



Impact Of Bank Consolidation On Nigeria Economy Growth

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Abstract:

The study investigates the impact of bank consolidation on Nigeria economy from 1986 to 2010 It adopts Gross Domestic Product (GDP) as a measure of economic growth and Interest Rate Margin (IRM), Credit to Private Sector (CPS), Savings (SAV) and Inflation rate (INF) as measure of bank consolidation.. The econometric techniques of Augmented Dickey-Fuller (ADF), Unit Root test, Johansen Co-integration test and Error Correction Mechanism (ECM) were used. The empirical result shows the presence of significant relationship among the variables. The findings however suggest that bank consolidation within the period under review has no significant impacted on the economy even though bank consolidation remains one of the ways to improve the banking sector for financial stability and sustainable development. The study recommends that the regulatory and supervisory framework should be further strengthened and healthy competition should be promoted while further reforms and consolidation that can further efficiency of the banking industry should be embarked on.

Keywords: Consolidation, Capital Base, Banks.

JEL Classification Codes: D21, D4, L1, L2

1.Introduction

It is incontrovertible that the banking system is the engine of growth in any economy, given its function of financial intermediation. Through this function, banks facilitate capital formation, lubricate the production engine turbines and promote economic growth. However, banks' ability to engender economic growth and development depends on the health, soundness and stability of the system. The need for a strong, reliable and viable banking system is underscored by the fact that the industry is one of the few sectors in which the shareholders' fund is only a small proportion of the liabilities of the enterprise. It is, therefore, not surprising that the banking industry is one of the most regulated sectors in any economy. It is against this background that the Central Bank of Nigeria, in the maiden address outlined the first phase of its banking sector consolidation designed to ensure a diversified, strong and reliable banking industry(Soludo, 2004),.

Nigeria banking sector has experienced a boom-and-burst cycle in the last two decades. After the implementation of the Structural Adjustment Programme (SAP) in 1986 and deregulation of the financial sector, many banks sprang up as a result of attractive arbitrage opportunities in the foreign exchange market (Heiko 2007, Capirio and Kligbiel 2004). The sector was highly oligopolistic with remarkable features of market concentration and leadership. Lemo (2005) noted that there are ten banks that control more than 50% of the aggregate assets of the banking sector, more than 51% of the aggregate deposits liabilities and more than 45%of the aggregate credits. The sector was characterized by small scale banks with high overheads; low capital base averaging less than \$10 million; heavy reliance on the government patronage and loss making. Nigeria's banking sector was still characterized by a high degree of fragmentation and low level of financial intermediation up to 2004.

Banking consolidation have been an on-going phenomenon around the world right from the 1980s, but it is more intensified in recent time because of the impact of globalization which is precipitated by continuous integration of the world market. In Nigeria, the consolidation in the banking sector preceded against the backdrop of banking crisis due to highly undercapitalization deposit taking by banks; weakness in the regulatory and supervisory framework; weak management practices; and the tolerance of deficiencies in the corporate governance behaviour of banks (Uchendu, 2005). Banking sector consolidation have resulted from deliberate policy response to correct perceived or impending banking sector crises and subsequent failures.

The consolidation exercise in the banking industry by the Central Bank of Nigeria has necessitated the need for different organisation to engage in consolidation (mergers and acquisition). The concept of recapitalization refers to the current trend of compelling all commercial banks to raise their capital base from 2billion naira by the central bank of Nigeria on or before 31st December 2005. This has sent some of these banks on the move to consider merger and acquisition as a survival strategy. A banking crisis can be triggered by weakness in banking system characterized by persistent illiquidity, insolvency undercapitalization, high level of non-performing loans and weak corporate governance, among others. Similarly, highly open economies like Nigeria, with weak financial infrastructure, can be valuable to banking crises emanating from other countries through infectivity.

Since inception, the changes in the banking industry have been influenced by the need for sound banking industry, globalization of operations, technological innovation and the adoption of supervisory and prudential requirements that conform to international standards and the need to make Nigerian banks Basel Accord I and II compliant. Other reasons which prompted the reform program in the banking sector include: weak capital base of the banks, weak corporate governance, gross insider abuse, sharp practices, and overdependence

on public sector deposits, insolvency and internally focused competition. The on-going consolidation in the banking industry by the Central Bank of Nigeria (CBN) through the recapitalization is monumental. It created a remarkable transformation not only in ensuring more diversified, strong and reliable banks but also enhancing banks' liquidity position and their ability to assume risks. This study will therefore attempt to find out the extent to which consolidation of banks in Nigeria has affected the economy growth. The effects of the increase in the capital based of bank, particularly the commercial bank is expected to have positive and beneficial effect to the system and the economy. The need for capital resources is not the same for business organizations in the financial services industry. However, according to Adewumi (1997) the ingenuity of the banker has developed and employed as much we can talk of being engaged in financial engineering. The main objectives of this study are to assess the impact of bank consolidation within the period under review and to identify the benefits of bank consolidation, assess the implication of consolidation on the banking and evaluate the prospect of bank after consolidation. This study will enlighten the general public on the impact of bank consolidation on the performance of bank in Nigeria. And also explain the challenges of

bank consolidation. This study will also establish the fact that consolidation (merger and acquisition) is a veritable means for fostering banking growth. The study will also provide a sound basis for certain guideline in the maintenance of adequate capital to the benefits of the economy especially the banking sector. Consolidation of banks is of great important to the Nigeria banking industries because of its strategies position as a major tools for achieving the objective of promoting a sound banking system.

2.Literature Review

2.1.The Nigerian Banking Industry Before Consolidation

Prior to the just concluded banking sector consolidation programme induced by the CBN 13-point reform agenda, which was announced on 6th July, 2004, the Nigerian banking system was highly oligopolistic with remarkable features of market concentration and leadership. For instance, Lemo (2005) notes that the top ten (10) banks were found to control: more than 50% of the aggregate assets; more than 51% of the aggregate deposit liabilities; and more than 45% of the aggregate credits.

Thus, the system was characterized by: generally small-sized fringe banks with very high overhead costs; low capital base averaging less than \$10million or N1.4 billion; heavy reliance on government patronage (with 20% of industry deposits from government sources)

Furthermore, twenty-four out of the eighty-nine deposit-money banks that existed then exhibited one form of weakness or the other. Prominent among such weaknesses are under-capitalization and/or insolvency, illiquidity, poor asset quality, weak corporate governance, boardroom squabbles, dwindling 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, necessitated some banks going into rent-seeking and non-banking businesses, which are not related to core banking functions. Some of the banks were preoccupied with trading in foreign exchange, government treasury bills and sometimes, indirect importation of goods through surrogate companies.

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 was 19.5% of the total loans and advances. The implication of this unsatisfactory statistics as noted by Lemo (2005) is that there existed

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; it was only a question of time.

2.2. Banking System Consolidation

The term consolidation connotes the selling of equities at a gain and reinvesting of the proceeds in fixed-interest securities. Similarly, the Harold Sloan and Arnold Zurcher Dictionary of Economics (1970) conceptualized consolidation as a fusion of the assets and liabilities, in whole or in part, of two or more business establishments to form an entirely new establishment. From the above definitions, consolidation represents the idea of investment and the coming together of firms or enterprises as a single entity. Consolidation also means larger sizes, larger shareholder bases and larger number of depositors. According to Adam (2005), bank or corporate consolidation could be achieved by way of mergers and/or acquisition, recapitalisation and proactive regulation. Bank consolidation is more than mere shrinking of the number of banks in any banking industry. It is expected to enhance synergy, improve efficiency, induce investor focus and trigger productivity and welfare gains (Nnanna, 2004). The main motivation behind consolidation is to maximize shareholders' value. Value may be maximized through Mergers and Acquisitions (M&As) mainly by increasing the participating firm's market power in setting prices or by improving their efficiency and, in some cases, by increasing their access to the safety net.

Imala (2005) identified eight reasons for M&As in the financial services sector. They include:

- Cost savings, attributable to economics of scale as well as more efficient allocation of resources;
- Revenue enhancement, resulting from the impact of consolidation on bank size, scope, and overall market power;
- Risk reduction, due to change in organizational focus and efficient organizational structure;

- New developments, which impose high fixed costs and the need to spread these costs across a large customer base;
- The advent of deregulation, which removed many important legal and regulatory barriers;
- Globalisation, which engender a more globally integrated financial services industry and facilitated the provision of wholesale financial services and geographical expansion of banking operations;
- Financial stability, characterized by the smooth functioning of various components of the financial system, with each component resilient to shock;
- Shareholders' pressure on management to improve profit margins and returns on investment, made possible by new and powerful shareholder blocks.

2.3. Benefits Of The Banking Consolidation

Some of the benefits of the consolidation of the banking industry include availability of funds for the small and medium scale enterprises, opportunity for Nigerian banks to explore other regional and international markets, reduction in capital flight, massive and continuous innovations in the banking sector, externally-focused competition and restoration of confidence in the Nigerian banking sector etc. Izedonmi (2005) has argued that the consolidation of Nigerian banks was to make them Basel Accord II compliant by 2007. Basel II emphasized the need for banks to have a higher level of capital base which is proportional to their risk exposure. Since the consolidation, many banks have gone to the capital market to raise additional capital for various purposes such as expansion, enhancement of operational efficiency through investment in ICT. Okoro (2006) remarked that "never in the country's history has anything near the inflow of off-shore investment of over \$500 million through the banking sector been registered in one year". Equally, the bond and repurchase market are expected to kick off due to the growth in the banking sector (Teriba 2004). Ifeacho (2005) argued that the Nigerian capital market had suddenly become the preferred source of raising funds by banks in the wake of the consolidation policy, thereby boosting the market capitalization in tremendous leaps. Again, while consolidation increased attention in the primary market, activities in the secondary market became lull initially because of new issues offered by banks (Atufe 2005). Because of the immense contribution of the capital market in the bank

recapitalization, the activities of Nigerian capital market has created more awareness of the opportunities to the investing public and listed companies.

3. Methodology

The paper examines the impact of banking consolidation on the economic growth of Nigeria. The study hypothesized that banking consolidation does not have a significant impact on Nigeria's economic growth. Annual time-series data from 1986 to 2010 was obtained from the Central Bank of Nigeria Statistical bulletin. The model is built on the empirical work of previous researchers and estimated employing the econometric techniques of Augmented Dickey-Fuller (ADF) unit root test, Johansen co-integration test, and Error Correction Mechanism (ECM).

3.1. Statement Of Hypothesis

The study hypothesized that banking consolidation does not have a significant effect on Nigeria's economic growth. The following hypothesis was made.

- H_0 : Banks consolidation has no significant impact on Nigeria's economic growth.
- H_1 : Banks consolidation has significant impact on Nigeria's economic growth.

3.2. Specification Of Empirical Model

The model is based on the modification of the empirical models of Donwa and Odia (2011). Gross Domestic Product (GDP) measured economic growth which is the dependent variable as a function of Interest Rate Margin (IRM), Credit to Private Sector (CPS), Savings (SAV), Inflation rate (INF). The functional relationship of the model becomes;

$$GDP=f(IRM, CPS, SAV, INF) \text{ -----1}$$

The econometric equation is specified as;

$$GDP_t = \beta_0 + \beta_1 IRM_t + \beta_2 CPS_t + \beta_3 SAV_t + \beta_4 INF_t + \varepsilon_t \text{ -----2}$$

Where;

β_0 = Intercept/constant

β_1 - β_4 = Coefficient of parameters

ε_t = Stochastic/ Error term

By log linearizing, the model becomes;

$$\text{Log GDP}_t = \beta_0 + \beta_1 \log \text{IRM}_t + \beta_2 \log \text{CPS}_t + \beta_3 \log \text{SAV}_t + \beta_4 \log \text{INF}_t + \varepsilon_t \dots\dots\dots 3$$

Specifying the Error Correction Model (ECM) from equation 2, the model becomes;

$$\Delta \log \text{GDP} = \beta_0 + \beta_1 \sum \log \text{IRM}_{t-1} + \beta_2 \sum \log \text{CPS}_{t-1} + \beta_3 \sum \log \text{SAV}_{t-1} + \beta_4 \sum \log \text{INF}_{t-1} + \sum \text{ECM} (-1)_{t-1} + \varepsilon_t \dots\dots\dots 4$$

Where;

ECM (-1) = Lagged error correction term

t – 1 = Variable lagged by one period

ε_t = White noise residual

The ‘a priori’ expectation for the coefficients in the model are as follows; $\beta_1, \beta_2, \beta_3 > 0$ while $\beta_4 < 0$. $<$ Means economic growth declines with a unit increase in the explanatory variable while $>$ denotes an improvement in economic growth as the explanatory variable increases by a unit.

4. Analysis And Interpretation Of Findings

The study seeks to examine the quantitative effect of banking reforms on the economic growth of Nigeria with a view to arrive at a logical conclusion. The analysis is conducted using the Augmented Dickey-Fuller (ADF) Unit Root test, Johansen Co-integration test and the Error Correction Mechanism (ECM). The classical Ordinary Least Square (OLS) method is excluded because it gives short-run oriented and spurious results which may be misleading arising from the non-stationarity of time series data used in the OLS method. Since, unit root test is a pre-requisite for co-integration, the reliability of the empirical results is assured.

4.1. Unit Root Test

Most time series data are not stationary, therefore it is necessary to conduct unit root test on data. The Augmented Dickey-Fuller (ADF) test would be employed to establish the stationarity of data and order of integration. To determine if the time series is stationary, the ADF test statistic value must be greater than Mackinnon critical value at 5% level of significance, with the comparison done at absolute term.

The table below presents the unit root test on all the variables in the model. The ADF test was carried at level, first difference and second difference.

Variable	At Level		First difference		Second difference	
	ADF Test Statistic Value	5% Mackinnon Critical Value	ADF Test Statistic Value	5% Mackinnon Critical Value	ADF Test Statistic Value	5% Mackinnon Critical Value
GDP	-1.360667	-2.9969	-5.178167*	-3.0038	————	————
IRM	-2.487940	-2.9969	-5.089957*	-3.0038	————	————
CPS	1.238262	-2.9969	-2.623413	-3.0038	-5.071287*	-3.0114
SAV	0.667408	-2.9969	-3.438808*	-3.0038	————	————
INF	-3.325892*	-2.9969	————	————	————	————

Table 1: Results of ADF Test

(*) denotes that stationarity has been established at 5% significance level

Source: Author's computation

After conducting the ADF unit root test, the order of integration can be summarized in table 2 as reported below

Variable	Order of Integration
GDP	I(1)
IRM	I(1)
CPS	I(2)
SAV	I(1)
INF	I(0)

Table 2: Summary of Order of Integration

It can be deduced that the variables are integrated in different order. GDP, IRM and SAV are series I (1) i.e. stationary at first difference. CPS is a series I (2) i.e. stationary at second while INF is a series I (0) because it was found stationary at level.

4.2. Johansen Co-integration Test

Co-integration test determines the existence of long run relationship among variables in the model. The hypothesis for the co-integration test is stated in null (H_0) and alternative (H_1).

H_0 : No Co-integration (absence of long run relationship)

H_1 : Co-integration exist (presence of long run relationship)

Trace test is employed to test the hypothesis. The condition for co-integration is that the trace statistic (likelihood ratio) must be greater than the critical value at 5% or 1% levels of significance.

Trace Statistics	5% Critical Value	1% Critical Value	Hypothesized No. of CE(s)
78.77152	68.52	76.07	$r = 0^{**}$
41.93708	47.21	54.46	$r < or = 1$
15.83202	29.68	35.65	$r < or = 2$
5.441401	15.41	20.04	$r < or = 3$
0.119647	3.76	6.65	$r < or = 4$

Table 3: Result of Johansen Co-integration Test

*(**) denotes rejection of the null hypothesis at 5% (1%) significance level

Source: Author's computation

From table 3 above, the trace test shows that one co-integration equation exist at 5% significance level because the trace statistic is greater than 5% critical value in row 1, implying that a long run relationship exist among the variables. A long run relationship means that the variables move together over time so that short-term disturbances from the long-term will be corrected.

The co-integrating or long run equation is chosen from the Normalized co-integrating coefficients, taking into consideration the one with the lowest log likelihood ratio. The lowest log likelihood ratio is -7.849438 and its corresponding co-integrating equation is given as;

$$\text{GDP} = 0.637685\text{IRM} - 6.757106\text{CPS}^* + 7.090844\text{SAV} + 2.953085\text{INF}^* - 25.85746$$

(0.76496) (3.14482) (3.65408) (1.26461)

(*) denotes significance in the long run using standard error test of significance

Note: Standard Error statistics are stated in parenthesis

The co-integrating equation shows that if all the independent or exogenous variables are held constant, GDP declines by 25.85746 units, thereby asserting the importance of IRM, CPS, SAV and INF to influence on economic growth in the long run. IRM, SAV and INF have long run positive relationship with GDP while CPS is negatively related to GDP. Also, IRM and SAV are not statistically significant while CPS and INF are found to be statistically significant. A unit increase in IRM, SAV and INF leads to 0.637685, 7.090844 and 2.953085 units increase in GDP respectively while a unit increase in CPS causes GDP to decrease by 6.757106 units.

4.3. Error Correction Mechanism (ECM)

The error correction mechanism involves developing an over-parameterized model (ECM1) or Autoregressive Distributed Lag (ARDL) which is built by setting the lag length long enough so as ensure that the dynamics of the model as not been constrained by a too short lag length and afterwards estimating the parsimonious model (ECM2) which introduces short run dynamism.

Dependent Variable = D (GDP,2)

Variable	Coefficient	t-statistic
C	0.104168	0.488265
D(IRM,2)	0.492638	1.222656
D(IRM(-1),2)	0.384914	1.251334
D(CPS,2)	-1.915327	-1.125533
D(CPS(-1),2)	-1.641562	-0.778842
D(SAV,2)	1.151999	0.719531
D(SAV(-1),2)	1.066381	0.667378
D(INF,2)	-0.131024	-0.478398
D(INF(-1),2)	0.180035	0.632412
ECM(-1)	-1.236217*	-3.130941
R ² = 0.835915 F-statistic = 5.603838* Prob(F-statistic) = 0.004363		

Table 4: Result of ECM1

() denotes significance at 0.05 significance level*

Source: Author's computation

The ECM1 results show that all the variables explain 83.6% of total variation or changes in GDP with the remaining 16.4% accounted for by the white noise residual. The F-statistic value of 5.603838 is statistically significant at 0.05 significance level or 95% confidence level and this is justified by its probability value of 0.004363; therefore showing that the ECM1 is significant. The estimated coefficient of the ECM(-1) is significant with the appropriate negative sign, implying that the disequilibria of the past period shocks is adjusted into long run equilibrium in the present period.

However, ECM1 is simplified into a parsimonious model (ECM2) by selecting between the lead and lagged value of each of the independent variables that is significant or has

greater significance if both are significant or closer to significance if none is significant and introducing them into the ECM2 so as to incorporate short run dynamism.

Dependent Variable = D(GDP,2)

Variable	Coefficient	t-statistic
C	0.084760	0.401090
D(IRM(-1),2)	-0.073384	0.6654
D(CPS,2)	-0.299102	0.7949
D(SAV,2)	-0.396202	0.7710
D(INF(-1),2)	0.247716	0.2561
ECM(-1)	-1.348404*	-3.820644
R ² = 0.772918 F-statistic = 8.509236* Prob(F-statistic) = 0.000383		

Table 5: Result of ECM2

() denotes significance at 0.05 significance level*

Source: Author's computation

The ECM2 has a R² of 0.772918, therefore implying that 77.3% of total variation in GDP is explained by IRM, CPS, SAV and INF and the remainder of 22.7% is accounted for by factors not specified in the model or white noise residual. The F-statistic value of 8.509236 shows that the model is statistically significant at 0.05 level of significance, hence concluding that the model is adequate enough to empirically investigate the effect of banking reforms on economic growth. The significance of the model is further justified by probability value of F-statistic of 0.000383. The lagged error correction term in ECM2 is -1.348404, implying that it is significant judging from its negatively signed coefficient and showing that ECM2 has a higher adjustment rate process than ECM1.

From ECM2, the error correction model (ECM) equation can be stated mathematically as;

$$GDP = 0.084760 - 0.073384IRM - 0.299102CPS - 0.396202SAV + 0.247716INF - 1.348404ECM(-1)$$

From the ECM equation, it can be observed that all the parameters have their coefficient less than unity. The constant parameter is 0.084760 that is if all exogenous variables are held constant, economic growth is enhanced by 0.084760 units. Interest Rate Margin (IRM) is negatively related to economic growth. Its coefficient of -0.073384 means that a unit increase in IRM causes a reduction in the economic growth measure by 0.073384 units. This is due to the wide margin between lending and deposit rates which is a

common characteristic of developing countries which Nigeria is no exemption. The interest rate margin has militated against banks' role in financial intermediation which is a necessity for sustainable economic growth. The high margin reduced the ability of banks to mobilize deposits and allocate credit efficiently based on interest rate policy which is major determinant of the volume of deposits and level of investment in developed economies. The coefficient of Credit to Private Sector (CPS) is 0.299102. This shows that CPS exerts a negative influence on economic growth. A unit increase in CPS leads to 0.299102 decrease in GDP. The implication of this is that bank credit has not been adequately channeled to private businesses and the funds directed to them by banks have not been optimally utilized to increase their productivity which inevitably improves economic growth. This arises as a result of the fact that the banks want to lend short but the private firms need fund on a long term basis which makes the capital market the preferable source for them to raise funds. Also, the laxity of banks in the credit administration process increases the chances for non-performing loans and other classified assets and this has adverse effect on bank capital and the economy at large. This effect reduces the ability of banks to further extend credit to the private sector and may cause bank distress or failure since the profitability of a bank is directly related to the credit it grants. The lending rate charged on credit by banks is on the high side which deters investors from borrowing to embark on productive activities and give room for moral hazard.

Savings and economic growth are negatively or inversely related. SAV coefficient with a value of -0.396202 implies that if savings is increased by a unit, economic growth is threatened as it makes GDP to decline by 0.396202. Savings is expected to positively impact on economic growth as suggested by Mckinnon (1973) and Shaw (1973) but this finding deviates from their postulation. This can be attributed to the fact that banking reforms in Nigeria has not strategically positioned banks to adequately mobilize enough savings that would positively impact on the economy. One major cause for this is the low deposit rate. Theoretically, low deposit rate does not stimulate savings. The resultant effect of this is that it places lesser funds in the hands of banks to intermediate to investors to undertake productive activities in the economy. The volume of savings determines the level of investment in an economy which means that low deposit rate discourages savings and consequently stifles the level of investment. A positive relationship is established between inflation and economic growth. The INF coefficient is 0.247716 implying that a unit increase in INF leads to an increase in GDP by 0.247716

units. This finding maybe surprising but inflation also has its beneficial effects. Inflation has encouraged production in the various sectors of the economy because a rise in the inflationary pressure is seen as a means to reap more profits which makes the investors to expand their production base and this calls for the need to employ more hands hence, reducing the employment level in the economy. With production increased and unemployment reduced, economic growth is fostered. However, it should be noted that all the independent variables do not conform to the 'a priori' expectation and are not statistically significant at 0.05 significance level, this connotes that they do not play much an important role on the growth process of the economy.

5. Conclusion And Recommendations

Banks are pertinent for economic growth as shown by Schumpeter (1912), therefore there is need to implement policy measures in form of banks consolidation s to ensure their efficient functioning. Banking consolidation s in Nigeria are strategies or measures introduced or implemented by the government through the Central Bank of Nigeria and other regulatory body to ensure stability and efficiency of the banking system. The main objective of this study is to examine the effect of banking consolidation s on the economic growth of Nigeria. Augmented Dickey-Fuller (ADF) unit root test, Johansen Co-integration test and Error Correction Mechanism (ECM) were used for the empirical examination.

The result of ADF unit root test showed that the stationarity of all the variables has been established which a pre-requisite for the co-integration test is. The Johansen co-integration test indicates the existence of co-integrating equation at 5% significance level, showing that long run relationship exist among the variables. The high coefficient of multiple determination (R^2) in the over-parameterized model and parsimonious model and the coefficient of the lagged error correction term suggests that banks consolidation s has a significant effect on economic growth. The bank consolidations indices in the study explains a greater proportion in changes in economic growth, however it is realized that the indices have insignificant and unexpected relationships with economic growth, thereby presaging that banks consolidation s has not positively and adequately impacted on the Nigerian economy. This is due to the level of economic and financial development in the country and complexity in implementing bank reform that hinders these consolidations from achieving the desired results.

Based on the empirical findings, the study makes the followings policy recommendations::

- The regulatory and supervisory framework should be further strengthened to ensure stability and promote public confidence in the banking system.
- Healthy competition among banks should be promoted. Their competition raises the deposit rate which encourages savings thereby increasing capital accumulation in the economy.
- The interest rate policy should be made to stimulate savings through high real deposit rates and lending rate made reasonable in order to encourage seeker of funds particularly investors to borrow to participate in productive activities.
- The role of banks in providing credit to the private sector should be improved and the end-use of credit granted monitored to avoid non-performing loans and moral hazard.
- There is also the need to give room for more deregulation of banking activities.
- Government should always properly implement banks consolidation s in the correct sequence by first maintaining macroeconomic stability.

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