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AN EMPIRICAL ANALYSIS OF FINANCIAL SECTOR REFORM AND ITS IMPACT ON NIGERIAN ECONOMY (1980-2014)

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ABSTRACT

Financial sector is the backbone of any economy and it plays a crucial role in the mobilization and allocation of resources. Any reform carried out in it, the effect was extended to other parts of the economy representing a transformational moment for the economy and its people. This paper examines the financial sector reforms and its effect on the Nigerian Economy. The study adopts VECM models after stationary and cointegration test using annual data set covering the period of thirty four years. The empirical results show that financial sector reform has an impact on economic development in Nigeria. There exist longrun causation running from all the explanatory variables used as proxies for financial sector reform and economic development. The rate of lending and share trade ratio was found to be statistically significant, but other variables were however found to be statistically flawed that is they were so far been unstable. It is therefore recommended that measures should be put in place to correct macroeconomic instability, as the activities in all other sectors jointly affect each other. War against corruption should also put in place to help achieve the desired policy. Political stability should be improved so as to increase the capital flow of foreign investment vis-à-vis effective operation of the financial sector.

KEYWORDS

Currency devaluation, economic development, financial sector reform.

INTRODUCTION

Financial sector is the backbone of any economy hence it 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. 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. The vortex of most financial reforms is around firming up capitalization. Specifically, financial reforms are primarily driven by the need to achieve the objective of consolidation, competition and convergence in the financial architecture (Deccan 2004). Financial reforms in Nigeria was dated back to 1952 when the banking Ordinance was enacted. The deregulation of banking in 1986 provided the impetus for the Structural Adjustment Programme. The 1986 reform of the financial system saw a policy shift from direct control to a market based financial system, especially as regards monetary management, risk management and asset holding capabilities of the institutions. A number of other reforms followed including the consolidation policy in banking in the year 2005 and insurance in 2007 and also the financial sector reform in 1999. More so, the bank consolidation in 2008 and the recent financial deregulation of currency devaluation and raise in interest rate policy in 2014 that calls for greatest attention. The aim of the study is to empirically investigate the impact of the recent financial sector reforms policy of currency devaluation and increase in interest on the performance of the Nigerian economy.

REVIEW OF LITERATURE

There has been a serious debate on the link between financial sector development and economic growth among different schools of thought economics. The supply side leading school is of the view that financial development may lead to growth in that a well-developed financial system performs several critical functions to enhance the efficiency of intermediation namely by reducing information asymmetry, transaction, and monitoring costs (McKinnon, 1973; King and Levine 1993; Schumpeter 1912 and Shaw, 1973) were some of proponent of this view under supply side. For example, Levine (1998) argued that financial market liquidity plays a key role in economic growth by providing assets to savers that are easily liquidated at any time while simultaneously allowing firms permanent access to capital that are raised through equity issues. McKinnon (1973) and Shaw (1973) contend that the financial sector development can be the major driver of economic growth if it can only be relieved of its own fetters. They argued that when a financial sector is repressed then it can only respond passively to the real-sector needs. However, this school of thought was sub divided into Structuralists and Repressionists. The Structuralists are of the view that the quantity and the composition of financial variables induce economic growth by directly increasing savings in the form of financial assets, thereby spawning capital formation and economic growth. The Repressionists on the other hand contend that financial liberalisation in the form of an appropriate positive real rate of return on real cash balances is a vehicle for promoting economic growth. Hence, a liberalized financial system causes an increase in saving and investment.

The demand side school of thought argued that financial development follows economic growth. As the economy expands its demand for certain financial instruments increases which in turn lead to financial market development. For example, Gurley and Shaw (1960) and Gelb (1989), argued that the causal relationship runs from growth to financial deepening, and that the demand for financial services increases with economic development. Singh (1999) also postulated that financial development does not in any way lead to long run economic growth due to macroeconomic instability, volatility and arbitrariness of pricing process; and that instead the macroeconomic activities have an upper hand in the interaction between the two variables. He pointed that as the economy expands, the demand for certain financial instruments increases, leading to the growth of these services and the end result is that the developments in macroeconomic activity influences on the financial market development.

The third school of thought contends that there is bi-directional causality between financial market development and economic growth. A country with a well-developed financial system could promote high economic expansion through technological changes, products and services innovation. This will in turn create a high demand for the financial institutions. As the financial institutions effectively respond to this demand, these changes will stimulate higher economic achievement. Both financial market development and economic growth are therefore positively interdependent and their relationship could lead to bidirectional causality (Majid, 2007). The fourth school of thought supported by Mazur and Alexander (2001) referred to as the independent hypothesis, argued that financial market development and economic growth is not causally related.

Akinlo et.al (2010) examines the long run and causal relationship between financial development and economic growth for ten countries in sub-Saharan Africa. Using the vector error correction model (VECM), the study finding shows a long run relationship between financial development and economic growth in the selected sub-Saharan African countries. It also revealed that financial development Granger causes economic growth in Central African Republic, Congo Republic, Gabon, and Nigeria while economic growth Granger causes financial development in Zambia. However, bidirectional relationship between financial development and economic growth was found in Kenya, Chad, South Africa, Sierra Leone and Swaziland.

Odenira and Ndebbio (2004), using an ordinary least square regression framework, finds that financial sector development weakly affect per capita growth of output. He attributed the result to shallow finance and the absence of well-functioning capital markets. The finding of Nnanna (2004) was more disturbing. He also used ordinary least square regression technique and concluded that financial sector development did not significantly affect per capita growth of output.

Similarly, Nzotta and Okereke (2009), based on two stages least analytical framework for a period starting from 1986-2007, concluded that financial deepening did not support economic growth in Nigeria.
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IMPORTANCE OF THE STUDY
From the above objective, it is obvious that, this study serves as an insight into the impact of financial sector reform on economic development in Nigeria. It will give us insight knowledge about the shortrun and longrun impact of financial sector reform on economic development in the country for the year under review.
This study will also serve as a policy guide to the planning authorities on what measures to be taken to revamp the economy based on accurate selection of the most important macroeconomic variables suitable for the existing economic problem. This will lead to rapid economic growth in the Country and it will go long way in promoting economic development. Lastly, this valuable work will serve as a reference for further investigation and studies on the same field of research.

STATEMENT OF THE PROBLEM
A drastic falls in crude oil price in the world market has led to the current financial sector reform policy of currency devaluation and increase in interest rate by the present CBN Governor in person of Godwin Emefiele in order to revamp saving, investment and economic growth hence call for greatest attention.
The existing serious debate on the link between financial sector development and economic growth among different schools of thought economics have call for greatest attention to see which one cause the other and the other way round.

OBJECTIVES
The aim of the study is to empirically investigate the impact of financial sector reforms on the performance of the Nigerian economy. Other specific objective includes:
- To examine the relevance of the financial sector reform on economic growth in Nigeria
- To examine the effect of the previous financial reforms on the current economic growth in Nigeria
- To examine the way round of causality between financial sector reform and economic development in Nigeria.
- To ascertain the longrun and shortrun effect of the ongoing reform

HYPOTHESIS
There exist four hypotheses for a given research under study:
Hypothesis one:
H_0: Financial sector reform doesn't granger cause Economic development in Nigeria
Hypothesis two:
H_0: Financial sector reform doesn't impact economic development in Nigeria.
Hypothesis three:
H_0: Previous Financial sector reforms have not brought about changes to the Economy
Hypothesis four:
H_0: Financial sector reform has not contributed to the real sector growth in the economy.

RESEARCH DESIGN
Purposive sampling is used in this research study partly based on the perceived different literature reviewed and theoretical aspect of financial sector reform and also purposely on the need to generate data relevant to the study. The data for this study were obtained from primary and various secondary sources. Primary data were extracted from World Bank Development Indicator database and Central Bank of Nigeria Statistical bulletin. Other secondary information data was sought out from various journals, text books and archival materials (like BOI, etc). The selected variables to be used in the model are capital flow proxy as foreign direct investment (*cflow*), interest rate/ investment rate (*Inv*) , commercial banks' lending rate (*lend*) and exchange rate (*Excrt*), Gross domestic product per capita (GdpPcpt), value of shares traded (*Shtrd*) and turnover ratio (*Tuor*).
Vector Error correction model was adopted (VECM) to examine the dynamic impact of financial sector reform and its impact on Nigerian Economy.
The granger causality test using VAR based error correction framework was adapted to shows the direction of causality between current financial sector reform and economic development in Nigeria.
OLS regression test based on VECM result was also tested to show the impact of previous financial sector reform (Dummy variable) on current economic development in Nigeria.

MODEL SPECIFICATION
Model to be estimated is written as:
$$ED_t = Fsr_t + Mlqdty_t + Pfsr_t + \mathcal{E}_t \ldots\ldots\ldots\ldots 1$$
where by:
$$Fsr_t = f(\text{lend}, inv, excrt, cflow) \ldots\ldots\ldots\ldots 2$$
$$Mlqdty_t = f(\,Shtrd, Tuor) \ldots\ldots\ldots\ldots 3$$
And the ED_t is economic development proxy as GDP per capita (GdpPcap)
GDPCP= Economic development proxy as GNP per capita
CFLOW= Capital flow proxy as foreign direct investment
INV= Investment rate
LEND = Lending rate
EXCRT = Exchange rate
SHTRD = Share trade ratio
TUOR = Turnover ratio
Pfsr = Previous Financial sector reform proxy as dummy variables (1= financial sector reform year and 0= non-financial sector reform year)

The VECM model equation is written as:

$$\Delta \ln ED_t = \beta_0 + \beta_1 \sum_{t=1}^{i} \Delta \ln Inv_{t-1} + \beta_2 \sum_{t=1}^{i} \Delta \ln \mathrm{Excrt}_{t-1} + \beta_3 \sum_{t=1}^{i} \Delta \ln \mathrm{Lend}_{t-1} + \beta_4 \sum_{t=1}^{i} \Delta lnfdi_{t-1} + \beta_5 \sum_{t=1}^{i} \Delta \ln shtrd_{t-1} + \beta_6 \sum_{t=1}^{i} \Delta lntour_{t-1} + \sum_{t=1}^{i} \Delta ED_{t-1} + \lambda EC_{t-1} + \mathcal{E}_{t1}\, \mu \ldots\ldots \quad (4)$$

$$\Delta \ln Excrt_t = \beta_0 + \beta_1 \sum_{t=1}^{i} \Delta \ln Inv_{t-1} + \beta_2 \sum_{t=1}^{i} \Delta \ln ED_{t-1} + \beta_3 \sum_{t=1}^{i} \Delta \ln \mathrm{Lend}_{t-1} + \beta_4 \sum_{t=1}^{i} \Delta lncflow_{t-1} + \beta_5 \sum_{t=1}^{i} \Delta \ln shtrd_{t-1} + \beta_6 \sum_{t=1}^{i} \Delta lntour_{t-1} + \lambda EC_{t-1} + \mathcal{E}_{t2}\, \mu \ldots\ldots \quad (5)$$

Apriori expectations are: β_1, β_2, β_3, β_5, and $\beta_6 > 0$ while $\beta_4 < 0$.

Granger causality equation is built as:

Economic Development and Financial sector reform

$$\Delta \ln ED_t = \sum_{t=1}^{i} \beta j \Delta \ln Inv_{t-1} + \sum_{t=1}^{i} \Upsilon \Delta \ln \mathrm{Excrt}_{t-1} + \sum_{t=1}^{i} \alpha \Delta \ln \mathrm{Lend}_{t-1} + \sum_{t=1}^{i} \delta \Delta lncflow_{t-1} + \sum_{t=1}^{i} \lambda \Delta \ln shtrd_{t-1} + \sum_{t=1}^{i} w \Delta lntour_{t-1} + z_1 EC_{t-1} + \mathcal{E}_{t1} \ldots\ldots \quad (6)$$

Current Financial sector reform and Economic development, previous financial sector reform

$$\Delta \ln Excrt_t = \sum_{t=1}^{i} \beta \Delta \ln Inv_{t-1} + \sum_{t=1}^{i} \Upsilon \Delta \ln \mathrm{Excrt}_{t-1} + \sum_{t=1}^{i} \alpha \Delta \ln \mathrm{Lend}_{t-1} + \sum_{t=1}^{i} \delta \Delta lncflow_{t-1} + \sum_{t=1}^{i} \delta \Delta \ln shtrd_{t-1} + \sum_{t=1}^{i} \lambda \Delta lntour_{t-1} + \sum_{t=1}^{i} \mathrm{z} \Delta ED_{t-1} + z_2 EC_{t-1} + \mathcal{E}_{t2} \ldots\ldots \quad (7)$$

Previous financial sector reform and current financial sector reform

$$\Delta Pfsr_t = \sum_{t=1}^{i} \beta \Delta \ln Inv_{t-1} + \sum_{t=1}^{i} \Upsilon \Delta \ln \mathrm{Excrt}_{t-1} + \sum_{t=1}^{i} \alpha \Delta \ln \mathrm{Lend}_{t-1} + \sum_{t=1}^{i} \delta \Delta lncflow_{t-1} + \sum_{t=1}^{i} \lambda \Delta \ln shtrd_{t-1} + \sum_{t=1}^{i} \mathrm{z} \Delta lntour_{t-1} + \sum_{t=1}^{i} \mathrm{w} \Delta ED_{t-1} + z_3 EC_{t-1} + \mathcal{E}_{t1} \ldots\ldots \quad (8)$$

RESULTS AND DISCUSSION

TABLE 1.1: ADF TEST FOR STATIONARITY

Variables	t-statsistic at Level	5%critical level	t-stats at first difference	5%cretical level	Decision
LNGDPCP	0.096858	-2.951125*	-2.954021	-4.768652	I(1)
LNINV	-0.030395	-2.960411*	-2.960411	-6.303583	I(1)
LNSHTRD	-1.614605	-2.954021*	-2.957110	-5.621148	I(1)
LNTUOR	-2.062815	-2.954021*	-2.957110	-6.789896	I(1)
LNCFLOW	-3.311226	-2.954021	-2.963992	-4.702649	I(1)
LNEXCRT	-1.842108	-2.951125*	-2.954021	-4.944295	I(1)
LNLEND	-2.405929	-2.963972*	-2.957110	-8.265227	I(1)

The result of the ADF unit root test result shows that most of the variables except the capital flow were originally non-stationary. They however became stationary after the first difference was taken. Following Harris (1995) and Gujarrati (2003), both I(1) and I(0) variables can be tested for cointegration which forms the basis of the next section.

TABLE 1.2: JOHANSEN COINTEGRATION TEST

Trend: constant
Number of obs = 32
Sample: 1980-2014
Lag = 1

Maximum Rank	parms	LL	eigenvalue	trace statistic	5% critical value
0	7	-53.058665		130.8376	124.24
1	20	-23.493658	0.84242	71.7076*	94.15
2	31	-8.8669924	0.59915	42.4543	68.52
3	40	-1.8552627	0.35482	28.4308	47.21
4	47	4.2280695	0.31628	16.2641	29.68
5	52	8.0145742	0.21074	8.6911	15.41
6	55	10.637781	0.15122	3.4447	3.76
7	56	12.360137	0.10206		

Maximum Rank	parms	LL	eigenvalue	trace statistic	5% critical value
0	7	-53.058665		59.1300	45.28
1	20	-23.493658	0.84242	29.2533*	39.37
2	31	-8.8669924	0.59915	14.0235	33.37
3	40	-1.8552627	0.35482	12.1667	27.07
4	47	4.2280695	0.31628	7.5730	20.97
5	52	8.0145742	0.21074	5.2464	14.07
6	55	10.637781	0.15122	3.4447	3.76
7	56	12.360137	0.10206		

Table 1.2 result shows that both the trace statistic and the max-eigen test indicate an existence of one cointegrating equations Thus which is an indication of the existence of a long run relationship among the variables. The true cointegrating equations are indicated and are shown in the result of the Vector Error Correction (VEC).

TABLE 1.3: VECTOR CORRECTION MODEL RESULT

	Coef.	Std. Err.	Z	p>I z I	[95% Conf. Interval]	
D_lngdpcp						
_Cel						
L1.	-0.2555465	0.070924	-3.60	0.000	-0.3945549	0.1165381
Lngdpcp						
LD.	-0.1594238	0.2101874	-0.74	0.448	-0.5713834	0.2525359
Lnlend						
LD.	-0.1396003	0.0980637	-1.42	0.155	-0.3318016	0.052601
Lninv						
LD.	-0.0431677	0.0254705	-1.69	0.090	-0.0930891	0.0067536
Lnexcrt						
LD.	0.0217473	0.0410003	-0.53	0.596	-0.1021063	0.0586118
Lncflow						
LD.	0.0095376	0.0172978	0.55	0.581	-0.0243654	0.0472146
Lnshtrd						
LD.	0.0073273	0.020351	0.36	0.36	-0.0325599	0.047246
Lntour						
LD.	0.0715393	0.0349564	2.05	0.041	0.003026	0.1400525
_cons	0.0450754	0.0152435	2.96	0.003	0.0751987	0.0749522

The result of the VECM indicates an existence of longrun causality running from explanatory variables (proxies as financial sector reform) and economic development in Nigeria with p-value less than 5 percent and negative coefficient sign value. Investment rate and turnover ratio in the liquidity market are statistically significance with their p-value less than 5 percent while all the remaining explanatory variables were statistically flawed. Thus investment rate equation and turnover ratio equations constitutes a true cointegrating equation.

The coefficient of the cointegration equation known as speed of adjustment of the model shows that, the system or model required 25.6 months to adjust itself to the required level hence Nigerian economy needs two years to reshape itself or achieved the desired growth rate based on the data under the period of study.

SHORTRUN EFFECT

```
. test ([D_lngdpcp]: LD.lnlend LD.lninv LD.lnexcrt LD.lncflow LD.lnshtrd LD.lntuor)

 ( 1)  [D_lngdpcp]LD.lnlend = 0
 ( 2)  [D_lngdpcp]LD.lninv = 0
 ( 3)  [D_lngdpcp]LD.lnexcrt = 0
 ( 4)  [D_lngdpcp]LD.lncflow = 0
 ( 5)  [D_lngdpcp]LD.lnshtrd = 0
 ( 6)  [D_lngdpcp]LD.lntuor = 0

           chi2(  6) =    6.03
         Prob > chi2 =    0.4199
```

The result shows that, these explanatory variables used in this study jointly together do not have shortrun influence on economic development in Nigeria for the period under study as it shown with chi2 value 6.03 and its probability value of 0.4199.

To know the impact of previous financial sector reform on the current economic development thus OLS test was done based on Overparametize VECM result hence which form our next slide. To know whether previous financial sector reform has influence on economic development in Nigeria thus the research study employ the use of parsimonious OLS estimation techniques and result is depicted in the figure below:

TABLE 1.4: SUMMARY OF OVER PARAMETERIZE ECM RESULT: MODELING DLGDPCP TO KNOW THE EFFECT OF PREVIOUS FINANCIAL SECTOR REFORM

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.150063	0.055364	-2.710474	0.0128
C(2)	0.042632	0.249814	0.170654	0.8661
C(3)	0.013925	0.017084	0.815061	0.4238
C(4)	-0.122731	0.104031	-1.179754	0.2507
C(5)	-0.034123	0.024451	-1.395534	0.1768
C(6)	-0.022952	0.040865	-0.561649	0.5800
C(7)	0.003257	0.018484	0.176220	0.8617
C(8)	0.031915	0.032489	0.982308	0.3366
C(9)	0.028012	0.014058	1.992601	0.0589
C(10)	-0.053526	0.037078	-1.443616	0.1629
R-squared	0.561670	Mean dependent var		0.013520
Adjusted R-squared	0.341444	S.D. dependent var		0.067646
S.E. of regression	0.058916	Akaike info criterion		-2.575094
Sum squared resid	0.076365	Schwarz criterion		-2.117051
Log likelihood	51.20150	Hannan-Quinn criter.		-2.423266
F-statistic	2.096345	Durbin-Watson stat		2.006277
Prob(F-statistic)	0.075671			

c(1) is the coefficient of cointegration with confirm the longrun effect of the all the independent variables thus it is negative and statistically significance. All the remaining coefficient variables are statistically flawed. But yet the results also shown that jointly together all explanatory variables are statistically significance with F-stat value 2.09 and its probability value of 0.07.

c(10) represents previous financial sector reform and result shows that, previous financial sector reform has no effect on the current financial sector reform in the economy with its probability values greater than five percent level. More so, the coefficient is also negative showing inverse link between the two. This may be possible due to inappropriate chosen of macroeconomic variable by the current financial sector reform policy.

TABLE 1.5: VARIANCE DECOMPOSITION RESULT

Period	S.E.	LNGDPCP	LNEXCRT	LNCFLOW	LNINV	LNLEND	LNSHTRD	LNTUOR
1	0.058793	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
2	0.102248	87.34374	0.380151	2.759240	0.168053	7.440143	0.000187	1.908486
3	0.139991	82.43235	0.622340	2.441250	0.322472	9.951225	0.131153	4.099211
4	0.173214	79.47133	0.739036	2.428547	0.322642	11.33349	0.255838	5.449122
5	0.202972	77.35429	0.863250	2.307535	0.331922	12.41055	0.371654	6.360806
6	0.229460	75.79141	0.951016	2.269720	0.336874	13.14999	0.455262	7.045731
7	0.253453	74.71753	1.015418	2.208614	0.339878	13.67208	0.526180	7.520298
8	0.275494	73.89135	1.066591	2.178021	0.340849	14.06551	0.576869	7.880807
9	0.295895	73.27781	1.104613	2.145828	0.342531	14.36055	0.618143	8.150521
10	0.315008	72.79300	1.135295	2.124804	0.343023	14.59192	0.649602	8.362354

The result explains the changes in growth domestic product per capita rate variable and shocks brought about on it by other independent variables. It shows that at first period GDP per capita accounts for 100% while all the remaining variables didn't brought any changes as shown in the parenthesis. This means that all these explanatory variables have no impact on economic development in the first period.

Looking at the sixth period, we can see so many shocks in these variables in bringing changes in the level of economic development Nigeria. For instance while lending rate by the commercial banks is dominating the shocks as it accounts for highest changes with 13.14%, turnover ratio account for 7.04%, the volume of share trade account is 0.45%, investment rate 0.33%, rate of exchange accounts for 0.95% and capital flow from foreign investment accounts for 2.27% respectively.

The result signifies that, commercial bank lending rate has strong impact on gross domestic product per capita and the investment has weak impact on GDP per capita. More so with currency devaluation the domestic investment has so weak impact on GDP per capita shocks in Nigeria for the period under study. At the tenth period, still the shock change brought by lending rate (14.59%) is highest apart from GDP per capita. followed by the turnover ratio with 8.36%, capital flow 2.12%, exchange rate 1.13%, share trade 0.64% and investment rate 0.34% respectively. In all we can see that the shocks in standard error is increasing with increase in period.

TABLE 1.6: PAIRWISE GRANGER CAUSALITY RESULT

Null Hypothesis:	Obs	F-Statistic	Prob.
LNCFLOW does not Granger Cause LNGDPCP	32	0.95413	0.3978
LNGDPCP does not Granger Cause LNCFLOW		0.10428	0.9013
LNINV does not Granger Cause LNGDPCP	32	3.72070	0.0374
LNGDPCP does not Granger Cause LNINV		1.73463	0.1956
LNLEND does not Granger Cause LNGDPCP	32	3.10966	0.0609
LNGDPCP does not Granger Cause LNLEND		2.13765	0.1375
LNEXCRT does not Granger Cause LNGDPCP	33	4.37648	0.0222
LNGDPCP does not Granger Cause LNEXCRT		0.45081	0.6417
LNTUOR does not Granger Cause LNGDPCP	32	1.35076	0.2760
LNGDPCP does not Granger Cause LNTUOR		0.21451	0.8083
LNSHTRD does not Granger Cause LNGDPCP	32	3.83762	0.0341
LNGDPCP does not Granger Cause LNSHTRD		1.55651	0.2292
PFSR does not Granger Cause LNGDPCP	33	0.40193	0.6728
LNGDPCP does not Granger Cause PFSR		3.55061	0.0422
LNINV does not Granger Cause LNCFLOW	31	0.14383	0.8667
LNCFLOW does not Granger Cause LNINV		0.16917	0.8453
LNLEND does not Granger Cause LNCFLOW	31	0.89906	0.4192
LNCFLOW does not Granger Cause LNLEND		0.77231	0.4723
LNEXCRT does not Granger Cause LNCFLOW	32	0.34354	0.7123
LNCFLOW does not Granger Cause LNEXCRT		0.10519	0.9005
LNTUOR does not Granger Cause LNCFLOW	31	2.50256	0.1014
LNCFLOW does not Granger Cause LNTUOR		2.23125	0.1276
LNSHTRD does not Granger Cause LNCFLOW	32	0.20388	0.8168
LNCFLOW does not Granger Cause LNSHTRD		0.96558	0.3935
PFSR does not Granger Cause LNCFLOW	32	0.04018	0.9607
LNCFLOW does not Granger Cause PFSR		0.06256	0.9395
LNLEND does not Granger Cause LNINV	32	0.60200	0.5549
LNINV does not Granger Cause LNLEND		2.37242	0.1124
LNEXCRT does not Granger Cause LNINV	32	1.11008	0.3441
LNINV does not Granger Cause LNEXCRT		0.89284	0.4212
LNTUOR does not Granger Cause LNINV	32	0.56501	0.5749
LNINV does not Granger Cause LNTUOR		0.33402	0.7190
LNSHTRD does not Granger Cause LNINV	31	1.25148	0.3027
LNINV does not Granger Cause LNSHTRD		0.51092	0.6058
PFSR does not Granger Cause LNINV	32	0.57932	0.5671
LNINV does not Granger Cause PFSR		0.14986	0.8615
LNEXCRT does not Granger Cause LNLEND	32	0.25060	0.7801
LNLEND does not Granger Cause LNEXCRT		1.22100	0.3107
LNTUOR does not Granger Cause LNLEND	32	0.37055	0.6938
LNLEND does not Granger Cause LNTUOR		2.66790	0.0876
LNSHTRD does not Granger Cause LNLEND	31	0.61967	0.5459
LNLEND does not Granger Cause LNSHTRD		2.25731	0.1248
PFSR does not Granger Cause LNLEND	32	0.13190	0.8770
LNLEND does not Granger Cause PFSR		0.73277	0.4899
LNTUOR does not Granger Cause LNEXCRT	32	0.74503	0.4842
LNEXCRT does not Granger Cause LNTUOR		0.43015	0.6548
LNSHTRD does not Granger Cause LNEXCRT	32	0.29375	0.7478
LNEXCRT does not Granger Cause LNSHTRD		1.97209	0.1587
PFSR does not Granger Cause LNEXCRT	33	0.01545	0.9847
LNEXCRT does not Granger Cause PFSR		0.21259	0.8098
LNSHTRD does not Granger Cause LNTUOR	31	1.06870	0.3581
LNTUOR does not Granger Cause LNSHTRD		2.98937	0.0678
PFSR does not Granger Cause LNTUOR	32	0.25698	0.7753
LNTUOR does not Granger Cause PFSR		0.01644	0.9837
PFSR does not Granger Cause LNSHTRD	32	0.19348	0.8252
LNSHTRD does not Granger Cause PFSR		0.44044	0.6483

Since variables under considerations are I(1), we use the first differenced series in the model. The result shows that GDP per capita does not granger cause any of the explanatory variables except previous financial sector reform. There is an existence of unidirectional causality between financial sector reform in the current period and the previous one. lending rate, exchange rate, the volume of share trade ratio and turnover ratio do granger cause Growth domestic product per capita which is used as a yard stick for measuring economic development in Nigeria by the research study for the period under the study as the computed F values lie below the critical value at 5 per cent level.

BLOCK EXOGENEITY WALD TESTS

TABLE 1.7A: ECONOMIC DEVELOPMENT AND FINANCIAL SECTOR REFORM

Equation	Excluded	Chi2	df	prob> chi2
lngdpcp	lninv	5.4288	2	0.066
lngdpcp	lnexcrt	0.37791	2	0.828
lngdpcp	lncflow	2.1203	2	0.346
lngdpcp	lnlend	10.399	2	0.006
lngdpcp	lntour	13.326	2	0.001
lngdpcp	lnshtrd	1.0268	2	0.598
lngdpcp	pfsr	1.2066	2	0.547
lngdpcp	All	53.006	2	0.000

TABLE 1.7B: CURRENT FINANCIAL SECTOR REFORM AND ECONOMIC DEVELOPMENT, PREVIOUS FINANCIAL SECTOR REFORM

Equation	Excluded	Chi2	df	prob> chi2
lnexcrt	lngdpcp	3.8699	2	0.144
lnexcrt	lninv	9.5677	2	0.008
lnexcrt	lncflow	0.65581	2	0.720
lnexcrt	lnlend	9.1733	2	0.010
lnexcrt	lntour	3.062	2	0.216
lnexcrt	lnshtrd	5.3277	2	0.070
lnexcrt	pfsr	2.2436	2	0.326
lnexcrt	All	21.452	2	0.091

TABLE 1.7C: PREVIOUS FINANCIAL SECTOR REFORM AND CURRENT FINANCIAL SECTOR REFORM

Equation	Excluded	Chi2	df	prob> chi2
Pfsr	lnexcrt	1.3065	2	0.520
Pfsr	lngdpcp	15.2	2	0.001
Pfsr	lninv	0.70033	2	0.705
Pfsr	lncflow	0.29642	2	0.862
Pfsr	lnlend	3.1448	2	0.208
Pfsr	lntour	0.78776	2	0.674
Pfsr	lnshtrd	1.7366	2	0.420
Pfsr	All	27.253	14	0.018

The test result indicate that all these eight explanatory variables and their lags do influences GDP per capita variable as the estimated χ^2 values are statistically significant at 5 per cent level. Thus there is a different result between Granger causality test and Block Exogeneity test results, while the former confirm the joint influence of all the explanatory variables on GDP per capita the later doesn't revealed that at all.

In the second model, we can therefore see that explanatory variables including the GDP per capita do influences exchange rate which is key variable in the current financial reform. In the third model we can see that current financial sector reform and economic development jointly together does influence the previous financial sector reform. This shows that, there two way causality between current and previous financial sector reform.

FINDINGS

The failure of the financial system has constituted a problem for the global economic as could be seen in the last global economic crisis and the European economic crisis. Our result of the findings indicated that the banking sector reforms in Nigeria have mixed performance.

The coefficient sign of exchange rate is consistence with theoretical underpinning in relation to economic development that is the more a devaluation of currency the less economic development in Nigeria. Exchange rate is statistically insignificance in this study. This signifies that, devaluation of currency to attract foreign investment is not the feasible solution for the Nigerian economy at this situation.

The result further shows that a bidirectional causality between financial sector reform and economic development in Nigeria and a unidirectional causality between previous financial sector reform and the current financial sector reform. Thus these two cases were consistent with the two theoretical underpinning of the literature study of bidirectional school of thought and demand side economics.

The result of ECM indicates an existence of longrun causality of all the explanatory variables (proxies to represent financial sector reform) on GDP per capita in Nigeria. The conclusion was done based on 5% level of significant and coefficient sign of the cointegration equation shown in table 4.6 above. The linear hypothesis Wald test result shows that, jointly together all the explanatory variables have no shortrun impact in GDP per capita in Nigeria for the period under study.

The study incorporated dummy variable in the study thus to know its effect an OLS parsimonious estimate was done. The result shows that previous financial sector reform has no any relationship with the current economic development in Nigeria thus which may be possible due to current massive corruption in the country, political instability and lack of good leadership in the country.

RECOMMENDATION

Commercial Banks lending rate should be minimal so that investors will be able to borrow and invest in the country. Also ways should be created by government that will make Naira appreciating in exchange of dollar. And finally Government should war against corruption and mismanagement together with fight against all insurgency should be implemented so as to provide conducive business enabling environment. This will increase in capital flow from foreign investment vis-à-vis economic development.

CONCLUSION

Nigeria has been involved in financial reforms on a regular basis aimed at responding to the challenges posed by some factors and developments such as systemic crisis, deregulation, globalization and technological innovations, or acted proactively both to strengthen the financial system and prevent systemic problems as in the case in the current reforms. The foregoing analysis shows that, commercial banks' lending rates and volume of turnover ratio were statistically significant while all the remaining variables are statically flawed hence which may be as a result of corruption, political instability and lack of proper implementation of policies. Therefore, measures should be taken by the government like war against corruption and fight of insurgency and so on, so as to achieved rapid economic development.

SCOPE FOR THE FUTURE STUDY

The study suffers from certain limitations as it doesn't include the real sector in its analysis. So it does naturally provide future scope to conduct elaborate study by incorporating the real sector into the model equation to have a complete analysis of Nigerian economy.

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