapid accumulation of physical and human capital, and faster technological progress, which in turn result in economic growth and by extension, the development of the real sector.

2.2 THEORETICAL FRAMEWORK.

Various theories have been reviewed in this study. For instance bank consolidation theory of Fred (1987) state that reforms through consolidation exercise in the banking sector can significantly alter the balance sheet strength of individual banking firms. Mergers and acquisitions occasioned by the reforms in Nigeria have seen the weak and marginal pre-consolidation banks evolve into stronger banks in recent years, in terms of size and capitalization rating. Adam, (2005) reported that bank reaction to its functions is assumed to depend linearly on the bank-characterizing variables, which could be size, liquidity or capitalization. Bank size is the most commonly used indicator of a bank's ability to generate outside financing: The idea is that small banks have more difficulties in raising funds because they face higher information cost, and a higher external finance premium, than bigger banks. Hence they are less able to offset contractionary monetary policy measures and have to reduce their loan supply more strongly than large banks. Thus higher capitalization makes a bank less prone to moral hazard and asymmetric information problems vis-a-vis its supplier of funds.

On the other hand the supply-leading hypothesis posits an unidirectional causation that runs from financial development to economic growth, implying that new functional banking firms will increase the supply of financial credits to manufacturing sector. This will definitely lead to high but sustainable real economic growth. Thus, this hypothesis performs two roles: one, to transfer resources from low growth sectors to high growth sector and two, to promote entrepreneurial response in the later sector (manufacturing sector).

(Adeyemi, 2005). While the demand-leading hypothesis posits an unidirectional causation from economic growth to financial development. This implies banking sector passive response to growth of the realsector as well as growth of GDP (Carline & Mayer, 2003). This simply means that the increasing demand for financial services might result in aggressive expansion of the financial system as the growth of the real sectors of the economy.

Also stage development hypothesis postulated byPatrick (1966) suggests a third hypothesis known as the "stage of development hypothesis" which posits that supply-leading financial development can induce real investment in the early stage of economic development through the lending rate which will be endogenously determined. It equally predicts that a country's long-run growth will depend on economic factors such as lending capacity of the banking system and all the policies and institutions that affect the efficiency in resources allocation in the economy. Thus, the growth rate of the economy depends positively on the volume of lending and investment rate, and any public policy measure that increases the lending capacity rate accelerates economic growth permanently. Thus this study is anchored on the bank consolidation theory.

2.3 The Nigerian Banking Sector

Nigerian banking sector has experienced a boom-and-bust cycle in the past years. After the implementation of the Structural Adjustment Program (SAP) in 1986, and the deregulation of the financial sector, many new banks were established, mainly driven by attractive arbitrage opportunities in the foreign exchange market (Heiko & Hesse 2007). But prior to SAP, financial intermediation never took off effectively and even declined in the 1980s and 1990s (Ebong, 2006).

Before the banking sector consolidation programme brought by the CBN reform agenda, the Nigerian banking system was highly oligopolistic with remarkable features of market concentration and leadership (Ali 2015). Furthermore, twenty-four out of the eighty-nine deposit-money banks that existed then showed one form of weakness or the other. Conspicuous among such weaknesses were under-capitalization and/or insolvency, illiquidity, poor asset quality, weak corporate governance, boardroom, declining earnings and, in some cases, loss making. The unhealthy competition that existed in the market, which was engendered by the relative ease of entry into the market as a result of the low capital base, demanded some banks going into rent-seeking and non-banking businesses, which were not related to core banking functions. Some of the banks were engrossed with trading in government treasury,foreign exchange, bills and, sometimes, indirect importation of goods through proxy companies (Lemo 2005, Adams, 2005 and Okpara 2009).

A review of the banking system as at June, 2004, reveals that marginal and unsound banks accounted for 19.2% of the total assets, 17.2% of total deposit liabilities, while industry non-performing assets were 19.5% of the total loans and advances. The implication of this unsatisfactory statistics as noted by Lemo (2005) is that there existed a threat of a systemic distress judging by the trigger points in the CBN Contingency Planning Framework of December 2002, which stipulated a threshold of 20% of the industry assets, 15% of deposits being held by distressed banks and 35% of industry credits being classified as nonperforming. From the foregoing, it was apparent that a reform of the banking system in Nigeria was inevitable.

2.4 Bank Reforms in other Countries

Ebong (2006) opines that in Malawi and Botswana, the banking system was quite healthy at the commencement of the reform. Zambia and Zaire also had a healthy banking system but with a macro-economic instability. However, banks in Mauritania were already bankrupt when reforms were initiated while countries like Benin Republic, Niger, Senegal, Cote d' Ivoire, Burkina Faso, Togo, and Mali- all former French colonies- were all facing balance of payment problems, internal political crises and inconsistent economic policies before financial sector reforms were introduced (Plane,1993, cited in and Ekpenyong (2005). Furthermore, studies by Aiguh (2013) and Decan (2004), gives empirical findings which suggest that countries in Africa stands to gain from financial liberalization with a favourable impact on deposit rates, financial savings, and the level of investment.

Again, Soludo (2004) opines that the Malaysian and Singaporean models provides direction for the Nigerian situation, as these economies have at one or the other faced similar challenges such as: import dependence, foreign financing of projects, underperforming of currencies and placement of agriculture as the largest contributor to the GDP. The banking sector in these countries faces similar challenges such as: high interest rate, liquidity issue, and decline in asset quality. As a result of reforms in these economies, viable banking institutions have emerged which are capable of supporting the overall growth in the economy.

2.5 Why The Recent Reforms in the Nigerian Banking Industry.

Banking sector of an economy generally performs three very primary functions which include the facilitation of payment system, mobilisation of savings, and allocation of funds to stakeholders like government, investors, consumers, and business community who can utilize them for the generation of economic activities. By virtue of its pivotal role, the banking sector can exert its positive influence on various segments of the economy. On one side, it allocates funds for the highest value use while on the flip side, it limits the magnitude of risks and costs, thereby creating a level playing field for economic agents to flourish and generate economic activities (Sanusi, 2010). This aspect of banking sector gives it a privilege over other competing sectors.

On July 6, 2004, at a meeting of the Banker's Committee, the Central Bank of Nigeria announced that with effect from January 1, 2006, the minimum capital base of banks would be N25 billion, up from N2 billion. This announcement marked the beginning of another set of reforms. It was in furtherance of the Federal Government poverty reduction document called the National Economic Empowerment and Development Strategy' (NEEDS) document launched in May 2004 (Financial Standard, 2004). In announcing the reform, the CBN observed that the Nigerian banking industry was experiencing serious liquidity problems, which was becoming a major source of concern. The CBN expressed the opinion that mergers and acquisitions should be encouraged as a way of strengthening and consolidating the banking industry. According to the CBN (2004), many Nigerian banks were undercapitalized and too small in size to be relevant in a globalized world. Other problems identified in the banking industry included poor assets quality, loss of public confidence in banks, erosion of capital base, devaluation of the national currency and limited scope of business.

Since the banking sector plays a vital in an economy, a relevant question arises about the effectiveness of its operational mechanism. More specifically, how should the banking sector operate: under a state control or a market-based mechanism. Further, how the transition towards any of the above stated mechanisms should take place? Answers to such questions invited researcher to explore various aspects of optimal functioning of banks, operating either under state control or market-based system. Despite the significance of banking sector, the existing literature remains, to some extent, inconclusive about the most preferable mechanism of banking operations. In fact, we find strong arguments both in favour as well as against operational mechanisms of banks. According to the proponents of state controlled mechanism of firms operations, the enterprises need monopoly in markets mainly to achieve social objectives such as creation of employment opportunities.

2.6 Indicators of Poor Performance of Banks

Generally, banks operate under certain regulatory and supervisory framework, which help them in their smooth functioning. However, adverse changes in policies, laws, regulations and controls may inhibit proper functioning of banks and may also lead to financial repression, which in turn may impede growth of overall banking sector.

The existing literature reveals that it is the state-controlled structure of banks which remain at the root of financial problems of banks. Under this structure, the performance of banks is affected due to a variety of factors including political and bureaucratic interventions, excessive influence of trade unions in banking affairs, etc. Similarly, the imposition of restrictions on entry of private banks is considered to be the toughest type of controls on banking operations and supposed to be contributing more towards creation of an uncompetitive environment in banking industry. The empirical evidence also reveals that strict entry restrictions for new banks effectively shield the banks from competition (Adeyemi, 2005).

High statutory requirements for banks, regulated interest rates, and directed credit programmes are also important restrictions/controls which can impact the efficiency of banks. For example, the imposition of high reserve and statutory requirements can affect smooth functioning of monetary policy. On the one hand, it creates under-supply of credit by taking liquidity out of the market while on the other hand it inflates artificial demand for government securities. There are some other kinds of controls like setting floor on deposit rates or ceiling on lending rate, which can also affect efficiency of banking operations. The controls on lending side are especially important, as they can affect the riskiness of loan portfolio. Similarly, the floor on lending rates tend to crowd out “low-risk, low-return” projects that become unprofitable with higher interest rates (Adegbite 2005).

In the same way, under directed credit programme, banks allocate certain portion of credit to the government priority sectors. In some cases, the lending to priority sector is combined with interest rate controls which can lead to market segmentation and constitute a barrier to financial development. Furthermore, the loans to priority sectors can have a destabilizing effect on banking system, since they are often less profitable and more likely to be nonperforming (Nnana, 2004). As regards high reserve and statutory requirements for banks together with regulated interest rates, these are considered the forced way to keep return on assets low. The banks operating under the state control also endeavour to meet credit needs of the government and its organizations, which may affect adversely the overall economy. Further, the private sector, which is considered backbone of an economy, faces liquidity shortages as bulk of the credit is allocated for public sectors institutions. Less credit allocation to the most efficient segments of an economy may hamper growth and expansion of productive economic activities, which in turn may undermine the role of private investment. According to McKinnon (1991) cited in Adams (2005), underdevelopment of banking sector associated with financial repression may result into lowering of economic growth. Banking sector in Pakistan also experienced difficulties due to nationalization of Pakistani banks, initiation of government sponsored schemes, large financing of banks to government and its institutions, restrictions on entry of private banks, high statutory requirements, etc.

2.7 Empirical Review

Various academic researchers have examined the effect of banking reforms on economic growth in varying dimensions. Considering the empirical studies, Aurangzeb (2012) investigated the contributions of banking sector in economic growth of Pakistan. The data used in this study were collected from the period of 1981 to 2010 o 10 banks. Augmented Dickey Fuller (ADF) and Philip Perron unit root test, ordinary least square and granger causality test have been used. Unit root test confirms the stationary of all variables at first difference. Regression results indicate that deposits, investments, advances, profitability and interest earnings have significant positive impact on economic growth of Pakistan. The Granger-Causality test was used to confirm the bidirectional causal relationship of deposits, advances and profitability with economic growth. On the other side we found unidirectional causal relationship of investments and interest earnings with economic growth runs from investments and interest earnings to economic growth. It is recommended that the policy makers should make policies to enhance the banking sector in Pakistan because banking sector is significantly contributing in the economic growth of Pakistan.

Owolabi, Olanrewaju, and Okwu (2013) investigated the causal linkages between banking sector reforms and output growth of manufacturing sector as well as the direction of such causality. A selected sample of financial development and manufacturing output of Nigeria with annual data between 1970 and 2008 is used and co integration and Granger- causality techniques were applied to ascertain evidence regarding this important issue. The result of Granger causality analysis showed that the MDGP and banking sector reforms indicators (BF) move differently with one not predicting the other within the study period. However, the empirical results showed that Bank assets with co-efficient 0.7688 ($t=2.4267$, $\rho < 0.05$), Lending Interest rate with co-efficient 0.1662 ($t=2.996$, $\rho < 0.05$), Exchange rate with co-efficient 0.0285 ($t = 4.6748$, $\rho < 0.05$) and Real rate of interest with co-efficient 0.0224 ($t= 3.4927$, $\rho < 0.05$) positively and significantly affected the manufacturing sector’s output growth in Nigeria. On the other hand, the financial deepening indicator (M/GDP) with co-efficient -3.3665 ($t= -4.8493$, $\rho < 0.05$) and Interest rate spread with co-efficient -0.2595 ($t = -3.2902$, $\rho < 0.05$) negatively and significantly impacted on the MGDP in Nigeria, showing that the effects of banking sector reform indicators could vary widely in an economy and was recommended that with proper banking policy formulations and guidance in the financial sector, the manufacturing output growth would be positively affected.

Omankhanlen (2012) examined the financial sector reforms and its effect on the Nigerian Economy between the periods of 1980-2008. The study employs the ordinary least square method in carrying out this research. It was found that the financial sector developments that were experienced in Nigeria`s economy at one point or the other had effect on the activities of the economy but however states that, this does mean the reforms in the financial sector are solely responsible for the sector being better off and recommended an improvement in financial intermediation as a necessary condition for stimulating investment, raising productive capacity and fostering economic growth and that there should be macroeconomic stability, as the activities in all other sectors affect this or is affected by it. Also there should be political stability as this also affects the effective operation of the financial sector.

Azeez and Oke, (2012) A time series analysis on the effect of banking reforms on Nigeria's economic growth examines the effect of banking reforms on the economic growth of Nigeria from 1986 to 2010. The model used in the study proxy Gross Domestic Product (GDP) as being dependent on Interest Rate Margin (IRM), Credit to Private Sector (CPS), Savings (SAV) and Inflation (INF), all representing banking reform indices. The used econometric techniques of Augmented Dickey-Fuller (ADF) Unit Root test, Johansen Co-integration test and Error Correction Mechanism (ECM). The result shows the presence of long run relationship among the variables. The overall findings suggest that banking reforms has not adequately and positively impacted on the economy and therefore recommends that the regulatory and supervisory framework should be further strengthened, healthy competition promoted among banks and interest rate policy should be made to stimulate savings through high real deposit rates and lending rate made reasonable as possible in order to encourage investors to borrow to participate in productive activities.

Olokoyo (2013) studied the effects of bank reforms on the performance of banks in Nigeria. The data required for this study was gathered through the instrument of questionnaire. To achieve the objectives of the study, the study employed Analysis of Variance (ANOVA) through the statistical package for social sciences (SPSS method to test the hypothesis). The study found that recapitalization and consolidation process has had significant effect on the manufacturing sector of the economy and thus on the Nigerian economy at large. The study further reveals that despite the reforms, post consolidation challenges like challenges of increased return on investment still exist but however recommend that reforms are important for the banks to imbibe best corporate governance practice, improve on self-regulation, institute IT-driven culture and seek to be competitive in today's globalizing world.

Okpara (2010) reviewed "the Perspective of banking sector reforms since 1970 to 2009". It notes four eras of banking sector reforms in Nigeria, viz.: Pre-SAP (1970-85), the Post-SAP (1986-93), the Reforms Lethargy (1993-1998), Pre-Soludo (1999-2004) and Post-Soludo (2005-2006). Using both descriptive statistics and econometric methods, three sets of hypothesis were tested: firstly that each phase of reforms culminated in improved incentives; secondly, that policy reforms which results in increased capitalization, exchange rate devaluation; interest rate restructuring and abolition of credit rationing may have had positive effects on real sector credit, and thirdly, that implicit incentives which accompany the reforms had salutary macroeconomic effects. The empirical results confirm that eras of pursuits of market reforms were characterized by improved incentives. However, these did not translate to increased credit purvey to the real sector. Also while growth was stifled in eras of control, the reforms era was associated with rise in inflationary pressures. Among the pitfalls of reforms identified by the study are faulty premise and wrong sequencing of reforms and a host of conflicts emanating from adopted theoretical models for reforms and, above all, frequent reversals and/or non-sustainability of reforms. In concluding, the study notes the need to bolster reforms through the deliberate adoption of policies that would ensure convergence of domestic and international rates of return on financial markets investments.

Ezeoha (2011), studied banking consolidation, credit crisis and asset quality in a fragile banking system: some evidence from Nigerian data. The researcher made use of panel data from 19 out of a total of 25 banks operating in Nigeria. A multivariate constant coefficient regression model is adopted as the estimation technique. The dependent variable in the model is quality of bank assets, proxy as the proportion of non-performing loans (NPL) to total loans; while operating efficiency, profitability, asset liquidity, loans to deposits ratio, predictability of depositors' behavior, size of bank capital, and board skill constitute the exogenous variables. The study reveals that deterioration in asset quality and increased credit crisis in the Nigerian banking industry between the periods 2004 and 2008 were exacerbated by the inability of banks to optimally use their huge asset capacity to enhance their earnings profiles. It shows that excess liquidity syndrome and relatively huge capital bases fueled reckless lending by banks; and that increase in the level of unsecured credits in banks' portfolios ironically helped to mitigate the level of non-performing loan (NPL) within the studied period.

ALI (2015) assessed the effect of banking sector reforms on the performance of deposit money banks in Nigeria with special emphasis on the 2004 bank reforms. The Wilcoxon signed rank order test was used to test the hypotheses using the statistical package for social sciences (SPSS) version 17. The study reveals that the reforms have improved the bank performance variables assessed namely: bank capital (BC), bank deposit (BD), bank liquidity (BL) and bank asset quality (BAQ). However the improvement is not significant at 5% level.The study concluded that despite the reforms, Deposit Money Banks were still faced with post reform challenges of non-performance. The study therefore recommended that more efforts should be made to ensure adequate compliance with corporate governance provisions in improving performance. Frantic efforts should be made to improve on the huge non -performing loans and management of assets quality, which to a large extent, contribute to bank failures.

3.1 Methodology

The research design adopted for this study is a descriptive research design, descriptive design is a research design in which data is collected consistently to explain and predict the given situation, the data are used to give explanation of the relationship, test hypothesis, make predictions or get meaning and implications of the situation under study. in designing this study the type of data to be collected, nature of variables and techniques of analysis will be considered, the study will rely on time series data which form the basis for the entire study.

3.2 Source of Data

The major source of data for this study was secondary. Again, to achieve the stated objectives of this study, annual time series data for the period 1986-2012 were obtained from the CBN annual report and statement of accounts (various issues).

3.3 Data Analysis Techniques

The study used of regression model (OLS) to analyse of the data collected. Furthermore, the augmented dicker-fuller (ADF) unit root test was used to examine the stationarity of the data since they are time series in nature. Breusch–pagan test of heteroscedasticity, white test of heteroskedasticity.

3.4 Model Specification

The effect of banking sector reforms on economic development was captured by examining the outcome of reforms especially banking reforms and descriptively analysed changes in the major financial segments of the economy.

This study's functional model is therefore specified as;

GDP = f (BLQ, INTR, BASQ, CAPS) ---------------------------------- (1)

Stochastically or explicitly model is expressed as:

GDP = b0 + b1x1 + b2x2 + b3x3 + b4x4 + mt

Where;

Where:

X1 = Bank Liquidity (BLQ)

X2 = Interest Rate (INTR)

X3 = Asset quality (BASQ)

X4 = Credit allocated to private sector (LCRD)

Apriori Expectation

b1, b3, b4>0 while b2< 0

4.1 RESULTS AND DISCUSSION

In order to determine normality in the data set since the reform variables used in the study are time series, skewness, kurtosis and Jarque Bera test were performed. The results is presented in table (1) below:

Table 1: Normality Test

Type of Test		**Normality**			**Goodness of Fit**
		Skewness	Kurtosis	Jarque Bera	Anderson Darling
Model 3	**T-stat**	11.8587	171.983	361544.2	56.258 (2.5018)
	P-value	-	-	0.00000	-

Source: Author's computation 2016

The results of the Skewness, Kurtosis and Jarque-Bera test in table (1) are tests for normality of the residuals. The result showed that the residuals are normally distributed evidenced by high values of the test statistics and minimum probability values of the Jarque Bera test, The result for Skewness and kurtosis for the model as shown in the table above indicate that the data is normally distributed. The results of the goodness of fit (Anderson Darling) of the models also revealed robust fitness for all the models since, their test-statistics are far greater than their critical values leading to the rejection of the null hypothesis that: "there is no goodness of fit in the model(s) in favour of the alternative that, "there is goodness of fit".

Table 2: Diagnostic Test for Serial Correlation Test, Heterosckedasticity white Test

Type of Test		**Serial Correlation LM Test**	**Heterosckedasticity White test**
	F-stat	10.71752	11.80693
Model	**P-value**	0.0004	0

Author's computation 2015

Heteroscedasticity White test

To ensure that the data for this study was fit for the model, two more diagnostic tests were carried out on the data. These include the serial correlation test, and the Heterosckedasticity white test which test whether the estimated variance of the residuals from a regression are dependent on the values of the independent variables. The result of the serial correlation as contained in table (2) above indicates that there is no serial correlation in the model with an F-statistic of 10.71752 and a prob. of 0.004 which is statiscally significant at 5% level. The white test is a statistical test that establishes whether the residual variance of a variable in a regression model is constant (i.e Homoskeasticity). In cases where the White test is statistically significant, heteroscedasticity may not necessarily be the cause, but specification errors. In other words, the White test can be a test of heteroscedasticity or specification of error or both. Table (2) above revealed that, the null hypotheses of the presence of heteroscedasticity for the White tests in model is rejected. This is because the F-statistic of 11.80693 and a prob. value of 0.000 for the model which is statistically significant at 1% alpha level (p-value < 0.01). The conclusion is that, the presence of heteroscedasticty is minimal if not completely absent in the model there by satisfying the classical OLS assumption of homoscedasticity (constant variances). It therefore implies that, the application of OLS on these models will yield Best Linear and Unbiased Estimates (BLUE).

4.4 Regression Analysis

Following the result of the ADF and the Diagnostic test above, the study adopts the technique of ordinary least squares for the regression analysis. This is based on the premise that, all the variables in the data set are stationary and can yield best linear unbiased estimates.

Table 4: OLS present the result for the Impact of Banking Sector Reforms on the Gross Domestic Product (GDP)

Dependent	Explanatory				
Variable	Variables	Coefficient	Std. Error	t-Statistic	Prob.
GDP	BLQ	1.161037	0.351279	3.304962	0.0246
	INTR	2.113458	0.596212	3.544998	0.0215
	BASQ	0.270868	0.850164	0.318607	0.7525

	CAPS	0.287652	0.022584	12.73674	0.0000
	C	2.974995	6.145472	0.484095	0.6322

R^2= 0.897757 Adjusted R^2=0.882610 D.W = 1.67 F-Statistic=59.26 Prob. (F-Stats) = 0.000000

The regression result in the table above revealed that, all the variables passed the t-test at the 5% level of significance. The results also showed that all the variables are positive and correctly signed. The positive impact of BLQ showed that, BLQ has a positive relationship with GDP. A unit change in BLQ affects GDP by 1.161037. Also, a unit change in INTR, BASQ and CAPS have a positive effect to the IGR. This means that a unit change in INTR, BASQ and CAPS will affect GDP by 2.113458, 0.270868 and 0.287652 respectively.

An adjusted R^2 of 0.88showed that 88 percent of the systematic variations in the Gross Domestic Product (GDP) is influenced by the combined effect of the explanatory variables put together while 12% is accounted for by other factors. The robustness of this result is further buttressed by an F-statistic of 56.26 while the Durbin-Watson Statistic of 1.67 clearly indicated the rear absence of autocorrelation. An estimated probability values (Prob. (F-stats) of 0.0000 is significant enough to conclude that, the model has performed well. The coefficient of constant was 2.974995 which determine the value of GDP given a unit increase or decrease in any of the independent variables, while all other variables are rendered zero. Also considering the result of the regression analysis for the test of hypotheses shows that BLQ, INTR, CAPS has a coefficient of 1.161037, 2.113458, and 0.287652 at a t-statistic value of 3.304962, and a p-value of 0.0246, 0.0215, and 0.0000 indicating that Banking sector reforms in Nigeria under the period under study had significant and positive impact on BLQ, INTR, CAPS at 5% level. This findings are also in line with the a priori expectation of this study that (B1, B3>0) while the a prior result for INTR Proved otherwise showing that (B2>0) as against (B2<0) and the empirical evidence of Opkara (2005), Ezeoha, (2011), Aniekan,(2011), Aurazeb, (2012), Olokoyo, (2013) which the result revealed that financial sector reforms significantly affected the Nigerian economy. The result pertaining to BLQ shows that the Nigerian banking sector is highly liquid and can fund the economy efficiently and also meet up its maturing obligation without incurring unacceptable losses. The result of CAPS indicates that the credit allocation to the private sector improved significantly as it was also an objective of the various reforms in Nigeria. While BASQ has a coefficient of 0.270868 at a t-statistic value of 0.318607 and a p-value of 0.7525 indicating that Banking sector reforms in Nigeria have insignificant impact on INTR at 5% level. This findings are also in line with the a priori expectation of this study that (B2>0) and the empirical evidence of Ali, (2015), Okpara, (2009), Azeez & Oke, (2012) which found that the reforms the Nigerian banking sector did not significantly affect the asset quality of the banking sector. This shows that the banking sector was still characterized poor asset quality as can be seen in the huge non-performing loans of the banking sector and lack corporate governance tenets in the deposit money banks loans.

Test of Hypothesis

The null hypotheses of study which states that; "There is no positive relationship between of Banking sector reforms on BLQ, INTR, CAPS, BASQ in Nigeria were tested at 5% level of significance.

Considering result of result of regression analysis for the test of hypotheses in table (3) indicates that bank reforms in Nigeria for the period under study has a significant and positive relationship between bank liquidity (BLQ), interest rate (INTR), and credit allocation to the private sector (CAPS) with a coefficient of 1.161037, 2.113458, 0.287652 at a t-statistic value of 3.304962, and a p-value of 0.0246, 0.0215, 0.0000 respectively. Therefore the various null hypotheses for the aforementioned variables which state that there is no positive relationship between (BLQ), (INTR), and (CAPS) are rejected.

However the result for hypothesis four (4) which state that there is no significant relationship between banking sector reforms and asset quality for the period under study is not statistically significant with a coefficient of 0.270868 at a t-statistic of 0.318607 and a p-value of 0.7525 which is statistically not significant at 5% level of confidence. Hence the null hypothesis is accepted.

5.1 Conclusion

This study investigated the impact of Banking Sector Reforms on Gross Domestic Product in Nigeria using data extracted from the CBN bulletin from 1981 to 2012. This has become necessary in the face of evolving developments in the banking industry in Nigeria especially with the series of reform programs by successive administrations. As a result of this, the Nigerian banking system has undergone remarkable changes in recent years, in terms of the number of institutions, ownership structure, as well as depth and breadth of operations.

The findings indicate that banking sector reforms for the period under is significantly improved in the economic variables examined in this study. However the result for bank asset quality shows that the reforms in the banking sector did not significantly impact on the BASQ. This perhaps will be as a result of non-compliance with the principles of loan administration which resulted to huge non performing that characterized the Nigerian Banking sector even in the face of series of reforms that were aimed at resolving challenges of this nature.

As stated earlier the findings of this research work is quite in agreement with the empirical submissions of Opkara (2005), Ezeoha, (2011), Aurazeb, (2012), Ali, (2015), Okpara, (2009), Azeez & Oke, (2012) Olokoyo, (2013). As regards the findings of this research work, it is also worthy to state that, reforms in the banking sector are genuine tools for banking sector efficiency if its tenets are totally adhered to and the regulatory authorities ensure strict compliance. The study therefore concludes that:

i. Reforms in the in the banking during the period under study had positive and significant impact on Capital, Credit allocation to the private sector, Liquidity, Interest rate had significant positive impact on the Gross domestic product (GDP) in Nigeria.

ii. However reforms in the banking sector had a negative and insignificant impact on bank asset quality of the banking sector in Nigeria.

5.2 Recommendations

The continued existence and strength of any economy depends on the eminence of the role of banking sector in financial intermediation function through the effective mobilization of financial from the surplus to the deficit sectors for increase in economic productivity. Thus based on the findings of this research the study therefore, recommends as follows:

i. The capital of deposit money banks should be reviewed regularly in line with economic realities to ensure adequate and sustainable capital of Nigeria banking sector.

ii. The credit allocation to the private sector should be sustained as the financial intermediation process of the deposit money banks proved significant.

iii. The regulatory authorities should continue with their oversight function to ensure the banking sector remain liquid.

iv. The various deposit money banks and the regulatory authorities should ensure the entire banking sector adhered to the tenets of asset quality management to improve on the bank asset quality of Deposit Money banks and avoid financial distress.

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Definitions, Acronyms, Abbreviations

GDP: Gross Domestic Product