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Impact of Financial Sector Reforms on the Performance of the Nigerian Economy

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ABSTRACT

With the adoption of financial reform in Nigeria, one of the basic issues that have been of crucial interest to academic and policy makers is whether the various reforms in the financial sector have sufficiently led to the deepening and development of the financial markets so as to promote economic growth. To this end, this research work examined the impact of financial sector reforms on the performance of the Nigerian economy. The study employed the ex-post-facto research design because of the information needed for this investigation. Data for this study was obtained from CBN Statistical Bulletin, 2013 using data from the period of 1986-2013. Frequencies, Percentages, Tables and Charts were used to present obtained data. The ordinary least square method using the Statistical Package for Social Sciences (SPSS) Version 22 was used to analyze the data. After subjecting each hypothesis under test, findings revealed that Financial sector reforms in Nigeria has positive and significant impact on savings culture in Nigeria and that Financial sector reforms in Nigeria have not improved economic growth in Nigeria for the period under study. Hence, it was concluded that the financial sector occupies a vital position in the economy and must be subject to continuous reforms for it to function efficiently.

Keywords: *Financial Reforms; Performance; Economic Growth; Nigerian Economy*

Introduction

Financial reform is one of the most important tasks before developing countries is to achieve higher rate of economic growth (Raghbendra, 2003; Ehimare, 2012). Due to the influence of the activities in the financial sector on the economy, 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 (Ajayi, 2014). 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 (Samuel & Emeka, 2009). 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, along with the financial system that support them shall also be looked into in this 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 and adoption of new banking model, 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.

As stated above, Nigeria in 1986, like other developing countries embraced the idea to reform its financial sector. The motivation for financial sector reforms could be attributed to three main reasons.

First, given the macroeconomic imbalances (severe balance of payments, increased debt burden, high inflation, unemployment etc.) in the 1980s, the launching of the IMF supported Structural Adjustment Programme (SAP) in 1986 made it a necessary precondition. The introduction of SAP, thus, witnessed the adoption of a landmark economic reforms and a shift from economic regulation to deregulation in Nigeria. Another vital reason for financial reform could be ascribed to the recent persuasion from the theoretical arguments made in support of liberalization. Many authors (Mckinnon, 1973; Shaw; 1973; Fry; 1978; Creane & Goyal, 2003) have demonstrated that government restrictions on the financial sector such as interest rate ceilings, high reserve requirements and directed credit policies distort the process of financial development and hinder growth. McKinnon (1973) and Shaw (1973) hypothesized that financial repression occurs when nominal lending and deposit rates are low and administratively determined in the presence of high rate of inflation. On the last note, the impetus to reform the financial sector in Nigeria also reflects the shift in the philosophical underpinning of economic policies in the global economy at the 1980s. For instance, the standard ten reform packages articulated by the "Washington Consensus" for developing countries under economic crisis in the 1980s include among others interest rate liberalization, trade liberalization, economic deregulation which are vital aspects of financial sector reforms. Like in other developing countries, financial reform form is a core element of economic reforms in Nigeria. As pointed out in (Enya, et al., 2009; Baliamoune and Chowdhury, 2003), financial reform involves the elimination of credit control, deregulation of interest rates, easing of entry into the financial services industry, development of capital market, increased prudential regulation and supervision, and liberalization of international capital flows. Ezirim and Muoghalu (2004) noted that financial sector reforms represent the various transformations and policy adjustment and overhaul that are directed to the art, policies, and activities of financial institutions and markets overtime in response to the nominated need for operational improvement and growth of both the institutions and the general economy. The reform of the financial sector was expected to promote financial savings, reduce the distortions in investment decisions, and induce more effective intermediation between savers and investors (Oresotu, 1992).

Statement of the Problem

With the adoption of financial reform in Nigeria, one of the basic issues that have been of crucial interest to academic and policy makers is whether the various reforms in the financial sector have sufficiently led to the deepening and development of the financial markets so as to promote economic growth. The relevance of this question can be ascribed to the understanding that a necessary precondition for financial reforms to cause economic growth is the existence of financially deep and developed economy. Given this backdrop, the basic objective of this paper is to empirically investigate the impact of financial sector reforms on the performance of the Nigerian economy.

Objectives of the Study

i. To establish the extent to which financial sector reforms in Nigeria have affected savings and investment culture in Nigeria.
ii. To establish the extent to which financial sector reforms in Nigeria have affected economic growth in Nigeria.

Research Questions

i. To what extent has financial sector reforms in Nigeria increased the savings and investment culture of Nigerians?
ii. To what magnitude has financial sector reforms in Nigeria improved economic growth in Nigeria?

Research Hypothesis

i. Financial sector reforms in Nigeria has no positive and significant impact on savings culture in Nigeria.
ii. Financial sector reforms in Nigeria have not improved economic growth in Nigeria for the period under study.

Theoretical Framework

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.

A few of them will be touched in this introductory part of the literature.

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) who posited 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.

Theories of Growth

a. Harrod-Domar Theory of Growth

Harrod and Domar assigned a key role to investment in the process of economic growth. But they lay emphasis on the dual character of investment.

Firstly, it creates incomes, and secondly, it augments the productive capacity of the economy by increasing its capital stock. The former may be regarded as the "demand effect" and the latter the "supply effect" of investment. Hence, so long as net investment is taking place, real income and output will continue to expand. However, for maintaining a full employment equilibrium level of income from year to year, it is necessary that both real income and output should expand at the same rate at which the productive capacity of the capital stock is expanding. Otherwise, any divergence between the two will lead to excess or idle capacity, thus forcing entrepreneurs to curtail their investment expenditures. Ultimately, it will adversely affect the economy by lowering their incomes and employment in subsequent periods and moving the economy off the equilibrium path of steady growth. Thus, if full employment is to be maintained in the long run, net investment should expand continuously. This further requires continuous growth in real income at a rate sufficient enough to ensure full capacity use of a growing stock of capital. This required rate of income growth may be called the warranted rate of growth or "the full capacity growth rate"

b. The New Growth Theory

This theory was developed in the 1980's as a response to criticism of the neoclassical growth model. The endogenous growth theory holds that policy measures can have an impact on the long run growth rate of an economy. For example, a subsidy on research and development or education increases the growth rate in some endogenous growth models by increasing the incentive to innovate.

The main implication of recent growth theory is that policies which embrace openness, competition, change and innovation will promote growth. Conversely, policies which have the effect of restricting or slowing change by projecting or favouring particular industries or firms are likely over time to slow growth to the disadvantage of the community.

c. Theory of Financial Intermediation

Financial intermediation theory was first formalized in the works of Goldsmith (1969), McKinnon (1973), and Shaw (1973) who saw financial markets, both money and capital markets playing a pivotal role in economic development, attributing the differences in economic growth across countries to the quantity and quality of services provided by financial institutions. Corroborating this view is the result of a research by Nwaogwugwu (2008) and Dabwor (2009) on the stock market development and economic growth in Nigeria, the causal linkage. The result reveals that there is a bi-directional causality between growth in capital market activities and economic growth in Nigeria.

However, this contrasts with Robinson (1952), who argued that financial markets are essentially hand maidens to domestic industry, and respond passively to other factors that produce cross-country differences in growth:

“There is general tendency for supply of finance to move with the demand for it. It seems to be the case that where enterprise leads finance follows. The same impulse within an economy, which set enterprises on foot, make owners of wealth, venturesome and when a strong impulse to invest is fettered by lack of finance, devices are invented to release it… and habits and institutions are developed”

The Robinson school of thought therefore believes that economic growth will lead to expansion of the financial sector. Goldsmith (1969) attributed the positive correlation between financial development and the level of real per capita GNP to the positive effect that financial development has on encouraging more efficient use of the capital stock. In addition, the process of growth has feedback effects on financial markets by creating incentives for further financial development. McKinnon’s thesis is based on the complementarity hypothesis, which in contrast to the Neo-classical monetary growth theory, argued that there is a complementarity between money and physical capital, which is reflected in money demand. According to McKinnon, complementarity links the demand for money directly and positively with the process of physical capital accumulation because “the conditions of money supply have a first order impact on decision to save and invest”.

Shaw (1973) proposed a debt intermediation hypothesis, whereby expanded financial intermediation between the savers and investors resulting from financial liberalization (higher real interest rates) and development increase the incentive to save and invest, stimulates investments due to an increase supply of credit, and raises the average efficiency of investment. This view stresses the importance of free entry into and competition within the financial markets as prerequisites for successful financial intermediation.

McKinnon (1973) and Shaw (1973) argued that policies leading to the repression of financial markets reduce the incentive to save. They described the key elements of financial repression as:

a. High reserve requirements on deposits
b. Legal ceilings on bank lending and deposit rates
c. Directed credit
d. Restriction on foreign currency capital transactions
e. Restriction on entry into banking activities

Though the McKinnon-Shaw framework informed the design of financial sectors reforms in many developing countries, country experiences later showed that while the framework explains some of the quantitative changes in savings and investment at the aggregate level, it glosses over the micro-level interactions in the financial markets and among financial institutions which affects the supply of savings and the demand for credit by economic agents and the subsequent effect on economic growth.

This shortcoming later formed the spring board for the development of agency theories of financial intermediation. One of the earliest attempts to interpret the experience of developing countries within this framework can be found in Stiglitz and Weiss (1981) which stressed the importance of imperfect information in financial markets and its effect on the overall allocation of resources and economic growth. They showed that credit rationing for example, may arise from imperfect information about the quality of potential borrowers.

The structuralist approach emphasizes structural problems such as market inefficiencies as the principal cause for economic backwardness of developing countries. They criticized the market clearing assumptions implicit in the financial liberalization school, especially the assumption that higher interest rates attract more savings into the formal financial sector (Van Wijnbergen, 1982 and 1983).

Empirical Framework

There have been many related empirical studies on the financial sector reforms in Nigeria and economic growth, but only few directly looked into it i

Jung-Suk, et al. (2014) studied financial sector reforms and economic growth in Morocco from the 1990's. They employed a pooled regression and multivariate time-series methodology, to derive feasible policy implications, they estimated not only pooled regressions, but also variance decompositions of GDP growth rates to examine what proxy measures of financial development are most important in economic growth over time and how much they contribute to economic growth across geographic regions and income groups. They found strong linkages between financial development and economic growth in high-income OECD countries, but not in East Asia and Pacific, South Asian and Sub-Saharan African regions, in the short run.

Adekunle, et al. (2013) in their study examined the impact of financial sector development and economic growth in Nigeria. They employed OLS method of the regression analysis; the financial development was proxied by ratio of liquidity

liabilities to GDP (M2GDP), real interest rate (INTR), ratio of credit to private sector to GDP (CPGDP) while the economic growth was measured by the real GDP (RGDP). The findings of the study however revealed that only the real interest rate is negatively related to economic growth. All the explanatory variables were statistically insignificant. Though the overall statistic shows that the independent variables were able to explain 74 percent variation in the dependent but contrary to a priori expectation, it is statistically insignificant. The link between the financial and real sector still remains weak and could not propel the needed growth towards the vision 202020. They however recommended the need for consistent, transparent, fair policy, and also a resilient & strong institutional development of the financial sector.

Iganiga (2010) employing the classical least squares technique, assessed the effects of financial reforms on the effectiveness and efficiency of the Nigerian financial institutions with emphasis on the banking sub-sector. The results showed that the performance of the financial sector has been greatly influenced over time by these reforms that began in 1986. The adoption of market determined cash reserve requirement caused cash intensity and domestic savings to increase by 5.54 and 5.00 percent respectively. The gradual increase in the capital base of these firms has rekindled the public confidence in the sector by increasing savings by 3.6, percent. Also, as government reduced ownership of financial institutions, most financial development indicators perform better including; financial deepening. However, interest rate deregulation in Nigeria has been accompanied with decline banks credits due to negative (or very high) lending rate with its attendant crowding out effect. He further stated that the policy implication is that, monetary authority should direct their efforts towards achieving a positive interest rate regime, increase the scope of financial reforms and these reforms should be seen as a process rather than event to consolidate the emerging confidence in these institutions.

Nwachukwu, et al. (2014) in their study, financial sector reforms and industrial development in Nigeria using econometric tools such as unit root test, co-integration test, and error correction model. The empirical results revealed that financial reforms encourage the industrial growth and recommended that policies to be pursued by the government should take cognizance of inflation rate if the effect of financial reform programmes will be desirable. Also, industrial development will become relevant only after some policy reversals.

Ehimare (2012) examined financial sector reforms and its effect on the Nigerian Economy. He employed ordinary least square method in carrying out this research. He findings revealed 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. According to him, this does not imply that the reforms in the financial sector are solely responsible for the sector being better off.

Ogun & Akinlo (2011) using descriptive statistics and Vector Autoregressive Model investigated the impact of financial sector reforms on the performance of the Nigerian economy. It was found that the means of performance indicators - saving rate, investment ratio and growth of real GDP, were very low relative to pre-reform period and their correlation with financial indicators were mostly low or negative under reform. Evidence from the VAR analysis also showed that shocks to financial indicators either had negative or insignificant positive effect on the saving rate investment and growth during reform.

Research Methodology

The study employed the ex-post-facto research design because of the information needed for this investigation. It aims at determining or establishing or measuring the relationship between one variable and another or the impact of one variable on another, in which the variable involved are not manipulated by the researcher, Onwumere (2009).

This study used secondary data. Data for this study was obtained from CBN Statistical Bulletin, 2013.

Table 1 Necessary Financial Variables from 1986 to 2013

Year	*Savings*	*GDP*	*CPS*	*M2Y*	*MKY*	*RD*	*INTR*
1986	13.93	134.6	15.25	17.7	5.05	72.54	10
1987	18.68	193.13	21.08	14.3	4.25	76.5	12.75
1988	23.25	263.29	27.33	14.6	3.8	73.1	12.75
1989	23.8	382.26	30.4	12	3.35	74.33	18.5
1990	29.65	472.65	33.55	11.2	3.45	62.2	18.5
1991	37.74	545.67	41.35	13.8	4.23	86.27	14.5
1992	55.12	875.34	58.12	12.7	3.56	109.33	17.5
1993	85.03	1089.68	127.12	15.2	4.36	174.1	26
1994	110.97	1399.7	143.42	16.5	4.74	184.96	13.5
1995	108.49	2907.36	180	9.9	6.2	180.81	13.5
1996	134.5	4032.3	238.6	8.6	7.09	165.76	13.5
1997	177.65	4189.25	316.21	9.9	6.73	132.13	13.5
1998	200.07	3989.45	351.96	12.2	6.58	133.31	14.31
1999	277.67	4679.21	431.17	13.4	6.41	128.52	18
2000	385.19	6713.57	530.37	13.1	7.04	96.13	13.5
2001	488.05	6895.2	764.96	18.4	9.61	106.53	14.31
2002	592.09	7795.76	930.49	19.3	9.81	109.99	19
2003	655.74	9913.52	1096.54	19.7	13.71	79.78	15.75
2004	797.52	11411.07	1421.66	18.7	18.51	76.61	15
2005	1316.96	14610.88	1838.39	18.1	19.85	65.74	13
2006	1739.64	18564.59	2290.62	20.5	27.58	50.89	12.25
2007	2693.55	20657.32	3668.66	24.8	63.81	40.6	8.75
2008	4118.17	24296.33	6920.5	33	39.36	34.77	9.81
2009	5763.51	24794.24	9110.86	38	28.36	34.18	7.44
2010	5954.26	54204.8	10157.02	20.4	18.3	36.4	6.13
2011	6531.91	63258.58	10660.07	19.2	16.24	38.29	9.19
2012	8062.9	71186.53	14649.28	19.5	20.79	53.11	12
2013	8656.12	80222.13	15778.31	18.9	23.78	78.19	12

Source: Calculated from CBN Statistical Bulletin, 2013

Statistical analysis is a vital aspect of research. The choice of an appropriate statistical method depends on factors such as sample size and characteristics, hypothesis being tested, and research design. In this research work, ordinary least square method using the Statistical Package for Social Sciences (SPSS) Version 22 was used to analyze the data. The researcher chose this method because it minimizes the squares of the residuals.

Decision Rule: *Reject H_0 if p-value $\leq .05$, otherwise accept H_0*

Two-stage Least Squares Analysis/Ordinary Least Squares Analysis using Statistical Package for Social Sciences (SPSS)

FIRST MODEL: Savings = $b_0+b_1M2Y+b_2MKY+b_3RD + b_4INTR+\mu$

Table 2 *Model Summary*

Equation 1	Multiple R	.999
	R Square	.997
	Adjusted R Square	.997
	Std. Error of the Estimate	154.351

Table 3 *ANOVA*

		Sum of Squares	df	Mean Square	F	Sig.
Equation 1	Regression	195802804.820	5	39160560.964	1643.727	.000
	Residual	524133.358	22	23824.244		
	Total	196326938.178	27			

Table 4 *Coefficients*

		Unstandardized Coefficients		Beta	T	Sig.
		B	Std. Error			
Equation 1	(Constant)	107.050	208.589		.513	.613
	CPS	.544	.008	.951	66.971	.000
	M2Y	12.087	7.208	.029	1.677	.108
	MKY	5.955	3.306	.030	1.801	.085
	RD	-.615	.909	-.010	-.677	.506
	INTR	-13.095	9.675	-.020	-1.353	.190

The multiple R of .999 shows that there is a strong positive relationship between the independent variable (CPS, M2Y, MKY, RD, INTR) and the dependent variable (Savings). The R^2 of .997 shows that 99.7% of the variation in Savings can be explained by the explanatory/independent variables. The ANOVA table shows that the model fit is very significant (Sig. < .001 < .05). Only one explanatory variable (Credit to private sector - CPS) is significant in explaining the variation in the dependent variable (Savings). The slope of [CPS-.544; M2Y-12.087; MKY-5.955; RD-(-.815); INTR-(-.13.095)] shows that a unit increase in Broad money to GDP ratio (M2Y) will lead to a 12.087 unit increase in Savings when other variables remain constant; a unit increase in MKY will lead to a 5.955 unit increase in Savings when other variables in the model remain constant; a unit increase in Reserve money to deposit ratio will lead to a 6.15 unit increase in Savings when other contributing variables are constant; when other variables remain constant a unit increase in Interest rate will lead to a 13.095 unit decrease in Savings.

Substituting the regression output with its values for the intercept, the slopes, and the error term from the above analysis, the equation will be Savings = 107.058 + .544CPS + 12.087M2Y + 5.955MKY – .615RD – 13.095INTR + 154.351

Decision

H_0 1: *Financial sector reforms in Nigeria has no positive and significant impact on savings culture in Nigeria.*

The P-value on which basis we can reject the null hypothesis that financial sector reforms in Nigeria has no positive and significant impact on savings culture in Nigeria is p-value <.001 (overall significance). Since the P-value<.05, we assert alternately that financial sector reforms in Nigeria has positive and significant impact on savings culture in Nigeria.

SECOND MODEL: GDP = $b_0+b_1M2Y+b_2MKY+b_3RD + b_4INTR+\mu$

Table 5 *Model Summary*

Equation 1	Multiple R	.986
	R Square	.973

Adjusted R Square	.967
Std. Error of the Estimate	4177.638

Table 6 *ANOVA*

		Sum of Squares	Df	Mean Square	F	Sig.
Equation 1	Regression	13811350021.367	5	2762270004.273	158.272	.000
	Residual	383958433.577	22	17452656.072		
	Total	14195308454.944	27			

Table 7 *Coefficients*

		Unstandardized Coefficients		Beta	T	Sig.
		B	Std. Error			
Equation 1	(Constant)	15812.285	5645.620		2.801	.010
	CPS	5.033	.220	1.035	22.893	.000
	M2Y	-897.186	195.079	-.254	-4.599	.000
	MKY	174.898	89.478	.104	1.955	.063
	RD	-25.554	24.598	-.051	-1.039	.310
	INTR	43.126	261.870	.008	.165	.871

The multiple R of .986 shows that there is a strong positive relationship between the independent variable (CPS, M2Y, MKY, RD, INTR) and the dependent variable (GDP) as the R is close to 1. The R^2 of .973 shows that 97.3% of the variation in GDP can be explained by the explanatory/independent variables. The ANOVA table shows that the model fit is very significant (Sig. < .001 < .05). While the intercept of 15812.285 shows the value of GDP when the independent variables are equal to zero, the slope of [CPS-.5.033; M2Y-(-897.186); MKY-174.898; RD-(-.25.554); INTR-43.126] shows that a unit increase in Broad money to GDP ratio (M2Y) will lead to an 897.186 unit decrease in GDP when other variables remain constant; a unit increase in MKY will lead to a 174.898 unit increase in GDP when other variables in the model remain constant; a unit increase in Reserve money to deposit ratio will lead to a 25.554 unit decrease in GDP when other contributing variables are constant; when other variables remain constant a unit increase in Interest rate will lead to a 43.126 unit increase in GDP.

Substituting the regression output with its values for the intercept, the slopes, and the error term from the above analysis, the equation will be GDP = 15812.285 + .5.033CPS – 897.186M2Y + 174.898MKY – .25.554RD + 43.126 INTR + 4177.638

Decision

H_0 2: ***Financial sector reforms in Nigeria have not improved economic growth in Nigeria for the period under study.***

The P-value on which basis we can reject the null hypothesis that financial sector reforms in Nigeria have not improved economic growth in Nigeria for the period under study is p-value <.001 (overall significance). Since the P-value<.05, we conclude that financial sector reforms in Nigeria have not improved economic growth in Nigeria for the period under study**.**

Research Findings

1. Financial sector reforms in Nigeria has positive and significant impact on savings culture in Nigeria

2. Financial sector reforms in Nigeria have not improved economic growth in Nigeria for the period under study

Conclusion

The financial sector occupies a vital position in the economy and must be subject to continuous reforms for it to function efficiently as demonstrated in this study that these reforms really contributes to economic boost in Nigeria which improves the global value of the Nigerian economy.

Recommendations

1. Given the level of saving and investment in Nigeria, complementary reforms are needed to mobilize contractual savings, promote markets for commercial papers, mortgages and other long-term financial instruments.

2. There should be appropriate planning before the reforms are carried out.

3. There should be the ensuring of macroeconomic stabilization, which the ultimate, as the activities in all other sectors affect this or is affected by it.

4. There should be a body that supervises the reform and ensure a successful follow up of such developments.

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