*ISSN: 2278 – 0211 (Online)*

# Effect Of Banking Sector Reforms On Nigerian Economy

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***Abstract:***
*This paper investigates the effects of banking sector reforms on economic growth of Nigeria over the period 1986-2010. The study adopts multiple regression analysis of ordinary least square (OLS) and descriptive analysis in establishing the relationship between gross domestic products that proxy economic growth and interest rate, exchange rate, cash reserve ratio, total asset and loan and advances. The study shows that total asset, cash reserve ratio and interest rate has a significant impact on gross domestic product while exchange rate and loans and advances has no significant impact on gross domestic product. Based on these findings, it is recommended that government should stimulate total asset, cash reserve ratio and interest rate and in order to maintain significant impact on the economy. While loans and advances should be checkmated in such a way that loans issued out should be to the productive sectors of the economy so as to have significant impact on the economy. Also, exchange rate should be seriously looked into in-line with the economic growth policy. Government should ensure proper implementation and enforce strict compliance with banking reforms and exchange rate policies.*

***Key words:*** *Banking Sector Reform, Economy, Gross Domestic Product*

## 1.Introduction

In Nigeria, we recognize four phases of banking sector reforms since the commencement of Structural Adjustment Programme (SAP). The first is the financial system reforms of 1986 to 1993 which led to deregulation of the banking industry that hitherto was dominated by indigenized banks that had over 60% of federal and state governments' stakes, in addition to credit, interest rate and foreign exchange policy reforms. The second phase began in the late 1993-1998, with the re-introduction of regulations. During this period, the banking sector suffered deep financial distress which necessitated another round of reforms, designed to manage the distress. The third phase began with the advent of civilian democracy in 1999 which was the return to liberalization of the financial sectors, accompanied with the adoption of distress resolution programmes. This era also saw the introduction of universal banking which empowered the banks to operate in all aspect of retail banking and non bank financial market the fourth phase began in 2004 to date and it is informed by the Nigerian monetary authorities who asserted that the financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a more pragmatic reform.

The resolve of the central bank of Nigeria to place the banking system in a regional and international context and promote soundness, stability and enhanced efficiency of the system was the major reason behind the increase minimum base for all universal banks to ₦25billion effective from December 31, 2005. This invariably prompted a regulatory induced restructuring in the form of consolidation through merger and acquisitions. Regulation no doubt is needed to bring sanity into the banking sector as well as putting it is an internationally competitive status. The recapitalization policy as a form of reform of the banking sector aims among others at development of more resilient, competitive and dynamic banking system that support and contribute positively to the growth of the economy with a core of strong and forward looking banking institutions that arte technology driven and ready to face the challenge of liberalization and globalization. Caveats to these ensued with the problem of large and complex system created by the reforms such that the issue of whether they guided the anticipated results is debatable (Coke, 2006; Balogun 2007 and Gale, 2010) although the regulation and supervision of bank was expected to bring order to the chaotic situation that had developed in financial sectors since the Late 1980's. The extent to which this had been achieved and how this has impacted on economic growth of Nigeria is a subject to debate.

The broad objective of this paper is to investigate how banking sector reform had impacted on the Nigerian economy, and specifically to assess the relative effectiveness of the reforms, gauge the likely impact of the outcomes on Nigerian economic performance, identify the benefit of banking reforms and compare the state of Nigeria banks before, and during reform periods.

Based on the objectives of this study, the following questions become pertinent.

- How has the banking reform alleviate poverty, unemployment, inequality in Nigerian economy?
- Has the reform really transform the banking sector toward meeting international standard?

Two hypotheses that are stated in both null ($H_O$) and alternative ($H_1$) form were formulated for the study. The hypotheses are formulated as follows:

- Ho: The state of the Nigeria banks has not significantly improved after banking sector reforms.

  $H_1$: The state of the Nigeria banks has significantly improved after banking sector reform
- $H_0$: Banking sector reforms has no significant effect on banking performance which in turn does not contribute effectively to the Nigerian economy.

  $H_1$: Banking sector reforms has no significant effect on banking performance which in turn has contributed effectively to the Nigerian economy.

This study is designed to cover the effect of banking reforms on banking industry in the post consolidation era of 2006 to 2010. Section two reviewed past and relevant theories, section three centered on methodology and section four discussed the results, as well as the findings and the implications of the findings. Section five contained the conclusion.

## 2.Literature Review

Recapitalization is an aspect of the ongoing reforms in the banking industry. Ajayi, (2005) viewed recapitalization as an important component of reforms in the banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non performing liabilities (NPL). He identified three means by which recapitalization can be achieved. These are through consolidation, convergence and capital market. While consolidation involves mergers and acquisition between and among banks, convergence involves the consolidation of banking and other types of

financial service like securities and insurance. However convergence was identified to be less frequently embarked on as a means of recapitalization Ferguson (2002). The capital market on the other hand provides a conduit for investment fund and devolution of the ownership structure through offer for subscription by either private placements or public offers.

Uchendu (2005) noted that the banking sector reforms and its sub component, recapitalization vis-à-vis consolidation, convergence and capital market activities have emerged as a result of a deliberate policy in response to correct the perceived or impending banking sector crises and subsequent failure. Banking sector crisis can be triggered by the preponderance of weak banks characterized by persistent illiquidity, insolvency, under-capitalization, high level of non performing loans and weak co-operate governance. Banking crises usually start with banks inability to meet their financial obligation to their stakeholders Uchendu (2005), stressed further that not all bank consolidation is as a result of a banking crises. Consolidation is implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale, raise efficiency and improve profitability. Despite all the above expected benefits, Uchendu (2005) was quick to point out that the banking sectors reform has their associated costs. He identified job losses which would have nevertheless occurred of remedial measures were not taken; Gross country cost estimates to national economies resulting from banking sector reform are enormous, ranging from a 12% of GDP for Malaysia, 15% of GDP for Korea to 45% of GDP for Indonesia. However, in spite of the above huge sums spent on banking sector reforms, the benefits has been seen to outweigh the cost in medium to long term.

Ogunbunka (2005) also identified three reasons for continued reforms in the banking sector. These are structural reason, recapitalization reasons and ownership issues. He however emphasized that the scope of such reform programmes and the strategies adopted in the execution vary from one country to another. Imala (2005) identified four rationales behind banking system reform. These are low capital base of banks, a large number of small bank with relatively few branches, the dominance of a few banks and poor rating of a number of banks. Adedipe (2005) argued the most fundamental reason for the consolidation of banks via recapitalization was the observed growing distress in the distress in the industry which was identified as a real threat of imminent bank failure. Adedipe (2005) identified the fact that there is a general consensus that change of

fundamental nature was necessary to redirect the banking system towards its traditional role of providing effective intermediation and financing economic growth.

A substantial body of literature has been derived to the link between finance and economic development, both in developing and developed economies. Patrick (1966) postulates a bi-directorial relationship between financial development and economic growth. A large body of empirical literature has emerged to test the hypothesis. Two main approaches to test to this hypothesis have emerged the first group led by Erdal et al 2007, adopt a single measure of banking reforms and test the hypothesis on a number of countries using either cross sectional or panel data. The second group tested the hypothesis using time series data of particular countries. For example, Murinde and Eng. (1994) tested the hypothesis on Singapore, Lyons and Murinde (1994) ON Ghana; Adedokun (1998) on Nigeria; Agung and Ford (1998) on Indonesia, Wood (1993) on Barbados and James and Warwick (2005) on Malaysia. Some other authors including King and Levine (1993a and 1993b); Demetriades and Hussein, (1996), Levine (1997); Demirguckunt and Maksimouvic (1998); Beck et al (2000); Beck and Levine (2004); Watchtel (2003) and Demetiades and Andrinova (2004) used different econometric methodologies and data sets to study the role of the financial sector in the economy. These studies were generally modeled after the works of Shumpeter (1912), Gurley and Shaw (1955), Goldsmith (1966) and Mckinnon (1973).

In Nigeria, the policy of financial liberalization has been pursued since the introduction of the structural Adjustment programme in the mid-1980's and this has been supported by greater openness of world trade and a higher degree of financial inclusion. The more recent endogenous growth theory 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. Schumpeter (1934) for example, argued that the banking sector plays a crucial role in channeling finance and investment to productive agents within the economy and thus act as catalysts of economic growth. The main implication of this theory therefore is that banking policies which embrace openness, competition, change and innovation will promote economic growth. Conversely, policies which have the effect of restricting or slowing banking reforms by protecting or favouring particular industries or firms are likely over time to unsustainable economic growth.

The literature is replete with studies which show that the objectives of financial sector reforms are broadly the same in most countries of sub-Sahara Africa. Omoniyi (1991), CBN (2004) and several financial sector analysts summarized the objectives to include:

Market liberalization for the promotion of a more efficient resource allocation; expression of savings mobilization base, promotion of investment and growth through market based interest rate. It also means the improvement of the regulations and surveillance framework, fostering healthy competition in the provision of services and above all laying the basis for inflation control and economic growth.

The process of reforming the financial sector for greater efficiency consists of the movement from an initial situation of controlled interest rates, poorly developed money and securities market and underdeveloped banking system, towards a situation of flexible interest rates, an expanded role of market forces in resource allocation, increased autonomy for the central bank and a deepening of the money and capital markets. The ability of the financial system to engenders economic growth and development huge largely on the health, soundness, efficiency and stability of the banking system. Banking reforms are therefore undertaken to strengthen and reposition the banking industry, to enable it contribute meaningfully to the development of the real sector through its intermediation process. It involves a comprehensive process of substantially improving the regulations and surveillance framework for monetary management, expansion of savings mobilization base, enforcement of capital adequacy, promotion of investment and growth through market based interest rates.

The theoretical argument for linking bank reforms to growth is that a well developed financial system enhances the efficiency of intermediation by reducing information, transaction and monitoring costs. On the one hand, it broadens the deposit base of the economy and on the other hand at promotes investment by identifying and funding good business opportunities, hedging and diversifying risk and facilitating the exchange of goods and services. These result in a more efficient allocation of resources, in more rapid accumulation of physical and human capital and in faster technological progress which in feed economic growth (creame et al, 2004).

Ultimately, bank reforms aim at ensuring financial deepening which implies the ability of financial institutions to effectively mobilize saving for investment purposes. The growth of domestic savings provides the real structure for the creation of diversified financial claims. It also presupposes actual participation of financial institutions in financial market which in turn entail the supply of quality (financial) instruments and financial services (Ndekwu, 1998). Financial deepening largely entails and increased ratio a money supply to gross domestic product (GDP), Popiel (1990), Nnanna and Dogo (1999) and Nzotta (2004) it is thus measured by relating monetary and financial

aggregates, such as $M_1$, $M_2$ and $M_3$ to the GDP. The logic here is that the more liquid money is available to an economy, the more opportunities exist for growth. However it is important to remember that it is impossible to win any game without having an enforceable set of rules to guide the way it is played. Therefore, the benefits of the banking sector reforms cannot be achieved without strong institutions that set and enforce the rules (Soludo, 2006).

The Nigerian banking system has steadily evolved, following wide reaching reforms embarked upon by the authorities. The current major reforms which began in 2004 were necessitated by the need to strengthen the banks. At the inception of the reforms, the thrust of policy was to grow the banks and position them to play pivotal roles in driving development in other sectors of the economy as well as induce improvement in their own operational efficiency. As a result, banks were consolidated through merger and acquisition, raising the capital base from ₦2 billion to a minimum of ₦25billion which reduced the number of banks to 25 from 89 in 2005.

Beyond the need to recapitalize the banks, the reforms focused on ensuring minimal reliance on public sector for funds but rather relying on the private sector. The adoption of risk focused and rule based regulatory framework, adoption of zero tolerance in regulatory framework in data/information, rendition/reporting and infraction; strict enforcement to corporate governance principles in banking; expeditious process of rendition of returns by banks and other financial institution 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 regulation.

The effects of these developments are manifold. First, banks by their size were enabled to undertaken funding of large ticket projects, especially in infrastructure and gas sectors, through the new window in the enlarged single obligor limits. The larger size of banks also engenders improved customer confidence. The number of banks branches increased from 3247 in 2003 to cover 58.37 in 2009 and employment in the sector rose from 50586 in 2005 to 71876 in 2009. Also, the capital market received a boost as several banks recorded successes in their Initial Public Offers (IPOs). The consolidation exercise also impacted the payment system positively as the fewer numbers of banks made it easier to deploy the new automated cleaning system and also reduced the length of time spent on the cleaning floor. Concerning supervision, the relative ease of having to oversee 24 banks as against 89 deserves mentioning. Another aspect of the reforms which is mentioned relate to the changes in policy approach at the CBN. Beginning from

December 2006, the bank introduced a loose interest rate based framework and made the monetary policy rate the operating target. The new framework has enabled the bank to be proactive in countering inflationary pressures. Also, in the use of the framework, upper and lower limits to the monetary policy rate were set, coinciding with the rate for the standing lending facility and standing deposit facility respectively. The corridor regime has helped to check wide. Fluctuation in the inter bank rates and also engendered orderly development of the money market segment.

In spite of these positive developments, a new set of problems emerged and threatened the financial system from 2008, coinciding with the global financial crisis. The surge in capital put pressure on the availability of human capacity in the sector and this led to margin loans and other high risk investments. Consequently, when the capital market bubble burst, the balance sheet of banks became eroded to the extent that most of them remained for some time on “life support” from the CBN. Inter bank rates spilled as banks could borrow at any rate in other to remain afloat, the size of non performing loans enlarged, customer panic re-emerged and several unethical conducts among the managements of banks were revealed. It is this scenario that set the stage for the recent set of reforms. The reforms could be broadly divided into two: The first parts of the reform focused on ensuring that the nine banks which examination revealed were in poor state were rescued. Some of the actions included the reduction of cash and liquidity ratios, expanded discount window operation which enable the banks to borrow up to 360 days from the CBN. It also admitted that non traditional instruments like commercial papers promissory notes and bankers’ acceptances in the discount window. The inter bank lending was also guaranteed to encourage banks to lend among themselves. The sum of ₦620 billion was injected into eight of the weak banks indirect rescue packages, while corporate governance was enhanced with the appointment of new management teams. Overall, the system has been restored to the path of stability.

The second aspect of the reforms is couched in terms of medium to long term objectives. Under this, financial sector stability is emphasized alongside the need to position the banks to provide funding for the development of the real sector of the economy. The four cardinal pillars of the reforms are: enhancing the quality of banks, establishing financial stability, enabling healthy financial sector evolution and ensuring that the financial sector contributes to the real economy.

**3.Methodology**

The annual data of Nigeria economy for the period of 1986-2010 is used to examine the banking sector reforms and the Nigerian economy using Gross Domestic Product (GDP), Cash Reserve Ratio (CRR), Interest Rate (INT), Total Asset (TA), Loan and Advances (LA), Exchange Rate (EXR).

The model of this study used a general linear regression model of the form -

$$Yi = \beta 0 + \beta 1\ x1i + \beta 2\ x\ 2i + \text{------------------} + \beta k\ x + i$$

If we have joint observation in Y, we can express the above model in matrix form as

$Y = x\ \beta + \varepsilon$

$$\text{Where} = \begin{matrix} Y_1 \\ y_2 \\ \vdots \\ y_m \end{matrix} = \begin{matrix} X_1 & 0 & \text{-----} & 0 \\ 0 & X_2 & \text{----} & 0 \\ \vdots & & \ddots & \vdots \\ 0 & 0 & \text{----} & Xm \end{matrix} \begin{matrix} \beta_1 \\ \beta_2 \\ \vdots \\ \beta_m \end{matrix} + \begin{matrix} \varepsilon_1 \\ \varepsilon_2 \\ \vdots \\ \varepsilon_m \end{matrix} = X\ \beta + \varepsilon.$$

Using the above formulation, our hypothesis will be verified using the linear logarithm model following form.

$$\text{Log } GDP_t = \beta_0 + \beta_1 \text{ Log } GDP_{t-1} + \beta_2 \text{ Log } INR_t + \beta_3 \text{Log } CRR_t + \beta_4 \text{Log} LA_t + \beta_5 \text{Log} TA_t + \beta_6 \text{ LogE } XR_t + \varepsilon t \ldots\ldots (1)$$

*Where*: GDP = gross domestic product, GDPt-1 = gross domestic product per capital logged by one year, INR = increase rate, CRR = cash revenue ratio, LA = loan and advances, EXR = exchange rate, TA = total assets, $E_t$ = error term, $B_0$ = constraint variable, $\beta_1$, $\beta_2$, $\beta_3$---------------- $\beta_5$ = scope of the regression

The multiple regression of ordinary least square technique is adopted to determine the exact relationship between Gross Domestic Product (Dependent Variable), Cash Reserve Ratio (CRR), Total Asset (TA), Loan and Advances (LA), Exchange Rate (EXR) and Interest Rate (INT) (Explanatory Variables). Multiple regression technique is fit because there are more than one explanatory variables and ordinary least square estimation technique is known for its best linear, least variance, unbiasedness and efficiency.

In order to provide an objective assessment of the outcomes of the banking sector reforms, there is the need to specify evaluating criteria. The fact that four phases of banking sector reform had been undertaken since 1986 to 2010. I have proposed to use descriptive statistics to test the hypothesis that each phase culminated in to improved incentives for the provision of better sources to the economy as whole. The assumption is that the post reforms values of measures of institutional and policy response performance

represents significant improvement over the pre-reform value. Among these measures are: branch networks, increased supply and improved access to credit, improvement in selected financial sector and distress ratios and above all increased ability to compete within the global economy. It should however be noted that several factors exists besides the reforms measures that could explain the trend in these indicators.

In order to ascertain the relative efficiency of the reforms, we post that increases in lending to the real sector at lower interest rates. Interest rates reforms should lead to positive real savings rate as well as the convergence and or narrowing down of the premium between the savings and prime lending rate. Foreign exchange market reforms should correct overvaluation and foster relative stability of the exchange rate of the naira vis-à-vis world trading currencies, in addition to eliminating divergence inherent in the current multiple exchange rate system.

In order to assess the likely effects of these changes on economic performance, we posit that the emergence changes in incentive structure may have had the desired effects on real sector credit and performance during the period. On this score, it is proposed here that we test two postulates. The first hypothesis that policy reforms which results in increased capitalization, exchange rate, devaluation, interest rate, restructuring and abolition of credit rationing many have had positive effects on real sector credit. The second from the macroeconomic perspective tests the hypothesis that implicit monetary and exchange rates incentives which accompany reform had salutary macroeconomic effects related in the trends in aggregate economic growth and inflation.

## 4.Analysis And Interpretation Of Result

The source of data for this study is mainly secondary and it is drawn from central bank of Nigeria statistical bulletin.

| Dependent variable: GDP | | | | |
|---|---|---|---|---|
| Included observation: 40 | | | | |
| **Variable** | **Coefficient** | **Std. error** | **t-n statistic** | **Poob** |
| C | 1.239851 | 0.784517 | 1.5801401 | 0.1233 |
| ILA | -0.449245 | 0.340193 | -3.320558 | 0.1955 |
| LTA | 1.186812 | 0.371366 | 3.195801 | 0.0030 |
| LCRR | 0.026594 | 0.076956 | 0.345578 | 0.7318 |
| LINT | 1.165707 | 0.142486 | 8.181198 | 0.0000 |
| LEXR | -0.719360 | 0.083230 | -8.643058 | 0.0000 |
| R-square 0.957125 | | | Mean dependent var. 1181282 | |
| Adjusted R-Square 0.950820 | | | S.D. dependent var. 1.509149 | |
| s.E of regression 0.334676 | | | Akaike info criterion 0.786174 | |
| Sum squared resid 3.808276 | | | Scholars criterion 1.039506 | |
| Log likelihood -9.723482 | | | F-Statistic 151.8023 | |
| Durbin-Watson stat. 1.587824 | | | Prob (F-statistic) 0.000000 | |

*Table 1: Regression Results*
*Source: Author's Computation*

The result above shows that there is a positive relationship between GDP and TA, LCRR and INT while there is negative relationship between GDP and LA and EXR.

It also shows that a unit increase in GDP will lead to 1.187 unit increase in LTA. A unit increase in GDP will lead to 1.166 unit increases in LINT. A unit increase in GDP will lead to 0.027 unit increases in LCRR. However, there is a negative relationship among LLA, LEXR and GDP such that a unit increases in LLA will lead to 0.449 reduction in the value of GDP and a unit increase in LEXR will lead to -0.719 reductions in the value of GDP. These conform with our apriori expectations.

The coefficient of multiple determinations ($R^2$) with a value of 0.957 shows that as 95.7% changes in variables in the dependent variable (GDP) can be explained by the independent variable or explanatory variables while the remaining 4.3% is being explained by the stochastic variable. The adjusted $R^2$ further confirmed the above relationship.

To test the reliable of the variability of the variables in the above model i.e. (t- test) the degree of freedom (DOF) for the T-test is n-k, where n is number of years and K is number of variables.

| Variables | T-calculated | T-tabulated | Decision $H_0$ | Decision $H_1$ | Remarks |
|---|---|---|---|---|---|
| Constant | 1.5804 | 2.042 | Accept | Reject | Insignificant |
| LA | -1.3206 | 2.042 | Accept | Reject | Insignificant |
| TA | 3.1958 | 2.042 | Reject | Accept | Significant |
| CRR | 0.3456 | 2.042 | Accept | Reject | Insignificant |
| INT | 8.1812 | 2.042 | Reject | Accept | Significant |
| EXR | -8.6431 | 2.042 | Reject | Accept | Significant |

*Table 2: Significance Test Of The Parameters (At 95% Significance Level)*
*Source: Author's Computation*

*4.1.Decision Rule*

$T^c > T^t$ $H_1$ $^{Acept}$ and reject $H_0$ $^{Reject}$

Calculated ($t^c$) $^<$ T- tabulated ($t^t$) accept $H_0$ and reject $H_{1.}$

The table above shows that the variable EXR, TA and INT are statistically significant at 95% significance level because their $t^c > t^t$ thereby leading to the acceptance of the alternative hypothesis. While the variables LA and CRR are statistically insignificant at 95% significance level since their $t^c < t^t$ thereby leading to the acceptance of the null hypothesis .

| Model | F-calculated | F-tabulated | Decision=$H_o$ | Decision $H_1$ |
|---|---|---|---|---|
| Variable | 151.80 | 2.53 | Reject | Accept |

*Table 3: F-Test (At 95% Significance Level)*
*Source: Author's Computation*

*4.2.Decision Rule*

If $F^c > F^t$ accept $H_1$ and reject $H_0$

If $F^c$, $F^t$ accept $H_0$ and reject $H_1$

Since the table above shows that the whole model is statistically significant at 95% significance level is the model developed can really explain what happens to Gross Domestic Product (GDP). Therefore, the model has a goodness of fit. Hence, the alternative hypothesis that banking sector reforms has no significant effect on banking performance which in turn contribute effectively to the Nigeria economy.

*4.3.Test For Autocorrelation*

The test for the presence of Autocorrelation is done using the Durbin Watson Statistic.

The DW statistic falls under the positive side of the inconclusive region; this means the test for the presence of autocorrelation in the model stand inconclusive.

*4.4.Findings*

The analysis shows that there exist a positive relationship among the gross domestic product and total asset, cash reserve ratio and interest rate while there is a negative relationship among gross domestic product, loan and advances and exchange rate. The $R^2$ value of 0.957125 suggested that about 95.7% variation in gross domestic product is explained by Total asset, interest rate, exchange rate, loan and advances and cash reserves ratio while the remaining 4.3% can be explained by other variable not stated in the model in the above presentation.

Based on the empirical analysis, it shows that there is a significant impact which total asset, interest rate, and exchange rate has on the economy. Nigeria government should stimulate total asset, interest rate and exchange rate into the banking system of the country in order to increase gross domestic product while based on the empirical analysis, it shows that there is no significant impact which loan and advances and cash reserve ratio have on the economy as a result of this Nigeria government should stimulate cash reserve ratio and loan and advances so that it will have effect on the Nigeria economy growth.

The loan given by banks should be checkmated in such a way that the productive sector should be granted loans and not for unproductive purposes so as to have a significant or positive impact on Nigeria economic growth while the cash reserve ratio should be looked into so as to have enough money supply in the economy in other for it to have a positive impact in Nigeria economic growth.

**5.Conclusion**

The importance of banking reforms on Nigeria economy growth cannot be overemphasized. This is revealed by positive and significant impact of reform on Nigeria economy. The reforms have been seen by different scholars to have a multiplicity character while other argued that reforms is load for economic growth, some scholars put their trust in the positive effect of reforms in the Nigeria economy. Nigeria on her part has embarked on the formulation of various policies that will favour or discourage reforms because she was not sure of its total effect on the Nigeria economy.

This study revealed that a lot of policies have been put in place to attract reforms into the banking sectors of the country. The main objective of this work is to find out whether there is an impact of banking reforms on the Nigeria economy. The analysis which was done by regression shows that there is a positive relationship between interest rate, total asset and cash revenue ratio on gross domestic product which means a significant impacts on banking sector reform and Nigeria economy. The result of the analysis also shows this is a negative relationship between exchange rate and loan & advances on the economy. It indicate that if there is any increase in exchange rate and loan and advances, there will be a percentage decrease in gross domestic product so government should look into the exchange rates of the banking sector and loan and advances been given out to costumers to and constant increase or growth in gross domestic product in other to bring about growth in the Nigeria economy. The successfully completion of the banking sectors consolidation exercise provides evidence that the authorities have a strong fair with regards to formulating and implementing banking sector reforms. However, there is measure largely dependent on the ability to dependent on the ability to deal with identified constraints the commitment by all stakeholders to see it work and an uncompromising attitude by the authorities.

Going by our analysis so far, the choice of future policy options for banking sector reforms towards a clearly neo-classical supply side economics go beyond the ambivalence of say's classical and Keynesian monetary stance. The choice is imperative if we are to reconcile monetary and fiscal policies for the purpose of attaining the twin objectives of growth and inflationary controls. Such reconciliation would mean that the monetary authority should be less concern with expansionary fiscal stance, for as long as its origin is not through domestic borrowing. Under such a scenario, it should rely mostly on interest rate operating procedures for macro-economic management with the sole objectives for moving towards the 'law of one market' in both the domestic and international money markets. The overriding objectives moved are to minimize interest and exchange rate risks that can adversely affect the rate of return on domestic and international financial investments in the country. That way, the right incentives would be created for the inflow of foreign and domestic investment into the country. This requires the urgent need to fine-tune the Soludo's banking sector reforms through the deliberate adoption of policies that would ensures convergence of domestic and international rates of return on financial market investment. This would require getting prices right in all the markets.

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