

Impact of Banking Sector Reforms on the Performance of Nigerian Economy

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Abstract

This paper examines the impact of banking sector reforms on the performance of Nigerian Economy using structural value. Real growth rate of GDP is used as a proxy for the performance of Nigerian economy while Ratio of Broad Money to GDP, real interest rate, ratio of reserve money to deposit, investment GDP ratio and saving GDP ration are used to capture banking sector reforms. Results from impulse response function and variance decomposition show among other things that the banking sector reforms have not really improve the performance of Nigerian Economy. Also, the empirical results further revealed that the real growth rate of GDP has not significantly alters the banking sector reforms indicators. The policy implications of our study are discussed among which are that monetary authority should be more committed to policy implementation, also, appropriate policies that will increase credit to the private sector and enhance lending behaviour of commercial banks are required.

INTRODUCTION

Theory and evidence have long supported a significant role of a smooth-functioning financial market for promoting high and sustained economic growth [De Gregorio and Guidotti (1995). Levine (1997), Darrat (1999), and Darrat, Chopin and Lobo (2005)]. A well developed financial market enhances growth by promoting a more efficient allocation of resources, encouraging a faster accumulation of physical and human capital and technological progress, and reducing production costs relating to transaction, information and monitoring. Not surprisingly, financial markets in most emerging economies. Nigeria not exclusive have witnessed rapid expansion in recent years. For instance, Nigerian economy has embarked upon several financial reforms since adoption of structural adjustment programme (SAP) in the mid 80s such as banking sector deregulation, flexible exchange rate including facilitating the new entry of domestic and foreign banks, the gradual deregulation of lending and deposit interest rates, facilitating the use of credit and debit cards, updating payment technologies like ATM machines and electronic transfer of deposits, expanding a variety of internet banking services like e-banking and mobile banking technology, enhancing telecommunications infrastructure, supporting their financial sector with such measures like tax-free environment. However, these various financial reforms and innovations are expected to stimulate the performance of Nigerian Economy.

Moreover, the introduction of the structural adjustment programme (SAP) in 1986 brought up a lot of reforms in the financial sector in Nigeria. By this, it is expected to promote financial saving, reduce the level of uncertainty in investment decision and induce more efficient intermediation between savers and users of fund in the economy Ekundayo (2004). The Nigerian banking industry plays a leading role in the development of the economy. Banks mobilize and disburse tremendous volumes of fund to the government and private sector investors to finance production, consumption and commerce which in turn stimulates the process of economic growth with its multiplier effect across all sectors of the economy.

The remainder of the paper is organized as follows, in the next section, we provide a brief review of the financial sector reforms and growth of Nigerian economy, in the third section, we provide some theoretical foundation and model specification, section four deals with presentation and interpretation of results. A brief conclusion is provided in the fifth section.

FINANCIAL SECTOR REFORMS IN NIGERIA

Before the adoption of Structural Adjustment Programme (SAP), aside from indigenization which gave government 60 per cent stake in otherwise foreign banks that operated in the country, there was no limit to the capital base requirements for banks. However, following the adoption of SAP, a limit of N1.0 billion was prescribed for commercial banks and about N500 million for merchant banks. This was however increased subsequently to N2 billion prior to Soludo. In Soludo's era, the commercial banks were mandated to recapitalize from a minimum capital base of N2 billion to N25 billion. As a corollary to asset base requirements, both prudential and monetary policy guidelines were prescribed for the banking sector. In pre-SAP era, banks operated in an environment of credit allocation, interest rate subsidy, fixed exchange rate and foreign exchange rationing.

Table 1: Pre-Post Consolidation Performance of the Nigerian Banks

| Macro Economic Indicators | N'm2004 (a) | N'm 2005 (b) | N'm 2006 (C) | % Changer increase (+) Decrease (-) or Difference (1) |
|---|---------------|---------------|---------------|---|
| Average Lending (₦m) | 14,371.238 | 42,380,180 | 80,788,854 | -462.15'n |
| Average Assets (₦m) | 42,171.66 | 132,017.34 | 267,482.50 | -534.27 |
| Average Deposit (₦' m) | 10,482.36 | 85,007.13 | 188,478.55 | -1690.05 |
| Average Net Word (₦' m) | 7,708.73 | 19,708.88 | 38,831.31 | -403.73 |
| Return or Equity ('n) | 35.28 | 12.72 | 11.12 | -24.16(D) |
| Return on Assets('n) | 8.37 | 3.01 | 2.07 | - 6.30(D) |
| Total Bank loan & Advance (₦ m) | 33.62 | 11.52 | 11.04 | - 22.56(D) |
| GDP (Current Basic Press) (₦ m) | 1,294,449.50 | 1,859,555.50 | 2,338,718.80 | - 80.67 |
| Rent GDP (Grown 'n) | 11,411,070.00 | 14,572,240.00 | 18,067,830.00 | - 58.34 |
| Infactor Rate | 6.5 | 7.06 | 7.17 | - 0.67(D) |
| Exchange Rates N S | 10.00 | 11.6 | 10.6 | - 0.60(D) |
| Mr Lending Rate | 132.86 | 129.00 | 128.3 | - 3.43 (D) |
| Max Lending Rate | 18.91 | 17.8 | 18.30 | - 0.61 (D) |
| Max Lending Rate | 20.42 | 19.50 | 28.70 | - 8.28 (D) |
| MRR MPR | 12.80 | 13.0 | 10.00 | - 2 . 80 (D) |
| Credit to the private Sector (₦m) | 311,646.8 | 442,008.9 | 525,482.0 | - 68.87 'n |
| Back Market capitalistion (₦m) | 662,712,600 | 1,212,21,545 | 2,142,745,733 | -223.82'n |
| Back marker capitalistion NSE capitalization ('n) | 34.41 | 41.80 | 41.84 | - 7.43 (D) |
| Total marker cap. NSE market cap. (total) | 1,925,937,530 | 2,900,062,072 | 5,120,943,320 | - 165.89'n |
| Back Mkr Cap. GDP | 5.80 | 8.32 | 11.86 | - 6.06(D) |
| NSE Mkr Cap GDP | 5.7 | 11.8 | 28.34 | - 1.22 (D) |
| Credit to private sector growd rate ('n) | 26.6 | 30.8 | 27.82 | - 0.18 (D) |
| Credit to private sector GDP | 2.73 | 3.03 | 2.91 | - 0.18 (D) |
| Average loan Deposit Ratio ('n) | 72.8 | 76.7 | 96.8 | - 24(D) |
| Credit to private Sector total loan ('n) | 24.08 | 23.77 | 22.47 | - 1.6 (D) |
| Loan Adv. | 1,294,449.5 | 1,859,555.50 | 2,338,718.8 | 80.68 'n |
| Total Assets (₦m) | 3,753,277.8 | 4,515,116.67 | 6,400,783.9 | 70.54'n |
| Total Deposit Liabilities (₦m) | 1,661,482.1 | 2,036,089.9 | 1,826,275.60 | - 9.92'n |
| Cap. Reserves | 348,387.6 | 591,738.7 | 953,001.20 | -173.55'n |
| Comm. Back Asset GDP('n) | 32.89 | 30.98 | 35.43 | - 2.54 (D) |
| Non financial private Sector Bank Credit GDP ('n) | 2.73 | 3.03 | 2.91 | - 0.18 (D) |

Sources: Various audited Accounts of Consolidated banks as at 2006 Financial Year, 2007

As it is stated in the above figure I, it was obvious that the commercial banks in Nigeria increased after this adoption of SAP in 1985 from 40 to 1323 and 120 to 2382 in 1993. However, some of these banks were distressed and were liquidated to 89 and 2220 branches in 1998. Although the Soludo reforms consolidated the banks through merges, acquisitions and new issues 1025 to 25 banks, their total branch networks increased to about 4500 in 2006 (Soludo, 2007).

Table 2: Basic indicators of banking sector performance pre-SAP, 1st 2nd, 3rd and 4th phases

| Period | Pre – SAP | | | Post – SAP | | | Performs Emery | | | Pre-Soludo | | | Soludo |
|---|-----------|--------|--------|------------|--------|---------|----------------|---------|---------|------------|----------|----------|----------|
| | 1970 | 1980 | 1985 | 1986 | 1990 | 1993 | 1994 | 1997 | 1998 | 2000 | 2002 | 2004 | 2006 |
| Item | 1970 | 1980 | 1985 | 1986 | 1990 | 1993 | 1994 | 1997 | 1998 | 2000 | 2002 | 2004 | 2006 |
| No of Banks | 15 | 26 | 40 | 41 | 107 | 120 | 116 | 115 | 89 | 89 | 89 | 89 | 25 |
| No. of Bank Branches | 273 | 752 | 1323 | 1394 | 2013 | 2382 | 2547 | 2477 | 2220 | 2306 | 3123 | 3382 | 4500 |
| Total Assets Based of Banks (N Billion) | 1.2 | 17.3 | 37.0 | 48.1 | 117.4 | 341.7 | 357.5 | 681.7 | 818.4 | 1707.0 | 2766.6 | 2309.0 | 6555.0 |
| Total Assets Bases of Bank (\$ Billion) | 1.6 | 32.1 | 37.0 | 14.5 | 13.0 | 15.6 | 16.2 | 31.1 | 37.4 | 15.6 | 21.9 | 24.2 | 51.1 |
| Capital and Reserves (N Billion) | 0.1 | 0.4 | 1.1 | 1.5 | 5.2 | 10.9 | 9.1 | 35.2 | 72.9 | 394.6 | 821.9 | 1050.0 | 957.0 |
| Av. Cap and Reserves per Bank (N Billion) | 0.0039 | 0.0160 | 0.0282 | 0.0364 | 0.0484 | 0.0906 | 0.0906 | 0.3059 | 0.8186 | 4.4335 | 92348 | 11,7978 | 38.2800 |
| Liquidity Ratio | 94.5 | 47.6 | 65.0 | 36.4 | 44.3 | 42.2 | 48.5 | 40.2 | 46.8 | 58.0 | 48.8 | 41.5 | 52.9 |
| Cash Reverser Ratios | 5.2 | 10.6 | 1.8 | 1.7 | 2.9 | 6.0 | 5.7 | 7.8 | 8.3 | 10.0 | 11.6 | 5.9 | 6.1 |
| Loan – to – Deposit Ratio | 51.3 | 66.7 | 66.9 | 83.2 | 66.5 | 42.9 | 60.9 | 76.6 | 74.4 | 46.2 | 78.4 | 85.4 | 97.5 |
| Memorandum items | | | | | | | | | | | | | |
| Exchange rate | 07.100 | 0.5400 | 1.0000 | 3.3200 | 9.0000 | 21.8800 | 22.0000 | 21.8900 | 21.8900 | 109,5500 | 126,4000 | 132,3500 | 128,2000 |
| 1/liquidity ratio is the ratio of total specified liquid asset to a current liabilities 2/ Cash reserve ratio is the ratio of cash reserve requirement to total current liabilities 3/ Loan – to – Deposit ratio is the ratio of total loans and advances to total current liability Source: Central Bank of Nigeria Abuja | | | | | | | | | | | | | |

However, Signs of institutional weakness were apparent through out the period under review. In pre-SAP era, average asset base per bank declined from N1.2 billion in 1980 to N0.924 billion in 1985. Thereafter, there was apparent growth in Naira terms post-SAP era as the average was above the recommended N2 billion marks. However, following devaluations of exchange rates, these figures were the equivalent of US \$0.122 billion in 1993 to US \$0.272 billion in 2004. These figures tended to suggest s that Nigerian banks were too weak to compete globally.

Although a number of analyst have often argued that this outcome could be the result of assets undervaluation in the face of exchange rate depreciation, a number of the banks were adversely affected

especially those saddled with external debt service burdens. The institutional ratios attested to this. In pre-SAP era, both the liquidity and cash reserve ratios deteriorated and the situation persisted in post-SAP era as they were quite below the prescribed minimum by the monetary authorities.

With regard to credit purvey, the banking sector exhibited mixed performance. The immediate post-SAP witnessed increased attention given by the banking sector to the production sectors. The share of agricultural and manufacturing sectors in banking sector credit increased post-SAP and the production sector as a whole accounted for an annual average of 58.3 per cent of total to the economy (see Table 3). However, during the era of reforms lethargy, miscellaneous lending crowded out production credit, to the extent that even in post-Soludo era, it accounted for about 70.6 per cent of total credit. While it can be argued that post Soludo's reforms may have helped to build and foster a competitive and healthy financial system, it is debatable if the structure of their portfolio investments has the capacity to support the desired economic development aspiration of the proponents. This could be inferred from Table 3 which shows that despite the rapid increase in lending to the economy, the share of production sectors of the economy especially agriculture and mining remained low and indeed declined proportionately over time suggesting that the new monies may have been channeled into miscellaneous activities. Yet agriculture is known to contribute a major share to the GDP, even under conditions that it is not getting new funds. A significant proportion of the production loans go to manufacturing, probably to finance imports of raw materials, machineries and component assembly activities.

Table 3: Sectoral Distribution of Commercial Banks Loans

| Sector | Av. Ann. Total | Agric | Man. | Mining | RE&C | Product | Miscel | Svs others | Total |
|------------------------|----------------|---------|---------|---------|---------|---------|---------|------------|---------|
| Period | N'Million | % share | % share | % share | % share | % share | % share | % share | % share |
| Pre SAP 1970-79 | 3,952.9 | 2.3 | 12.5 | 0.9 | 8.9 | 24.7 | 1.8 | 73.5 | 100.00 |
| Pre- SAP 1980-85 | 11,978.3 | 7.2 | 23.7 | 1.0 | 17.1 | 49.0 | 4.7 | 46.3 | 100.00 |
| Post – SAP 1986 - 93 | 32,053.4 | 14.7 | 31.0 | 1.6 | 11.0 | 58.3 | 5.0 | 36.6 | 100.00 |
| Refms Leth 1994 – 1998 | 202,177.9 | 13.0 | 34.7 | 8.7 | 0.0 | 54.7 | 34.6 | 10.6 | 100.00 |
| Pre – Soludo 1999-2004 | 3,248,367.7 | 6.1 | 25.0 | 8.3 | 0.0 | 39.4 | 57.2 | 3.4 | 100.00 |
| Soludo 2004 | 5,686,669.2 | 4.6 | 23.0 | 9.1 | 0.0 | 36.7 | 39.4 | 2.2 | 100.00 |
| Post Soludo 2005 | 7,392,670.0 | 3.8 | 19.9 | 9.1 | 0.0 | 32.8 | 36.7 | 1.7 | 100.00 |
| Post Soludo 2006 | 9,684,397.7 | 3.2 | 16.9 | 8.0 | 0.0 | 28.1 | 28.1 | 1.3 | 100.00 |

Source: CBN Statistical Bulletin

Banking Sector and Nigerian Economy

Despite countervailing views, there is a preponderance of evidence that a developed financial system positively influences real economic activity. Nigeria's Financial System, especially the capital market component, like those of other developing countries in practical as sub-Saharan Africa has overtime remained weak and a cause for concern to policymakers. However, the comprehensive financial sector reforms of the mid 1980s brought about fundamental changes as the capital market, along with the banking sector, is growing very fast and now positioned to play its traditional roles of providing resources for long term investment and growth of the economy.

We analyse the role of the commercial banking sector relative to the economy (see table 3). This is to enables us appreciate whether the banking industry will assume any appreciable level importance in the aggregate economy as a result of consolidation. It was observed that, the assets of commercial banks which stood at 32.89 per cent of the GDP in 2004 rose marginally to 35.43 per cent in 2006. The degree of private sector credit has been suggested to be a better indicator of bank contribution to private investment. In 2004, commercial banks channeled 24.08 per cent of their lending to the non-bank private sector, but this declined to 22.47 per cent by 2006. Likewise, the value of commercial bank credit relative to the GDP which was 2.73 per cent in 2004 rose marginally to 2.91 percent in 2006. There has not been any appreciable growth in terms of the growth in credit to the private sector because the commercial bank credit which has a growth rate of 26.6 percent between 2003 and 2004, grew marginally to 30.8 percent in 2005 and declined to 27.82 percent a year after the consolidation. This confirms the views of Craig and Hardee (2004). In terms of price stability, the level inflation increased from 10.0 percent in 2004- a pre-consolidation period to 12.0 per cent, a post consolidation.

The analysis suggests that banking sector has not shown a serious response of being able to meet monetary policy expectation. The relative performance of the banking size in terms of asset size, private sector credit, relative to the economy have been very marginal such that it can be safely concluded that the consolidation exercise has not brought about any meaningful contribution to the growth of Nigerian Economy.

THEORETICAL FOUNDATION

The model tested in this paper is rooted in the financial repression hypothesis stated in the McKinnon-Shaw hypothesis. The exponents of financial repression (McKinnon 1973, Shaw 1973), states financial sector reforms

can foster economic growth and facilitated development. They argue that the financial section of the economy helps the economy develop as it assists it in the break-way from repressed economy. The McKinnon-Shaw hypothesis postulates that government interaction in various forms in less developed countries lead to financial repression. The economies in these countries have been characterized by control of interest rates, control of exchange rate, imposition of credit ceilings and direction of credit, credit rationing, and low savings. Government control of interest rates on loans and deposits tends to raise the demand for and curtail or reduce the supply of funds. Aryeetey et al (1997), unsatisfied demand for investible funds forces financial intermediaries to ration credit by means other than the interest rate.

Financial repression had also led to large differential between deposit and lending rates of interest (Shaw, 1973). There is also tendency for the monetary authorities to set high reserve requirements in less developed countries.

These manifestations of financial repression mean that not only is the quantity of savings (and investment) low, or at the very least irregular, it also means that the level of activity which does occur is of poor quality. This is really what the term financial repression entails. If the real interest rate is not allowed to clear the money and credit markets, both overall as well as the quality of savings and investment will be repressed. It is in this view of efficient financial system argument that the McKinnon-Shaw hypothesis of financial deregulation was popularized.

Adebiyi (2001) stressed that financial sector reforms are best measured by the macro-economic variables of interest rate, exchange rate, and the real financing savings. Also, Sundarajon and Balino (2001), linked the use of these macroeconomic indicators, especially the real financial savings with the McKinnon-Shaw hypothesis, the main theoretical analysis which provided a rationale for financial sector reforms as a means to promoting development.

Thus, the model for this research study will incorporate macro-economic variables as variables for analysis.

Model Specification

In specifying the model for this study, we use six variables SVAR model. The VAR model assumes that the Nigerian Economy is indicted by a structural form equation as follows:

$$B(L)y_t = U_t \quad \dots\dots\dots(1)$$

Where $B(L)$ is a matrix polynomial in the lag operator L , such that $B(L) = B_0 - B_1L - B_2L^2 - \dots - B_pL^p$. B_0 is a non-singular matrix normalized to have ones on the diagonal and summarizes the contemporaneous relationship between the variables in the model contained in the vector y_t . y_t is $N \times 1$ vector of endogenous variables which includes $\{GDP_{gr}, M2y, RD, RR, SY, Ty\}$, u_t is an $N \times 1$ vector of structure disturbances with 0 mean and $var(u_t) = \theta$ (where θ denotes a diagonal matrix) we assume that the structural disturbances are mutually uncorrelated.

Associated with this structural model is the reduced form VAR which is estimated as $A(L)y_t = \epsilon_t$ $\dots\dots\dots(2)$

Where $A(L)$ is a matrix polynomial is the lag operator L , ϵ_t is a vector of the VAR residuals with 0 mean and $Var(\epsilon_t) = \Sigma$.

The relationship between the components of equations (1) and (2) are stated as follows:

$$A(L) = B_0^{-1} - B(L) \quad \dots\dots\dots(3)$$

and

$$\epsilon_t = B_0^{-1} U_t \quad \dots\dots\dots(4)$$

By normalizing $N \times 1$ diagonal element of B_0 to ones (i.e. unity) we need at least $n[(n-1)^{1/2}]$ restrictions on B_0 to achieve identification.

There are several ways of specifying the restrictions to achieve identification of the structural parameters. This paper uses a generalized method with non-recursive structures also defined as SVAR, which impose restrictions only on contemporaneous structural parameters (Kim and Roubini, 2000) as cited by Majeed, (2014). What really informed the choice of SVAR method as against the commonly used cholesky decomposition is that the identification approach of the latter assumed only recursive method.

In SVAR, all variables respond instantaneously to shocks as provided by recursive VAR. Results from previous works showed that many variables exhibit delay in their response to shocks due to Financial deeping. (Ebourne, 2008).

MODEL IDENTIFICATION: NON-RECURSIVE APPROACH

The imposition of restrictions on the contemporary matrix of structural parameter B_0 in this paper is derived from the works of BJournland and Jacobsen (2010) and Elbourne (2008) cited by Majeed (2014) in this work, the endogenous vector (GRGDP, M2y, Sy, RR, RD, Iy) is assumed to be divided into two blocks, such as vector of policy variables and vector of non-policy variables. Policy variables are (M2y, RR, RD) which are assumed to

be under central bank control while the non-policy variables make up of (NKGDP, Sy, Iy) which are target variables. However, GRGDP stands for Real Growth Rate of GDP M2y, Ratio of Broad Money to GDP, Sy saving-GDP ratio RR, Real Interest Rate, Iy investment GDP ratio and RD ratio of reserve money to deposit.

The equation 5 below therefore summarizes the non-recursive identification approach as follows:

| | | | | | | | | |
|--------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------|----------|
| USY | 1 | 0 | 0 | 0 | 0 | 0 | ESY | |
| UIY | a ₂₁ | 1 | 0 | 0 | 0 | 0 | EIY | |
| UGRGDP | 0 | 0 | 1 | 0 | a ₃₅ | a ₃₆ | EGRGDP |(5) |
| UM2Y | a ₄₁ | a ₄₂ | 0 | 1 | a ₄₅ | a ₄₆ | EM2Y | |
| URR | 0 | 0 | 0 | 0 | 1 | a ₅₆ | ERR | |
| URD | a ₆₁ | a ₆₂ | a ₆₃ | a ₆₄ | a ₆₅ | i | ERP | |

Where UGRGDP, UIY, USy, UM2y, URR and URD are the structural disturbances on the endogenous variables respectively and ERGRDP, EIy, ESy, EM2y, ERR and ERD are the reduced form residuals that describe the unanticipated movements of each regressor respectively.

The first three rows in the above equation 5 relate to growth rate investment GDP-ratio and saving GDP ratio represent the product market equilibrium of the domestic economy. It is assumed that money supply, real interest rate and ratio of reserve money to deposit do not affect production and savings contemporaneously.

The third row represent Real Gross Domestic product. It is also assumed that the RGDP react contemporaneously to M2y and RR. The fourth row stands for M2y which represent money market equilibrium. We allow broad money to be a function of other variables which react quickly to all information. The last two rows which are real interest rate and ratio of reserve money to deposit represent money market equilibrium we assume that the interest rate responds to all variables in the system while money supply is affected by itself and interest rate.

RESULTS AND DISCUSSIONS
IMPULSE RESPONSE FUNTIONS

Impulse response functions (IRF) represent the dynamic response of a variable overtime to a given shock. Figure 1 below reveals the responses of Real Gross Domestic Product (RGDP) to M2y, RR, RD, Iy and Sy shocks respectively.

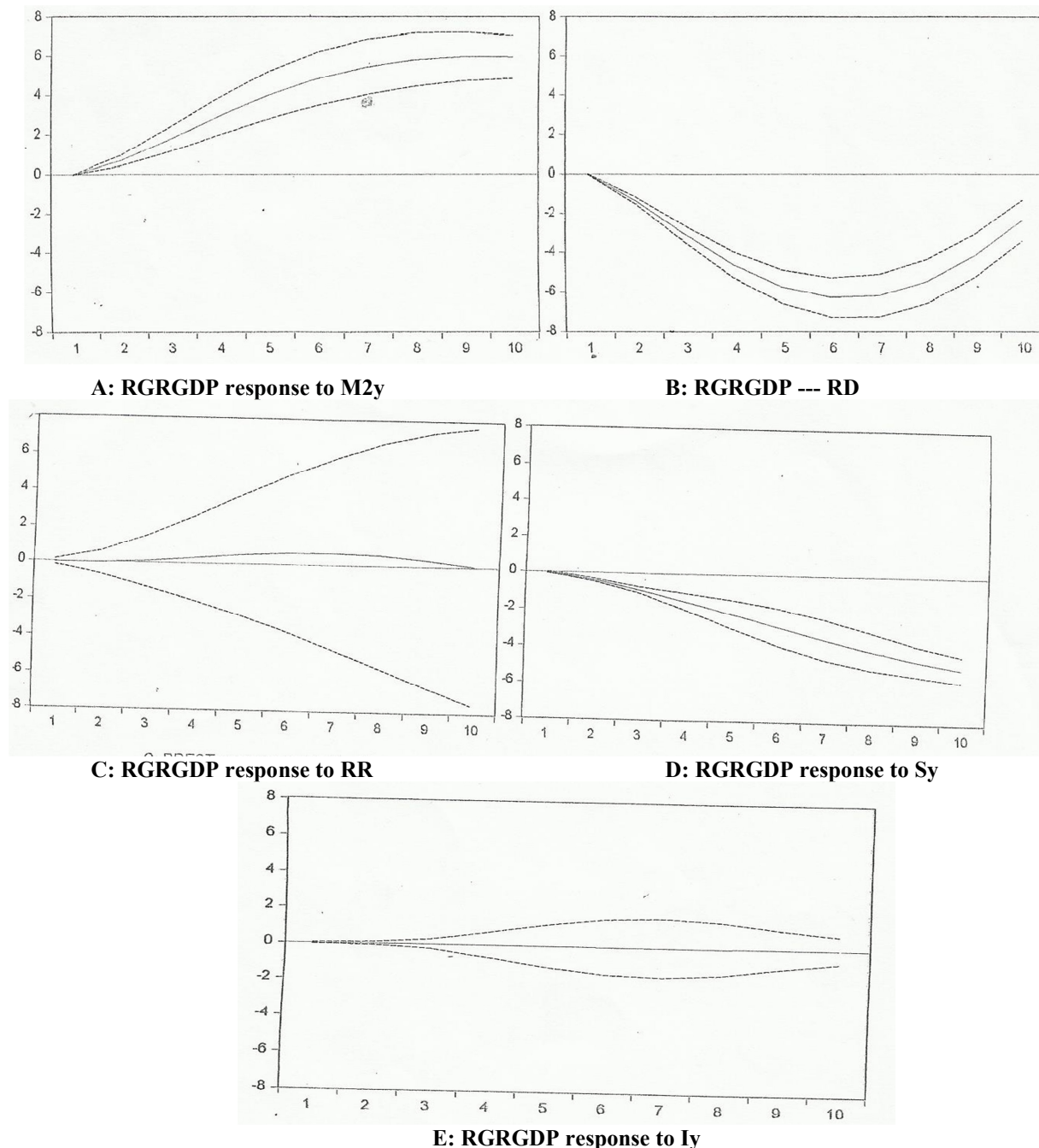


Fig 1 Response of GDP to other Macroeconomic Variables

Figure 1: Indicates that the response of RGDP to M2y shocks is negative and insignificant. This implies that the banking sector reforms have not really improved the performance of the Nigerian Economy. Figure 1b also illustrates a significant but negative response of RGDP to the real interest rate (RR). This result is compatible with the findings of Oloyede (2010) that as the interest rate increases, consumption of goods and services will reduce as a result of people having less disposable income to spend. As Figure 1c shows, real Gross Domestic Product responds positively to the ratio of Reserve money to deposit shock. Though the response of RGDP to RDU is significant, which equally implies that Banking Sector reforms have not really altered the performance of the Nigerian Economy. Figure 1d and 1e show that the response of both investment-GDP ratio to saving-GDP ratio is positive and significant, but the magnitude of positivity and significance is very small, which implies that banking sector reforms improve the performance of the Nigerian Economy but not remarkably.

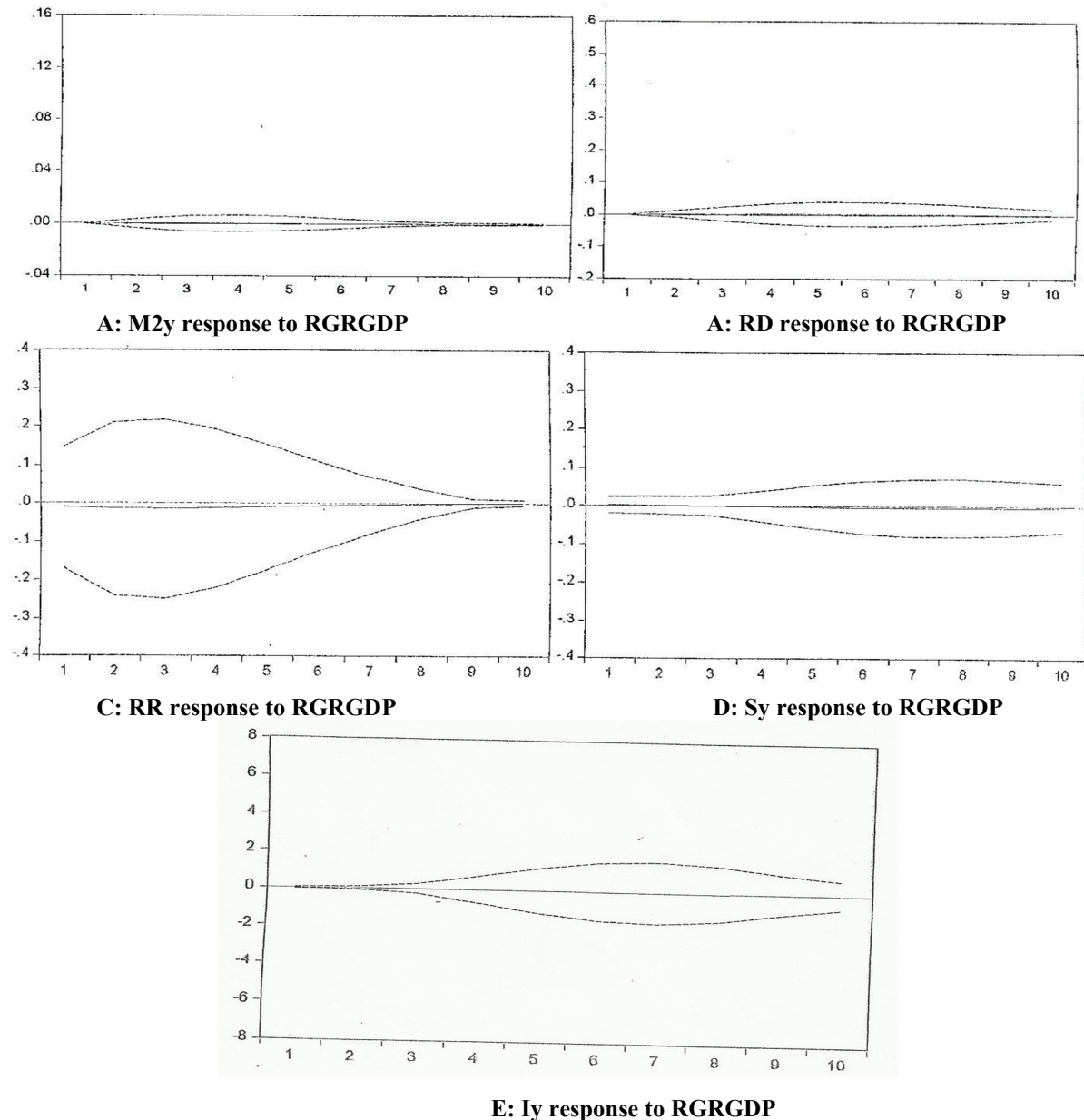
Table 1: Variance Decomposition of GRGDP

| Period | S.E | Iy | Sy | RD | ML | RR |
|--------|----------|----------|----------|---------|----------|---------|
| 3 | 1.923454 | 12.62456 | 30.45623 | 3.00146 | 3.00036 | 0.05678 |
| 6 | 9.34624 | 14.44324 | 23.46245 | 7.00044 | 4.00046 | 0.41345 |
| 9 | 13.21345 | 20.46724 | 15.44233 | 9.60464 | 6.00004 | 0.34832 |
| 12 | 16.44332 | 26.44332 | 13.4223 | 12.0062 | 8.000645 | 0.36456 |

Source: Author Computation

The variance decomposition in table (1) above clarifies the contribution of each of the explanatory variables shock to real growth rate of gross domestic product. The table shows that saving- GDP ratio contributes the highest shock of 30.5% to GRGDP in the third quarter but eventually reduced to 13% in the 12 quarter which in time with the result obtained in figure 1, investment – GDP ratio explains about 12.6% and 26% variation in the real growth rate of gross domestic product in the 3rd and 12th quarter respectively. The explanatory variation of GRGDP to Ratio of reserve money to deposit shock gradually increase from 3% to 10%, 3rd and 24% in the 12 quarters. However, real interest rate contributed the lowest percentage. This result implies that the real growth rate of gross domestic product did not response to any of the explanatory variables remarkably.

Response of Financial Sector’s reforms variable to real growth rate of gross domestic product shocks.



VARIANCE DECOMPOSITION OF EACH FINANCIAL SECTOR REFORMS VARIABLES AND CONTRIBUTIONS FROM REAL GROWTH OF GROSS DOMESTIC PRODUCT

| Period | Ty | Sy | RP | M2 | RR |
|--------|-----------|----------|----------|----------|----------|
| 3 | 0.000123 | 0.001712 | 0.02456 | 0.002432 | 0.42452 |
| 6 | 0.000134 | 0.002456 | 0.02346 | 0.014623 | 0.26784 |
| 9 | 0.0001563 | 0.001234 | 0.013456 | 0.026245 | 0.176245 |
| 12 | 0.000163 | 0.001341 | 0.01245 | 0.023456 | 0.162456 |

It is required to ascertain whether the growth rate of gross domestic product affect the financial sector reforms variables. From above figure 2 and table 2 shows the impulse response functions and variance decomposition of each of the explanatory variables. The results show that non of the variables show just a little response to the real growth rate of gross domestic product. This implies they are not affected by the behaviour of RGRGDP. This result might do to underdeveloped financial markets in Nigeria.

CONCLUDING REMARKS

This paper examines the impact of financial sector reforms on the performance of Nigerian Economy. However, from the study, the sector has experienced a remarkable growth rate since the introduction of structural adjustment Programme. This growth has not actually led to improvement in the performance of the Nigerian Economy. From the study, it was discovered that despite the recent series of reforms in Nigerian Financial Sector is yet to contribute significantly to the performance of Nigerian Economy. The sector is still faced with several challenges. This implies that a radical policies are required that will increase credit to private sector and ensure efficient allocation of credit to the private sector. Also, the apex bank (CBN) should be more committed to policy implementation.

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