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The Financial Sector Reforms and Their Effect on the Nigerian Economy

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Abstract: *This paper examines the financial sector reforms and its effect on the Nigerian Economy. The financial sector is without no doubt a very essential part of the economy of a nation and any reforms carried out in it extend to other parts of the economy representing a transformational moment for the economy and its people. This study employs the ordinary least square method in carrying out this research. The study covers the period 1980-2008. It can be seen that the financial sector developments that were experienced in Nigeria`s economy at one point or the other had effect on the activities of the economy. However, this does not imply that the reforms in the financial sector are solely responsible for the sector being better off. In this research study, an improvement in financial intermediation was considered a necessary condition for stimulating investment, raising productive capacity and fostering economic growth. It is therefore recommended that there should be macroeconomic stability, as the activities in all other sectors affect this or is affected by it. Also there should be political stability as this also affects the effective operation of the financial sector.*
Keywords: *Financial, GDP, intermediation.*

Introduction

One of the most important tasks before developing countries is to achieve higher rate of economic growth. Due to the influence of the activities in the financial sector on the economy at large, every nation strives to have a proper and up to date financial sector.

The Financial sector is in no doubt a very essential part of the economy of a nation and any reforms carried out in the financial sector extends to other parts of the economy representing a transformational moment for the economy and its people. Financial sector reforms however have been a regular feature of the financial system. The reforms have evolved in response to the challenges posed by developments in the system such as systemic crisis, globalization, technological innovation, and financial crisis. Financial reforms in Nigeria dates back to 1952 when the banking Ordinance was enacted. The deregulation of banking in 1986 provided the impetus for the Structural Adjustment Programme. The 1986 reform of the financial system saw a policy shift from direct control to a market based financial system, especially as regards monetary management, risk management and asset holding capabilities of the institutions. A number of other reforms followed including the consolidation policy in banking in the year 2005 and insurance in 2007.

For clarity, the financial sector does not only mean the banking sector, the banking sector only holds a major stake in the financial sector of the economy making it more pronounced than other sectors of the economy. We also have the Non-Bank Financial institutions (NBFI) which includes Insurance companies, Discount Houses, Unit trust, the capital market institution through which bond, stocks and other securities are traded, interest rates are determined and financial services are produced and delivered around the world. The money and capital markets, alongwith the financial system that support them, are an exciting area for study. The capital market has also experienced a lot of reforms over the years and is still in place, especially as regards the capital requirements of the operators, the operational and ethical standards of the institutions and the modalities of the market mechanism. The reforms in the system impacted positively on the growth of the financial system and the economy in general. What goes on daily in these markets and within the financial system, as a whole, has a powerful impact on the economy. Broad changes are forever remaking the financial market as new institutions, new methods, new problems and new services continually appear. The reforms often seek to act proactively to strengthen the system, prevent systemic crisis, strengthen the market mechanism, and ethical standards. Likewise recent reforms have also been evident in the banking sector with the abolishment of universal banking, reduction in the tenure of MD/CEO of banks, introduction of Asset

Management Company with its sole responsibility of buying back toxic assets from banks currently in need and return capital to the banks, improve liquidity and prepare grounds for the Central Bank of Nigeria to exit from the affected banks

Statement of the problem

Critically examining the nature of Nigeria's financial sector challenges, arguments have been raised on the way and manner in which reforms are being carried out by LamidoSanusi, the Central Bank of Nigeria (CBN) Governor, whose actions have been regarded as playing a one man show in a disintegrated gathering.(Ayo ,2010).

However, the major problem posed in this study is on the question of both the long and short run possible effects of the recent financial sector reforms being carried out especially the one by the CBN under the leadership of Prof. CharlesSoludo and continued by his predecessor LamidoSanusi, due to unsatisfactory results of past reforms. By so doing, comparisons are done on reforms carried out before now and those done currently to actually determine the true state of Nigeria's financial sector and how far it has helped in the economic development of the nation. Of the major problems are lacks of proper attention to the needs of the real sector of the economy, inadequate policy framework for financial development, weak regulatory supervision in a highly liberalized financial environment allowing banks become over confident, audacious, less transparent and less accountable in the handling of their diverse portfolios of services.

There is undue preference by banks for financing general merchandise rather than manufacturing. agriculture, power, and the importation of finished goods rather than raw materials, plants and equipment. The real sector is a vibrant part of the economy that needs special attention but due to lack of funds, it has since been in a poor state.

The government has adopted policies aimed at achieving specified objectives, such as; interest rate ceilings and selective sectorial policies .Those policies were introduced with the intention of directing credit to priority sectors and securing "inexpensive " funding for their own activities (Fry ,1998). The ceiling on interest rate and quantity restriction on loanable funds for certain sectors ensures that a larger share of funds is made available for favored sectors hindering financial intermediation since the financial markets will only be accommodating the credit demand of the government plan and ignoring risks.

Regulatory agencies empowered with the task of monitoring the affairs of financial institutions have relaxed resulting to less transparency in financial records, inefficient operations and ultimately fraud and other unethical practices.

Objective of the study

The broad objective of this study is to evaluate the financial sector reforms in the Nigerian economy and its impact on the growth of the economy.

The specific objectives however are:

1. To examine the relevance of financial sector reforms on economic development of Nigeria;
2. To examine the trend of the financial reforms;
3. To ascertain the long and short run effects of the ongoing reforms, and
4. To examine the contributions of the financial sector to the real economy.

Research hypothesis: The research work will be guided by the following hypothesis.

(a)H_0: There is a positive relationship between banking reforms, real sector financing & economic development in Nigeria.

H_1: There is no positive relationship between banking reforms, real sector financing & economic development.

(b)H_0: Financial sector reforms have brought about changes to the economy.

H_1: Financial sector reforms have not brought any change in the economy.

(c)H_0: The financial sector has contributed to the real sector of the economy.
H_1: The financial sector hasn't made any contribution to the real sector of the economy.

Organization of the study
This research work is divided into five parts. The introduction, which present the background of the study; the statement of problem; the objectives of the study, the statement of research hypotheses and the organization of the study which is part one. This is followed by the Literature review, as part two, the methodology of the research is part three. While part four is the presentation and analysis of regression results. Part five shows the research findings and recommendations.

Literature Review - Background Of Financial Reforms In Nigeria
In Nigeria, the importance of an economic reform became more evident as a result of the background of economic problems, including stagnant growth, rising inflation, unemployment, food shortages and mounting external debt, which confronted the country since the early 1980's. The sharp reduction in crude oil prices resulted in deterioration in government's finances and foreign exchange earnings. As the country plunged into economic recession, the initial policy response was the adoption of stringent austerity measures in 1982. Stricter measures were imposed in subsequent years as the economic situation worsened. The measure relied largely on complex administrative controls which brought in their wake additional costs, such as fraudulent malpractices and corruption of officials administering the stringent control measures, particularly the import licensing allocation of foreign exchange. These had negative rather than the desired positive recovery effects, since the problems worsened as it became difficult to procure raw materials and spare parts, thus resulting in extensive plant closures, drop in capacity utilization, fall in industrial production and increased unemployment (Ojo, 2010).

As these problems became more unmanageable, the Government in July 1986 launched the Structural Adjustment Programme (SAP) that had economic and financial deregulation as a major feature. According to Olomola (1994), SAP was designed to restructure and diversify the productive base of the economy, achieve fiscal balance, balance of payment equilibrium, intensify growth potential of the private sector and set the economy on the path of steady and balanced growth. A major blank of this programme is the restructuring of the fiscal sector and the liberalization of the control and regulation of financial institutions and markets.

However, the major financial reforms have therefore been classified as Exchange Rate Reforms commencing from 1986 with the establishment of the first-tier and second-tier (autonomous) foreign exchange markets, in 1988 the Bureau de change was established, likewise 1992, the Devaluation of the official exchange rate took place, 1994 was the Reintroduction of exchange controls and suspension of bureau de change, in 1995 Exchange controls relaxed and Operation of bureau de change was permitted. Autonomous foreign exchange market was introduced, 1996 -Official fixed foreign exchange market operated for Government trans-actions continued operation of the autonomous foreign exchange market.

The second categorization of reforms was seen in Interest Rate and Monetary Policy Reforms starting with the Deregulation of interest rate in the year 1987, and in 1989, Auction market for Government securities was introduced as well as the continued use of direct monetary policy instruments (cash reserve requirements). In 1990, stabilization securities for liquidity management was introduced, and in 1991 interest rate controls was reintroduced with the removal of interest rate controls i.e. Liberalization of bank credit market in 1992. And lastly, the Introduction of indirect monetary instruments (open market operations), Re-imposition of interest controls as part of review of Central Bank operations, Continuation of interest controls Initiated fiscal reforms, and Retention of interest controls Continuation of fiscal reforms all took place in 1993, 1994, 1995 and 1996 respectively.

Also in place as part of the categorization of reforms is the Banking and Capital Market Reforms with its take off in 1987 with the Deregulation of bank licensing, and in 1988, Restrictions on bank portfolio relaxed. Deposit guarantee scheme was established, 1989 - Review of Banks' capital adequacy standards, 1990 - Reform of accounting procedure for banks, 1991 - Embargo on bank licensing Strengthening of bank regulation and supervision, 1991 - Privatization of banks, 1992 - Privatization of banks commenced, 1993 - Restructuring of distressed banks, 1994 - Liquidation of banks, 1995 - Liberalization of capital flows, 1996 - Liberalization of the capital market continues, 1997 -Capital Market reforms (partial in 1993), 1999 - Re-entry of foreign fully owned banks, 2000 - Institutionalization of foreign currency deposits, 2001–Introduction of Universal banking, 2005-Bank consolidation, 2006 – Liberalization of the utilization and disbursement of export proceeds by exporters, 2010 – Abolishment of universal Banking, 2010 -Creation of Asset Management Company(AMCON), 2010 - Comprehensive review of provisional guideline for margin loans, 2010 - Institutionalizing corporate governance for regulators and operators, 2010 - Creation of risk department for micro guideline, 2010 - Change in tenure of M.D's of banks, 2010 - Abolishment of universal banking.

From the above listed reforms in the financial sector, this study limits its review of literature to about three of such reforms and these are the financial liberalization, Banking sector reform and Real sector financing.

"Financial liberalization is viewed as a process of moving towards market determined interest rate as well as market determined prices on all classes of financial products. It also involves banking systems characterized by symmetric entry and exit conditions of all participants, increasing internationalization or the opening up of the domestic market to international competition and limited barriers to the introduction of new financial products" (Ikhide, 1998). This was explained in simple words by Tseng and Coker (1991) saying "that financial liberalization involves changes in the financial structure by going further to list the changes as liberalization of interest rate, reduction or abolition of credit controls, removal of limits on scope of banking activities, banking system reforms, reduction or abolition of foreign exchange controls and free entry of foreign institution to domestic financial markets". Financial liberalization consists of the deregulation of the foreign sector capital account, the domestic financial sector, and the stock market sector viewed separately from the domestic financial sector (Kaminsky and Schmukler, 2003). The financial liberalization that took place in developing countries in the late 1980s and 1990s was part of a general move toward giving markets a greater role in development. Hanson (2006) points out that "financial liberalization was also sparked by a number of financial factors, including the high cost of using finance as an instrument of populist, state led development; a desire for cheaper and better finance; and the growing difficulties of using capital controls in a world of increased trade, travel, migration and communications". It differed in timing, speed, and content across countries. But it always involved freeing interest rates and allocations. And it often involved giving central bank more independence, opening up capital accounts, privatizing state banks and pension payments, developing financial markets, and encouraging competition between banks (and sometimes non-banks).

In response to banking reforms, the new banking model and structure as well as financial reforms, the CBN stated on march 15, 2010 at the end of the 298th Bankers' committee meeting at Abuja that it would phase out the universal banking model by September 2011. Introduced into the Nigerian banking system in 2000/2001, the universal banking model allows deposit money banks combine commercial banking and investment banking, which thus enables them offer a wide range of financial services. With the introduction of the universal banking model, the segregated functioning of commercial banks and merchant banks ceased, as the merchant banks that had earlier agitated to have a level playing ground with the commercial banks became registered as universal banks just as the commercial banks also did. With the adoption of the new model, each deposit money bank would be required to recapitalize according to its new business model and would be further issued a separate and specific license to guide its operations. As a fall out of the global financial crisis in 2007/2008, the plan to phase out universal banking was in line with the International Financial Reporting Standards and global best practices which some other countries have also adopted. It has been revealed that the universal banking model which had been adopted over the years, authorizing banks to carry out all manner of financial services, had exposed them to high operating risks. With the new model, the CBN would now group deposit money banks into such service groups as international banking, regional banking, national banking, merchant banking and Microfinance banking.

Real sector financing also was part of the reform process buttressed by Sanusi (2010) at a forum in Lagos where he said "the CBN's interest in the energy sector, for instance, was derived from the desire to use monetary policy to fast track economic growth and create jobs, this will ensure that Nigeria has an electricity supply industry that can meet the needs of its citizens and power the economy into the 20 top economies of the world cadre by the year 2020". At the 213th Monetary Policy Committee meeting held in march 2010, he said that this focus underlined the need to catalyze the financing of the real sector of the Nigerian economy, especially in the area of power and other economic infrastructure, to attract the much needed private sector investment, and thereby , promote employment generating growth in the country. The MPC had accordingly decided among other measures, to continue with the quantitative easing policy by providing a N500bn facility for investment in debentures issued by the Bank of Industry, in accordance with Section 31 of the CBN Act 2007, for investment in emergency power projects dedicated to industrial clusters. The fund is to be channeled through the Bank of Industry for on-lending to the Deposit Money Banks at a maximum interest rate of one percent for disbursement to power projects with a tenor of 10 to 15 years at a concessionary interest rate of not more than seven percent. The MPC also approved in principle the extension of the facility to DMBs for the purpose of refinancing/restructuring their existing portfolios to manufacturers. The aviation sector (airline operators) was also allowed to partake in the fund, when it became obvious that most of them were heavily indebted to the deposit money banks in the country. In addition, an intervention fund was set up by the CBN and the Bank of Industry to support the extension of credit to the real sector at single digit interest rate, which had long been abandoned by the banks due to the country's huge infrastructure deficit.

1. Financial Reforms and Economic Development

In terms of the relationship between financial reforms and economic development, according to the 1989 World Development Report, in review of experiences of some countries, noted three of the most dramatic and far-reaching programs of financial reform carried out by Argentina, Chile, and Uruguay in the mid- 1970s. The measures included the lifting of interest rate controls, the elimination of directed credit programmes, the privatization of nationalized banks, and the lowering of barriers to entry for both domestic and foreign banks. These reforms were implemented relatively quickly during periods of high inflation, and as part of broader programs of stabilization and liberalization. However, owing to macro and microeconomic problems at home and shocks from abroad which frustrated attempts to reduce inflation, liberalization ended in disarray. Argentina had to re-impose controls, and all the three governments had to deal with widespread bank failures. By contrast, financial reforms in a number of Asian countries, including Korea, Indonesia, and Malaysia, were introduced more gradually, together with measures that brought about macroeconomic stability. In these countries, the reforms made the financial systems more efficient, obviating the need to reintroduce controls. An overall assessment of financial liberalization policies in the reforming countries reveal that results have been generally more favorable in countries with gradual reforms than in those with shock approaches. Open financial systems perse cannot be blamed, according to Fisher (1993), for the failure of financial reform as the cases of Indonesia and Malaysia clearly demonstrated. However, domestic financial systems in these countries were still heavily regulated in the 1980s. Deregulation and liberalization policies for the domestic financial sector and cautious opening in Korea and Taiwan have over the years avoided widespread financial crisis and major disturbance in economic performance. For the failure of financial opening in the southern cone (Latin American countries), the literature provides two types of explanations: macroeconomic shocks, including exogenous disturbances and policy inconsistencies, and structural weakness of the financial system.

However, Macroeconomic shocks can create high volatility by relative prices that increase proportion of nonperforming bank loans, and lead to failure of those banks where the clients are adversely affected by the relative price change. Exogenous disturbances which were blamed for the failure of the experiments in the southern cone countries in the 1980s include changes in international terms of trade and interest rate, reduction of productivity in key economic sectors and uncertainty on the availability of foreign financing. In addition, these countries suffered under policy inconsistencies, such as using nominal exchange rates as an anti-inflationary instrument, while wages and prices were indexed to past inflation rates: opening the current and capital accounts of the balance of payments without support by adequate macroeconomic policies. In the case of Argentina, the attempt to stabilize domestic prices while running large fiscal deficits was a failure.

However, the private net real savings in most of the reforming countries did not increase significantly in spite of high real rates of interest. Financial opening also did not contribute substantially to increase real investment into the capital stock-capital flows from abroad rather went into more liquid forms of investment. Hence, at least in the short run, financial reforms did not stimulate growth. According to Fisher (1993), the principal failure of financial opening in the reforming countries, in particular the southern cone countries, was the persistently high real rate of interest throughout the reform period. There are two major hypotheses about the structural weakness of the financial system. According to one view, financial institutions are inherently prone to failures. The intrinsic fragility hypothesis, which was put forward by Kindleberger (1978) and elaborated by Minsky (1982), presents the financing of units in a market economy as evolving from low risk position (speculative finance), and finally to an unstable financial position that will ultimately collapse into a crisis. In sub- Saharan Africa, many governments in the 1980/90s initiated major restructuring of their financial system as part of structural adjustment programmes. In most programmes, the initial emphasis was on liberalization measures, such as the removal of controls of interest rates and credit allocation. Subsequent components of these reforms have included the restructuring of bank portfolios and the enhancement of financial sector competition.As in the case of Nigeria, reform measures seem to have had limited developmental effect in the country so far. It is increasingly recognized that the adoption of a financial liberalization policy has not proved sufficient to generate greater savings mobilization, increased private investment or wider financial sector intermediation.

According to Soludo (2005), 'the objectives of the reform in the banking sector includes taking proactive steps to prevent imminent systemic crisis; Creation of a sound banking system that depositors can trust; Creation of banks that are investors-friendly and that can finance capital intensive projects; Enhancement of transparency, professionalism, good corporate governance and accountability; and Driving down the cost of banks.'

2. Measurement of Economic Development and Financial Sector Reforms

Measuring the results of reform is extremely important if policy is to be well designed and implemented. Though it's been argued by many that there is a positive relationship between financial sector reforms and economic development, we measured this using micro and macroeconomic indicators for the purpose of this study in line with the Nigerian economy. The financial sector indicators are many, but we limited our consideration to four indicators. The indicators considered were: Commercial bank loan and advances, Credit allocation to the private sector, Investment rate and lending rate. While that of economic development was measured using the GDP (Gross Domestic Product).

2.1. Research Methodology

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

Model Specification

The main aim of this study is to examine the effect of the reforms on the development of the Nigerian economy. This study's model is therefore specified as;

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

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

The model was specified in a linear estimation form as;

$LGDP = \beta_0 + \beta_1 \mathbf{L}CRD + \beta_2 INV + \beta_3 LOAN + \beta_4 LEND + \mu t$

Where;

β_0 = Intercept

β_1, β_2, β_3 are the various slope coefficients and;

μ = stochastic disturbance factor

CRD= Credit allocation to private sector

INV= Investment rate.

LOAN= Commercial bank loan and advances

LEND= Lending rate

The a Priori expectation are:

$\beta_0 > 0$, $\beta_1 > 0$, $\beta_2 < 0$, $\beta_3 > 0$, $\beta_4 > 0$

GDP/LOAN >0: there is a positive relationship between GDP and loan and advances. Therefore the higher the magnitude of loans, the more the investments resulting in an increase in the GDP and vice versa.
GDP/CRD >0: there is a direct relationship between GDP and Credit allocation. A growth in credit allocation to the private sector is an indication of a desire for real sector financing which as a result increases the GDP.
GDP/INV>0: there is a direct relationship between GDP and Investment such that it either results in an increase in investment in the economy or facilitates lower cost and therefore greater efficiency.
GDP/ LEND<0: there is a negative relationship between GDP and Lending rate such that the higher the rate, the lower the GDP and vice versa. Where the lending rate is too high, it discourages investment.

2.2. Presentation and Analysis of Data

The various variables presented below include Gross Domestic Product, Credit to the private sector, Lending Rate, Interest rate, and Investment. The variables used for estimation in this study covers the period between 1980 and 2008.

Tabel no. 1. Financial sector selected Performance Indicators (1980- 2008)

YEAR	CRD Nbillion	INV (N)billion	LOAN billion	GDP (billion)	LEND %
1980	7.2	344.8	6349.1	49632.3	9.5
1981	9.7	2350.2	8582.9	50456.6	10
1982	11.4	3406.9	10275.3	51570.3	11.8
1983	12.4	5730.4	11093.3	56709.8	11.5
1984	12.9	9237.8	11503.6	63006.2	13
1985	13.7	10875.8	12170.2	71368.1	11.8
1986	17.4	5223.3	15701.6	72128.2	11.5
1987	25.5	8712.6	17531.9	106,883.20	15.7
1988	29.8	7565.2	19561.2	142,678.30	17.3
1989	30.9	4606.4	22008	222,457.70	25.7
1990	36.6	10067.8	26000	257,873	27.3
1991	45.3	7453.5	31306.2	320,247.40	20.7
1992	80	6767	42736.8	544,330.60	31.2
1993	95.5	31192	65665.3	691,606.80	18.3
1994	151	40444	66127.6	911,091.30	21
1995	211.4	22695	114883.9	1,960,689.00	20.8
1996	221.8	49751	169437.1	2,740,459	20.9
1997	275	42861.5	385550.5	2,834,998.90	23.32
1998	351.8	52993.8	272895.5	2,765,670	21.4
1999	455.2	193412.9	322764.9	3,193,660	25.7
2000	596	285294.4	508302.2	4,842,190	21.6
2001	855	192731.8	796164.8	5,545,410	21.3
2002	955.8	435601	954628.8	5,726,190	22.7
2003	1301.6	434299	1210033	6,061,700	22.5
2004	1534.4	677957.4	1519243	6,455,110	20.6
2005	2007.4	379758.5	185955.5	14,610,880	19.5
2006	2565.8	610389.3	2338719	18,564,590	18.5
2007	5056.7	778128.2	4493304	20,657,320	18.5
2008	8059.5	754321	7606337	23,842,160	21.2

Source: CBN Statistical Bulletin & Annual reports (2011)

2.3. Ordinary Least Square Regression Technique

This study was first carried out with the OLS technique, but the results obtained were not in compliance with the OLS assumptions of BLUE (Best Linear Unbiased Estimator). It does not represent a linear function of the random variable (GDP). From the results of the estimated OLS regression equation, the coefficients for each variables (LEND, CRD, and the constant (C)) were far too high. That is 10643.71, 5857.236, and 150794.5 respectively. Since the estimation was not blue-best linear unbiased estimator, there is an implication that the result may be unreliable as though there was no auto correlation, but the coefficient values were too high making it non-stationary.

Table no. 2. OLS when logged Dependent Variable: LGDP

VARIABLE	COEFFICIENT	T- STAT	PROBABILITY
C (constant)	8.052949	50.20471	0.0000
LCRD	1.171103	22.77914	0.0000
INV	-1.21E-06	-2.746683	0.0112
LOAN	-9.00E-08	-2.113976	0.0451
LEND	0.003953	0.384475	0.7040
R^2	0.99		
$\bar{R}^2$	0.98		
F–STAT(PROB)	687.6033(0.000000)		
DW STAT	1.38		

2.4. Data Analysis and Result

Ols Estimate Analysis

The regression table shows the results of the analysis in our study based on the OLS. The result of GDP was regressed on explanatory variables (CRD, INV, LOAN and LEND). The table also shows the relationship between the dependent (GDP) and explanatory variables (CRD, INV, LOAN and LEND). GDP and CRD figures were logged as a result of huge figures as seen in the table. The R^2 and Adj R^2 represent a good fit. CRD was especially logged because it is a major focus of the study. The Durbin Watson statistic was low at 1.38 i.e there was the presence of autocorrelation, leading to the adoption of the Cochrane orcutt iterative.

Cochrane Orcutt Iterative Method

Table no. 3. Dependent Variable: LGDP

VARIABLE	COEFFICIENT	T- STAT	PROBABILITY
C (constant)	7.843341	41.90090	0.0000
LCRD	1.192506	23.99817	0.0000
INV	-1.29E-06	-2.998379	0.0068
LOAN	-9.31E-08	-2.101368	0.0479
LEND	0.008943	0.875362	0.3913
AR (2)	0.001916	0.008980	0.9929
R^2	0.99		
$\bar{R}^2$	0.99		
F–STAT (PROB)	526.6653(0.000000)		
DW STAT	1.71		

The Cochrane orcutt iterative method is used to estimate higher order auto regressive scheme. It is used when the Durbin Watson statistics is very low in the OLS estimation. Autocorrelation, which had been previously noted in the OLS, was eliminated after the Cochrane orcutt method was applied. The result shows all the coefficients have their expected relationship except investment and loan due to its negativity, but were respectively statistically significant.

The result of GDP presented above was regressed on explanatory variables. The coefficient of determination R^2 from our result is 0.99 while Adj R^2 is 0.99. It only shows that about 99.1% systemic variation in the endogenous variable can be explained by changes in all independent variables. Auto correlation has been corrected.

3. Interpretation of Results

Apriori affirmation for Ordinary Least Square (OLS)

There is a positive relationship between the lending rate and Gross domestic product which signifies that they are linearly related. An increase in lending rate will increase the GDP by 0.03953.This doesn't agree with the apriori specification.

There is a positive relationship between Credit to the private sector and the Gross domestic product which signifies that they are linearly related. An increase in Credit will increase the GDP by 1.171103
There is a negative relationship between the Investment and the Gross domestic product which signifies that they are inversely related. An increase in Investment will reduce the GDP by-1.21E-06. This doesn't agree with the apriori specification.

There is a negative relationship between the Loan and the Gross domestic product which signifies that they are inversely related. An increase in commercial bank loan and advances will reduce the GDP by -9.00E-08. This doesn't agree with the apriori specification.
Therefore, only lending rate, and credit agreed with the apriori specification while investment and loan didn't.
($\beta_1 > 0$, $\beta_2 < 0$, $\beta_3 < 0$, $\beta_4 < 0$).
The T-test The T-test is statistically significant for CRD, INV and LOAN at (22.77914, 2.746683, 2.113976 respectively), leaving lending insignificant at (0.384475).
The F-test The F-test statistic is statistically significant at the 1 percent level using the probability statistics of (0.000000).
The R-square The R-square is a very good fit because it shows that over 99 percent of the variation in the GDP is accounted for with less than two percent not accounted for within the model and this is due to the error term (Ut).
The R bar-square The R bar-square is also a very good fit because it accounts for over 99 percent of the variation in the GDP is accounted for with less than two percent not accounted for within the model and this is due to the error term (Ut).
The D-W The D-W is 1.38. Presence of autocorellation.
A test of overall significance of the model shows that the overall model is significant at both 1% and 5% levels of significance. It indicates all the slope coefficiently taken together, are simultaneously indifferent from 0.

Apriori affirmation for Cochrane orcutt

There is a positive relationship between the lending rate and Gross domestic product which signifies that they are linearly related. This means an increase in lending rate will increase the GDP by 0.008684. This doesn't agree with the apriori specification.

There is a positive relationship between Credit to the private sector and the Gross domestic product which signifies that they are linearly related. An increase in Credit will increase the GDP by 1.192506. This agrees with the apriori specification.

There is a negative relationship between the Investment and the Gross domestic product which signifies that they are inversely related. An increase in Investment will reduce the GDP by (-1.29E-06). This doesn't agree with the apriori specification.

There is a negative relationship between Loan and the Gross domestic product which signifies that they are inversely related. An increase in Loans and advances will reduce the GDP by -9.31E-08. This doesn't agree with the apriori specification.

Therefore, only credit agreed with the apriori specification while lending rate, loan and investment didn't.
($\beta_1 > 0$, $\beta_2 < 0$, $\beta_3 < 0$, $\beta_4 > 0$).

The T-test The T-test is statistically significant for Credit, Investment, and Loan leaving Lending rate insignificant.
The F-test The F-test statistic is statistically significant at the 1 percent level.
The R-square The R-square is a very good fit because it shows that over 99.2 percent of the variation in the GDP is accounted for with less than one percent not accounted for within the model and this is due to the error term (Ut).
The R bar-square The R bar-square is also a very good fit because it accounts for over 99.0 percent of the variation in the GDP is accounted for with less than two percent not accounted for within the model and this is due to the error term (Ut).
The D-W The D-W is 1.71.No Auto correlation. It represents a good fit.
A test of overall significance of the model shows that the overall model is significant at both 1% and 5% levels of significance. It indicates the entire slopes coefficiently taken together are simultaneously indifferent from 0.

Tests for Hypothesis and interpretation of Result.
Testing for Hypothesis 1
The result shows that financial sector reform is significant to economic development.
Therefore, there is a positive relationship between banking reforms and real sector financing measured by loans and advances. It has a T- stat of (2.101368) and a P value of (0.0497). it shows that loan is significant to economic development. Therefore, the alternative hypothesis is accepted while null is rejected.

Testing for Hypothesis 2
The result shows that financial sector has contributed to the real sector of the economy through credit given to the private sector.
It has a T- stat of (23.99817) and a P value of (0.0000). It shows that credit is significant to economic development. Therefore, the alternative hypothesis is accepted while null is rejected

Testing for Hypothesis 3
The result shows that financial sector has brought about changes to the economy through the level of investment. It has a T- stat of (2.998379) and a P value of (0.0068). It shows that investment is significant to economic development. Therefore, the alternative hypothesis is accepted while the null is rejected.

Summary, Findings, Conclusion and Recommendation

Summary of Work
The major objective of this study is to determine the financial sector reforms in relation to the Nigerian economy. Haven seen the major developments in the financial sector from the days of repression to date, the study tried to see if the findings were in relation to the apriori specifications. The financial sector reforms introduced at one point or the other were all for various reasons and all these reasons are peculiar to each country, economy or society.

In Nigeria, the developments witnessed in the financial sector, were all meant to make the sector better off. Though, it can be seen that some developments were introduced to compliment others, while some were introduced for corrective measures. Many of these reforms or developments were introduced at times when they were inappropriate, while others that were introduced at the appropriate time were not followed up to accomplish the desired goal.

It was observed in this study that the trends of the development were up to date and they were all set to address each problem that arises in the sector. Right from the introduction of SAP, the developments in the financial sector were frequent and this helped to address each problem on time though there was not much preparation for them to be effectively accomplished.

Findings
It can be seen that the financial sector developments that were experienced in the Nigeria economy at one point or the other had effect on the activities of the economy. However, this does not imply that the reforms in the financial sector are solely responsible for the sector being better off or worse off. In

this Research study, an improvement in financial intermediation was considered a necessary condition for stimulating Investment, raising productive capacity and fostering economic growth.

From the Big Push theory of Rosenstien-Rodan, it was said that there was the need for a very large amount of investment for the economy to experience development. This in the Nigeria case was not however true as though there were the experiences of great savings, investment, stock market, yet they were not as stated by Rosenstien-Rodan and there were traces of development in the financial sector and the Nigerian economy at large.

It was seen that the economy fared better, when there was the introduction of some reforms. An example of this is the increase in investment, and also increase in credit. This is as a result of the fact that an increase in interest rate, which is a benefit of financial liberalization, encourages savings, which in turn provides incentive for borrowers to invest in more productive activities, since as a result of more savings there is more money with banks to lend to investors.

Conclusion

It has been established from the study that there is a great link between the reforms in the financial sector and the economy of a nation. In Nigeria, it was discovered that the financial sector is a great determinant of level of development in the economy. The rate of lending was however found to be insignificant i.e it has so far been unstable, but credit granted to the private sector has increased tremendously.

Thus, it can be said that the importance of this sector cannot be over emphasized as total credits to the private sector are still on the increase in spite of the major constraints posed by the government regulations, institutional constraints and other macro economic factors. However, both government and commercial banks should be mindful of the facts that the environments in which they operate are important factors in the bank performance and behaviour. Where the environment is conducive and supportive, performance is enhanced and good lending behaviour is guaranteed.

Recommendations

It should be noted that, though the financial reforms affect the financial sector, external factors as well do have effect on the financial sector. Factors such as political unrest, international influence e.t.c., and all these can be addressed from without the sector. Based on the findings, it is recommended that:

1. There should be appropriate planning before the developments are carried out
2. There should be the ensuring of macroeconomic stabilization, which is theultimate, as the activities in all other sectors affect this or is affected by it.
3. There should be a body that supervises the reform and ensure a successful follow up of such developments.
4. There should be the ensuring of political stability as this also affects the effective operation of the financial sector.
5. Many individuals should be enlightened on the benefits of the financial reforms so that they would not take opposing actions against the goal of the reforms.

APPENDIX 1

Dependent Variable: LGDP
Method: Least Squares
Date: 01/12/12 Time: 01:03
Sample: 1980 2008
Included observations: 29

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOAN	-9.00E-08	4.26E-08	-2.113976	0.0451
LEND	0.003953	0.010281	0.384475	0.7040
LCRD	1.171103	0.051411	22.77914	0.0000
INV	-1.21E-06	4.39E-07	-2.746683	0.0112
C	8.052949	0.160402	50.20471	0.0000

R-squared	0.991350	Mean dependent var	13.68787
Adjusted R-squared	0.989908	S.D. dependent var	2.119631
S.E. of regression	0.212938	Akaike info criterion	-0.100044
Sum squared resid	1.088225	Schwarz criterion	0.135697
Log likelihood	6.450633	F-statistic	687.6033
Durbin-Watson stat	1.381543	Prob(F-statistic)	0.000000

APPENDIX 2

Dependent Variable: LGDP
Method: Least Squares
Date: 01/12/12 Time: 01:04
Sample (adjusted): 1982 2008
Included observations: 27 after adjustments
Convergence achieved after 1 iteration

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOAN	-9.31E-08	4.43E-08	-2.101368	0.0479
LEND	0.008943	0.010217	0.875362	0.3913
LCRD	1.192506	0.049692	23.99817	0.0000
INV	-1.29E-06	4.31E-07	-2.998379	0.0068
C	7.843341	0.187188	41.90090	0.0000
AR(2)	0.001916	0.213375	0.008980	0.9929

R-squared	0.992088	Mean dependent var	13.90026
Adjusted R-squared	0.990205	S.D. dependent var	2.039412
S.E. of regression	0.201843	Akaike info criterion	-0.169520
Sum squared resid	0.855555	Schwarz criterion	0.118444
Log likelihood	8.288517	F-statistic	526.6653
Durbin-Watson stat	1.711370	Prob(F-statistic)	0.000000
Inverted AR Roots	.04	-.04	

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