Serial No.	
Author 1	CHIDOLUE, CHINENYE ALFRED (PG / M.ENG. / Ph.D / 07 / 42482)
Author 2	
Author 3	
Title:	AN APPRAISAL OF THE IMPACT OF RECAPITALIZATION OF BANKING INDUSTRY ON ECONOMIC GROWTH OF NIGERIA
Keyword:	
Description:	Department of Accountancy
Category:	Faculty of Business Administration
Publisher:	
Publication Date:	
Signature:	Nwamarah Uche Digitally Signed by: Content manager's Name : CN = Weabmaster's name University of Nigeria, Nsukka = Innovation Centre

AN APPRAISAL OF THE IMPACT OF RECAPITALIZATION OF BANKING INDUSTRY ON ECONOMIC GROWTH OF NIGERIA

BY

UGWU EMMANUEL IKECHUKWU
PG/MBA/11/60523

BEING A RESEARCH WORK PRESENTED TO THE DEPARTMENT OF ACCOUNTANCY, IN PARTIAL FULFILLMENT OF THE REQUIRMENT FOR THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION (MBA) IN ACCOUNTANCY

DEPARTMENT OF ACCOUNTANCY
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY OF NIGERIA, ENUGU CAMPUS.

SUPERVISOR: DR. S.E. EMENGINI

AUGUST, 2012

DECLARATION

I, Ugwu, Emmanuel Ikechukwu a post graduate student in the Department of Accountancy with Registration Number PG/MBA/11/60523 has satisfactorily completed the requirements for the research work for the Degree of Masters in Business Administration (MBA) in the Department of Accountancy.

The work embodied in this dissertation is original and has not, to the best of my knowledge, been submitted in part or in full for the award of any other Degree or Diploma of this or any other tertiary institution.

…………………………
Ugwu, Emmanuel Ikechukwu
PG/MBA/11/60523

APPROVAL PAGE

This dissertation was written by Ugwu, Emmanuel Ikechukwu with Registration Number PG/MBA/11/60523 of the Department of Accountancy, Faculty of Business Administration, University of Nigeria, Enugu Campus for the award of Masters in Business Administration (MBA) Degree in Accountancy, has been approved by:

………………………….. **……………………………….**
Dr. S. E. Emengini **Date**

……………………………
Dr. (Mrs) Ofoegbu G. N **……………………………..**
Head of Department **Date**

DEDICATION

This research work is dedicated to Almighty God.

ACKNOWLEDGEMENTS

I express my profound gratitude to my very good friend and brother Mr. Obinna, Hyginus Ugwu who motivated me both financially and morally to take up this programme irrespective of what might be encountered while pursuing it.

I owe quite a lot to my supervisor Mr. S.E. Emengini who exerted his efforts to ensuring that this work will be a success.

I remain indebted to my sincerely parents, Mr. and Mrs. A.U. Ugwu, for their immensurable care, love, financial and moral support from the inception of this programme to the end of it.

I will not forget to acknowledge my elder brother Ugwu Jude, my friend Eze, Amos for their financial support.

I also acknowledge those who in one way or the other supported me to the success of this work but his or her name is not mentioned above, I pray that God Almighty in His infinite mercy will have mercy on you and equally grant you peace.

Finally, I appreciate God Almighty for His mercy and Grace upon my life, may his name be highly and always exalted in Jesus name. Amen.

ABSTRACT

One of the major macroeconomic variables that compliment bank performance is availability of capital. Economic theories show that inadequate capital contributes to bank failures and retards economic growth. This study however, examined the impact of bank recapitalization of banking industry on economic growth of Nigeria. It is the aim of this research work to examine the past bank failures as a result of inadequate capital and how recapitalization exercise in the banking industry in Nigeria has increased the minimum paid-up capital and increased the banks' asset qualities. This research work is carried out to achieve some objectives among which are: to examine the impact liquidity ratio on economic growth in Nigeria pre and post capitalization 2005, to determine the impact of cash reserve ratios on economic growth in Nigeria pre and post capitalization 2005, to examine the impact of money supply on economic growth in Nigeria pre and post capitalization 2005, to examine the impact of loan-to-deposit ratio on economic growth in Nigeria pre and post capitalization in 2005. The methodology adopted for this work was based on the use of tables and charts, which established structured relationship between the variables studied. The data collected were only from secondary data and variable specification used were dependent and independent variable: while GDP was used as dependent variables, money supply, loan-to- deposit ratio and cash reserve ratio are independent variable. The findings indicate that liquidity ratio, cash reserve ratio have no positive and significant impact on economic growth of Nigeria as opposed to money supply to GDP and loan to deposit of commercial bank that have positive but non-significant impact on economic growth in Nigeria. It is, however, recommended that government should make policies that are less stringent and more favourable for the operators to have room to operate more freely.

TABLE OF CONTENT

CHAPTER THREE

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Globally, the activities of banks reflect their unique roles as the engine of growth in any economy. The role which comes from both banks and non-banks financial intermediaries and the regulatory framework in stimulating economic growth is widely recognized especially in developmental economics. Uboh (2005) set the pace for the landslide of other works on the interdependent and the relationship between banks and economic growth.

Stressing further, the pioneering work of Guiley and Shaw (1956) on the relationship between real and financial developments shows that financial intermediaries, monetization and capital formation determine the path and pace of economic growth and development of any country. Nevertheless these pivotal roles have not been highly noticeable in Nigeria. The scenario arises as a result of poor performances of Nigeria commercial banks. According to Soludo (2004), "The Nigeria banking system today is fragile and marginal. The system faces enormous challenges which if not addressed urgently could snowball into a crisis in the near future". Soludo identified the problems of the banks, especially those seen as feeble, as persistent liquidity, unprofitable operations and poor asset base.

Imala (2005) posited that the objectives of banking system are to ensure pure stability and facilitate sustainable rapid economic development. Regrettably, these objectives have remained largely unattained in Nigeria as a result of some deficiencies in the banking system. This phenomenon has necessitated continuous financial sector reforms globally. In 1988, an international agreement among the banking authorities known as Basle agreement was reached. The main objective of this was to apply a common set of rules for capital adequacy in order to minimize the risk of bank failures. In compliance with the Basle agreement, the governor of Central Bank of Nigeria Professor Charles Soludo announced on July 6, 2004 that the banking sector should increase their capital base with about 100% (from initial capital base of ₦2 million to a whopping ₦25 billion). The policy directives of this initiative according to the C.B.N Governor are ita alia.

(i) To strengthen the commercial banks thereby intensifying the growth of the economy.

(ii) To encourage competition locally and internationally in conformity with the new trend of globalization.

The kernel of this argument is that with this new policy of recapitalization, banks that cannot meet the required amount will have to merge with bigger or stronger ones. Following the implementation of the policy, an unprecedented process of recapitalization has taken place in Nigerian sector shrinking the number of commercial banks from 89-25 banks. No other event is more challenging than this recapitalization policy in the history of Nigeria banking. Prior to the reformation, the state of Nigeria banking sector was very weak. It's fragile and marginal being plagued by persistent liquidity, unprofitable operations, poor asset base and intermittent failures. It was expected that the reform should promote efficiency, better banking performance, operational stability, profitability and reduce bank failures.

According to Imala (2005), the current structure of the banking system has promoted tendencies towards banking effectiveness and efficiency particularly at the retail level.

1.2 STATEMENT OF THE PROBLEM

The Nigerian banking system has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure, as well as depth and breadth of operations. These changes have been influenced largely by the challenges posed by deregulation of the financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential requirements that conform to international standards. As at the end of June 2004, there were 89 deposit banks operating in the country, comprising institutions of various sizes and degrees of soundness. Structurally, the sector is highly concentrated, as the ten largest banks account for about 50 percent of the industry's total assets/liabilities. Most banks in Nigeria have a capitalisation of less than $10 million. Even the largest bank in Nigeria has a capital base of about US $240 million compared to US $526 million for the smallest bank in Malaysia. The small size of most of our banks, each with expensive headquarters, separate investment in software and hardware, heavy fixed costs and operating expenses, and with several branches in few commercial centres – lead to very high average cost for the industry. This in turn has implications for the cost of intermediation, the spread between deposit and lending rates, and puts undue pressures on banks to engage in sharp practices as means of survival.

Inspite of the efforts pulled together by the regulatory authorities to revitalize the institution, Nigerian banking sector continued to witness pockets of distress that led to the consolidation reform agenda.

Moreover, while copious studies and reports have provided results for pre and post consolidation exercise in Nigeria, comparatively, little has been done to provide a comprehensive assessment on how the consolidation, merger and acquisition would impact on bank services.

It is therefore, necessary to undertake a critical study of how the impact of recapitalization exercise by the Central Bank of Nigeria towards enhancing the performances of commercial banks in Nigeria can lift the economic standards of this country.

1.3 OBJECTIVES OF THE STUDY

The set objective of this study is as follows:

(i) To examine the impact of liquidity ratios on economic growth in Nigeria, pre and post capitalization exercise in 2005

(ii) To determine the impact of cash reserve ratios on economic growth in Nigeria, pre and post capitalization exercise in 2005

(iii) To examine the impact of money supply on economic growth in Nigeria pre and post consolidation in 2005

(iv) To examine the impact of loan-to-deposit ratio on economic growth in Nigeria pre and post consolidation in 2005

1.4 RESEARCH QUESTIONS

This following research questions will emanate in this study. These are:

(i) To what extent do liquidity ratios pre and post consolidation have positive and significant impact on economic growth in Nigeria.

(ii) How far does cash reserve ratios of commercial banks pre and post have positive and significant impact on economic growth in Nigeria

(iii) To what extent does money supply have positive and significant impact on economic growth pre and post consolidation.

(iv) To what extent does loan to deposit ratio have positive and significant impact on economic growth in Nigeria pre and post consolidation.

1.5 RESEARCH HYPOTHESES

The following research hypotheses will arise for the research question raised above. These are;

(i) Liquidity Ratio of commercial banks does not have positive and significant impact on economic growth pre and post consolidation in Nigeria

(ii) Cash reserve ratio of commercial banks does not have positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

(iii) Money supply of commercial bank does not have positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

(iv) Loan to deposit does not have positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

In the wake of bank failures, the economy suffered severed stress. Many depositors lost their hard-earned money; many suffered starvation because their breadwinners lost their jobs in the process.

People from different sphere of life have commented on this seemingly topical issue as it touches the very fabric of the national economic life. The study is being embarked upon as a way of further investigating the issue in a view to justifying the on-going recapitalization exercise as directed by the Central Bank of Nigeria and how it would affect the Nigerian economy.

The research will be of benefit to practicing bankers, students of Business Studies seeking to study the Nigerian Banking Industry and the entire public who need to have knowledge of the recapitalization and consolidation of the Nigerian Banking Industry.

1.7 SCOPE OF THE STUDY

In carrying out this research, attention would be focused on commercial banks' consolidation (₦25 billion capital base) and its effects on the Nigerian economy. The scope would have included other consolidation exercises around the world's commercial banks but due to lack of finance and time, this could not be feasible.

1.8 LIMITATIONS OF THE STUDY

This research work would have been appreciated mostly if it had captured a deep study of consolidation, merger and acquisition of commercial banks in Nigeria but because of the following constraint, it was found difficult.

(i) Financial Constraint:

Financial problem was encountered by the researcher to carry out a detailed study of this research work. Limited capital at the researcher's disposal restricted is gathering of enough materials for the purpose of undertaking this research work.

(ii) Time Constraint:

Time was not of essence to embark on a more detailed work because the curriculum the degree programme is designed in such a way that courses are registered together with project thereby creating difficulties in conducting intensive work.

REFERENCES

Imala, O.I. (2005). Challenges of Banking Sector Reforms and Bank Consolidation in Nigeria. CBN Bulletin, 4 (26): 2-27.

Soludo, C. (2004). Consolidating the Nigerian Banking Industry to meet the Development Challenges of the 21st Century. Bankers' Committee held on July 6, at CBN Headquarter Abuja.

Adam, A.J. (2008). Bank Regulation, Risk assets and Income of Banks in Nigeria www.ndic_ng.com/pdf/adam.pdf

Soyibo, A. and Adekanye, F. (1992). The Nigerian Banking System in the context of policies of financial regulation and deregulation, Africa Economic Research Consortium, Nairobi.

Wilson, I. (2006). Regulatory and Institutional Challenges of Corporate Governance in Nigeria Post Banking Consolidation. Nigeria Economic Summit Group (NESG) Economic Indicators. April-June vol. 12 No. 2.

Uboh, G.A.T. (2005). Selected Essay on Contemporary Issues in Nigeria Banking System, Ibadan: University Press Plc.

Onaolapo, A.A. (2008). Implication of Capital Regulation on Bank Financial Health and Nigerian Economic Growth 1990 – 2006, Journal of Economic Theory 2 (3): 112-117.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 INTRODUCTION

The origin determinants, trend, importance and implications of bank recapitalizations have been scantly discussed in the literature. Soyinbo and Adekanye (1992) and Adams (2003), traced recapitalization to take its roots from bank failures. According to them, most banks in Nigeria failed as a result of inadequate capital base, mismanagement of funds, overtrading, lack of regulation and control, and unfair competition from the foreign banks. Thus, recapitalization is one of the banking reforms to tackle these problems.

According to Omoruyi (1991), recapitalization appears to be the main driving force at banks' reforms. It focuses mainly on reconstructing, rebranding and refurbishing the banking system to accommodate the challenges of bank liquidation.

Obviously, adequate capital base is very crucial to the success of any bank. Apart from its multiplier effect on the economy as a whole, it acts as a buffer and security for banks. As Spong (1990) puts it, "Commercial Banks must have enough capital to provide a cushion for absorbing possible loan losses, funds for its internal needs and expansion and added security for depositors. Adequate capital increases the confidence and financial state of stockholders. Bank regulators view it as an important element in holding government banking risks to an acceptable level.

Demirguc-Kunt and Levine (2003) argued that recapitalization drives bank consolidation (mergers and acquisitions) so that increased concentration goes hand-in-hand with efficient improvements, Boyd and Runkle (1993), Sulaiman (2004) and Imala

(2005) buttressed this argument. They stressed further that consolidated banking system enhances profit efficiency and lower bank fragility. More importantly, high profits arising from this provides a buffer against adverse shocks and increases the franchise value of the banks.

Turning to the effectiveness of recapitalization and its overall economic implications, authors like Adetiloye (2006), Onaolapo (2008) and Adegbayi et al (2008) have made some empirical contributions. In his analysis, Onaolapo (2008) employed CAMEL rating system to examine the effectiveness f recapitalization.

Onaolapo found that recapitalization has improved the financial health of the banks. Onaolapo has discovered that the percentage of sound banks had reached the highest point of 70% as at 2006. This finding was collaborated by Sani (2004). Using regression model, Sani discovered a positive and significant relationship between recapitalization policy and economic growth in Nigeria. To the contrary, Adegbaju (2008) examined the effectiveness of recapitalization on the performances of 20 Nigerian banks. He discovered that while banks recorded appreciable improvements in their performances, majority of the banks remained the same or even worse off.

So far, the nexus among recapitalization policy, financial stability and economic growth has been examined by two polar schools of thought. The proponents of banks recapitalization believe that increased capital base has potentially increased banks return through revenue and cost efficiency gains. On the other hand, the opponents argued that recapitalization has increased banks' propensity towards risk taking through increases in leverage and off balance sheet operations. There is therefore, a divergence view on the effectiveness and growth adjustments that the industry needs to go through in the macro-economy, including legislation that would be put in place to support the new type of business especially retail banking would have been put in place.

2.1 HISTORY OF RECAPITALIZATION IN THE NIGERIA BANKING INDUSUTRY

Recapitalization of banks is not a new phenomenon. Right from 1958 after the first banking ordinance in 1952, the colonial government then raised the capital requirements for banks especially the foreign commercial banks from £200,000 pounds to £400,000 pounds. Ever since, the issues of bank recapitalization have been a continuous occurrence not only in Nigeria but generally around the world especially as the world continues to witness increasing interdependence among national economies.

Recapitalization in Nigeria comes with every amendment to the existing banking laws. In 1969, capitalization for banks was ₦1.5m for foreign banks and ₦600,000 for indigenous commercial banks. In 1979, when merchant banks came on board the Nigerian banking scene, the capital base was ₦2 million. As from 1988, there had been further increase in the capital base, particularly coupled with the liberalization of the financial system and the introduction of the structural Adjustment Programme (SAP) in 1986. In February 1988, the capital base for commercial banks was increased to ₦5 million while that of merchant bank was pegged at ₦3 million.

In October the same year, it was jerked up to ₦10 million for commercial banks and ₦6 million for merchant bank. In 1989, there was a further increase to ₦20 million for commercial bank and ₦12 million for merchant bank.

In recognition of the fact that well capitalized banks would strengthen the banking system for effective monetary management, the monetary authority increased the minimum paid up capital of commercial and merchant banks in February 1990 to ₦50 million and ₦40 million from ₦20 million and ₦12 million respectively. Distressed banks whose capital fell below existing requirement were expected to comply by 31st March, 1997 or face liquidation. Twenty-six of such banks comprising 13 each of commercial and merchant banks were raised to a uniform level of ₦500 million with effect from 1st January, 1997, and by December 1998, all existing banks were to recapitalized. The CBN brought into force the risk-weighted measure of capital adequacy recommended by the Basle Committee of the Bank for International settlements in 1990. Before then, the capital adequacy was measured by the ratio of adjusted capital to total loans and advances outstanding. The Central Bank of Nigeria (CBN) in 1990 introduced a set of prudential guidelines for licensed banks which were complementary to both the capital adequacy requirement and statement of standard accounting practices. The prudential guidelines, among others, spelt out the criteria to be employed by banks for classifying non-performing loans. In 2001, when Universal Banking was adopted in principle, the capital base was jerked up to ₦1 billion for the existing banks and ₦2 billion for new banks. But in July, 2004, the new governor of CBN announced the need for banks to increase their capital base to₦25 billion all banks were expected to comply by December, 2005.

2.2 ROLE OF BANKS IN THE NIGERIAN ECONOMY

Financial sector in general and banking sector in particular contributes to growth and development in the following ways.

- Financial Intermediation

Oboh (2005) observed that financial intermediation is an area which banks have the professional expertise of matching the interest of depositors with those of borrowers by providing more or less a coordination functions for the two groups. In more technical terms, bank intermediation functions entail maturity transformation and separation of the saving and investment function in an economy (Sirri and Tufano, 1995). This implies that in the absence of banking institution, individuals or corporate bodies that want to invest for instance in real sector production would first accumulate enough funds over time to be able to meet their fixed and variable cost of investments. In a similar fashion, those individuals or institutions investors with surplus funds would have to search and identify the deficit unit that needs their funds. The two processes would be too cumbersome, expensive and very inefficient. The banking system has become the variable agent well placed to perform this vital function efficiently. The rate of growth of any economy is a function of the capital formation and the pace at which such economy is moved into the productive investment project in the real sector (Diamond, 1984 and Boyd and Prescot, 1986).

Table 1: Deposit Mobilization by Mainstream Banks 1990-2003

Year	Amount (₦ Billion)	Growth Rate %
1990	43.9	37.4
1991	60.3	43.8
1992	86.7	49.7
1993	129.8	49.7
1994	162.9	25.5
1995	196.9	20.9
1996	239.5	21.5
1997	295.1	23.3
1998	349.3	18.4
1999	569.8	63.0
2000	838.6	47.2
2001	1017.2	21.3
2002	1226.6	20.6
2003	1415.8	15.4
Average Growth Rate	31.4	

Source: NDIC Annual Reports

- **Deposit Mobilization**

According to Oboh (2005), Banks like any other business enterprises use money inputs in their normal operations. One of such inputs is the customer deposit. Therefore, banks mobilize deposits from both urban and rural areas, from rich and less endowed for productive investment. In doing this, they create various financial instruments to meet the preference of the heterogeneous customer. Apart from paying interest income to the depositors, banks provide safety for those funds that would otherwise been exposed to such risks as fire, theft, and so on if such funds were to be in the owner's physical custody. In other words, banks do not only create liquidity, they also eliminate the hoarding and idleness of cash and loss of funds through safe custody (Delong, 1991). The volume of and rate of growth of deposit mobilization by banks has been a fluctuating one as can be seen on table 1. From ₦43.9 billion and 37.4% in 1990 to ₦295.1 billion and 23.3% in 1997 and ₦1415 billion and 15.4% in 2003. The average rate was 31.4% in the period 1990-2003.

- **Advancing Credit to Borrowers:**

Ekundayo (1994) noted that the Nigerian Banking Industry has been playing a leading role in the development of the Nigerian Economy. According to him, banks mobilized and disbursed tremendous volumes of funds of both government and private sector investors fro the growth of the economy. Oboh (2005), postulated that the primary reason that banks want deposit is to enable them grant credit from which they earn interest income. But more importantly, extension of credit to the economy is the core link that banks have with real sector, acting like a catalyst and contributing to the growth of the economy.

- **Sector Specific Lending**

Oboh, (2005) enunciated that banks have always collaborated and cooperated with government in lending especially with respect to lending to macro, small and medium scale enterprises (SME) as well as real sector. Up till 1997, when compulsory sectoral allocation was phased out as a policy instrument used by CBN, mainstream banks were made to meet specific targets in their lending to the productive sectors especially agriculture and manufacturing, particularly the export and solid mineral. From 1980 to

1983, an annual average of about 58.3% of commercial banks aggregate lending went to agriculture and manufacturing sectors (Oluajakaiye, 1995).

Commercial banks loans to small scale enterprises increased from ₦20.4 Billion in 1992 to about ₦42 Billion in 1998, representing an average of about 21.5% of the aggregate loan granted by commercial banks during the period.

- **Payment System**

Oboh (2005) Greenwood and Jovanouich, (1990) noted that where ever there is trade, there must be exchange of goods and services. As a result, the banking institutions have invariably performed the role of payment vehicle in the trade system all over the world. Therefore, rather than carry money about looking for goods and services, traders only need to provide information regarding themselves and their customers and how transaction related bills should be settled. This is the very essence of the payment function of banks.

There are two major perspectives to the role of banks in the payments system according to Oboh (2005), Carlin and Mayer, (2003), as follows.

(a) **International trade**: Some of the international trade services provided by banks include provision of foreign exchange for business, traveler and payment for imports, collections export proceeds on behalf of exporters, advice on foreign trade regulation, advice on methods of hedging exchange risk etc.

(b) **Payment Mechanism and Fund Transfer:**

In an economy involved in trade and exchange within and across national borders, goods and services are produced and sold. Parties involved are paid and must pay. Bank's check clearing and fund transfer facilities have impacted positively in the volume of trade and other business transaction by deployment of IT in banks, the speed of service delivery has improved while the cost of doing business has reduced tremendously. As it is possible to more millions of Naira through electronic media (Electronic transfer) and chip base cards such as credit cards, debt cards, ATMs, or even through the fast growing electronic purse (value cards). This development impacts positively on the aggregate production and economic growth of any economy (Carlin and Mayer 2003) and Nigeria in particular.

- **Business Advisory and Consultancy Service**

Oboh (2005), concluded that in additions to the normal lending activities, banks now engage in business advisory and consultancy services, now that business fail simply because of mismanagement, faculty investment decision, unrealistic assumptions, inefficient capital structure and planning, all of which banks can provide today, to ensure that economic growth is not retarded.

2.2.1 CHALLENGES FACING THE BANKING INDUSTRY IN NIGERIA

The current banking reform in Nigeria was designed to promote the viability; soundness and stability of the system to enable it adequately meet the aspirations of the economy in terms of accelerated economic growth and development. The reform agenda was motivated by the need to proactively put the Nigerian banking industry on the path of global competitiveness to enable it effectively respond to the challenges of globalization. The overall objective is to guaranty that the economy and Nigerians do not remain fringe players in the context of a globalizing world.

The major challenges that the reform was targeted at include the following:

- **Weak Capital base**: Most banks in Nigeria had a capital base that was less than US $10 million while the largest bank in the country had a capital base of about US $ 240 million. This compared unfavourably with the situation in Malaysia where the smallest bank had a capital base of US $526 million. The smallest size of most local banks, coupled with their high overheads and operating expenses has negative implications for the cost of intermediation. It also meant that they could not effectively participate in big-ticket deals, especially within the framework of the single obligor limit.

- **The Challenge of Ethics and Professionalism:** In bid to survive the stiff competition in the market, a number of operators had restored to unethical and unprofessional practices. Strictly speaking, some even went into some businesses that could not be classified as banking. In appreciation of the enormity of the problems caused by the failure to adhere to professional and ethical standards, the Bankers' Committee set up a sub-committee on "ethics and professionalism" to handle complaints and disputes arising from unwholesome and sharp practices.

- **Poor Corporate Governance Practices:** There were several instances where Board members and management staff failed to uphold and promote the basic pillars of sound corporate governance because they were preoccupied with the attainment of narrowly defined interests. The symptoms of this included high turnover in the Board and Management staff, inaccurate reporting and non-compliance with regulatory requirements.

- **Gross Insider Abuses:** One area where this was pronounced was the credit function. As a result, there were several cases of huge non-performing insider-related credits.
- **Insolvency:** The magnitude of non-performing risk assets was such that it had eroded the shareholders' funds of a number of banks. For instance, according to the 2004 NDIC Annual Report, the ratio of non-performing credit to shareholders' funds deteriorated from 90% in 2003 to 105% in 2004. This meant that the shareholders' funds had been completely wiped out industry –wide by the non-performing credit portfolio.
- **Over-reliance on public sector deposit:** These deposit accounted for over 20% of total deposits in the system. In some institutions, such public sector funds represented more than 50% of total deposits. This was not healthy situation from the view point of effective planning and plan for implementation, given the volatile nature of these deposits.

On account of over reliance on public sector funds, a number of player did not pay adequate attention to small savers who normally constitute a major source of stable funds which should be channeled to finance the real sectors. Instead, they concentrated on a few high net worth individuals, government parastatals and blue chip companies. It was in response to this situation coupled with the need to accord the small and medium enterprises sub-sector the priority it deserves that the Bankers' Committee came up with came up with the Small and Medium Enterprise Equity Investment Scheme (SMEEIS) with a view to redirecting credit flows to the sub sector, Uboh 2005.

2.3 THE CONCEPT OF CAPITAL BASE

The recent call for recapitalization in the banking industry has raised much argument among bank regulators, promoters and depositors as if shoring up of bank's capital base is a new phenomenon in Nigeria. Historically, the failure of pioneer 1930's and 1940's brought about the enactment of banking ordinance of 1952. Banking Ordinance of 1952 prescribed an operating license and emphasized on minimum equity capital for all banks (Onoh, 2002:321). Since then, raising of bank capital has become the hallmark response policy of the Nigeria monetary authorities.

Capitalization is an important component of reforms in the banking industry owing to the fact that a bank with a strong capital base has the ability to absorb (NPL). Attaining capitalization requirement is achieved through consolidation, convergence as well as the capital market. Thus banking reforms are primarily driven by the need to achieve the objectives of consolidation, competition and convergence, (Deecan Herald, 2004) in the financial architecture.

2.4 TRENDS IN BANK CONSOLIDATION

According to Sloan and Arlond (1970) consolidation is a fusion of the assets and liabilities, in whole or in part of two or more business establishment. Consolidation represents the idea of investment and the coming together of firms; it can also mean larger sizes, larger shareholders bases and larger number of depositors. According to Adamu (2005) bank or corporate consolidation could b e achieved by way of mergers/acquisition and recapitalization. It is more than mere shrinking of numbers of banks in any banking industry.

According to Hall (1999) consolidation is a global phenomenon, which started in the advanced economies of the world. For example, the enactment of Riegle-Neal Act, which allows interstate branch banking beginning from 1997, this led to increase in bank mergers in the USA (Akharim et al and Kwan 2004). Consolidation allow a mega bank to enjoy higher profit, increase revenue and low problem loans. Japanese banking industry also experienced consolidation in the 1990s which resulted to economies of scale (Fukuyams, 1993P Mckillop et al 1996).

Consolidation in financial services in the USA and other industrialized countries has occurred along 3 lines, namely; within the banking industry, between banks and other non-bank financial institutions, and across national borders. In USA, most of the consolidation that took place occurred within the banking sector, for instance, in that country, the number of banking organizations fell from about 12,000 in the early 1980s to about 7,000 in 1999, a decrease of more than 40%. In Canada, there have been trends toward consolidation of commercial banks and merchant banks, where as in Europe, where the Universal Banking model is more prevalent, the trend has been to combine banking and insurance business. While most of the bank consolidation in the developed economies occurred within the domestic front, there are signs of increased cross border activities. Such cross border activities have been facilitated in Europe with the lunch of the Euro. The trend towards financial consolidation in Europe, USA and Canada could be traced to several factors such as:

1. The need to eliminate weak or problem financial institutions during the thrift and banking crisis of the late 1980s and early 1990s.

2. Some European countries experience problems with institutions weakened by exposure to real estate lending.

3. Advancement in telecommunication and information technology has also accelerated the face of bank consolidation. It has reduced the cost of providing financial services (Adeyemi, 2005).

2.5 REASONS FOR CONCERN OVER CAPITAL ADEQUACY IN NIGERIAN BANKS

Traditionally, operators and supervisory authorities never gave much thought to the question of capital adequacy in banking. This has however changed in recent years. According to Adewumi (1997), since the early seventies, great concern has been expressed over the issue of adequate capital for banks. Firstly, the industry has witnessed unprecedented competition in the last two decades. This has led bankers to engage in new unknown and riskier fields that the supervisory authorities in particular have expressed concern over capital adequacy. In Nigeria, the concern of the regulatory authorities has been reflected in the continual increase in the capital requirement for banks entering the industry.

Secondly, significantly, as a result of inflation, the volume of banking business reflected in the total asset/liabilities of banks has increased phenomenally in recent years. As the asset will diminish in relation to liabilities if no additions are made to it. This trend has given concern to the regulatory authorities all over the world.

Thirdly, the international and business environment and sectors have become increasingly intertwined as a result of globalization. Consequently too, the bankers have become exposed to risks not directly inherent in the business of the economics in which they operate. The question as to whether existing levels of capital are considered adequate for the increasing levels of risks has risen consequently in debates between supervisory authorities.

Fourthly, although, capital in banking did not attract undue attention in the past, nevertheless capital were calculated and observed, with increase in the volume of banking not match of with corresponding increases in stock, the capital and deposits and total assets have declined. This development has given some concern to practitioners and the supervisory authorities.

Finally, bank failures have become an important phenomenon in economies of Europe, America and indeed the world over since the early 1980-90s. Significant systematic banking crises have been experienced in East Asia, the US and Europe (Wilmarth, 2002).

Even the very resilient British banking system experienced some hiccup with the bank crisis of the mid 1970's which was contained only by the life boat rescue operation of the bank of England. Empirical studies of bank failures have attributed this to inadequacy of capital of these banks, a few years prior of failure. It has been suggested that capital adequacy be given considerable attention all over the world.

According to Lewis and Stein (1997) structurally in Nigeria the banking sector was highly concentrated as the largest banks account for about 50 percent of the industry's total assets/liabilities. Most banks in Nigeria have a capitalization of less than US $10 million; even the largest bank in Nigeria has a capital base of about US $240 million compared to US $526 million for the smallest bank in Malaysia. This is not healthy for the economy. It was this concern to save Nigerian banking sector from systematic crisis that led to regular reform of the sector and the requirement for banks to raise their capital base to a minimum of ₦25 billion with compliance data of 31st December, 2005 in the recent reform.

2.5.1 REGULATORY AND LEGAL FRAMEWORK OF CAPITAL ADEQUACY

According to Soludo (2004), the Nigeria Banking system faces enormous challenges which if not addressed urgently could snowball into crisis in the near future. Beck et al (2005) noted that since 1952 when the first banking legislation was enacted all the banking laws in Nigeria have specified minimum paid up capital. Up to 1969, the legislation, for this purpose distinguished between foreign banks and indigenous banks, the 1979 Decree section 6 states that: the minimum capital required by an indigenous bank to be granted license must be ₦600,000.00. A bank directly or indirectly controlled from abroad should have paid up capital of up to₦1.5 million. In 1979, different initial capital base requirement were stipulated for commercial and merchant banks. With the promulgation of Nigeria enterprises promotion Decree and the advent of Universal Banking, the specification/differentiation between foreign, indigenous, NGO's, commercial and merchant banking dimension was eliminated.

Lewis and Stein (1979) noted that while the statutory minimum capital requirement largely stabilized during the pre-SAP period, four upward reviews were put in place after SAP to adjust for the inflationary impact of the SAP induced policies. The increase in the number of operators between 1987 and 1990 actually led to the ballooning of loans and advances of banks industry wide and a consequent deterioration in the quality of banks risk assets. The CBN introduced the new famous prudential guidelines, which made it mandatory for banks to recognize early and provide for non performing assets. The effort of those stringent but necessary measures was the erosion of the capital base of quite a sizeable number of operators as their accumulated reserves were not sufficient to absorb the huge loses. The almost four time devaluation of Naira exchange rate to the dollar between March 1992 (₦10: $1 to ₦18: $1) and February 1995 from (₦22: $1), dealt a final total blow on the capital base of the banks particularly those that have been pronounced terminally distresses by the CBN. According to Lewis and Stein (1997) the new globally embraced capital adequacy measurement places considerable emphasis on the risk element in the assets of banks. This is to ensure that each bank carries funds that are not only commensurate with its total assets but also cater adequately for the riskiness of its operation nationally and internationally.

2.6 THE POSITION OF THE BANKING SECTOR BEFORE CONSOLIDATION IN NIGERIA

There was existence of eight-nine (89) banks predominantly in the urban centres as at June 2004, characterized by Structural and Operational weakness of low capital base. Dominance of few banks insolvency, and illiquidity, over dependence on public sector deposits and foreign exchange, trading, poor asset quality, weak corporate governance, a system with low depositor confidence. Banks that could not effectively support the real sector of the economy at 24 percent of GDP compared to African average of 87 and 272 percent for developed countries.

2.6.1 CONSOLIDATION STRATEGY OF CBN AND THE EMERGENCE OF MEGA BANKS

According to Soludo (2004), the sole objective of banking sector reform is to move the Nigerian economy forward and to proactive position the banking system to be sound reliable catalyst of development. According to Otanngaran (2004), a survey of top 75 banks indicates that the banks as at March, 2003, have a total capitalization of₦94.4 Billion while their shareholders' funds stood at ₦298 billion. According to the survey, the top 75 banks represent 84% of the 89 banks in operation. The survey showed that the banks need additional ₦1.8 trillion which represents 94.7% of the total, 1.9 trillion that the 75 banks require to recapitalize, while the total 89 banks will require ₦2.1 trillion.

The enormous amount needed was 6% higher than the Nigeria stock exchange (NSE) capitalization, which stood at 1.98 trillion as at 2004, which makes raising the money less feasible in less than 18 months. What this implies is that the Nigerian banks have little or no option than to embrace mergers and acquisition or strategic alliance to remain in business. The survey, showed that out of 74 banks, only two have capital bases above ₦3 billion with four of them having capital bases above ₦2 billion, the remaining 69 banks have less than 82 billion. According to Beck et al (2000) and Lewis ad Stein (2002), in 1985 the number of banks in Nigeria were 40 with 24.78% claims on the domestic real non financial sector as a share of GDP, there were 107 banks with 11.4% claims on the domestic real non financial sector as a share of GDP in 1990, the number of banks was 89 since up to 2004 and claims on the domestic real non financial sector as a share of GDP fluctuates between 13.71% to 21.40% during the period.

Options Employed by the banks were

- Injection of fresh capital through initial public offers, private placement and right issues.
- Conversion of reserve to capital
- Mergers between banks of like minds
- Outright acquisitions by bigger, stronger banks of weak banks
- Combination of two or more of the above strategies (Otanngaran, 2004).

At the end of the day 25 banks emerged while 14 banks that were unable to raise the 25 billion capital base were declared distressed by the Central bank. According to Otanngaran (2004) the cost has become clearer due to the zero tolerance posture of the Central Bank of Nigeria. Soludo (2004) said at the end of consolidation exercise, many individuals and institutions have come to gain or lose from it. The list of the 25 banks that survived the reform is as shown on table 2.

Table 2: List of Banks after consolidation

S/N	New Names	Former Banks in the Group	Capitalization
1.	First Bank	First Bank Plc, MBC Int. Bank FBN (merchant) Bankers	48.7
2.	United Bank for Africa	United bank for Africa, Standard Trust bank	50.0
3.	Union Bank	Union Bank, Union Merchant Broad Bank, Universal Trust Bank	43.2
4.	Diamond Bank	Diamond Bank, Lion Bank	28.6
5.	Oceanic Bank	Oceanic Bank, Int. Trust Bank	58.9
6.	Intercontinental Bank	Intercontinental Bank, Global Bank, Gateway Band and Equity Bank	30.2
7.	Fidelity Bank	Fidelity Bank, FSB International Bank, Manny Bank	29.0

8.	First City Monument Bank	FCMB, Cooperative Devcom Bank, Nigerian American Merchant	29.0
9.	Spring Bank	Citizens Bank International, Guardian Express Bank, Omega Bank, ACB International Bank and Fountain Trust Bank	26.4
10.	Access Bank	Access, Marina Int. Bank and Capital Bank International	29.4
11.	Unity Bank	Intercity, First Interstates, Tropical Commercial Bank, Central Point Bank, Society Banacaire and Pacific bank, NNB Int. Bank of the North, New African Bank	27.8
12.	Equatorial Bank	Equatorial Trust Bank and Devcom	29.3
13.	First Inland Bank	First Attantic, Inland Bank, IMB, NUB	27.5
14.	Afribank	Afribank Int. (Merchant) Bank, Afribank of Nigeria	26.64
15.	IBTC chartered	IBTC < Chartered Bank and Regent Bank	31.3
16.	Skye Bank	Prudent Bank, EIB Int. Bank, Bond Bank, Elience Bank and Cooperative Bank	35.00
17.	Wema Bank	Wema Band and National Bank	37.7
18.	Sterling Bank	Trust Bank, NBM Bank, Magnum Bank, NAL Bank, Indo Nigeria Bank	26.9
19.	Platinum-Habib Bank	Habib and Platinum	26.9
20.	Stanbic Bank	Alone	36.10
21.	Zenith Bank	Alone	26.7
22.	Nigeria Int. Bank	Alone	37.79
23.	Eco Bank Nigeria	Alone	25.7
24.	Standard Chartered Bank	Alone	32.3
25.	Guaranty Trust Bank	Alone	27.5

Source: USE Act Book (2006) and Financial Std. Jan. 30, 2006.

Bank Distressed After Consolidation Exercise:

Nigerian Banks that were affected by the consolidation and became distressed include; African Express Bank (APEX), All States Trust Bank PLC, Assurance Bank, City Express Bank PLC, Continental Trust Bank PLC, Gulf Bank Fortune International Bank PLC, Metropolitan Bank Ltd, Societe Generale Bank Ltd, Trade Bank Plc, Truim Bank Plc (CBN, 2005).

2.6.2 BANK CONSOLIDATION THROUGH MERGERS AND ACQUISITION

Consolidation is achieved through merger and acquisition. A merger is the combination of two or more separate firms into a single firm. The firm that results from the process could take any of the following identities; Acquirer target or new identity.

Acquisition on the other hand, takes place where a company takes over the controlling shareholding interest of another company. Usually, at the end of the process, there exist two separate entities or companies. The target company becomes either a division or a subsidiary of the acquiring company. While consolidation involves merger and acquisition of banks, convergence involves the consolidation of banking and other types of financial services like securities and insurance (FRBSF Economic letter, 1998).

Anecdotal evidence indicates that the commonest form of mergers and acquisitions found in the financial service industry involves domestic firms competing in the same segment. For instance, Bank to Bank. The second most common type of mergers and acquisition transaction involves domestic firms in different segments. (For instance, bank – insurance firms). Cross border merger and acquisition are less frequents particularly those involving firms in different industry segments (Roger Ferguson Jr. 2002).

2.6.3 APPROVAL UNDER MERGER AND ACQUISITION

Before any bank can be said to consolidate through merger and acquisition in the Nigerian industry, it must first seek and obtain the approval of the following regulatory and supervisory authorities in the industry. They include the Security and Exchange Commission (Sec). Before granting its approval, SEC considers the effect of the proposed transaction on the competitive environment, with a view to ensure that the transaction does not restrain competition or create a monopoly. The procedure or process for obtaining approval for mergers and acquisitions entail four basic steps.

- Filling a pre-merger/Acquisition notification
- Filling a formal application for approval of the proposed Merger/Acquisition.
- Hold a court order meetings
- Complying with post-approval requirements.

2.6.4 THE ROLE OF SECURITY AND EXCHANGE COMMISSION, CENTRAL BANK OF NIGERIA, NIGERIAN STOCK EXCHANGE AND CORPORATE AFFAIRS COMMISSION AS REGULATORY AUTHORITIES IN MERGERS AND ACQUISITIONS:

Securities and Exchange Commission:

The Nigerian Law provides that every merger, acquisition or business combination between or among companies shall be subject to the prior review and approval of the Security and Exchange Commission (SEC), (ISA 1999. 599[2]). Subsection 3 of the section 99 provides that the commission shall approve any application made under that section if and if only the commission finds that “it is not likely to cause a substantial competition or trend to create a monopoly in any line of business enterprise” or “use of such shares by voting or granting of proxies”, it should be noted that both mergers and acquisitions require SEC approval on monopoly. Worthy of note is that monopoly consideration is a pre-merger issue. There is no need to commence the merger process if at the end or in the middle of the process SEC will refuse approval on the basis that the combination will inhibit competition. It is therefore important to seek a pre-merger approval from SEC. The application for pre-merger approval should include information on history and business of the combining companies as well as their market.

Apart from pre-merger approval on issue relating to monopoly, SEC has to approve the scheme after a court session and holding of court-sanctioned meetings. The role of SEC in this regard is quite different from the pre-merger approval. At this stage, SEC will ply its traditional role of regulation to ensure compliance by the parties with disclosure and good corporate governance requirement of the law. The role of SEC is not to be participant but to create enabling environment for parties to play in affair market situation.

Central Bank of Nigeria (CBN) Approval:

Banks and other Financial Institutions Act (BOFA) 1991 and the Central Bank of Nigeria (CBN) Act of 1991, the CBN has enormous powers to regulate banks including approval of consolidation of banks and changes in the structure and management of any bank. It follows that the world powers of the CBN, it is advisable that pre-merger approval of CBN be obtained prior to commencement of the process of consolidation. The pre-merger approval for merger and acquisition would be required to undergo three stages of approval namely, pre-merger consent from the CBN, approval-in-principle and final approval. Also it is imperative that CBN approval be sought and obtained to the scheme document, shareholders agreement, new memorandum and articles of association implementing shareholders agreements, if any.

During implementation process, every structural management action would be subject to CBN approval. These would include reorganization, staff rationalization, name approval, branch rationalization, head office etc.

Nigeria Stock Exchange (NSE) Approval:

The approval of Nigeria Stock Exchange is necessary if the merged companies are to be a public limited liability companies and desire listing on the exchange or some of the merging companies are listed on the exchange. During the merger period the NSE is like place of listed parties to the merger or technical suspension to prevent unfair trading and protect those companies.

Corporate Affairs Commission (CAC) Approval:

Essentially from the legal point of view the CAC has merely a ministerial role to play in mergers and acquisitions. It is the custodian of company document; therefore most of the processes end up with the CAC for proper custody. This is done through statutory returns. Certificate of incorporation will eventually be returned and a new one issued for the merged companies. The share capital may have to be increased substantially. Also, returns of allotment will have to be filed. Some of these processes involve payment of substantial sums in stamp duties and filling fees. It is therefore imperative that these costs be anticipated.

Although the CAC has a purely ministerial role in the regulation of mergers and acquisitions, improvement in its technology and some service delivery means that, it is more able to track defaulting companies and this can slow down the process for companies involved in the merger process whose returns at CAC is not up to date. Defaulting companies have to pay substantial penalties.

2.6.5 IMPACT OF CONSOLIDATION EXERCISE ON THE NIGERIAN ECONOMY

❖ **Capital Flow Effect**

According to CBN (2005) the consolidation exercise of the banking sector has attracted foreign investment inflow to the sector to the tune of US $86 million, about ₦12.4 billion and another £162,000 pounds (about ₦340 billion).

An estimated ₦359 billion was raised by banking sector from private placements and public offer. Foreign line of credit of two of the Banks that were among the first set of banks to consolidate has increased to about US $250 million as a result of the consolidation exercise. So the potentials are getting better, foreign investors now have confidence in Nigeria. Tangible benefits have been seen in increased growth improving perceptions and debt relief through the ongoing consolidation. The consolidation provides starting point for a stronger and more resilient financial economy of scale, large Bank, which is likely to withstand economic permutation and few banks, which are easier to supervise.

❖ **Boost Manufacturing:**

Bank consolidation is a boost to manufacturer following the success so far achieved by the Central Bank of Nigeria in the effect to revamp the manufacturing sector. Some years ago, facilities were in the range of 25/30 percent interest rate. In fact, some facilities are coming at 15 percent now. It is going to be better for the real sector at the final analysis. Okeke (2006) pointed out that before the consolidation, no bank would fund your project if you did not have a godfather. He said that banks will now virtually be on your door step to give you finances.

Business will expand because of the increased access to finance, revenue generation will also increase to repay the loan and make good profit. Business can now advertise in the media and even employ more hands.

Effect on Capital Market

Banking stock undoubtedly occupy position as growth drives on the Nigerian Stock Exchange (NSE). A review of market performance in 2005 confirms this strategic importance of banking stocks. Seventeen Banks made the 20 most active stocks by volume with 9 banks on the top 10 most active list. Also 10 banks made the top 20 most capitalized stocks list. Also 10 banks made the top 20 most capitalized stocks list with banking sector contributing 6 out of Nigeria's 10 most capitalized companies.

The consolidation also ushered in an unprecedented era of new listings of new banking stocks. Ten banks were listed between July 2004 and December 2005.These include, ACB international, Diamond Bank, Guardian Express Bank, Investment Banking and Trust Company (IBTC), Platinum Bank, Unity Bank, Spring Bank and Zenith Bank.

The recapitalization and consolidation exercise shattered the private ownership domination of Nigeria banking industry and converted to public limited liability companies. These resulted to having only 25 banks listed on the Nigeria Stock Exchange with 1.98 trillion Naira total market capitalization as at 2006 (NSE Fact Book, 2006).

Imala (2005) indicated that consolidation and merger/acquisition in the financial services sector is beneficial for the following reasons:

- Cost savings attributable to economies of scale and more efficient allocation of resources.
- Risk reduction
- Revenue enhancement, resulting from the impact of consolidation on bank size, scope, and overall market power.
- Shareholders' pressure on management to improve profit margins and returns on investment, made possible by new and powerful shareholders blocks.

REFERENCES

Adams, A.J. (2003). Predicting Banks Crisis in Nigeria (1986-2011).

Adetiloye, K.A. (2004). Recapitalization and Requirements of Globalization. J. Econ. Thought, 1 (2): 13 – 17.

Adewumi, S. (1996). The Effects and Challenges of Financial Liberalization, The Nigerian Banker.

Adeyemi, K.S. (2005). Banking Consolidation in Nigeria: Issues and Challenges, Union Digest, 9 (3 and 4).

Ayodele, Aminu (2005). Foreign Capital Inflows: The gains, the pains. This Day Newspaper, November 16.

Beck, T.A. Cull, R., Jerome A. (2005) Bank Privatization and Performance: Empirical evidence from Nigeria, Journal of Banking and Finance, Vol. 14: 597-605.

Boyd, John H. and Prescott, Edward C. (1986). Financial Intermediary-Coalitions, Journal of Economic Theory, 38 (2).

C.B.N. (2005). The Impact of post Banks Consolidation on the Nigerian Economy, Business Guardian, December 13.

Carlin W and Mayer C. (2003) Finance, Investment and Growth. Journal of Financial Economics, 69 (1).

Diamond, D.W. (1984). Financial Intermediation and Delegated Monitoring, Review of Economic Studies, 51 (3).

Ekundayo, J.O. (1994). The Future of the Banking Industry in Nigeria, CBN Economic and Financial Review: 32 (3).

Greenwood, and Jovanoic, B. (1990). Financial Development, Growth and the Distribution of Income, Journal of Political Economy, 5 (1).

Imala, O.I. (2005). Consolidation in the Nigerian Banking Industry: A Strategy for Survival and Development.

Kwan, S. (2004). Banking Consolidation Federal Reserve Bank of San Francisco (FRBSF), Economic Letter.

Lewis, P., and Stein, H. (1997). Shifting Fortunes. The political Economy of Financial Liberalization in Nigeria. World Development, 25: 5 – 22.

Oboh, G.A.T. (2005). Selected Essay on Contemporary Issues in the Nigerian Banking System. Ibadan University Press.

Okeke, E. (2006). Effects of the Recapitalization on the Nigerian Economy, Sun News January, 21.

Soludo, C.C. (2004). Consolidation and Strengthening of Banks, Speech Delivered at the meeting of Bankers Committee, 6th August, 2004.

Wilmarth, A.E. (2002). The transformation of the U.S. Financial Service Industry, 1975 – 2000: Competition, Consolidation Illinois Law Review: 215.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

Research methodology means the specification of procedures used for collecting and analyzing the data and how dependable solution and conclusion were carried.

This chapter shall focus on laying the framework for this research study by exposing the methodology employed in the research. Only relevant data for this study were collated and analyzed by the researcher.

3.1 RESEARCH DESIGN

Design means the plan or blue-print on how to go about data collection and analysis, all aimed at providing solutions to the problem under investigation. It entails the specification of procedures that would be deployed in the field work (Chukwuemeka, 2002).

It would be recalled that the problem under investigation in this work is an appraisal of the impact of recapitalization of banking industry on economic growth of Nigeria, therefore, the specific purpose of this research design is to obtain data that will enable the researcher to test the pre-set hypotheses or answer research questions of the study (Asika, 1991).

3.2 SOURCES OF DATA

The source of data for the purpose of this work were obtained from secondary source.

Secondary Source of Data

These are data needed for current study, which were collected primarily for another study. Data from these sources were not original to the researcher, they were assembled by another person. These sources of data include – text books, journals, newspapers, magazines, encyclopedias, other people's project report etc. but in the course of this work, journals and newspapers were specifically used. These contributed to a large extent the sources of information.

3.3 RESEARCH MODEL

A model is an abstract of reality. For this study, the hypotheses are model in line with the works of Soyinbo and Ade Kanya (2003).However, the models will be specified along the hypotheses stated.

Thus, for hypothesis one which states that liquidity ratio of commercial bank does not have positive and significant impact on economic growth in Nigeria, pre and post consolidation will be represented as;

$GDPgrpr = a + b LRpr + \mu$ ………………. (ia)

$GDPgrpt = a + \mathbf{b} LRpt + \mu$ ……………….. (ib)

Where:

GDPgrpr = Gross Domestic Product growth rate pre consolidation

LRpr = Liquidity Ratio pre consolidation

GDPgrpt = Gross Domestic Product growth rate post consolidation

LRpt = Liquidity Ratio post consolidation

a = Constant of the equation

b = Coefficient of the independent variable

μ = Error Term.

For hypothesis two which state that cash reserve ratio of commercial banks in Nigeria does not have positive and significant impact on economic growth pre and post consolidation in Nigeria, it will be represented as;

$GDPgrpr = a + bCRRpr + \mu$ ……………. (iii)

$GDPgrpt = a + bCRRpt + \mu$ ………………(iv)

Where;

GDPgrpr = Gross Domestic Product growth rate pre consolidation

GDPgrpt = Gross Domestic Product growth rate post consolidation

CRRpr = Cash reserve ratio pre-consolidation

CRRpt = Cash reserve ratio post consolidation

For hypothesis three which states that money supply created by commercial banks does not have positive and significant impact on economic growth in Nigeria pre and post consolidation.

Where

$GDPgrpr = a+bMSpr + \mu$ ………………. (v)

$GDPgrpt = a + bLRpt + \mu$……………….. (vi)

Where;

GDPgrpr = Gross Domestic Product growth rate pre consolidation

MSpr = Money supply pre consolidation

GDPgrpt = Gross Domestic Product growth rate post consolidation

MSpt = Money supply post consolidation

a = Constant of the equation

b = Coefficient of the independent variable

μ = Error Term.

Lastly, hypothesis four which states that loan to deposit ratios of commercial bank does not have positive and significant impact on economic growth in Nigeria pre and post consolidation.

$GDPgrpr = a + bLDRpr + \mu$ ………………. (vii)

$GDPgrpt + a + bLDRpt + \mu$ ………………. (viii)

Where;

GDPgrpr = Gross Domestic Product growth rate pre consolidation

LDRpr = Loan to Deposit ratio pre consolidation

LDRpt = Loan to Deposit Ratio post consolidation

a = Constant of the equation

b = Coefficient of the independent variable

μ = Error Term

3.4 EXPLANATION OF MODEL VARIABLES

The following model variables are explained below:

Dependent variable

Gross Domestic Product: Is the monetary value of all the finished goods and services produced within a country's borders in a specified time period usually a year. It includes all private and public consumption government outlays, investments and exports less imports that occur within defined territory.

Independent Variables

Liquidity Ratio: Is the ability to convert an investment portfolio to cash with little or no loss in value.

Ability of company to pay its bills from cash or from assets that can be turned into cash very quickly. The quick ratio is an indicator of company's liquidity.

Loan to Deposit: This is a commonly used statistics for assessing a bank's liquidity by dividing the total loan by its total deposit.

Cash Reserve: Refers to the money company or individual keeps on hand to meet its short-term and emergency funding needs.

Money Supply: Is the entire stock of currency and other liquid instruments in a country's economy as of a particular time. It can include Cash, Coins and balances held in checking and savings accounts.

3.5 TECHNIQUES OF ANALYSIS

In achieving the objectives of this study, econometric technique of data analysis was employed. The hypotheses stated in chapter one was tested using the OLS Linear Regression model with E-view statistical software for the hypotheses. The signs and significance of the regression coefficients was relied upon in explaining the nature and influence of the independent and dependent variables as to determine both magnitude and direction of impact. The form of OLS Model implies that there is a one-way causation between the independent and dependent variables. The signs of the coefficient and the t-value were used to explain the direction and magnitude of impact of the independent variables

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 PRESENTATION OF DATA

Below are presented relevant data for the test of hypotheses stated in Chapter one. They are observable from Tables 4.1.

Table 4.1 Untreated and Treated Proxy Data in Nigeria 1999-2012

YEAR a	GDPgr	LR	CRR	MS/GDP	LDR
1999	1.1	61	9.8	13.4	54.6
2000	5.3	64.1	10.8	13.1	51
2001	5.44	52.9	10.6	18.4	65.6
2002	8.45	52.5	10	19.3	62.8
2003	21.35	50	8.6	19.7	61.9
2004	10.23	50.5	9.7	18.7	68.6
2005	10.48	50.2	4.2	18.1	70.8
YEAR b					
2006	6.51	55.7	4.2	20.5	63.6
2007	6.03	48.8	4.2	24.8	70.8
2008	6.45	44.3	3	33	80.9
2009	6.41	30.7	1.3	38	85.7
2010	6.53	30.6	1	32.5	79.4
2011	7.87	23.3	1.5	32.5	48.3
2012	7.56	46.5	8	34.3	48

Source: CBN Statistical Bulletin, 2013

Note: a= Preconsolidation, b=Post consolidation , GDPgr=Gross Domestic Product Growth Rate, LR=Liquidity Ratio, CRR=Cash Reserve Ratio, MS/GDP=Money Supply to Gross Domestic Product, LDR=Loan to Deposit Ratio

Table 4.2 presents the descriptive statistics of the model proxies. This table assisted in analyzing table 4.1

Table 4.2 Descriptive Statistics of Proxy Data

	GDPGRa	LRa	CRRa	MSGDPa	LDRa
Mean	8.907143	54.45714	9.100000	17.24286	62.18571
Median	8.450000	52.50000	9.800000	18.40000	62.80000
Maximum	21.35000	64.10000	10.80000	19.70000	70.80000
Minimum	1.100000	50.00000	4.200000	13.10000	51.00000
Std. Dev.	6.393246	5.711059	2.275229	2.780802	7.189443
Skewness	0.942489	0.906317	-1.653736	-0.829138	-0.432562
Kurtosis	3.259901	2.096056	4.288152	1.866041	1.914240
Jarque-Bera	1.056036	1.196637	3.674621	1.177091	0.562134
Probability	0.589773	0.549735	0.159245	0.555134	0.754978

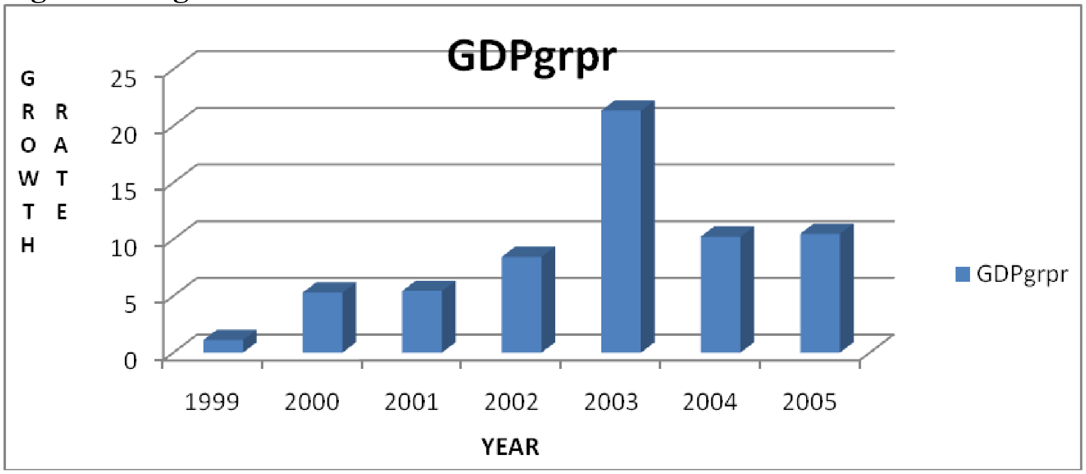
Observations	7	7	7	7	7
	GDPGRb	**LRb**	**CRRb**	**MSGDPb**	**LDRb**
Mean	6.765714	39.98571	3.314286	30.80000	68.10000
Median	6.510000	44.30000	3.000000	32.50000	70.80000
Maximum	7.870000	55.70000	8.000000	38.00000	85.70000
Minimum	6.030000	23.30000	1.000000	20.50000	48.00000
Std. Dev.	0.675620	11.82095	2.460643	6.011101	15.41039
Skewness	0.784075	-0.147236	0.938829	-0.722839	-0.342495
Kurtosis	2.063697	1.611962	2.860358	2.297777	1.573857
Jarque-Bera	0.972928	0.587231	1.033988	0.753404	0.730069
Probability	0.614796	0.745563	0.596310	0.686120	0.694173
Observations	7	7	7	7	7

Source: Research E-view Result

Note: a= Pre-consolidation, b=Post consolidation, GDPgr=Gross Domestic Product Growth Rate, LR=Liquidity Ratio, CRR=Cash Reserve Ratio, MS/GDP=Money Supply to Gross Domestic Product, LDR=Loan to Deposit Ratio

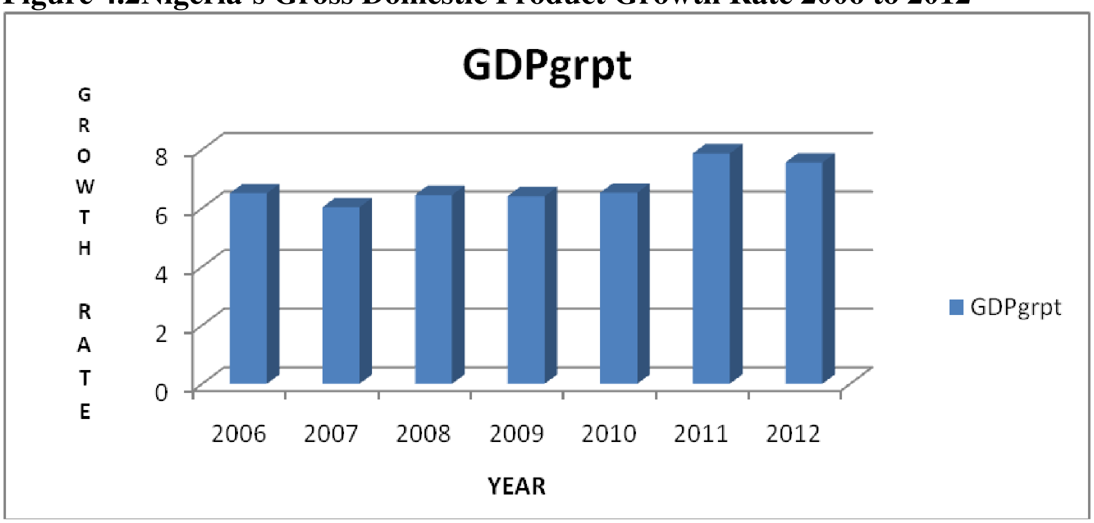
Tables 4.2 revealed the descriptive statistics of Nigeria's gross domestic product growth rate; pre and post consolidation. The mean value of Nigeria's gross domestic product growth rate from pre-consolidation was 8.91 while post consolidation shows an average value of 6.77. The median value of the pre-consolidation gross domestic product growth rate was 8.45 while post consolidation shows a median value 6.5. The year with the highest growth rate in gross domestic product in pre and post consolidation was in 2003 when the economy grew by 21 percent while the year with the least growth rate in Nigeria's gross domestic product was in 1999 when the economy grew by 1.1 percent over the preceding year. Overall Nigeria's gross domestic product growth rate showed consistent increase over the period of pre-consolidation but showed decline in post consolidation. As revealed from table 4.2, the JB statistic is an indication of the distributions deviation of 0 (Skewness and Kurtosis if it was truly a normal distribution). With a pre-consolidation P-value = 0.59, indicates that the null hypothesis: "the distribution is normal" is accepted while a post consolidation P-value = 0.61 shows normal distribution. The diagrammatical presentation is depicted in figure 4.1 and 4.2.

Figure 4.1Nigeria's Gross Domestic Product Growth Rate 1999 to 2005



Source: Researchers Excel Result**Note**:GDPgrpr=Gross Domestic Product Growth Rate Pre-consolidation

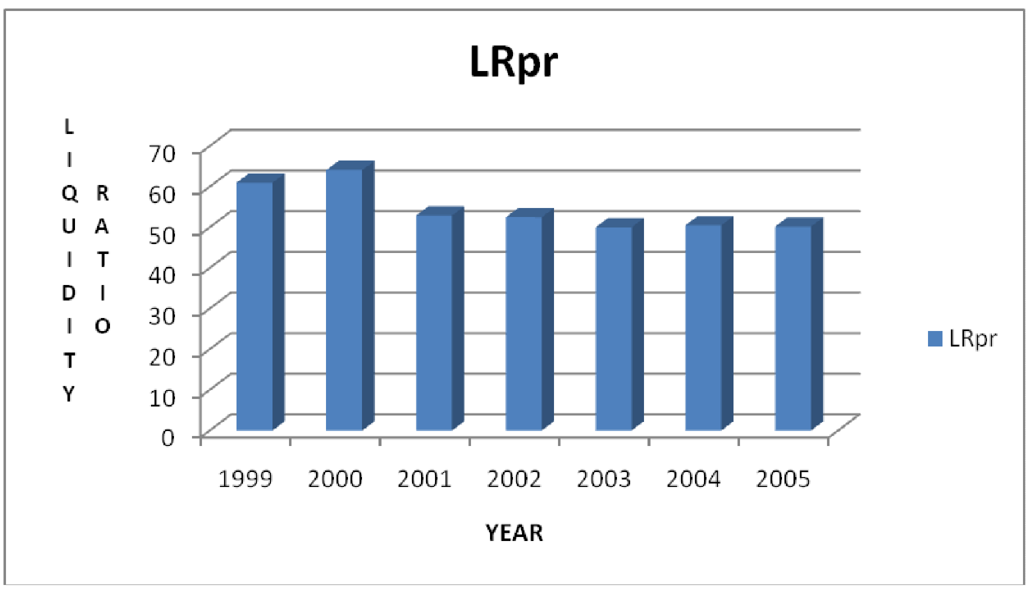
Figure 4.2Nigeria's Gross Domestic Product Growth Rate 2006 to 2012



Source: Researchers Excel Result**Note**:GDPgrpr=Gross Domestic Product Growth Rate Post consolidation

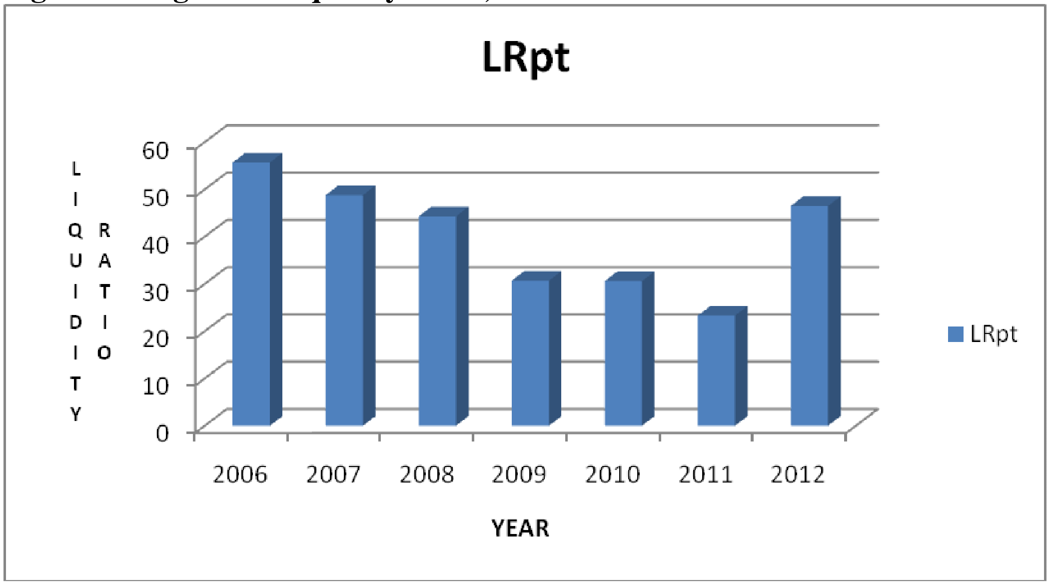
Tables 4.2 revealed the descriptive statistics of Nigeria's liquidity ratio; pre and post consolidation. The mean value of Nigeria's liquidity ratio from pre-consolidation was 54.45 while post consolidation shows an average value of 39.98. The median value of the pre-consolidation liquidity ratio was 52.50 while post consolidation shows a median value of 44.30. The year with the highest liquidity ratio in pre and post consolidation was in 2000 when the economy liquidity ratio 64.1 percent while the year with the least liquidity ratio was in 2011 when the economy's liquidity stood by 1.1 percent over the other years. As revealed from table 4.2, the JB statistic is an indication of the distributions deviation of 0 (Skewness and Kurtosis if it was truly a normal distribution). With a pre-consolidation P-value = 0.54, indicates that the null hypothesis: "the distribution is normal" is accepted while a post consolidation P-value = 0.71 shows normal distribution. From the JB statistic, post consolidation is fairly distributed than the pre-consolidation liquidity ratio. The diagrammatical presentation is depicted in figure 4.3 and 4.4.

Figure 4.3Nigeria's Liquidity Ratio, 1999 to 2005



Source: Researchers Excel Result**Note**:LRpr=Liquidity Ratio, Pre-consolidation

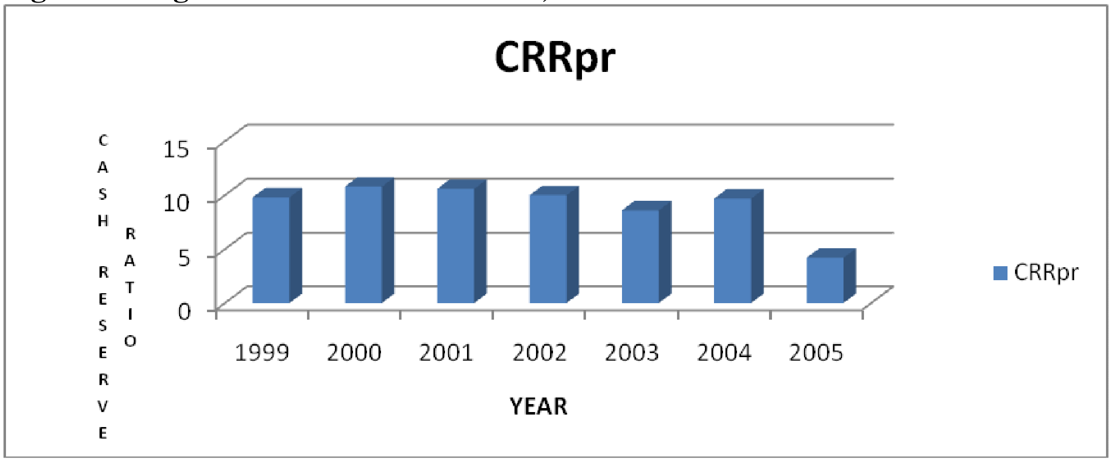
Figure 4.4Nigeria's Liquidity Ratio, 2006 to 2012



Source: Researchers Excel Result**Note**:LRpt=Liquidity Ratio, Post consolidation

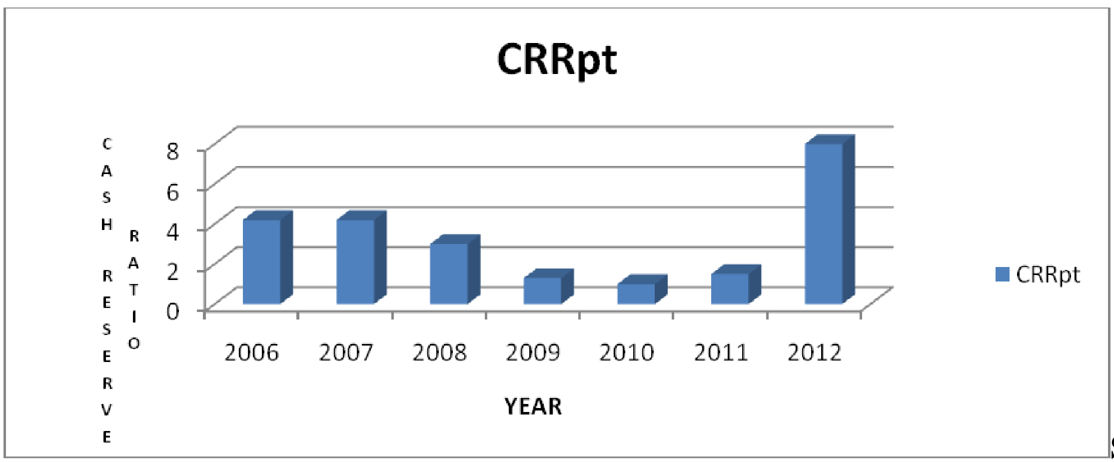
Tables 4.2 revealed the descriptive statistics of Nigeria's cash reserve ratio; pre and post consolidation. The mean value of Nigeria's cash reserve ratio from pre-consolidation was 9.10 while post consolidation shows an average value of 3.31. The median value of the pre-consolidation cash reserve ratio was 9.80 while post consolidation shows a median value of 3.0. The year with the highest cash reserve ratio in pre and post consolidation was in 2000 when the economy cash reserve ratio is 10.8 percent while the year with the least cash reserve ratio was in 2010 when the economy's liquidity stood by 1 percent over the other years. As revealed from table 4.2, the JB statistic is an indication of the distributions deviation of 0 (skewness and Kurtosis if it was truly a normal distribution). With a pre-consolidation P-value = 0.15, indicates that the null hypothesis: "the distribution is normal" is accepted while a post consolidation P-value = 0.59 shows normal distribution. From the JB statistic, post consolidation is fairly distributed than the pre-consolidation cash reserve ratio. The diagrammatical presentation is depicted in figure 4.5 and 4.6.

Figure 4.5Nigeria's Cash Reserve Ratio, 1999 to 2005



Source: Researchers Excel Result**Note**:CRRpr=Cash Reserve Ratio, Pre-consolidation

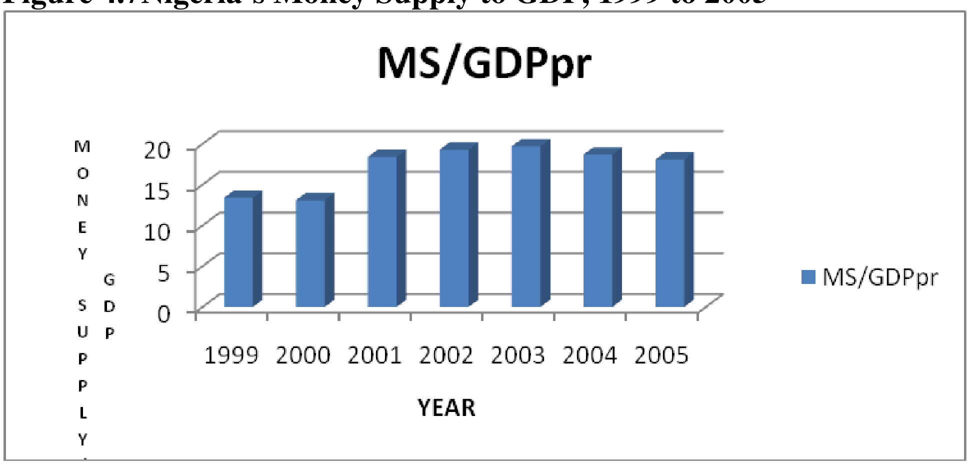
Figure 4.6Nigeria's Liquidity Ratio, 2006 to 2012



So urce: Researchers Excel Result**Note**:CRRpt=Cash Reserve Ratio, Post-consolidation

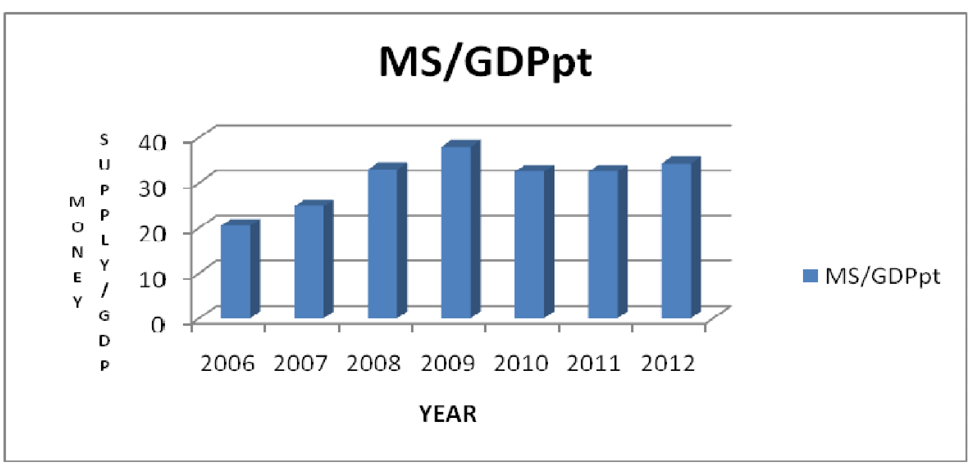
Tables 4.2 revealed the descriptive statistics of Nigeria's money supply to GDP; pre and post consolidation. The mean value of Nigeria's money supply to GDP from pre-consolidation was 17.24 while post consolidation shows an average value of 30.8. The median value of the pre-consolidation money supply to GDP is 18.40 while post consolidation shows a median value of 32.5. The year with the highest money supply to GDP in pre and post consolidation was in 2009 when the economy's money supply to GDP is 38 percent while the year with the least money supply to GDP was in 2000 when the economy's money supply to GDP stood a 13.1 percent over the other years. As revealed from table 4.2, the JB statistic is an indication of the distributions deviation of 0 (skewness and Kurtosis if it was truly a normal distribution). With a pre-consolidation P-value = 0.55, indicates that the null hypothesis: "the distribution is normal" is accepted while a post consolidation P-value = 0.68 shows normal distribution. From the JB statistic, post consolidation is fairly distributed than the pre-consolidation cash reserve ratio. The diagrammatical presentation is depicted in figure 4.7 and 4.8.

Figure 4.7Nigeria's Money Supply to GDP, 1999 to 2005



Source: Researchers Excel Result**Note**:MS/GDPpr=Money Supply to GDP, Pre-consolidation

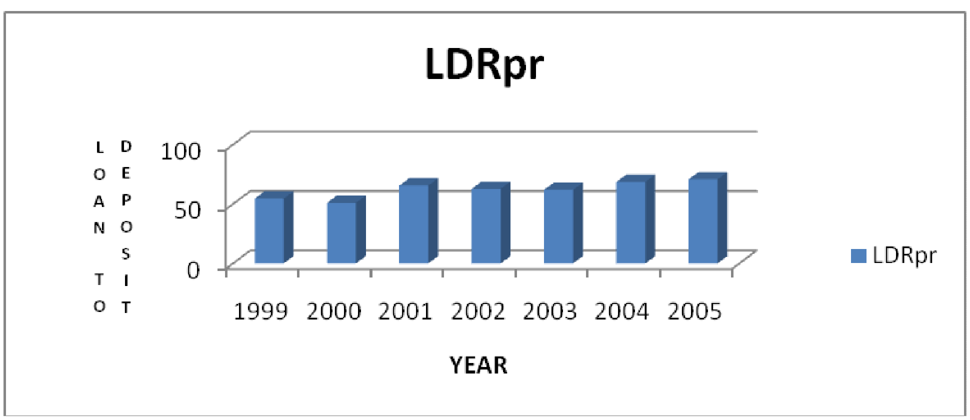
Figure 4.8Nigeria's Money Supply to GDP, 2006 to 2012



Source: Researchers Excel Result**Note**:MS/GDPpt=Money Supply to GDP, Post consolidation

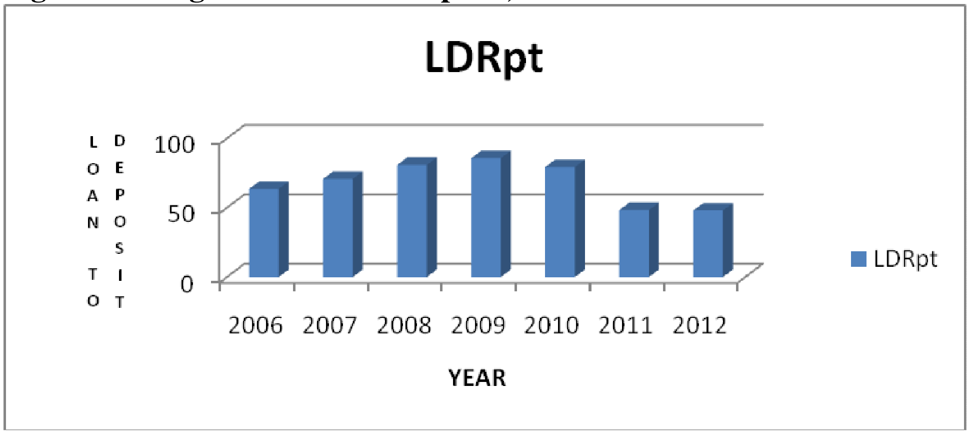
Tables 4.2 revealed the descriptive statistics of loan to deposit of commercial banks; pre and post consolidation. The mean value of Nigeria's loan to deposit of commercial banks from pre-consolidation was 62.18 while post consolidation shows an average value of 68.1. The median value of the pre-consolidation loan to deposit of commercial banks is 62.8 while post consolidation shows a median value of 70.8. The year with the highest loan to deposit of commercial banks in pre and post consolidation was in 2012 when the economy's loan to deposit of commercial banks is 85.7 percent while the year with the least loan to deposit of commercial banks was in 2012 when the economy's loan to deposit of commercial banks stood at 48 percent over the other years .As revealed from table 4.2, the JB statistic is an indication of the distributions deviation of 0 (skewness and Kurtosis if it was truly a normal distribution). With a pre-consolidation P-value = 0.75, indicates that the null hypothesis: "the distribution is normal" is accepted while a post consolidation P-value = 0.69 shows normal distribution. The diagrammatical presentation is depicted in figure 4.9 and 4.10.

Figure 4.9Nigeria's Loan to Deposit, 1999 to 2005



Source: Researchers Excel Result**Note**:LDRpr=Loan to Deposit, Pre-consolidation

Figure 4.10Nigeria's Loan to Deposit, 2006 to 2012



Source: Researchers Excel Result**Note**:LDRpr=Loan to Deposit, Post consolidation

4.2 Test of Hypotheses

This section test the hypotheses stated in chapters one and modeled in chapter three. Three steps were utilized in interpreting the Ordinary least Square regression results. The steps involved firstly, restating the hypotheses in Null and Alternate forms, secondly, interpreting the regression results and thirdly, using the decision criteria to accept or reject the null/ alternate hypotheses.

4.2.1 Test of Hypothesis One

Step One: Restatement of Hypothesis in Null and Alternate Form

Ho_1: Liquidity Ratio of commercial banks does not have positive and significant impact on economic growth pre and post consolidation in Nigeria.

Ha_1: Liquidity Ratio of commercial banks has positive and significant impact on economic growth pre and post consolidation in Nigeria

Step Two: Interpretation of Regression Result

Table 4.3 presents the regression result of hypothesis One

Table 4.3 Regression Result of Hypothesis One

Dependent Variable: GDPGRPR
Method: Least Squares
Date: 08/20/14 Time: 09:36
Sample: 1999 2005
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	49.80232	20.31367	2.451665	0.0578
LRPR	-0.750961	0.371275	-2.022652	0.0990

R-squared	0.450013	Mean dependent var	8.907143
Adjusted R-squared	0.340015	S.D. dependent var	6.393246
S.E. of regression	5.193837	Akaike info criterion	6.367779
Sum squared resid	134.8797	Schwarz criterion	6.352325
Log likelihood	-20.28723	F-statistic	4.091120
Durbin-Watson stat	2.634236	Prob(F-statistic)	0.099035

Dependent Variable: GDPGRPT
Method: Least Squares
Date: 08/20/14 Time: 09:46
Sample: 2006 2012
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.700553	0.966927	7.963945	0.0005
LRPT	-0.023379	0.023324	-1.002373	0.3622

R-squared	0.167326	Mean dependent var	6.765714
Adjusted R-squared	0.000791	S.D. dependent var	0.675620
S.E. of regression	0.675352	Akaike info criterion	2.287792
Sum squared resid	2.280503	Schwarz criterion	2.272337
Log likelihood	-6.007270	F-statistic	1.004752
Durbin-Watson stat	0.909320	Prob(F-statistic)	0.362176

Source: Researchers Eview Result**Note**:GDPgrpr=Gross Domestic Product Growth Rate Pre-consolidation, GDPgrpr=Gross Domestic Product Growth Rate Post consolidation
LRpr=Liquidity Ratio, Pre-consolidation, LRpt=Liquidity Ratio, Post consolidation

GDPgrpr =49.8 – 0.75LRpr………………. (ia)

GDPgrpt = 7.7 - 0.02LRpt ……………….. (ib)

From table 4.3 above, Liquidity Ratio has negative and non-significant impact on gross domestic product growth rate, pre and post consolidation. It shows that as pre – consolidation Liquidity Ratio increases by 1 unit, gross domestic product growth rate (GDPGRpr) will decrease by 0.75 units with a probability of obtaining a t- value of -2.0 greater than 9% and a post consolidation Liquidity Ratio increase in 1 unit will result in a 0.02 decrease in gross domestic product growth rate (GDPGRpt) with a probability of obtaining a t- value of -1.0 greater than 36%, thus non-significant at 0.05 critical values.

The R^2 is the summary measure that tells us how well the sample regression line fits the data. From the model above, R^2 of 0.45 means that 45% variation in pre- consolidation Gross Domestic Product (GDPGRpr)was explained by a change in pre- consolidation Liquidity Ratio and the remaining 55% was explained by variables not included in the model. The adjusted R^2 take account of more number of regressors if included and it still explains 34% variation in the dependent variable. A post consolidation R^2 0.16 means that 16% variation in post- consolidation Gross Domestic Product Growth Rate (GDPGRpt) was explained by a change in post consolidation Liquidity Ratio and the remaining 84% was explained by variables not included in the model.

The F-value of (4.1) and (1.0) for pre and post consolidation respectively which follows the F distribution with a degree of freedom numerator of 1 and a degree of freedom denominator of 7 is not significant (P-value = 0.09, P-value=0.36) at a critical value of 0.05. This implies that the entire model is not significant. The Durbin Watson statistics (DW) value of 2.6 and 0.9 in pre and post consolidation respectively shows a trace of serial autocorrelation.

Step Three: Decision

The alternate hypothesis is rejected while the null hypothesis accepted. This implies that Liquidity Ratio of commercial banks does not have positive and significant impact on economic growth pre and post consolidation in Nigeria.

4.2.2 Test of Hypothesis Two

Step One: Restatement of Hypothesis in Null and Alternate Form

Ho_2: Cash reserve ratio of commercial banks does not have positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

Ha_2: Cash reserve ratio of commercial banks has positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

Step Two: Interpretation of Regression Result

Table 4.4 presents the regression result of hypothesis Two

Table 4.4 Regression Result of Hypothesis Two

Method: Least Squares

Sample: 1999 2005
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	17.79737	11.00554	1.617128	0.1668
CRRPR	-0.976948	1.178245	-0.829155	0.4448

R-squared	0.120879	Mean dependent var	8.907143
Adjusted R-squared	-0.054945	S.D. dependent var	6.393246
S.E. of regression	6.566537	Akaike info criterion	6.836807
Sum squared resid	215.5970	Schwarz criterion	6.821352
Log likelihood	-21.92882	F-statistic	0.687498
Durbin-Watson stat	1.358222	Prob(F-statistic)	0.444783

Dependent Variable: GDPGRPT
Method: Least Squares

Sample: 2006 2012
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.564876	0.481657	13.62977	0.0000
CRRPT	0.060598	0.119764	0.505977	0.6344

R-squared	0.048709	Mean dependent var	6.765714
Adjusted R-squared	-0.141550	S.D. dependent var	0.675620
S.E. of regression	0.721855	Akaike info criterion	2.420970
Sum squared resid	2.605370	Schwarz criterion	2.405516
Log likelihood	-6.473395	F-statistic	0.256013
Durbin-Watson stat	1.039010	Prob(F-statistic)	0.634386

Source: Researchers Eview Result**Note**:GDPgrpr=Gross Domestic Product Growth Rate Pre-consolidation, GDPgrpr=Gross Domestic Product Growth Rate Post consolidation
CRRpr=Cash Reserve Ratio, Pre-consolidation, CRRpt=Cash Reserve Ratio, Post-consolidation

$GDPgrpr = 17.8 – 0.95CCRpr$………………. (ia)

$GDPgrpt = 6.5 + 0.06CCRpt$ ……………… (ib)

From table 4.3 above, Cash Reserve Ratio has negative and non-significant impact on gross domestic product growth rate in pre- consolidation and a positive and non-significant impact on gross domestic product growth rate in post consolidation. It shows that as pre – consolidation Cash Reserve Ratio increases by 1 unit, gross domestic product growth rate (GDPGRpr) will decrease by 0.95 units with a probability of obtaining a t- value of -0.82 greater than 44% and a post consolidation Cash Reserve Ratio increase in 1 unit will result in a 0.06 increase in gross domestic product growth rate (GDPGRpt) with a probability of obtaining a t- value of 0.51 greater than 63%, thus non-significant at 0.05 critical values.

The $R^2$is the summary measure that tells us how well the sample regression line fits the data. From the model above, R^2 of 0.12 means that 12% variation in pre- consolidation Gross Domestic Product (GDPGRpr) was explained by a change in pre- consolidation Cash Reserve Ratio and the remaining 88% were explained by variables not included in the model. The adjusted R^2 take account of more number of regressors if included and it explains -0.5 % variation in the dependent variable. A post consolidation R^2 0.04 means that 0.4% variation in post- consolidation Gross Domestic Product Growth Rate (GDPGRpt) was explained by a change in post consolidation Cash Reserve Ratio and the remaining 99.6% was explained by variables not included in the model.

The F-value of (0.68) and (0.25) for pre and post consolidation respectively which follows the F distribution with a degree of freedom numerator of 1 and a degree of freedom denominator of 7 is not significant (P-value = 0.44, P-value=0.63) at a critical value of 0.05. This implies that the entire model is not significant. The Durbin Watson statistics (DW) value of 1.4 and 1.03 in pre and post consolidation respectively shows a trace of serial autocorrelation.

Step Three: Decision

The alternate hypothesis is rejected while the null hypothesis accepted. This implies that Cash Reserve Ratio of commercial banks does not have positive and significant impact on economic growth in pre–consolidation while it shows a positive but non-significant impact in post consolidation in Nigeria.

4.2.3 Test of Hypothesis Three

Step One: Restatement of Hypothesis in Null and Alternate Form

Ho_3: Money supply of commercial bank does not have positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

Ha_3: Money supply of commercial bank has positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

Step Two: Interpretation of Regression Result

Table 4.5 presents the regression result of hypothesis Three

Table 4.5 Regression Result of Hypothesis Three

Method: Least Squares

Sample: 1999 2005
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-18.53553	12.93576	-1.432891	0.2113
MSGDPPR	1.591539	0.741985	2.144975	0.0848

R-squared	0.479216	Mean dependent var	8.907143
Adjusted R-squared	0.375060	S.D. dependent var	6.393246
S.E. of regression	5.054063	Akaike info criterion	6.313218
Sum squared resid	127.7178	Schwarz criterion	6.297764
Log likelihood	-20.09626	F-statistic	4.600917
Durbin-Watson stat	2.629322	Prob(F-statistic)	0.084782

Dependent Variable: GDPGRPT
Method: Least Squares
Date: 08/20/14 Time: 09:51
Sample: 2006 2012
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.622222	1.484916	3.786221	0.0128
MSGDPPT	0.037126	0.047443	0.782542	0.4693

R-squared	0.109111	Mean dependent var	6.765714
Adjusted R-squared	-0.069067	S.D. dependent var	0.675620
S.E. of regression	0.698562	Akaike info criterion	2.355369
Sum squared resid	2.439941	Schwarz criterion	2.339915
Log likelihood	-6.243793	F-statistic	0.612372
Durbin-Watson stat	1.031217	Prob(F-statistic)	0.469318

Source: Researchers Eview Result**Note**:GDPgrpr=Gross Domestic Product Growth Rate Pre-consolidation, GDPgrpr=Gross Domestic Product Growth Rate Post consolidation
MS/GDPpr=Money Supply to GDP, Pre-consolidation, MS/GDPpt=Money Supply to GDP, Post consolidation

GDPgrpr =-18.5 + 1.59MSGDPpr……………. (ia)

GDPgrpt = 5.62 + 0.03MSGDPpt…………… (ib)

From table 4.3 above, Money Supply to GDP rate has positive and non-significant impact on gross domestic product growth rate in pre and post consolidation. It shows that as pre – consolidation Money Supply to GDP rate increases by 1 unit, gross domestic product growth rate (GDPGRpr) will increase by 1.59 units with a probability of obtaining a t-value of 2.14 greater than 8% and a post consolidation Money Supply to GDP rate increase in 1 unit will result in a 0.03 increase in gross domestic product growth rate (GDPGRpt) with a probability of obtaining a t- value of 0.78 greater than 46%, thus non-significant at 0.05 critical values.

The $R^2$is the summary measure that tells us how well the sample regression line fits the data. From the model above, R^2 of 0.48 means that 48% variation in pre- consolidation Gross Domestic Product (GDPGRpr) was explained by a change in pre- consolidation Money Supply to GDP rate and the remaining 52% were explained by variables not included in the model. The adjusted R^2 take account of more number of regressors if included and it explains 38 % variation in the dependent variable. A post consolidation R^2 of 0.10 means that 10% variation in post- consolidation Gross Domestic Product Growth Rate (GDPGRpt) was explained by a change in post consolidation Money Supply to GDP rate and the remaining 99% was explained by variables not included in the model.

The F-value of (0.6) and (0.61) for pre and post consolidation respectively which follows the F distribution with a degree of freedom numerator of 1 and a degree of freedom denominator of 7 is not significant (P-value = 0.08, P-value=0.46) at a critical value of 0.05. This implies that the entire model is not significant. The Durbin Watson statistics (DW) value of 2.62 and 1.03 in pre and post consolidation respectively shows a trace of serial autocorrelation.

Step Three: Decision

The alternate hypothesis is rejected while the null hypothesis accepted. This implies that Money supply of commercial bank have positive and non-significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

4.2.4 Test of Hypothesis Four

Step One: Restatement of Hypothesis in Null and Alternate Form

Ho_4: Loan – to – deposit does not have positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

Ha_4: Loan – to – deposit has positive and significant impact on economic growth in Nigeria pre and post consolidation in Nigeria.

Step Two: Interpretation of Regression Result

Table 4.6 presents the regression result of hypothesis Four

Table 4.6 Regression Result of Hypothesis Four

Method: Least Squares
Date: 08/20/14 Time: 09:42
Sample: 1999 2005
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.33385	22.96370	-0.537102	0.6142
LDRPR	0.341574	0.367179	0.930265	0.3949

R-squared	0.147542	Mean dependent var	8.907143
Adjusted R-squared	-0.022949	S.D. dependent var	6.393246
S.E. of regression	6.466190	Akaike info criterion	6.806007
Sum squared resid	209.0581	Schwarz criterion	6.790553
Log likelihood	-21.82103	F-statistic	0.865393
Durbin-Watson stat	2.024237	Prob(F-statistic)	0.394932

Dependent Variable: GDPGRPT
Method: Least Squares
Date: 08/20/14 Time: 09:53
Sample: 2006 2012
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.233340	0.767957	12.02325	0.0001
LDRPT	-0.036235	0.011037	-3.282996	0.0219

R-squared	0.683104	Mean dependent var	6.765714
Adjusted R-squared	0.619725	S.D. dependent var	0.675620
S.E. of regression	0.416631	Akaike info criterion	1.321722
Sum squared resid	0.867905	Schwarz criterion	1.306268
Log likelihood	-2.626028	F-statistic	10.77806
Durbin-Watson stat	0.972215	Prob(F-statistic)	0.021882

Source: Researchers Eview Result**Note**:GDPgrpr=Gross Domestic Product Growth Rate Pre-consolidation, GDPgrpr=Gross Domestic Product Growth Rate Post consolidation
LDRpr=Loan to Deposit, Pre-consolidation, LDRpt=Loan to Deposit, Post consolidation

GDPgrpr =-12.33 + 0.34LDRpr………………. (ia)

GDPgrpt = 9.23 - 0.03LDRpt ……………… (ib)

From table 4.3 above, Loan to Deposit ratio has positive and non-significant impact on gross domestic product growth rate in pre- consolidation and a negative and significant impact on gross domestic product growth rate in post consolidation. It shows that as pre – consolidation Loan to Deposit ratio increases by 1 unit, gross domestic product growth rate (GDPGRpr) will increase by 0.34 units with a probability of obtaining a t- value of 0.93 greater than 39% and a post consolidation Loan to Deposit ratio increase in 1 unit will result in a 0.03 decrease in gross domestic product growth rate (GDPGRpt) with a probability of obtaining a t- value of -3.28 less than 2%, thus non-significant at 0.05 critical values.

The $R^2$is the summary measure that tells us how well the sample regression line fits the data. From the model above, R^2 of 0.14 means that 14% variation in pre- consolidation Gross Domestic Product (GDPGRpr) was explained by a change in pre- consolidation Loan to Deposit ratio and the remaining 86% were explained by variables not included in the model. The adjusted R^2 take account of more number of regressors if included and it explains -2 % variations in the dependent variable. A post consolidation R^2 0.68 means that 68% variation in post- consolidation Gross Domestic Product Growth Rate (GDPGRpt) was explained by a change in post consolidation Cash Reserve Ratio and the remaining 99.6% was explained by variables not included in the model.

The F-value of (0.68) and (0.25) for pre and post consolidation respectively which follows the F distribution with a degree of freedom numerator of 1 and a degree of freedom denominator of 7 is not significant (P-value = 0.44, P-value=0.63) at a critical value of 0.05. This implies that the entire model is not significant. The Durbin Watson statistics (DW) value of 1.4 and 1.03 in pre and post consolidation respectively shows a trace of serial autocorrelation.

Step Three: Decision

The alternate hypothesis is rejected while the null hypothesis accepted. This implies that Loan to deposit of commercial banks have positive and non- significant impact on economic growth in pre–consolidation while it shows a negative but significant impact in post consolidation growth rate in Nigeria.

4.3 IMPLICATIONS OF RESULTS

This study examined the impact of banking capitalization on economic growth in Nigerian pre and post consolidation from 1999 to 2012. Following a detailed time series data analysis, the findings revealed plausible results on the economic growth parameter. The implications of these findings are discussed in line with the objectives of this study.

Objective One: To examine the impact of liquidity ratios on economic growth in Nigeria, pre and post capitalization exercise in 2005

The role of the Central bank in regulating the liquidity of the economy which affects some macroeconomic variables such as the output, employment and prices cannot be over-emphasised. The Central Bank of Nigeria over the years has adopted different monetary policy management techniques to keep the economy in a stable state. As revealed from the finding of this study, Liquidity ratio had negative and non-significant impact on Economic growth during the pre and post consolidation. Also a cursory examination revealed a mean value of Nigeria's liquidity ratio from pre-consolidation as 54.45 while post consolidation shows an average value of 39.98 which means that the economy was more liquid in post consolidation but in all these, could not impact on the economy significantly even after the capitalisation reforms. The attainment of the desired objectives of liquidity ratio policy may have been affected by domestic and external environments which include fiscal dominance, and underdeveloped nature of the financial markets.

Objective Two: To determine the impact of cash reserve ratios on economic growth in Nigeria, pre and post capitalization exercise in 2005

The regulatory induced restructuring in the form of consolidation through merger and acquisitions was prompted by the resolve of the central bank of Nigeria to place the banking system in an international context and promote soundness, stability, enhanced efficiency, more resilient, competitiveness and dynamic banking system that support and contribute positively to the growth of the economy. One of the mechanism through which it can achieve economic growth from the banking system is cash reserve ratio.

As revealed from the finding of this study, the mean value of Nigeria's cash reserve ratio from pre-consolidation was 9.10 while post consolidation shows an average value of 3.31. It shows that post consolidation saw a more volume of cash being held by banks for intermediary functions but statistical findings shows that Cash Reserve Ratio of commercial banks does not have positive and significant impact on economic growth in pre–consolidation while it shows a positive but non-significant impact in post consolidation in Nigeria.

Policy shocks due the period of world financial meltdown could have contributed to cash reserve ratio having an uneconomic impact on growth of the Nigerian economy by making available funds less susceptible to investment. Also low level of transparency and accountability leading to poor communication and so did not help the public to understand the goals of central banks may have contributed to it.

Objective Three: To examine the impact of money supply on economic growth in Nigeria pre and post consolidation in 2005

The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk tasking of monetary policy to trigger and sustain process of economic growth. In overall economic growth, a critical important role is played by the money supply to GDP.Calderon and Liu (2003) noted that a higher M2GDP ratio implies a larger financial sector and greater financial intermediary development while a CPGDP indicates more financial services and also a greater financial intermediary development. This is referred to as financial deepening. Financial deepening implies the ability of financial institutions to mobilize savings for investment and it entails an increased ratio of money supply to Gross Domestic product (Popiel 1990).The more liquid money is available to an economy; the more opportunities exist for continued growth of the economy.

As revealed from the study, the mean value of Nigeria's money supply to GDP from pre-consolidation was 17.24 while post consolidation shows an average value of 30.8. But statistical findings shows even at an average increase of 30.8, that Money supply of commercial bank have positive and non- significant impact on economic growth in

Nigeria pre and post consolidation in Nigeria. From the analysis done in this study, we can conclude that the level of financial deepening in Nigeria has remained relatively low in spite of the various reforms and institutional changes put in place by the monetary authorities. It is also evident from the findings that there is low level of monetization of the economy.

From the literature, a lot of reasons why financial deepening (money supply to GDP) is poor during this period include shallow capital market, distortions in interest rate and low level of corporate governance in financial institutions.

Objective Four: To examine the impact of loan-to-deposit ratio on economic growth in Nigeria pre and post consolidation in 2005

Banks as financial intermediaries are expected to provide avenue for people to save incomes not expended on consumption. It is from the savings they so accumulate that they are expected to extend credit facilities to entrepreneurs and other industrialists.

As revealed by the study, Loan to deposit of commercial banks have positive and non-significant impact on economic growth in pre–consolidation while it shows a negative but significant impact in post consolidation growth rate in Nigeria although the mean value of Nigeria's loan to deposit of commercial banks from pre-consolidation was 62.18 while post consolidation shows an average value of 68.1. This means that even with considerable increase in loan to deposit in post consolidation, growth decreased dramatically.

Nigeria's domestic constraints and a tightening competitive global environment could have led to the negative impact observed from this study. Also due to the global economic meltdown witnessed within the period of this study, it may have resulted in increased cost of borrowing as reflected in the falling investor demand.

REFERENCES

Calderon C. & Liu L. (2003). The Direction of Causality between Financial Development and Economic Growth, *Journal of Development Economics*, Vol. 72

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

1. Liquidity Ratio of commercial banks does not have positive and significant impact on economic growth pre and post consolidation in Nigeria.
2. Cash Reserve Ratio of commercial banks does not have positive and significant impact on economic growth in pre–consolidation while it shows a positive but non-significant impact on post consolidation economic growth in Nigeria.
3. Money supply to GDP of commercial banks has positive and non-significant impact on economic growth in Nigeria, pre and post consolidation in Nigeria.
4. Loan to deposit of commercial banks have positive and non- significant impact on economic growth in pre–consolidation while it shows a negative but significant impact in post consolidation growth rate in Nigeria.

5.2 CONCLUSION

As seen, Nigeria is still at a bay in economic growth after a quarter of a century of economic reforms propagated by national policies. The country in comparism with other transition economies of the world is still lagging behind in growth. A major gap in Nigeria's industrial development process in the past years has been the absence of strong financial system. It is incontestable that an efficient and effective financial system is essential for building a sustained economic growth. The success from the financial system can only be achieved through the safety, soundness and stability of the sector coupled with the effective and efficient management of the sector. It has also proved that the development of the financial sector will help in facilitating the real sector which will result into having a virile economic growth. The Nigerian financial sector has not been virile enough to enhance the real growth that will push the Nigerian economy into realizing her 202020 goal.

It is therefore, against the foregoing that this study examined the impact of banks capitalization on economic growth in Nigeria, pre and post consolidation (1999-2012). Driven by the findings in the study, monetary policy variables in Nigeria have a long way to go for the sector to be productive enough and play the important role it is expected to in relation to contributing to the economic growth.

The intermediation role and investment of the financial sector are targeted only on short-term gains which is making the real sector of the economy to continue to look weak and therefore reducing the productivity level of the economy. Although, all the banks in Nigeria agreed to set aside 10 percent of their profit before tax for equity investments in small scale industries, which was aimed in order to stimulate economic growth and generate employment opportunities for country's growing population, but the banks are reluctant to release the fund due to the inability of the local entrepreneur to provide collateral and good feasibility study. So the liquidity and monetization of the economy does not achieve the expected objective. With these, the growth of the financial sector cannot complement the expected growth in producing sector of the economy. The major challenge to the Nigerian financial sector development is how to engender healthy competition in addition to enhancing investments so as to achieve a desired economic growth and maintain its position as one of the emerging economies.

Therefore, this study concludes that for the Nigerian economy to grow, emphasis should be placed on developing and implementing policies that will address banks applying available credit in critical areas like education, agriculture, etc, as these are growth oriented goals that can move the country forward.

5.3 RECOMMENDATIONS

In line with the specific objectives of this study, we recommend as follows:

1. Sustained and equitable economic growth is clearly a predominant objective policy. Monetary policy holds great opportunity to promoting economic growth in Nigeria. Government should introduce a specification of the financial structure that is richer than the existing ones, recognizing the negative effect of the liquidity ratio on economic growth.
2. Government should set up a framework to further stimulate cash reserve ratio and also reduce strict measures on banks to promote more level of transparency and accountability.The government should also endeavour to make the financial sector less volatile and more viable as it is in developed countries. This will allow for smooth execution of the Central Bank monetary policies. Law relating to the operation of the financial institutions could be made a bit less stringent and more favourable for the operators to have room to operate more freely.
3. Government should formulate policy that is aimed at raising broad money supply so that by so doing it would encourage financial deepening in the country and increase real GDP. Policies should be set up to improve the capital market, correct

distortions in interest rate and monitor corporate governance in financial institutions to enhance the effective impact on the economy.

4. Financial reforms in Nigeria should focus more on deepening the sector in terms of financial instruments so that firms can have alternatives to banks' credit which proved to be inefficient and detrimental to growth, moreover, government should inculcate fiscal discipline so as to reduce excessive borrowing from the financial sector and thereby crowding out private investment. Secondly the loan given by banks should be checkmated in such a way that the productive sector should be granted loans and not for unproductive purposes so as to have a significant and positive impact on Nigeria economic growth.

5.3.2 RECOMMENDATION FOR FURTHER STUDIES

The pursuit of knowledge is inexhaustible. This study recommends the following for further studies. These are:

2. Studies that will examine the impact of banks capitalization on the performance of the manufacturing sector pre and post consolidation.

3. Secondly, this study recommends for further studies that will examine the impact of banks capitalization on small business finance, pre and post consolidation.

BIBLIOGRAPHY

Adam, A.J. (2008). Bank Regulation, Risk assets and Income of Banks in Nigeria www.ndic_ng.com/pdf/adam.pdf

Adams, A.J. (2003*). Predicting Banks Crisis in Nigeria* (1986-2011).

Adetiloye, K.A. (2004). Recapitalization and Requirements of Globalization. J. Econ. Thought, 1 (2): 13 – 17.

Adewumi, S. (1996). The Effects and Challenges of Financial Liberalization, The Nigerian Banker.

Adeyemi, K.S. (2005). Banking Consolidation in Nigeria: Issues and Challenges, Union Digest, 9 (3 and 4).

Ayodele, Aminu (2005). Foreign Capital Inflows: The gains, the pains. This Day Newspaper, November 16.

Beck, T.A. Cull, R., Jerome A. (2005) *Bank* Privatization and Performance: Empirical evidence from Nigeria, *Journal of Banking and Finance*, Vol. 14: 597-605.

Boyd, John H. and Prescott, Edward C. (1986). Financial Intermediary-Coalitions, *Journal of Economic Theory*, 38 (2).

C.B.N. (2005). The Impact of post Banks Consolidation on the Nigerian Economy, Business Guardian, December 13.

Calderon C. & Liu L. (2003). The Direction of Causality between Financial Development and Economic Growth, *Journal of Development Economics*, Vol. 72

Carlin W and Mayer C. (2003) Finance, Investment and Growth. *Journal of Financial Economics, 69 (1).*

Diamond, D.W. (1984). Financial Intermediation and Delegated Monitoring, Review of Economic Studies, 51 (3).

Ekundayo, J.O. (1994). The Future of the Banking Industry in Nigeria, CBN Economic and Financial Review: 32 (3).

Greenwood, and Jovanoic, B. (1990). Financial Development, Growth and the Distribution of Income, *Journal of Political Economy*, 5 (1).

Imala, O.I. (2005). Challenges of Banking Sector Reforms and Bank Consolidation in Nigeria. CBN Bulletin, 4 (26): 2-27.

Imala, O.I. (2005). Consolidation in the Nigerian Banking Industry: A Strategy for Survival and Development.

Kwan, S. (2004). Banking Consolidation Federal Reserve Bank of San Francisco (FRBSF), Economic Letter.

Lewis, P., and Stein, H. (1997). Shifting Fortunes. The political Economy of Financial Liberalization in Nigeria. World Development, 25: 5 – 22.

Oboh, G.A.T. (2005). Selected Essay on Contemporary Issues in the Nigerian Banking System. Ibadan University Press.

Okeke, E. (2006). Effects of the Recapitalization on the Nigerian Economy, Sun News January, 21.

Onaolapo, A.A. (2008). Implication of Capital Regulation on Bank Financial Health and Nigerian Economic Growth 1990 – 2006, Journal of Economic Theory 2 (3): 112-117.

Soludo, C. (2004). Consolidating the Nigerian Banking Industry to meet the Development Challenges of the 21st Century. Bankers' Committee held on July 6, at CBN Headquarter Abuja.

Soludo, C.C. (2004). Consolidation and Strengthening of Banks, Speech Delivered at the meeting of Bankers Committee, 6th August, 2004.

Soyibo, A. and Adekanye, F. (1992). The Nigerian Banking System in the context of policies of financial regulation and deregulation, Africa Economic Research Consortium, Nairobi.

Uboh, G.A.T. (2005). Selected Essay on Contemporary Issues in Nigeria Banking System, Ibadan: University Press Plc.

Wilmarth, A.E. (2002). The transformation of the U.S. Financial Service Industry, 1975 – 2000: Competition, Consolidation Illinois Law Review: 215.

Wilson, I. (2006). Regulatory and Institutional Challenges of Corporate Governance in Nigeria Post Banking Consolidation. *Nigeria Economic Summit Group (NESG) Economic Indicators.* April-June vol. 12 No. 2.