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# Revisiting The Contribution Of Financial Reforms To The Growth Of Nigerian Economy.

Adejayan, Adeola Oluwakemi[1] , Mokuolu, Joseph Oluseye[2]
Ariyo Clement Olugbenga[3]
[1, 2&3] *: Department Of Finance, Faculty Of Management Sciences,*
*Ekiti State University, Ado Ekiti, Nigeria.*

***Abstract***
*The nexus between financial reforms and economic growth as received attentions of many policy makers in a bid to ensure economic development. Hence, this study revisited the issue by comparing how bank recapitalization and interest rate deregulation affect Nigerian economic growth by employing multiple regression analysis on data spanning from 1986 to 2021. The explained variable is GDP while the explanatory variables are proxies of bank recapitalization (Banks capital base, Market capitalization and banks total asset) and Interest rate deregulation (Lending rate, deposit rate and Credit to private sectors). It was discovered that, all the variables of bank recapitalization had significant effect on GDP while as a proxy of interest rate deregulation, only deposit rate and Credit to private sectors exert significant impact on GDP. More so, all the variables exert positive influence on GDP except Bank capital base and deposit rate. The study concludes that though both reforms are significant, the impact of bank recapitalization on Nigerian economic growth is more significant. Thus, the study recommends that banks regulatory bodies should review the capital base of the financial institutions from time to time. Also, credit facilities should be made available to private sectors at minimal lending rate so as to improve the productivity of the Nigerian economy.*

***Keywords:*** *Financial reform, Interest rate deregulation, Nigerian economy, Bank recapitalization.*

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## I. Introduction

Financial reform refers to a set of changes and adjustments made to a country's financial system, regulations, and institutions to improve its functioning, stability, and effectiveness. It can encompass a wide range of measures, including changes to banking regulations, monetary policy, capital markets, insurance systems, payment systems, and more. These reforms are typically undertaken by governments, central banks, or regulatory bodies in response to financial crises, economic downturns, or identified deficiencies in the financial sector (Mbaeri, Adioha & Uzokwe, 2015). The goals of financial reform vary depending on the specific circumstances and objectives, but they often include; regulation and oversight, strengthening regulatory frameworks and oversight mechanisms to ensure compliance with laws and regulations, and to prevent fraudulent activities, market manipulation, and excessive risk-taking (Okoli, 2012).

The Structural Adjustment Programme (SAP), which began in 1986 with the liberalization of entry/exit into the banking industry and the deregulation of interest rates and currency rates, is one of Nigeria's financial reforms (Iganiga 2013). Nigeria was among the nations that embraced this initiative, which sought to promote financial depth and efficiency across the board. Nonetheless, the changes had little to no beneficial effect on Nigeria's economy. While some aspects of the reforms have contributed to growth, various challenges have also emerged that have impacted the overall effectiveness of the reforms. For instance, despite the introduction of financial reforms, the implementation process has been uneven and faced delays (Okerere, 2012). This has limited the potential positive impact of the reforms on economic growth, as many intended changes were not fully realized (Igariga, 2013). Also, Financial reforms introduced during this period were often fragmented and lacked a holistic approach. This led to inefficiencies and inconsistencies in policy implementation, hindering the overall effectiveness of the reforms.

In addition, reforms aimed at strengthening regulatory frameworks were introduced but regulatory enforcement remained inadequate in some areas. This led to gaps in oversight and contributed to issues like non-performing loans and risk accumulation. This study therefore seeks to revisit the relationship between these reforms from 1986 to 2021 and the growth of the Nigerian Economy. Also, we contribute to existing knowledge

by determining the most significant reform between Interest rate deregulation of 1986 and bank capitalisation reform of 2005.

## II. Literature Review

**Financial Reform**

According to Akinwale (2018), from a conceptual standpoint, financial reforms involve the reorganization, restructuring, reshaping, and revamping of the financial system in order to eliminate any faults or potential distortions that may be hurting the system's smooth operation and performance. Reforms are often included into the system, according to Ubom (2008), when a sector of the economy is recognized to be diverging from its initial or desired emphasis or aims. According to technical financial terminology, financial sector reforms consist only of modifications, evaluations, and reorganizations to the ownership, management, operations, supervision, and regulation of financial institutions individually and/or the industry at large.

A nation's introduction of general economic and social changes may give rise to financial reforms. When the Structural Adjustment Program was implemented in 1986, this was the situation (Ademola, 2011). Liberalization of the industry, institutional privatization, recapitalization, merger and acquisition (as strategies), consolidation agenda, etc. were some of the accompanying policies.

**Bank Capitalization**

The significance of bank capital has been a subject of discourse for decades due to its critical role within the banking sector. Indeed, many banks proactively enhance their capital levels, even in the absence of directives from the Central Bank, the apex financial institution in Nigeria. The desire to bolster the banking industry and make it more relevant and effective and consequently, contribute to economic development led to the financial sector reform of 2005. From the beginning, the main goal of the program was to expand the banks and put them in a position where they could be essential in promoting economic development across the board. In order to consolidate, banks have to increase their capital base from N2 billion to a minimum of N25 billion in shareholder funds free from losses. The goal of financial reforms, according to Lemo (2015), was to ensure an effective and sound financial sector and help the banking sector build the resilience needed to support the country's economic development by effectively carrying out its role as financial intermediator.

**Interest rate Deregulation**

Interest rate deregulation entails a policy that allows the cost of borrowing fund to be controlled or determined by the forces of demand and supply (Otiwu, 2022). This became a practice in Nigeria after the introduction of SAP in 1986 when the reduction of government involvement in economic activities was the target. Interest rate regulation was deregulated in Nigeria in order to decentralize the determination of lending and deposit rate and in turn ensure growth in the economy. The implication is that, different banks can charge different rate based on the credit worthiness of their customers. This will in turn make funds available for productive purposes, hence, economic growth and development.

**Review of related Studies**

The relationship between financial reform and Nigerian economic growth has been flooded with various empirical studies and inconclusive results.

Koivu (2018), for example, uses the Fixed effects estimating approach to look into the link between the banking sector and economic growth. The findings indicate that while lending (interest) rates impede economic growth, private sector credit has a beneficial effect on it. Din and Khawaja (2019) looked at what influences the interest spread in Pakistan's banking sector with the application of Generalized Least Square (GLS) approach. The findings indicate that there is no proof of interest spread influencing the banking industry's and other financial sectors' performance. Through the use of survey data, Bitzenis (2019) examines Serbia's banking reforms. Reliability and responsiveness of management in Serbian banking systems are two of the numerous elements that are significant to banking system reformation and are used in the study's pre- and post-performance methodology.

Azeez and Oke (2012) looked at how Nigeria's economic growth was impacted by banking changes between 1986 and 2010. The result of Error Correction Mechanism indicates that the economy has not been sufficiently and favorably influenced by banking reforms.

Additionally, Abdulsalam and Ibrahim (2013) used the Johansen and Juselius (1990) technique to co-integration and Vector Error Correction Modelling (VECM) to examine the effects of the banking sector's development on economic growth in Nigeria from 1970 to 2010. The findings show that government spending, interest rate spreads, and private sector loans all have a major detrimental impact. Akinwale (2018) conducted a research analyzing the impact of reforms in financial sector on Nigerian economic growth. The findings indicated a negative correlation between economic growth and financial sector reforms, as measured by the market capitalization-to-GDP ratio. Therefore, it follows that during the research period, the factors greatly increased

industrial production. Nonetheless, a favorable correlation was shown between private sector credit, economic growth, and commercial bank advances and loans. The study concludes that changes in Nigerian banking sector had an impact on real economic growth.

Financial sector changes have a favorable influence on economic growth, according to research by Olowofela, Adebowale, and Adejonwo (2018) on the subject. The effect of banking sector reform on the Human Development Index (HDI) is also examined by Isola et al. (2021). The Granger causality test and vector error correction model were utilized by the study to analyze the relationship's influence over the years 1980–2017. The findings revealed a negative long-run relationship between financial sector reform variables and HDI,

The performance of 44 listed manufacturing enterprises in Nigeria was studied by Zwalbong, Abubakar, and Ibrahim (2022) in relation to financial reforms. Apart from interest rates, the authors found that every indication of the financial changes had a substantial impact on performance as measured by the capacity utilization of Nigerian manufacturing enterprises. As a result of improved productivity, profitability, and financial stability, the research recommended that manufacturing companies take steps to maximize the use of available money to ensure optimal capacity utilization. Using yearly time series data from 1986 to 2013, Nkemakolam (2017) examined the impact of bank capital changes on Nigeria's economic development. Results using Ordinary Least Squares show that Nigeria's economic development has long been significantly benefited by bank capital improvements. Additionally, from 2004 to 2020, Okoye and Eneh (2022) looked at how bank capitalization reforms affected the deposit money banks in Nigeria in terms of their financial performance. The data was analyzed using regression analysis. The results showed that the financial performance of deposit money banks in Nigeria is significantly impacted by minimum capital requirements.

On the impact of interest rate deregulation, Interest rate liberalization has no significant effect on investment in Nigeria, according to Osuji (2020), who used the error correction model and variance decomposition of vector autoregressive model to examine the impact of interest rate deregulation on investment in Nigeria from 1961 to 2017. The empirical findings from this study also revealed that the prime lending rate had a negative and insignificant impact on investment in Nigeria during both the pre- and post-log liberalization periods. The influence of deregulation on the growth of Nigeria's financial industry was studied by Yaqub and Omobitan (2018). The outcome indicated that the financial sector's development has not been aided by deregulation. Using an ARDL-bounds testing technique and unconstrained ECM to co integration analysis, Akpansung and Waziri (2018) sought to determine whether or not financial liberalization measures boosted economic development in Nigeria for the years 1986–2014. The empirical results demonstrated that financial liberalization has a substantial long- and short-term influence on economic development using three different metrics of financial liberalization.

In contrast to the overly regulations that typified the sector before 1986, Enyoghasim, Anochiwa, and Obasi (2017) evaluated the impacts of economic deregulation on the growth of the banking business in Nigeria. The result indicates that there was a greater bank growth rate during the regulatory period compared to the deregulated period. Additionally, compared to the deregulation era, interest rates were lower during the regulatory period. Okwuchukwu and Ariwa (2017) used time series data from 1970 to 2014 to investigate the effects of savings, investments, and financial system liberalization on the Nigerian economy. The analysis discovered that the Nigerian economy was significantly harmed by financial deregulation as measured by real interest rates. The outcome also demonstrated that there was no statistical significance for the dummy variable that represented the liberalization policy. The structural relationship between the liberalization of interest rates and the economic performance of the economies in Sub-Saharan Africa (SSA) from 1980 to 2013 was examined by Egbetunde et al. (2019). The study's empirical findings validate McKinnon and Shaw's (1973) premise. The results also showed that interest rate liberalization and economic growth in SSA nations are significantly influenced by trade openness and price stability.

## III. Model Specification, Method Of Data Analysis And Sources Of Data

The model is premised on the theoretical assumption that reforms lead to better performance and enhances economic growth as empirically investigated in the works of (Azeez and Oke, 2012).

Thus, to extend the frontier of knowledge this study compares the relationship between bank recapitalization and interest rate deregulation reforms with Nigerian economic growth and bank reforms can be represented as the following. The explanatory variables for the multiple regression analysis using the Ordinary Least Square (OLS) method were Interest rate deregulation (interest rate, credit allocation to the private sector, and investment rate) and Bank recapitalization (bank capitalization, market capitalization, and bank total asset). The dependent variable for the analysis was the gross domestic product. The study's data, which covered the period of thirty-six (36) years from 1986 to 2021, came from the World Bank Data Base, the Central Bank of Nigeria statistics bulletin, and the National Bureau of Statistics for each of Nigeria's 25 banks.

The models are specified thus;

**Model One: Bank recapitalization reform**

GDP = *f* (BCAP, MCAP, BTA) ……. (1)

Where: GDP = Gross Domestic Product growth rate
BCAP = Bank capitalization reform represented with bank capitalization over the years.
MCAP = Market Bank capitalization
BTA = Bank total asset
The model equation is thus:
$GDP_{gr} = \alpha_o + \alpha_1 BCAP + \alpha_2 MCAP + \alpha_3 BTA + \mu$ ……. (2)
$\alpha 0$ is the intercepts of the model while $\alpha_1$ and $\alpha_2$ are the coefficients of the explanatory variables such that $\alpha_1 > 0$, $\alpha_2 > 0$, $\alpha_3 > 0$.

**Model Two: Interest rate deregulation reform**

GDP $= f$(LEND, DEPOSIT, CRD) …….. (3)
INTD = interest rate deregulation represented with Maximum lending rate of the banks
LEND= Lending rate
DEPOSIT = Deposit rate.
CRD= Credit allocation to private sector
The model equation is stated in the log form as;
$LGDP = \beta_0 + \beta_1 LEND + \beta_2 DEPOSIT + \beta_3 CRD + \mu t$ ……. 4
Where;
$\beta_0$ = Intercept
$\beta_1, \beta_2, \beta_3$ = slope coefficients; where $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$
and;
$\mu$ = stochastic disturbance factor

**Description of Variables and Measurement**

| S/N | Variables | Description | Measurement |
|---|---|---|---|
| 1 | GDP | GDP measures the economic output of a nation (Asamoah, 2018). | The GDP growth rate is used to measures how fast the economy is growing. quarter. |
| 2 | BCAP | Bank capitalization reform represented with bank capitalization over the years. | This is measure by creating a quantitative measurement using the bank capitalization ratio over a series of years. |
| 3 | MCAP | It is a financial metric utiised to measure the total value of a company. | It is computed by multiplying the market value of the company's shares by the total number of shares that are outstanding (Ekpo, 2016). |
| 4 | BTA | Banks Total asset can be described as the total items owned by a bank. It includes current asset, intangible assets, fixed assets and other forms of asset. | Its measured by summing the value of all categories of asset owned by a bank. |
| 5 | LEND | Lending rate often referred to as an interest rate or loan rate, is the percentage at which financial institutions, such as banks charge borrowers for borrowing money (Owusu &Odhiambo, 2014). | The banks' maximum lending rate is used. |
| 6 | DEPOSIT | A deposit rate, also known as an interest rate on deposits or savings rate, is the rate of return that a financial institution pays to individuals or entities for depositing funds. Olubanjo, 2015). | |
| 7 | CRD | Credit allocation to the private sector entails loans allocated by financial institutions, such as banks, privatised businesses and individuals within the economy (Olubanjo, 2015). | Credit allocation to the private sector can be measured as sated in the CBN statistical bulletin |

## IV. Results And Discussion Of Finding

**Table 4.1. Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| GDP in Billion | 36 | 198.1200000 | 176075.5000000 | 42744.068055556 | 51764.7971664388 |
| BCAP | 36 | 600000 | 25000000000 | 12106977777.78 | 12381928199.601 |
| MCAP | 36 | 6.8000000 | 42054.5000000 | 8289.006388889 | 11162.1903169531 |
| BTA | 36 | 39.6788000 | 39874.9879400 | 11957.101699778 | 14072.4830304727 |
| LEND RATE | 36 | 12.00 | 36.09 | 23.8217 | 4.83438 |

| | | | | | |
|---|---|---|---|---|---|
| DEPOSIT RATE | 36 | 1.41 | 18.80 | 6.8906 | 5.31050 |
| CRD in Billion | 36 | 15.2500000 | 32868.4900000 | 7482.409722222 | 9903.1766485197 |
| | | | | | |

**Source:** *Author's computation (2023)*

The descriptive result of the variables show that GDP has a minimum value of 198.12 (billion Naira) and maximum value of 176075.50 (billion Naira) with mean value of 42744.068 and Std. deviation of 51764.797 for the period 1986-2021. The market capitalization (MCAP) has a minimum value of 6.8 (billion Naira) and maximum value of 42054.5 (billion Naira) with mean value of 8289.006 and Std. deviation 11162.190 for the period 1986-2021. The bank capitalization (BCAP) has a minimum value of N600,000 and maximum value of N25,000,000,000 with mean value of 12106977777.78 and Std. deviation of 12381928199.601 for the period 1986-2021. The bank total asset (BTA) has a minimum value of 39.678 (billion Naira) and maximum value of 39874.987 (billion Naira) with mean value of 11957.101 and Std. deviation of 14072.483 (billion Naira) for the period 1986-2021. The lending rate (LEND) has minimum value of 12.00% and maximum of 36.09% with mean Lending Rate of 23.82% and Std. deviation of 4.83% for the period 1986-2021. Deposit rate show minimum value of 1.41% and maximum value of 18.80% with mean of 6.89% and std. deviation of 5.31% for the period under review.

**Hypothesis One**

Bank capitalization reform has no significant positive effect on growth of Nigerian economy.

**Table 4.1a Anova[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 92873235343.689 | 3 | 30957745114.563 | 1085.567 | .000[b] |
| | Residual | 912562555.200 | 32 | 28517579.850 | | |
| | Total | 93785797898.889 | 35 | | | |

a. Dependent Variable: GDP in Billion

b. Predictors: (Constant), BTA, BCAP, MCAP

**Table 4.1b Coefficient**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1687.686 | 1257.033 | | 1.343 | .189 |
| | BCAP | -3.423E-7 | .000 | -.082 | -2.488 | .018 |
| | MCAP | 1.748 | .251 | .377 | 6.963 | .000 |
| | BTA | 2.568 | .239 | .698 | 10.746 | .000 |

a. Dependent Variable: GDP in Billion

Table 4.1a presents that the regression model is statistically significant, as evidenced by a large F-statistic (1085.567) and a very low p-value (.000[b]). The highly significant F-test explains that the model is effective in explaining the variation in the dependent variable. The regression model, with predictors (Constant), Bank Total Asset (BTA), Bank Capitalization Reform (BCAP), and Market Bank Capitalization (MCAP), collectively contributes significantly to explaining the variability in Gross Domestic Product (GDP).

The coefficient result in table 4.1b, provides information about the individual predictor variables (BCAP, MCAP, BTA) and the intercept (Constant) in the regression model. The intercept is not statistically significant (t = 1.343, p = .189). This indicates that when all predictor variables are zero, the intercept is not significantly different from zero. However, the non-significance should be interpreted cautiously. The coefficient for Bank Capitalization Reform (BCAP) is statistically significant with a negative relationship with GDP (t = -2.488, p = .018). The coefficient for Market Bank Capitalization (MCAP) is statistically significant with positive effect on GDP. (t = 6.963, p = .000). The coefficient for Bank Total Asset (BTA) is shows a significant and a negative relationship with GDP (t = 10.746, p = .000). A positive coefficient indicates x.

BCAP implies that a rise in Bank Capitalization reform will cause a decrease in GDP. MCAP and BTA imply that an increase in Market Bank Capitalization and Bank Total Asset is associated with an increase in GDP.,

In summary, the ANOVA and coefficient tables jointly suggest that the overall model is substantial in revealing GDP variation. While the intercept is not significant, the predictor variables (BCAP, MCAP, BTA) individually contribute significantly to the model. Notably, Bank Capitalization Reform (BCAP) has a negative association with GDP, while Market Bank Capitalization (MCAP) and Bank Total Asset (BTA) have positive

associations. Therefore, the null hypothesis is rejected and conclude that financial reform has affected economic growth in Nigeria.

**Hypothesis Two**

Interest rate deregulation has no significant positive effect on economic growth.

**Table 4.2a Anova[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 92784596927.669 | 3 | 30928198975.890 | 988.515 | .000[b] |
| | Residual | 1001200971.220 | 32 | 31287530.351 | | |
| | Total | 93785797898.889 | 35 | | | |

a. Dependent Variable: GDP in Billion

b. Predictors: (Constant), CRD in Billion, LEND RATE, DEPOSIT RATE

**Table 4.2b Coefficient[b]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 8504.287 | 4999.864 | | 1.701 | .099 |
| | LEND RATE | 24.228 | 235.950 | .002 | .103 | .919 |
| | DEPOSIT RATE | -566.078 | 230.021 | -.058 | -2.461 | .019 |
| | CRD in Billion | 5.020 | .138 | .960 | 36.353 | .000 |

a. Dependent Variable: GDP in Billion

Table 4.2a shows the overall performance of the regression model in explaining the variation in Gross Domestic Product (GDP). Based on this report, it can be deduced that the regression model is highly statistically significant, as indicated by a large F-statistic (988.515) and a very low p-value (.000[b]). The highly significant F-statistic reveals that the model is effective in explaining the variation in the explained variable (GDP). The regression model, with predictors (Constant), Credit Allocation to Private Sector (CRD in Billion), Lending Rate (LEND RATE), and Deposit Rate (DEPOSIT RATE), collectively contributes significantly to explaining the variability in GDP.

Table 4.2b information about the individual predictor variables (LEND RATE, DEPOSIT RATE, CRD in Billion) and the intercept (Constant) in the regression model. The intercept is not statistically significant (t = 1.701, p = .099). This indicates that when all predictor variables are zero, the intercept is not significantly different from zero. However, the non-significance should be interpreted cautiously. The coefficient for Lending Rate (LEND RATE) is not statistically significant though positive (t = 0.103, p = .919). This suggests that changes Lending Rate does not significantly contribute to explaining the variation in GDP. The coefficient for Deposit Rate (DEPOSIT RATE) is negative and statistically significant (t = -2.461, p = .019). The coefficient for Credit Allocation to Private Sector (CRD in Billion) is highly statistically significant with a positive relationship with GDP (t = 36.353, p = .000).. Thus, the result of DEPOSIT RATE implies that a rise in Deposit Rate results to a fall in GDP. CRD in Billion implies that an increase in Credit Allocation to the Private Sector is strongly associated with an increase in GDP.

In summary, the ANOVA and coefficient tables together suggest that the overall model is highly adequate in describing GDP variation. While the intercept and LEND RATE are not significant, other predictor variables (DEPOSIT RATE and CRD in Billion) individually contribute significantly to the model. Notably, Deposit Rate has a negative association with GDP while lending rate and Credit Allocation to the Private Sector has a positive association. Lending Rate, however, does not significantly contribute to explaining GDP variation in this model.

**Discussions of Findings**

This segment discusses the outcome of this research with relevant and related research findings so as to confirm or refute the present findings in order to offer further suggestions on research studies. The first finding of this study revealed that the overall significance of the model, as indicated by the ANOVA results, underscores the relevance of the chosen predictor variables (BCAP, MCAP, BTA) in explaining GDP variation. This collective significance implies that these variables, when considered together, play a substantial role in influencing economic growth. The negative association between BCAP and GDP suggests that an increase in Bank Capitalization Reform is linked to a decrease in economic growth. This finding prompts a deeper investigation into the specific mechanisms through which capital reforms may be affecting the economy negatively. The positive associations of MCAP and BTA with GDP indicate that growth in market bank capitalization and total assets positively

influences economic growth. This aligns with the conventional wisdom that a robust and well-capitalized banking sector fosters economic development. The rejection of the null hypothesis, coupled with the significant associations of individual variables, supports the conclusion that capital reform has indeed affected economic growth in Nigeria. This rejection signifies that there is a discernible relationship between the studied bank-related variables and GDP, emphasizing the real-world implications of banking sector dynamics on the broader economy.

In addition, the link between bank capitalization and economic growth is supported by various studies. For example, Levine and Zervos (2018) argue that well-capitalized banks play a crucial role in fostering economic development by facilitating credit availability. The positive association between market bank capitalization and economic growth is consistent with research by Demirgüç-Kunt and Huizinga (2012), who find that a well-developed and capitalized banking sector positively impacts economic growth. The positive relationship between Bank Total Asset and economic growth is supported by Beck and Levine (2014), who highlight that a larger banking sector, in terms of total assets, is associated with increased financial intermediation and, consequently, higher economic growth. This is supported by Nkemakolam (2017) who found that bank reforms have the capacity to influence the direction of Nigerian economy. Hence, the study comes to the conclusion that bank capital reforms have demonstrated a very high explanatory impact on the Nigerian economy, suggesting that reforming the banking sector is a true instrument for realigning and repositioning the country's economy.

The finding of the study revealed that the high significance of the overall model, as indicated by the ANOVA results, underscores the importance of the selected interest rate-related variables and credit allocation in explaining GDP variation. This collective significance emphasizes the relevance of interest rate dynamics and credit allocation in influencing economic activity in Nigeria. The negative association between Deposit Rate and GDP suggests that an increase in deposit rates is results to a fall in economic growth. This finding prompts considerations for monetary policy, as higher deposit rates may impact consumer spending and investment negatively. The strong positive association between Credit Allocation to the Private Sector and GDP implies that an increase in credit allocated to the private sector is strongly linked to economic growth. This aligns with the notion that improved access to credit stimulates private sector activities, fostering economic development. The lack of significant contribution from Lending Rate to explaining GDP variation indicates that, in this model, lending rates do not play a significant role in influencing economic growth. This result prompts further examination of the factors contributing to the observed relationship, possibly reflecting the complex interplay of monetary policy and lending practices.

The findings of related research carried out by Demirgüç-Kunt and Huizinga (2012) align with the outcomes of this study. Demirgüç-Kunt and Huizinga (2012) suggests that the level and structure of interest rates can have significant implications for economic growth. Higher deposit rates may affect investment and consumption patterns, influencing overall economic activity. Obamuyi and Olorunfemi also had comparable outcomes (2011). They discovered that one of the factors considered in this study, interest rate reforms, had a major effect on economic development. The positive association between Credit Allocation to the Private Sector and economic growth is supported by studies such as Beck, Demirgüç-Kunt, and Levine (2016), which emphasize the importance of financial development and credit provision in stimulating economic growth.

## V. Conclusion And Recommendation

This study's findings provide empirical evidence and concludes that financial reforms, specifically bank capitalization reform and interest rate deregulation, have played a significant and positive role in driving economic growth in Nigeria. These reforms have contributed to the country's financial sector stability and resource allocation efficiency, ultimately fostering economic development. Also, considering the two financial reforms investigated in this study, it is concluded that bank recapitalization reform is more significant. Thus, the research makes the following recommendations:

a) The banking system in Nigeria benefits from recapitalization. For the banking industry to continue experiencing stability and resurgence, it is necessary for the regulatory body to periodically maintain and assess the capitalization higher.

b) Policymakers should ensure that financial institutions adhere to fair and transparent practices. Regular monitoring and enforcement of regulations are essential to prevent abuses or excessive risk-taking.

c) Financial reforms should also focus on ensuring that a broader segment of the private sectors have access to financial services, such as credit facilities at affordable lending rate. This would can stimulate economic growth especially when the credits are channeled to productive investments.

d) Financial institutions should build their total assets to ensure long term stability and relevance in the economy.

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