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The Impact of Capitalization on the Banking Industry and the Nigeria Economy (An Evaluation)

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Abstract: *The CBN in its search for a more robust, stronger and stable banking system, reeled out a 13 point reform agenda in July 6, 2004 direct among other things, that operators in the banking sub-sector should raise their capital base to N25 billion with full compliance by December 31, 2005. Although the minimum capitalization segment of the bank consolidation exercise has since been achieved, in the light of the above, the study aimed at evaluating the impact of recapitalization on the banking industry and the Nigeria economy. However, the objective of the study includes: Examining the extent to which Banking industry capitalization has boosted the Nigerian economy, whether the capitalization of banking industrial sector enhanced the banks lending ability. How the capitalization had contributed towards the growth and development of the Nigerian economy and to proffer recommendations, to ascertain this, banking industry capitalization was used to correlate with industrial sector Gross domestic product (GDP). The study covered a period of Eight years. Being an Expo factor research design, Regression Analysis was used to test the hypotheses using the following variables: Banks lending rates; Banking industry capitalization, manufacturing sector utilization rates, industrial sector Gross (GDP) of the economy. The study found that, the capitalization of banking industry has no significant positive impact on the growth and development in the Nigerian economy as in a bid to survive in the highly competitive banking industry. On the other hand, it was found out that, the capitalization enhanced banks lending ability within the period. However, this was as a result from the test model, although, the capitalization of banking industry cannot enhanced banks lending, if capitalization of Banking industry had no significant positive impact on the growth and development in Nigerian economy.*

I. Background Of The Study

The ultimate strength of a bank lies in its capital fund. Banking, like any other business, requires adequate capital to function effectively (Nwankwo, 1991:45). Though by nature, banking is a highly leveraged industry, the degree of leverage averaging 88% and 95% in the United States, compared with between 24% and 70% of non financial firms (ibid). life of a bank like any other business, it plays the role of a cushion for losses resulting from crystallization for the various risks a business entity is exposed to (Imala, 2004:74). Adequate capital is required to maintain public confidence by standing ready to absorb unexpected or unusual losses not absorbed by normal earnings (Nwankwo, 1991:45). Thus, it has often been said that the primary function of bank capital is to protect the depositor against loss.

In the Nigerian environment bank capital legislation did not start, until the introduction of banking ordinance in 1952.

According to Uche (1998:30), before 1952 there was no legal minimum capital requirement for banks operating in the Nigeria colony. Despite this fact, foreign banks were able to operate in the Nigeria colony without any banking failure. However, things changed with the advent of indigenous banks, most of who were poorly - capitalized, poorly staffed and in most cases interested with fraud. In the opinion of the writer, the above tripartite malaise of the indigenous banks contributed to their failures This led the colonial government to invite G.D Paton, a consultant for the bank of England, to investigate the Nigeria banking environment With the possibility of introducing regulation. A minimum share capital was subsequently recommended.

The outcome of that legislation was disastrous. This was rendered by "Uche" (1998:31) thus "the resultant effect was that banks that could not meet up with the dead line for re-capitalization failed - mass failure with at last 17 indigenous banks failing in 1953/54. Ever since, there have been recurring bank capital legislations. These are;

1958 The share capital for foreign banks increased to £20,000. That of the Indigenous one remained unchanged

1962 The minimum share capital for indigenous bank increased from £12,500 to £250,000. This was a 1,900 percent increment, with 7 years of grace period.

1969 Sec. 6 of Banking Act increased the share capital to £300,000 and £750,000 for indigenous and foreign banks, respectively

1988	It was raised to N 10m
1990	N20m
1991	N50m
2000	Nlbn
2002	N2bn

The banks were still setting for the new minimum capital requirement, when the big bang Twenty five billion naira (N25bn) capitalization was announced,
This represents an increase of 1250 percent from that of two billion naira
(Uche, 1998:31-32." Eke, 2005:1).

What were the reasons for the continual increments have any desired effect on the economy and the industry?

Reports have shown that, with any increment on the banks capitalization, course such inflation that makes nonsense of the increase (if Uche, 1998:32). To what extent has the minimum capital legislation prevented bank failures? How has depositors fared in the aftermath? What are the likely consequences of the recently introduced, N25bn minimum capital legislation? These and many more is what this study is set to enquire.

II. Statement Of The Problem

A clear understanding of the role of banks in the economy is to improve the standard of living of its citizenry and impact positively on the economy by providing financial resources to absorb unexpected losses. A major engine of economic growth of any country is its capital adequacy, hence without adequate capital from the bank the economy may be starved of the long-term funding for sustainable development.

Having been acquainted with the fact that bank contribute to the development of any nation, therefore, it is pertinent to carry out a performance evaluation of such an important sector industry with regards to its contribution towards the nations development.

Objectives Of The Study

Since the economy of any country rest on the banking system's contribution, it then means that, adequate capital is required to maintain public confidence which should have a lasting effect on the economic indicators like the bank credit to the economy GDP and industrialization (Industrial sector GDP).
Therefore, the specific objectives of this study are;

i. To examine the impact of capitalization of banking sector in boosting the economy
ii. To determine how capitalization of banking sector is enhancing the lending ability of banks,
iii. To ascertain the rate of growth in the development of recapitalization of banking sector in the Nigeria capital market,
iv. To recommend what can be done to maintain or enhance efficiency in the contribution of banking sector.

RESEARCH HYPOTHESES

The following hypotheses form the frame work for carrying out this study.
Hypothesis 1 The banking industry capitalization does not have a positive and significant impact in the Nigeria economy.
Hypotheses II The capitalization of banking industry has not enhanced the banks lending to the industrial sector in Nigeria.
Hypotheses III Banking industry capitalization has not contributed to the growth of Nigeria economy.
Hypotheses IV The development of the banking industry capitalization does not depend on the economic stability in Nigeria.

THE SCOPE OF THE STUDY

This research work will cover all the activities in the capitalization of banking industry between the period of 2001 and 2008 fiscal years.

III. Review Of Related Literature

Issues In Bank Recapitalization In Nigeria

In a special session with the bankers committee, on Tuesday 6th, July 2004, the CBN governor announced the upward review of banks capital base from N2billion to 25billion effective 31st day of December 2005. This raised lots of questions. However, has come to be what led to the sudden policy change of the CBN?

According to Ede (2004:1), the underlying motive behind the N25billion capitalization is mergers and Acquisition, to force consolidation and strengthen the system. He contended that the initiative was a proactive one, rather than wait for our banking system to experience the Malaysian crisis before doing it. The

Malaysian crisis though finally contended by the Malaysian financial system came as a result of the Asian financial crisis of mid to later 1990's.

In the final analysis, the soul of the recapitalization policy lay on the fact that big and strong banks are needed as the key players in a world. According to Ede (ibid:2) this economy is about $65billion an economy of this size cannot depend on banks with N2billion capitalization. A good example of ABC Bank of South African which has a total assets of over $50billion as compared to a total asset of all banks in Nigeria, of $22billion. This means that all banks in Nigeria are not equal to one bank in South African.

Reasons For Consolidation

According to Ajayi (2005:5.) consolidation is in some instance driven by regulation, the generic factors influencing a potential acquirer or buyer encompasses economies scale growth in market share, need to enter a new market etc. according to Pandy (2002:1098) it is believed, that mergers and acquisitions are strategic decisions leading to the maximization of a company's growth by enhancing its production and marketing operations.

However, it could be summed up that consolidation are motivated by four key economic factors namely, economies of scale and scope, potentials for risk diversification as well as bank managements personal incentives (Ajayi:2005:5).

1. Economies of scale: Economies of scale may arise when increase in the volume of production leads to reduction in the cost production per unit (Roundey, 2002:1100). Consolidation may help to expand the volume of products without a corresponding increasing in fixed costs. Economies of scales may be obtained from the optimum utilization of management resources and systems of planning, budgeting, reporting and control (ibid). Ajayi (2005:5) says a firm that produces a higher volume of output can sees its unit cost of production declining because the costs of some of the inputs are fixed, such as administrative and over head expenses. He however, cautioned that diseconomies of scale are also possible.
2. Economies of scope: This is a situation where the joint costs of producing two complementary out puts are less than the combined costs of producing the two out puts separately (ibid). In order words, a combination of two or more firms may result into cost reduction due to operating economies. A combined firm may avoid or reduce overlapping functions and facilities (Pandey, 2002:1100).
3. Diversification of Risk: According to AJayi (2005) evidence has shown that geographic expansion would provide diversification benefits to a banking organization not only by reducing the portfolio risk or assets side, but also by lowering its funding risk on the liability Side, as it spreads funding activities over a larger geographic area.
4. Managements' personal incentives:- Consolidation may portend higher welfare packages and compensation to the management, therefore, the fourth reason for consolidation could be that management might want to savour their own ambition. These may include according to Kwam and Eisenbeis (1999.28), the desire to run a large firm and the desire to maximize their personal welfare.

   According to Ajayi (2005:6) management compensation and perquisite consumption lend to rise with firm size.

IV. Methodology

Research Design

Research design serves as a blueprint or scheme for data collection before the actual study (Asika, 2009:27). The research work is aimed at evaluating and identifying the impact of capitalization on the banking industry as regards nations economy between 2001 an 2008.

It therefore follows that the study requires data from events that has already taken place in the past, that is, it an expo factor research design. The study is more of gathering data about the economy in general and tanking sector market capitalization.

Variables that are used, bank sector capitalization, lending ability of banks to the manufacturing sectors, Gross Domestic product of the economy and industrial sector Gross domestic product GDP etc. these are gotting from publication of institutions like the central bank of Nigeria (CBN) Nigeria, Deposit Insurance Corporation (NDIC) and National Bureau,

Nature And Sources Of Data

The data that will be used for this research work are secondary data. They are got from secondary sources which have been published by other agencies. The data are purely quantitative in nature. They include: Economic, union Digest vol. 9, Dec, 2005 and capital market Development indicators.

- The banking industry capitalization on the economy
- GDP of the economy Development sector development
- Average manufacturing utilization rates
- Percentage of banks lending
- Industrial sector GDP of the economy
- Aggregate lending to the economy

Sources: These data are gotten from secondary sources include; Journals, official publication and website of the following organizations.

- Central bank of Nigeria (CBN)
- Nigeria Deposit insurance corporation (NDIC)
- National Bureau of statistics

V. Method Of Data Analysis

The research work will use the simple linear regression analysis (the lest square method) and correlation analysis in analyzing the data. The general regression equation Y = a + bx

Where,

Y = the dependent variable given a specific value of the independent variable (X)

a = the points of interception of the linear regression line with the y axis

$$a = \frac{\Sigma y - b\Sigma x}{n}$$

b = the slope of the regression (which is the regression coefficient

and;

$$b = \frac{n\Sigma xy - \Sigma x\Sigma y}{n\Sigma x^2 - (\Sigma x)^2}$$

To measure the degree of the relationship that exist among the variables the research study will use the product moment coefficient of correlation formular (r)

$$r = \frac{n\Sigma xy - \Sigma x\Sigma y}{\left(\sqrt{n\Sigma x^2} - \Sigma x\right)^2 \left(\sqrt{n\Sigma y^2} - (\Sigma y)\right)^2}$$

Where n - sample size

And r - Coefficient which ranges between - 1 and + 1

r = Shows the directions and strength of the relationship between x and y.

The coefficient of determination (r^2) will also be used to measure dependent variable(s) that may be predicted by change in the independent variable(s).

Table 1 PRESENTATION OF DATA FOR ANALYSIS

Year	Bank sapilali29tion	GDP (m)	Credit to private sector	Bank lending rate	Currency in circulation (N)	Total deposit (m)
2001	22,247,030.90	431.783.10	817,689.80	19.82	403,506.00	40352582
2002	2,766,88.30	451,785.60	931137.50	27.05	463,153.50	1157,111.60
2003	3.047,856.30	495007 10	1182964.10	21.475	502254.50	502,275.98
2004	3,753,277.30	527576.00	1494610.90	19.89	545203.00	545822.89
2005	4,515.117.90	561,931.40	1936619.80	18.66	642388.20	642406.86
2006	6,400,783.90	595,821.61	2462101.80	18	779255.20	779272.20
2007	8,342,132,30	6123,34.51	256,7905.90	19.20	857,340.10	857,359.40
2008	9,564, 754.90	704,340.30	3840,57	20.10	910,250.00	900,270.00

Sources: CBN Statistical Bulletin Vol 17, 2006

Within the period under review, 2001-2008, the banks capital base was raised by the CBN directives four (4) times which were in 2001, 2003, January 2004 and July 2004, these increase in bank capital base have affected banks activities and their profitability.

From table1 it can be slightly over N3247 billion and in 2003 it grew to about N3 billion. In 2005 it was approximately 4 trillion and by 2006, it was approximately 4 trillion and by 2006, it had increased further to 6 trillion approximately. This is inline with the various CBN capital legislations.

With these increase in bank capitalization, the bank lending rate experienced fluctuations. As at 2001 it was about 19.22% and rose to 21.475% in 2003 by 2005. The bank lending rate had fallen to 18.66% and kept subsequently stated declining to stand at 20% by 2008. These fluctuations in the bank lending rate could have been as a result of factors within the banking industry like undue pressure on the banks to make more

profit so as to increase share holders wealth or macroeconomic variable that affect the economy in general like inflation.
The Gross Domestic product (GDP) within the period under study continued to rise gradually as can be seen from above table.

The total deposit mobilized increase throughout the periods under review except in 2001 and 2003 where it declined to N403 billion and N503 billion respectively. It can be seen that these periods of decline were just before 2001 and 2004 recapitalization exercises. The decline within these periods could have been caused by the high level of distress in the banking industry within those periods which led to a decline in the deposit mobilization of banks. The increase in total deposit mobilized in the other periods show that with more capitalization the banks will mobilize more deposits with the liberalization of the banking industry in 1986 and the subsequent government privatization exercises, the economy is now private sector driven and so the banks are more willing to lend to the private sector so as to make profit. Therefore, with increase in deposit mobilization, credit to the private sector has also been on the rise as can be seen from the above table.

Data Analysis

This section has to do with carrying out an in-depth study or the impact of capitalization of the various data on the independent and dependent variables that are entailed in the hypotheses stated in the previous chapter. This is done so as to determine the impact of bank capitalization on Banks lending rate and industrial sector Gross domestic product (GDP) and the excess liquidity out side the banking systems.

Table2 Determination Of Bank Capitalization

Year	Total Asset	GDP(m)	Bank Capitalization	Growth
2001	2247039.90	431783.10	5204094199	36.77725725
2002	2766880.30	451785.6	612,4321581	17.62275933
2003	3047856.30	495007.10	615.7197139	0.536203267
2004	3753277.80	527577.00	711.4193595	15.54277224
2005	4515117.60	561931.40	203.4997866	12.94319952
2006	6400.783.00	595,821.61	1074.278575	33.69992035
2007	8,342,13230	612334.51	1585.43845	39.54047250
2008	8,564754.90	704,4030	1754.54121	42.3472230

Sources: CBN Statistical Bulletin Vol 17, 2006

In determine the bank total assets and GDP were employed. This was done in order to measures the banks capitalization in relation to the economy,

From table 4.1.3 it can be seen that the bank capital base increase through out the period under study. However, the rate of increase which was measured by the growth rate kept fluctuating within the period.

In 2001, the bank recapitalization was at 36.7% with that of 2002 however, from 2003 the recapitalisation was in declining rate such that even in the 2004 when the capitalisation rose to 15.5% as against 0.54%. In 2003, there was a further decline in growth to 12.9% in 2005. This decline in growth rate could be as a result of various macro-economic factors like inflation political and economic in stabilities, etc. However, in 2004 the bank capital base was 711.42% with a growth rate of 15.54% as against the 0.054% growth rate in 2003, with the conclusion of the 2004 recapitalization in 2005, the bank capitalization was 803.5% with a fall in growth rate to 12.94%. In 2008 the capitalisation stood at 1,754.54% and the growth rate increased marginally to 42.3% from this analysis it can be deduced that even though the bank capitalisation has been increasing, the level of this increase has been fluctuating. This could be as a result of inflation and other macroeconomic variables that affect the banking industry.

Table 3 Indicator of Banks lending to the manufacturing sector development from 2001-2008

Year	Bank Lending to manufacturing sector (N'M)	Industrial sector GUI' of the Economy (N'M)
2001	43.5	128740
2002	19.7	123 905.9
2003	26.8	150 250.7
2004	26.8	156486.8
2005	30.8	159 161.4
2006	32.1	155 165.5
2007	90.8	151 563.2
2008	59.4	147428.5

Source: CBN Statistical Bulletin 2009: 105, and annual report and financial statement, 2008.

Table 4.1.3 shows the rate of growth of aggregate Bank lending to the manufacturing ranged from 43.5b, in 2001 to 90.8b in 2007. This indicated a significant improvement when compared with 19.7 in 2002, banking industry showed a greater capacity to provide liquidity for exchange of goods and services during the year. Bank financing of the economy, measured by GDP stood at 159161.4 in 2005.

Table4 Indicator of banking industry capitalization on the economy in Nb from 2001 -2008

Year	Banking industry capitalization in Nb	GDP of the Economy (N'b)
2001	323.4	431 783
2002	246.5	451 786
2003	354.1	495 007
2004	662.7	527 576
2005	1212.1	561 931
2006	2.142.7	565 822
2007	6432.2	808538
2008	3715.5	971 951

Sources: CBN statistical Bulleting 2006, and Annual report and statement of Account.

Table 4.1.2: shows that banking industry has witnessed a remarkable growth especially since capitalization in 2004 and 2007. The GDP of the economy rose marginally from 527,576 to 971951 in 2008. It therefore shows that banking industry has made a significant contribution and has improved Nigerian economy.

Table5 Nigerian average manufacturing capacity utilization rates and bank industry capitalization from the period of 2001 - 2005

Year	Average manufacturing utilization rate %	Banking industry capitalization Nb
2001	42.7%	323.4
2002	54.9%	246.5
2003	56.5%	354.1
2004	55.7%	662.7
2005	54.6%	1212.1
2006	53.3%	2,1427
2007	53.5%	6,432.2
2008	54.7%	3,715.5

Sources: CBN 2007 statistical Bulletin, 166 and Annual report and statement of Account 2008:64.

Table 6a Ratio of annual bank's lending to the industry GDP of the economy development 2001 -2008

Year	Percentage Banks lending
2001	43.5
2002	19.5
2003	26.8
2004	26.8
2005	30.8
2006	32.1
2007	32.1
2008	90.8
2009	59.4

Sources: Computed from table 1

The proportion of bank's lending does not always in a stable rates, therefore it increases from 90.8% in 2007 then in 2008 it declined to 59.4% due to the economic instability in the Nigerian economy.

Table 6b Industrial sector GDP of the economy and banks lending from 2001 - 2008

Year	Industrial sector GDP of the Economy N b)	Banks lending to manufacturing (N'M)
2001	1.287.4	43.5
2002	1239.06	19.7
2003	1502.51	26.8
2004	1564.87	26.8
2005	1591.61	30.8
2006	1551.61	32.1
2007	1516.99	90.8
2008	1474.29	59.4

Sources' Computed from 4.1.1b

Table 7 Gross Domestic Product (GDP') at current basic price in N'rn

Year	Total GDP N'm	GDP of the Economy Development	Banking industry capitalization in Nb
2001	4/40120.0	4317830.2	323.4
2002	5,403,006.8	4517860.4	246.5
2003	6947819.9	4,950070.3	354.1
2004	1 1,411066.9	5275761.2	GG27
2005	14,610,801.5	5619310.3	1212.1
2006	18,564,594.7	5958226.4	1,142.7
2007	20,659,317.7	80853805	6.43.2
2008	23,842,170.7	9719512.3	3,715.5

Sources CBN statistical Bulletin 2007 and 2009 issues, and CBN Annual Report and Financial statement 2008. The calculated percentage of GDP of the economy is generally on increase. The banking industry capitalization contribution to the growth of the economy with highest percentage contribution of 3,715.5b in 2008.

Table8 The industrial sector GDP and its components

Year	Industrial Sectors GDP	Manufacturing Sector GDP	Crude Petroleum and National Gas GDP
2001	1287.4	236.86	1669.00
2002	1239.06	287.7	1798.82
2003	1502,51	349.32	2741.55
2004	1564.87	412.71	4247.72
2005	1591.61	478.52	5664.88
2006	1551.66	520.88	6982.94
2007	1516.99	605.59	7533.04
2008	1474.29	701.60	_

Huurces: CBN, statistical Bulletin, 2008: 140

Table 4.1.4 Shows that the industrial sector contribute to the economic development depends on the banking industry. It therefore ascertained that the oil component of the industry sector also depends on banking industry.

Year	aggregate lending to the economy (N'M)	Growth Rate %
2001	1033640	28.1
2002	1302200	26.0
2003	1753413	22.2
2004	1870200	30.6
2005	2338835	35.5
2006	2046208	37.2
2007	1145765	42.1
2008	4010723	45.2

Sources: CBN Annual report and Financial statement 2008:18

Table10 Determination of Maximization rates percentage and prime rates percentage from period of 201-2008

Years	Prime rate %	Maximum	Average Bank
2001	18.29	21.34	19.813
2002	24.4	29.7	27.05
12003	20.48	22.47	21.475
2004	19.15	20.62	19.885
2005	17.85	19,47	18.66
2006	17.85	18.7	18.
2007	17.3	18.6	19.2
2008	184	19.2	19.3

Source: CBN Statistical Bulletin Vol. 17, 2006.

Banking lending rate is the rate at which commercial Banks grant credit to their customers. For the periods under study the prime and maximum rates were used to compute the average bank lending rate to be analyzed in this section. During the periods under review, the bank lending rate fluctuated from 2001 until 2003 from when it started to decline. These fluctuations occurred as a result of certain factors like savings, investment, inflations, etc Even with the increase in bank capitalization, the banks are not lending at low interest rates as expected but rather are using their free funds to engage in other activities outside the normal banking activities. Moreso, the high cost of operations such as heavy fixed costs and operating expenses have given rise to very high average cost for the industry, which translates into high cost of intermediation epitomized by the wide spread between deposit and lending rates the resultant is to persistent high lending rates.

Test of Hypotheses

The relevant data for testing the hypotheses of the study were analyzed using the regress in and correlating formula. The test on the various hypotheses and their results are stated and interpreted as follows.
The general regression equation is Y = a x bx
Where Y = the dependent variable
X = the independent variable
a = point of intersection of the linear regression line with Y axis
b = slop of the regression line showing the degree of changers in X

Hypothesis One

to test this hypothesis, we restate it in null and alternative forms as follows;
H_0: The banking industry capitalization has no positive and significant impact in the Nigeria economy.
H1: The banking industry capitalization has positive and significant impact in the Nigeria economy.
The variables for testing this hypothesis are

- Industrial sector GDP of the economy
- Banks lending to the manufacturing sector

To show the relationship that exists between the variables, the mode I;
Q = BL will be used for the analysis
Where
Q = industrial sector GDP of the economy
BL = Banks lending to the manufacturing sector
Q = F (BL) = X_0 + X_1 BL + e
Where
O is a constant,
X_1 BL - coefficient of banks lending
the hypothesis will be tested using 4:1;1

Banks lending to the manufacturing sector and industrial sector GDP of the economy for the period 2001-2008.

Year	Banks lending to manufacturing sector (NM)	Industrial sector GDP of the economy (NM)
2001	43.5	128740
2002	19.7	123905.9
2003	26.8	150230.7
2004	28.8	156486.8
2005	30.8	159161.4
2006	32.1	155165.5
2007 i	90.8	151563.2
2008	59.4	147,428.5

Sources: CBN statically Bulletin for the year 2009 and annual report and financial statement, 2008.
The banks lending is the independent variable denoted with the letter "X" while industrial sector GDP is the dependent variable denoted with the totter "Y". Y - a + bx.

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
Industrial sector GDP of the Economy Bank's Lending	1466.0487 41.2375	131.09003 23.49656	8 8

Correlations

		Industrial Sector GDP of the Economy	Bank's Lending
Pearson Correlation	Industrial Sector GDP of the Economy Bank's Lending	1.000 .144	.144 1.000
5ig. (1 -tailed)	Industrial Sector GDP of the Economy Bank's Lending	.367	.367
IM	Industrial Sector GDP of the Economy Bank's Landing	8 8	8 8

Model Summary

Model	R	P Square	Adjusted R Square	Std. Error of the Estimate	Dutbin-Watson
1	,14-f	.021	-.142	140.10977	,683

a. predictors: (Constant), Bank's Lending
b. Dependent Variable; Industrial Sector GDP of the Economy

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2507.683	1	2507.683	.128	.733"
Residual	117784,491	6	19630.748		
Total	120292.173	7			

a. Predictors: (Constant), Bank's Lending
b. Dependent variable: Industrial Sector GDP of the Economy

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1432.831	105.318		15.605	.000
Bank's Lending	.006	2.254	,144	.357	.733

a. Dependent Variable; Industrial Sector GOP of the Economy

Q- I432.831+0.806BL
(t-0.3 57)

Where Q - Industrial. Sector GDP of the Economy
HL = Banks' Lending

R = 0.144

R^2 = 0.021

F = 0.128

DW = 0.683

The regression sum of squares (2507.683) is less than the residual sum of squares (117784.491) which indicates that fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0,128) is greater than 0.05, which means that the variation explained by the model is due to chance.

R, the correlation coefficient, which has a value of 0.144 indicates that there is an extremely weak relationship between Banks' Lending and Industrial Sector GDP of the economy. R square, the coefficient of determination, shows that 2.1% of the variation in the dependent variable is explained by the model.

With the linear regression model, the error of estimate is low, with a value of about 140.10977. The Durbin Watson statistics of 0.683, which does not tend to 2 indicates there is no autocorrelation.

The BL coefficient of 0.806 indicates that there is a positive relationship between Banks' Lending and Industrial Sector GDP of the Economy, which is not statistically significant as t = 0 357 Hence, the null hypothesis should be accepted and the alternative hypothesis accordingly rejected. Therefore, the banking industry capitalisation does not have a significant impact on the Nigerian Economy.

From the above model, Banks lending is -806 times the value of industrial sector GDP of the economy.

The ANOVA table tests the acceptability of the model from a statistical perspective. The Regression row displays information about the variation accounted for by the model, while the Residual row displays information about the variation that is not accounted for by your model.

HYPOTHESIS TWO

To test this hypothesis, we also restate it in null and alternative forms as follows;

H_0: The banking industry capitalization has not contributed to the growth rate in Nigerian economy.

H_1. The banking industry capitalization has contributed to the growth rate in Nigerian economy.

Variable for testing this hypothesis are

- Manufacturing sector capacity utilization rates

- Industrial sector GDP of the economy

To show the relationship that exist between the variables the model,
Q = F (BL) will be employed where in this case
Q = Manufacturing sector capacity utilization rates BC = The Banks industry rates capitalization
Q = F (BC) IS equivalent to

Table3 was used for testing this hypothesis manufacturing sector utilization rates and banking industry capitalization

Year	Capacity utilization rate %	Banks industry capitalization
2001	4.27	324.4
2002	54.9	2626.5
2003	56.5	353.1
2004	55.7548	662.7
2005	53.3	1212.1
2006	53.3	2142.7
2007	53.354.7	6432.2
2008	53.3	3715.1

Sources: CBN Statistical bulletin 2008

Banks industry capitalization is the independent variable denoted with letter while capacity utilization of the manufacturing sector is the dependent being denoted with the letter "Y" and Y- a+bx.

Regression

Descriptive Statistics

	Mean	Sid. Deviation	N
Manufacturing Sector Utilization Rate Banking industry Capitalisation	53.2625 1886.1500	4.39413 21 87.83548	8 8

Correlations			
		Manufacturing Sector Utilization Rate	Banking Industry Capitalisation
Pearson Correlation	Manufacturing Sector utilization Rate Banking Industry Capitalisation	1.000 .127	.127 1.000
Sig (,1 tailed)	Manufacturing sector Utilization Rate Banking industry Capitalization	. 382	.382 .
N	Manufacturing Sector Utilization Rate Banking Industry Capitalization	8 8	8 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.127"	.016	-.148	4.70763	1.211

a. Predictors (Constant), Banking Industry Capitalization
b. Dependent Variable: Manufacturing Sector Utilization Rate

ANOVA

Medal	Sum of Squsfts	df	Mean Square	F	Sig.
1 Regiession	2.188	1	2.188	.099	.764[a]
Residual	132.971	6	22.162		
Total	135.159	7			

a. Predictor: (Constant), Banking Industry Capitalization
b. Dependent variable - Manufacturing Sector Utilization Rate

Model	Unstandardized Coefficients		Standardized Coefficients	I	Sig.
	B	Std. Error	Beta		
1 (Constant) Bauhing Industry	52.701 .000	2.263 .001	.127	23.319 .314	.000 .764

a. Dependent Vatiable: Manufacturing Sector Utilization Rate

Q -51.781 + 0.000BC
(t = 0.314)

Where

Q = Manufacturing Sector Utilization Rate
BC = Banking Industry Capitalization

R = 0.127
R^2 = 0.016

F =0.099 DW= 1.211

From the above model, capacity utilization rates is 0.000 times the Baking industry capitalization. The ANQVA TABLE tests the capability of the model from a statistical perspective. The regression vow displays information about the variation at is not accounted for by the model.

The regression sum of squares (2.188) is less than the residual sum squares (132.97 1) which indicates that fewer of the variation in the dependent variable is explained by the model. The significance value of the statistics (0.764) is greater than 0.05, which means that the variation explained by the model is due to chance.

R, the correlation coefficient, which has a value of 0.127 indicates that there is an extremely weak relationship between Banking Industry capitalisation and Manufacturing Sector Utilizations Rates. R square, the coefficient of determination, shows that 1.6% of the variation in the dependent variable is explained by the model.

With the linear regression model, the error of estimate is low, with a value if about 4.70763. The Durbin Watson statistics of 1.211, which does not end to 2 indicates there is no autocorrelation.

The BC coefficient of 0.000 indicates that there is no relationship between Banking Industry Capitalization and Manufacturing Sector Utilizations Rates, which is not statistically significant as t 0.3 14. Hence, the hull hypothesis should be accepted arid the alternative hypothesis accordingly rejected, Therefore, banking industry capitalization have not speedy development in Nigerian economy.

VI. Implication Of The Results

Implication Of The Result Of Hypothesis One

The coefficient of banking industry, capitalization is negatively and statically insignificant. We conclude that within the period studied, banking industry capitalization did not have a significant and positive inpact on the Nigerian economy out put, we accept the null hypothesis and accordingly reject the alternate hypothesis.

Implication Of The Result Of Hypothesis Two

The coefficient of the Band industry capitalization not is positively but .biblically insignificant. We therefore accept the null hypothesis accordingly reject the alternate hypothesis. We conclude that within the studied, Banking industry capitalization did not enhanced manufacturing capacity utilization rates. Thus, the Banking industry has not contributed to the growth rate in Nigerian economy.

VII. Summary Of Findings

Bank capitalization refers to the capital structure of the banks. It is very important because it serves as a means of absorbing losses in operation thereby enhancing confidence in the bank and permit the bank to engage in banking. The major aim of this research work was to evaluate the impact of capitalization of the banking industry and the economy. This evaluation was carried out in terms of; whether the capitalization of the banking sector has made a significant contribution towards improvement of the Nigerian economy or not, to ascertain this, banking industry capitalization was used to correlate with the industrial sector Gross Domestic Product (GDP).This was in a bid to know, if the industrial sector GDP was being driven by the bank capitalization.

i. The capitalization of banking sector have made a significant contribution and improvement on the manufacturing sector of the economy within the period studied.

ii. The researcher also find out that, the level of speedy development in the Nigeria banking industry and capacity utilization rates of the manufacturing sector were used for the analysis, was alto discovered that, there was;

1. Positive impact in the banking industry enhance speedy development
2. The banking industry enhanced lending ability in various ways: The highest percentage lending to the industrial sector within the period was 26.8% in 2004
3. Gross Domestic product of the economy, this indicated an improvement in the banking system, showed a greater capacity financing of the economy within the period studied.

4. Banking industry capitalization; this shows that the performance of the banks reduce Tear of financial distress and promoting depositors and investors confidence.
5. The capitalization of banking industry provides an incentive for diversifying the economy. This is as a result of the emergence of financing the exchange of goods and services towards' Crude petroleum and Natural gas which improves the Nigeria economy.

VIII. Recommendations

Based on the findings of the study, the researcher has made the following recommendations.

Reactivating the banking industry: Effort should be made to reactivate the banking industry in order to again back investor's confidence by eliminating the sharp practices that took place in the banking industry within the period under study. This internal problem contributed more to bank failure which resulted to recapitalization of the industry since 2004.

Consistency In policy making: There should be consistency in policy making so as to offer the banking industry a better business environment to operate in.

A better regulated banking industry: Each of the financial institutions should be well regulated so that the banking industry will no longer take undue advantage of regulatory loopholes.

Elimination/Reduction of operational challenges. The operational challenges of the manufacturing sector have to be eliminated in order to lessen the risk involved in lending to the sector, for instance manufacturing firms will save costs if they are provided with the necessary infrastructure because, this will increase, their efficiency and profitability. In the long run, it will help the sector to enjoy the financing benefits derived from the banking industry.

Discouragement of poor corporate governance practices: There were several instances where board members and management staff failed to uphold and promote the basic pillar of sound corporate governance because they were pre-occupied with the attainment of narrowly defined interest.

IX. Conclusion

The Banking industry is generally regarded as the engine of growth and development of any economy. However, the banking industry have experienced a huge turned around through recapitalization since 2004. The Capitalization of banking industry therefore have provided an incentives ' diversifying the economy which resulted to the emergence of financing economic development and promoting investors confidence.

In Nigeria, however, the capitalization was to strengthen the balance sheet of the banks in the banking industry and the rest of the economy for capacity building in the real economy.

Despite the speedy development of the economy through the capitalization process, there are some problems with the industrial sector manufacturing) also the economy. The Nigeria need changes that will help he industrial sector to meet up with investment requirement of investors so hat funds will be channeled to the right sector that will be more benefit to he Nigerian economy.

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