Banking Reforms and Credit Creation in the Nigerian Banking Sector: Pre-Reform Era versus Post-Reform Era

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Abstract
The Nigerian banking sector before and after the reforms and the credit creation of banks was the central focus of this study. The implications of economic reforms on the economic development of Nigeria motivated this investigation. The study examined how the banking sector performed during and after the reforms, the problems associated with the reforms and its related advantages. The study utilized regression method by using E-views statistical package. The correlation coefficient R^2 for each of the periods under consideration showed that most of the variations in the dependent variables were explained in the independent variables after the reforms than before the reforms. The study found out that the 2005 reforms increased credit creation capacity for the banks beyond the years prior to the reforms. Consequent to this the decision was to accept the alternate hypothesis which stated that banks credit creation ability before the 2005 banking reforms was not significantly greater than after the reforms. But given the spiraling growth in inflation, higher unemployment, falling naira and dearth of foreign investments occasioned since 2016 after the period under study the ability for banks to create credit for more economic growth is seriously jeopardized. The study recommended that the monetary authorities in Nigeria should enhance the credit creation capacity of banks by enhancing credit access through the reduction of the prevailing interest rates which would ultimately stimulate the consumer credit to GDP ratio on one hand and consumer spending to GDP ratio on the other hand.

Key words: *Banking reforms, profit performance, Nigerian Banking Sector, Pre-Reform and Post-Reform Era*

I.0 INTRODUCTION
BANKING REFORMS

Banking sector reforms have been embarked on in the past but the latest was the Recapitalization and Mergers reforms in 2004. The government aimed to establish a reliable and efficient banking sector so that it could guarantee safety of the deposit money banks.
Subsequent reforms by the Central Bank of Nigeria under Dr. Sanusi Lamido Sanusi followed a significant reform effort begun by his predecessor, Prof. Charles Soludo in 2004 that resulted in the consolidation of the banking industry in Nigeria. Mr. M. Soludo took office as Governor of

Central Bank of Nigeria in June 2004. The following month, he announced a new policy to increase the minimum paid up capital of banks to N25billion (US$173million) from N2billion (US$14million). In 2004, the banking industry of Nigeria consisted of 89 banks which after the recapitalization decreased to 25 larger and better capitalized banks.
The four pillars of the reforms are;

- Quality of banks
- Establishment of financial stability
- Enabling healthy financial sector evolution and
- Ensuring that the financial sector contributes to real economy

1.2 STATEMENT OF THE PROBLEM

The problems that have necessitated the research is that many banks despite the increase of minimum deposits still find it difficult to meet desired profitability levels due reduced credit creation abilities which comes from loans and advances. The growth of banks is hindered if their ability to create credit is restricted despite increased deposits. Again the excessively high level of non-performing loans in the banks can hinder their ability to create credit in the long run. The critical examination of these problems after the recapitalization policy gave rise to the research questions below.

1.3 OBJECTIVES OF THE STUDY

In line with the problems stated the objectives of the study include;

i. To determine the credit creation ability of the banks before the 2005 banking reforms
ii. To find out the credit creation ability of the banks before the 2005 banking reforms

1.4 RESEARCH QUESTION

i. To what extent where banks able to create credit before the 2005 banking reforms
ii. How have banks being able to meet credit creation expectations after the 2005 banking reforms

1.5 RESEARCH HYPOTHESES

Hypotheses are tentative statements about reality that is either to be accepted, or rejected on the basis of empirical evidence.

H_1: The banks credit creation ability before the 2005 banking reforms was significantly greater than after the reforms

H_0: The banks credit creation ability before the 2005 banking reforms was not significantly greater than after the reforms.

1.6 SIGNIFICANCE OF THE STUDY

The significance of the study refers to the importance and benefits of a research work to the banking sector, the Nigerian economy as a whole. Particularly in the area of capitalization, management of banks and banking investment portfolio that would minimize risk and maximize profit. It will also establish the fact that the recapitalization is a veritable means of fostering banking growth.
The study is relevant to the following:

I. **Banks:** This study will give banks a basis to be able to their post –consolidation performance. Such assessment will point out how well they have done and their potential capacity for expansion.
II. **Bank Customer:** The study will enable bank customers understand, recognize and utilize the benefits of the reforms for it will receive accolades from local and international observers knowing that the competition of banks after the recapitalization would directly affect the customers.
III. **Economists:** This study will serve as a basis for comparing, evaluating and analyzing the rate of growth and development in the financial sector as well as many indicators in the economy.
IV. **Regulatory Bodies:** The regulatory bodies like the CBN, NDIC, FDI, CIBN etc will know how appropriate rules and regulations set for banks are through this study.
V. **Government:** The study will serve as a guide to government in the area of policy making. It is a basis to assess the extent of improvement brought about by the recapitalization policy and how policies in other areas of the economy will lead to benefit derivation and relationship, from and between other areas of the economy and the implications of the recapitalization policy.

1.7 SCOPE OF THE STUDY

The study covers a twenty year period in two parts. It covers the first ten years (1996-2005) before the banking reform deadline and ten years after the banking reforms (2006-2015).

2.0 LITERATURE REVIEW

2.1 THEORETICAL REVIEW

According to Anyanwu 2010, the current banking sector reform was triggered by the need to address the combine effect of the global financial and economic crisis, as well banks' huge exposure to oil/gas and margin loans, which were largely non-performing; corporate mis-governance and outright corruption, among operators in the system.

The Nigerian banking sector has gone through rapid changes over the recent banking sector reforms. Banking reforms in Nigeria started in July, 2004 and climaxed in August 2009 and beyond. Prior before the reform, developments in banking sector indicated a mixed trend in the performance of banks (Okafor, 2013).

Banking reforms is that aspect of socio-economic reforms which focuses essentially on getting conditionality's right for the banking sector to take the lead role in empowering the private sector and to contribute more to economic growth (Ugwu and Onyeabor, 2012). Hitherto, the banking sector in Nigeria had undergone four phases of bank sector reforms since the commencement of Structural Adjustment Programme (SAP) this include; financial system reform of 1986 to 1993 which led to deregulation of the banking industry; the 1993-1998 financial systems reforms, with the re-introduction of regulations, the 1999 financial system reforms that saw the return to liberalization of financial sectors, accompanied with the adoption of certain regulation programmes, and the 2004 banking sector reforms crystallized by Prof. Soludo.

Soludo (2007) asserted that financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a more pragmatic reform, hence, the 2004 bank reform exercise. Generally, the banking system is unarguably the engine of growth in any economy in the world, either developed or under-developed, through its function of financial intermediation (Oladejo and

Oladipupo, 2011). It occupies a crucial position in the country's financial system to supply customers' medium of exchange such as cash, cheque, checking accounts, credit cards, and to accept funds from depositors and lend it out to borrowers. In addition, they serve as important agents in the development process.

Banking reforms by the Central Bank of Nigeria has resulted to the positive changes of the banking reforms in the emergence of 25 banks out of the 89 pre-consolidation banks existing in Nigeria (Ugwu and Onyeabor, 2012).

Okafor (2013) report that the aggregate capital base of banks which stood at ₦348 billion before consolidation has notched up to ₦ 768 billion at the end of 2004.

2.2 THEORETICAL FRAMEWORK WHY REFORMS ARE CONSIDERED ESSENTIAL

The nexus between reforms and banking sector performance has long been established in extant literature (Business day 2004). Nelson (2013) states that the banking sector reforms leads to better corporate governance codes which are good for the banking industry that suffered several years of abuse and neglect the larger extent have been restored. Prior to reforms, operators in the banking sector seemed not to think that banking demands circumspection and adherence to rules. Despite the fact that banking sector reforms have shown positive contributions in some cases, but in some cases it is resulting to a negative contribution. Okafor (2013) found that reforms in the Nigerian banking sector had human resource challenges.

Conceptionally, economic reforms are undertaken to ensure that every part of the economy functions efficiently in order to ensure achievement of macroeconomic goals of price stability, full employment, high economic growth and development manifested in high per capita income, improved standard of living, increased gross domestic products and favourable Balance of Payment position.Thus, banking reforms in Nigeria is an integral part of the country-wide reform programme undertaken to reposition the Nigerian economy to achieve the objective of becoming one of the 20 largest economies by the year 2020, making the system more effective and strengthening its growth potentials.

Also, there is a need for periodic reforms in order to foster financial stability and confidence in the system (Sanusi, 2012).

According to Okeke (2014), reforms are deliberate actions by the government to fast-track, jump-start and consolidate specified sectors of the economy to achieve desired objectives.

Ebong (2014), financial reforms are deliberate policy response to correct perceived or impending financial crisis and subsequent future reforms in the financial industry are aimed addressing issues such as governance, risk management and operational inefficiencies. The vortex of most financial reforms is around firming up capitalization. Special financial reforms are primarily made up by the need to achieve the objectives of consolidation, competition and convergence in the financial architecture (Deccan 2014).

Financial reforms and attendant policy prescription are age long phenomena. They present the various transformations and policy adjustments and overhaul that are directed at the art, practice and activities of financial institutions and market overtime in response to nominal need for operational improvement and growth of both the institutions and economy as a whole. They could be internal or external reflecting critical comprehensive amendments, re-structuring and/or additions to the existing body of laws, guidelines and policies (Chinedu Muogbalu, 2013).

In Nigeria, the ability of the financial sector to play its role has been periodically punctured by its vulnerability to systematic distress and macro-economic volatility and policy

fine tuning inevitability (Kama, 2015). Consequently, the financial reforms were focused on further liberalization of banking business, ensuring competition and safety of the system and proactively positioning their interrelation with the capital market to boost the financial intermediation with the hope to serve as a catalyst to economic growth and development.

In many emerging markets including Argentina, Brazil and Korea, financial reforming have also become as prominent as banks strive to become more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasing globalised banking system (Oke, M.O and Adeusi, S.O. 2012).

Like other emerging economies, Nigeria has been involved in financial reforms on a regular basis aimed at responding to the challenges posed by some factors or developments such as systemic crisis, deregulation, globalization and technological innovations, or act as proactively both to strengthen the financial system and prevent systematic problems as in case in the current reforms (Imala 2015).

The reforms of the banking sector with particular reference to the Structural Adjustment Programme (SAP) of 1986, was aimed at increasing the efficiency of the financial sector, among others (Iganiga 2010). The financial sub-sector needs to be reformed in order to enhance its competitiveness and capacity to play its fundamental role of financial investment. Banking sector reforms are propelled by the need to deepen the financial sector and reposition it for growth to become integrated into the global financial architecture and evolve a banking sector that is consistent with regional integration requirements, savings mobilization, and the requirement of international best practices (Nnanna,Englana and Odoko 2013).

Lemo, T. (2015) the primary objective of the reforms was to guarantee an efficient and sound financial sector. He went on to state that the Nigeria financial reforms were designed to enable the banking industry develop the required resilience to support the economic development of the nation by efficiently performing its functions of financial intermediation, adding that a fundamental objective of the programme was to ensure the safety of depositors' money, position banks to play active developmental roles in the Nigerian economy and become major players in the sub regional and global financial market.

Referring to 2004-2005 banking consolidation and reforms in Nigeria, Okonjo Iweala and Osafo-kwaako (2007:15) stated that in order to strengthen the banking sector and improve availability of domestic credit to the private sector, a bank consolidation exercise was launched in mid 2004. The Central Bank of Nigeria requested all deposit taking banks to raise their minimum capital base from about US $192million by the end of 2005……..in the process of meeting the new capital requirement, banks raised the equivalent of about $3 billion from domestic capital markets and attracted about $652million Foreign Direct Investment (FDI) into Nigerian banking sector.

According to Sanusi (2011) "banking reforms the world over on the need to increase risk management procedures and enhance corporate governance in order to strengthen and reposition the banking industry to enable it contribute effectively to the development of the real sector through intermediation process a comprehensive process of substantially improving the regulatory and surveillance framework, fostering healthy competition in banking operations, ensuring efficient frame work, fostering healthy competition in banking operations, ensuring efficient framework for monetary management, expansion of savings mobilization base, enforcement of capital adequacy, promotion of investment and growth through market-based interest rates, increasing sophistication of the global financial products, and even the recent global financial crisis, all make the essential need for banking reforms a "*Sin qua non*".

Commenting specifically on the 2004 banking reforms in Nigeria, Sanusi (2011) again explained that the thrust of the policy was to grow the banks and position them to play pivotal roles in driving development in other sectors of the economy, as well as induce improvements in their own operational efficiency…… the need to recapitalize the banks and ensuring minimum reliance on public sector for funds, the adoption of risk-focused and rule-based regulatory funds, the adoption of zero tolerance in regulatory framework in data/information rendition/reporting and infractions, the need for strict enforcement for corporate governance principles in banking, expeditious process for rendition of returns for banks and other financial Institutions through e-Fass, revision and updating of dormant laws and ensuring greater transparency and accountability in the implementation of banking laws and regulations.

Further enunciating on the need for banking sector reforms, Sanusi (2011) again said it involves the movement from an initial situation of controlled interest rate, poorly-developed money and securities market and under-developed banking system, towards a situation of flexible interest rates, an expanded role for market forces in resource allocation, and a deepening of the money and capital markets.

Still, according to Sanusi (2011), a good reform will engender clear market entry and exist conditions, ensure the ability of banks to function according to market principles without state intervention in their decision making, establish stronger banking oversight. Explaining further, he said that reforms in the domestic financial system will compare three key policy actions, namely:

a) The removal of price restrictions: Thus refers to the ceiling on deposits interest rates and restrictions on lending interest rates.
b) The removal of quantity restrictions: This refers to the removal of direct credit allocation mechanisms, relaxation of reserve requirements and removal of restrictions on foreign currency deposits.
c) The removal of entry barriers in the financial system.

All these actions, according to Sanusi (2011), aim at promoting strong competition in the financial system which improves the efficiency of intermediation through dismantling of monopolies in the financial system.

According to Abdullahi (2015), banking sector reforms and its sub-components, bank consolidation, has resulted from deliberate policy response to correct perceived or impending banking sector crisis and subsequent failures. A banking crisis can be triggered by the preponderance of weak bank characterized by persistent illiquidity, insolvency, undercapitalization, high level of non-performing loans and weak corporate governance, among other (Uchendu 2015).

Based on the above, Ajayi (2013) posited that banking reforms aimed to ensuring a healthy audience encompasses reforming the regulatory and supervisory framework; the safety net arrangements, crisis resolution mechanisms, shareholding structure, structure of the banking industry, and enthronement of good governance.

Added Abdullahi (2015), reform of the regulatory and supervisory framework is aimed at aligning the institutional framework governing the regulation and supervision of financial institution to the needs of a growing and complex financial system.

It involves issues of regulating independence, risk-focused and rule-based supervision while safety arrangements in reforms embrace the traditional lender resort role, deposit insurance arrangement which cater prudential regulation and supervision. Reforms relating to corporate

governance evolve in order to provide a well-established governance structure and oversight process.

This is essential in order to engender proper evaluation, understanding, mitigation of risk as well as permit banks to strengthen the stability of their operations and instill accountability.

Odufu (2013) enumerated the under listed deficiencies which according to him were the rationale, behind the banking reforms and bank consolidation in Nigeria.

a) Low-capital Base: The average capital base of Nigerian banks Prior consolidation was $10 million which was very low compared to banks in other developing economies like Malaysia where the capital base of the smallest banks is $526 million. In the same vein, the aggregate capitalization of the Nigerian banking system stood at ₦ 311 billion ($24 million) which is grossly low in relation to the size of the Nigerian economy, and in relation to the capital base of $688 billion for a single banking group in France and $541 billion for a bank in Germany.

b) A large Number of Small Banks with Relatively few Branches: For instance, the 89 banks in Nigeria prior to the consolidation had a total of 3,382 branches only, whereas the 8 banks in South Korea had about 45,000 branches, as at the time.

c) Dominance of a few Banks: The top 10 banks controlled about 50.8 percent of the aggregate assets, 51.7% of the total deposit liabilities and 45% of the aggregate credit.

d) Poor Rating of a Number of Banks: Although on the average, the Nigerian Banking system was rated satisfactory, a detailed analysis of the health of individual banks as at December 2004 revealed that no bank was rated very sound, only 10 were adjudged sound, 51 satisfactory, 16 marginal and 10 unsound.

e) Weak Corporate Governance: Inaccurate reporting and non-compliance with regulatory requirements, declining ethical behaviours and gross insider abuse, a situation which resulted in huge non-performing insider-related credits.

f) Insolvency: This was evidenced by negative capita adequacy ratio of many banks and completely eroded shareholders' funds occasioned by operating losses.

g) Over-dependence on Public Sector Funds and Foreign Exchange Trading at a Neglect of Small and Medium Term Private sectors Savers: It is obvious that the performance of the Nigerian banking system plays a marginal role in the development of the real sectors, therefore not in position to meet the nation's ideal of strong competitive and reliable banking system which depositors can in turn trust, rely upon and the nation can depend upon to facilitate its growth and development. These therefore suggested the strong and urgent need for fundamental restructuring, refocusing and reforming the banking sector.

2.3 OBJECTIVES/OPPORTUNITIES OF THE BANKING SECTOR REFORMS

Accordingly, confirmed Abdulahi (2007), the objectives of the baking sector reforms as announced by the Governor of central Bank of Nigeria on July 6, 2004 were as follows:

a) Requirements that the minimum capitalization for banks should be ₦ 25 billion with full compliance before end of December 2005.

b) Phased withdrawal of public sector funds from banks, starting in July 2004.

c) Consolidation of banking institutions through mergers and acquisitions.

d) Adoption of a risk focused and rule-based regulatory framework.

e) Adoption of zero tolerance in the regulatory framework, especially in the era of data/information rendition/reporting. All returns by banks must now be signed by the managing directors of the banks.

f) The automation process of rendition of returns by banks and other financial institutions through electronic financial analysis and surveillance system (e-Fass).

g) Establishment of a hotline, confidential internet address (Governor@centralbank.org) for all Nigerian wishing to share any bank or the financial system. Only the Governor has access to this address.

h) Strict enforcement of the contingency planning framework for systemic banking distress.

i) The establishment of an Asset Management Company as an important element of distress resolution.

j) Promotion of the enforcement of dormant laws, especially those relating to the vicarious liability of Boards of banks in case of bank failures.

k) Revision and updating of relevant laws and drafting of new ones relating to the effective operations of the banking system.

l) Closer collaboration with the Economic and Financial Crime Commission (EFCC) and the Financial Intelligence Unit (FIU) in the enforcement of anti-money laundering and other economic crimes measures.

m) Rehabilitation and effective management of the mint to meet the security printing needs of Nigeria.

Ebong (2013) without much differing view with the empirical work observed that the Nigerian banking industry before the recent reform was characterized by small-sized, marginal players with very high over-head costs which impacted negatively on the costs of intermediation.

According to him, other challenges that the reform was designed to address included heavy reliance by banks on government patronage or public sector funds, weak corporate governance as well as unethical and professional practices.

Enunciating further, Ebong (2013) noted that as at July 2004, public sector accounted for over 20 percent of aggregate deposits in the Industry, adding that the dependency ratio of some banks was long-term planning and investment given volatile nature of these deposits. He concluded that the inability of banks to plough these volatile public sector funds which constituted the larger chunks of their aggregate deposits into long term investments could therefore explain the non-correlation of the growth vortex witnessed in the banking sector with a corresponding decrease (against what could be expected) in economic activities in the real sector.

Explaining further the need and rationale for reforms in Nigerian banking sector, Central Bank of Nigeria in its Banking Supervision Annual Report (2015:16) again puts it thus: “Reforms…..are usually introduced either in response to the challenges posed by factors and development such as systemic crisis, deregulation, globalization and technological innovations, or as proactive measures both to strengthen the banking system and prevent systemic crisis, as is the case in the current reforms”.

Continuing the report, “A sound banking system must inter alia, be able to facilitate economic development, provide a platform for sound monetary policy implementation as well as ensure price stability. However structure of the banking system prior to consolidation, inhibited its effective performance as it was characterized by a number of structural operational inadequacies. The desire to remedy these inadequacies provides the raison d’etre and the impetus for the current reforms. The inadequacies include low capital base, large number of small banks with relatively new branches, poor ratings of some of Nigerian banks, weak corporate governance including inaccurate reporting and non-compliance with regulatory requirements, declining ethnic and huge non-performing insider-related credits. Other includes over dependence on public sector deposits and foreign exchange trading as well as the neglect of

small and medium scale enterprises. Thus handicapped, the Nigeria's banking system was not in a position to meet the nation's ideal of a strong, competitive and stable banking system.

2.4 HISTORY AND NATURE OF BANKING REFORMS IN NIGERIA

Banks promote economic growth primarily by mediating between surplus economic units and deficit economic unit. In the process, banks facilitate capital reformation and lubricate the process of production. This intermediate function is important because, in the absence of banks, saving would have been fragmented in small pockets, but by pulling together such savings, banks are able to attain economies of scale with beneficial effect for their credit customers.

For banks to perform efficiently and discharge above core functions, it is imperative that the banks are viable and healthy and that the entire industry is stable and sound. It is against the background that the industry globally is heavily regulated, and most times either proactively or in response to certain industry inefficiencies, embarks on reforms to reposition the industry in order to meet desired objectives (Ebong, 2013).

The first attempts at banking reforms in Nigeria which also doubled for the premier attempt to regulate the industry in the country were the enactment of the Banking Ordinance of 1952. According to Akpan in Mbat (2011), the high rate of banking failure and the need to maintain bank customers' confidence brought about the appointment of Mr. P. Paton by the colonial administration to enquire into the conduct and performance of the banking business in Nigeria. An attempt to actualize Mr. Paton's report led to the enactment of the 1952 Baking Ordinance. The Ordinance stipulated the conditions for the establishment and operation of banks in Nigeria as against the hither unregulated scenario which precipitated the incessant banking failures.

2.4.1 THE 1952 BANKING ORDINANCE ERA:

According to Adekanye (1986) this initial attempt at banking reforms stipulated the following conditions among others.

a. **Licensing:** All banks were to be licensed under the Ordinance, of course, after meeting other basic statutory requirements.
b. **Capital and Revenue:** Under the dispensation, the capital of both indigenous and expatriate banks was fixed at $50,000 and $200,000 respectively.
c. **Liquidity:** This Ordinance specified the liquidity and cash ratio which all banks had to hold. This was to ensure that all banks held adequate and reasonable liquidity to meet their clients' cash needs at any given time.
d. **Limits to Lending Operations:** This was fixed to check unbridled, excess and unauthorized lending by banks so as to curtail the risk of unnecessary credit exposure and consequent loan losses.

2.4.2 THE ERA OF BANKING REGULATION (1958-1985)

According to Akpan in Mbat (2011), the government before this time could do only little to check the incessant malpractices in the banking system since there was no apex regulatory body. Hence the setting up of Loynes Commission in 1958 led to the establishment of the Central Bank of Nigeria in 1959 to provide leadership for the banking system. Apart from the establishment of the apex bank which was a major characteristic of the era, other major features were the various amendments by the Banking Ordinance and regulations. These included the following:

a. Under the 1958 Ordinance (Amended), while ₤12,500 was retained as paid up capital for indigenous banks, it was raised for expatriate banks, profit transferable to reserve fund was also increased from 20 percent to 25 percent.
   Equally, under this amendment, banks were restricted from owning real estate except were absolutely necessary.
b. Under the 1961 Amendment, a receiver and liquidator was appointed for liquidation of banks whenever necessary.
c. Under the 1962 Amendment, the minimum paid capital of existing indigenous banks was raised from ₤12,500 to ₤25,000 with seven years compliance period allowed the affected banks. Expatriate banks were to keep with Nigeria assets valued not less than ₤ 25,000. Banks were allowed to write-off losses before affecting the transfer of profits to reserve funds. The Central Bank of Nigeria was authorized to adopt some flexibility in applying the definition of liquidity when computing liquidity ratio. Banks were also now allowed, for expansionary reasons, to own real estates.
d. The 1968 Companies Act was provided that foreign banks operating in the country was required to be incorporated in Nigeria
e. The 1968 Banking Act Provided that the adjusted capital requirement (minimum paid-up capital) of indigenous and expatriate banks be part of ₤3000,000 and ₤150,000 respectively, for the first time, capital to deposit ratio of between 10 and 30 percent, and capital to loan ratio of between 25 and 33.3 percent.

The apex bank, under these amendments was empowered to monitor and vet advertisement by banks, authorize banks amalgamations, approve the opening or closure of new branches. Notable among the achievement of the banking reforms of this period included the promulgation of the Treasury Bill Ordinance of 1959, the apparent stability and consequent establishment of more commercial banks, the development of the money and capital markets, and the consequent establishment of the Lagos Stock Exchange in 1961(Ofanson, Aigbokhaevbolo and Enabulu, 2010).

Enunciating further, Ofason et al observed that this era also witnessed the promulgation of the indigenization Decree of 1972 as later amended in 1977. According to the trio, this decree empowered Nigerians to demonstrate the ownership, management and control of all sectors of the indigenous economy. And pursuant of this policy therefore, the federal government acquired controlling interest in the then existing expatriate banks Viz: First bank, Union Bank and United Bank for Africa, set up a Financial System Review Commission (The Pius Okigbo Commission) to explore means of wholly owned banks in order to accelerate the pace of economic development. The Nigerian Agriculture and cooperative Bank, The Nigerian Bank for Commerce and Industry, and the reconstitution of the Nigeria Building Society as Federal Mortgage Bank of Nigeria, established State Government owned Banks, Intensive public Sector intervention by way of direct credit, selective credit control imposed on the size of lending to private sector, sustained increase in the paid up capital of new entrants and strict control of interest rates, identification of preferred sectors such as agriculture and manufacturing in terms of allocation and credit and interest rates, stricter foreign exchange control practices in 1982 (import licensing) supported by other trade restrictions.

2.4.3 THE ERA OF DE-REGULATION (1986-1992)

One key feature of this era was the Structural Adjustment Programme (SAP) introduced in 1986 by the then Federal Government. The key objectives of SAP included achieving balance of

payment viability in the short and medium terms, laying foundation for sustainable non-inflationary growth, and improving the efficiency of public and private sector. The policy measures adopted to achieve these objectives included the introduction of a second-tier foreign exchange market (SFEM), adoption of appropriate fiscal and monetary policies, dismantling of price controls, trade and exchange regulations, revision of tariff structures, elimination of petroleum subsidy, commercialization and privatization of public enterprises, and overhauling of administrative structures (Ofanson, Aigbokhaevbolo and Enabulu 2010).

The Structural Adjustment Programme macro-economic policy led to a major reform in the banking sector. It led to the liberalization or de-regulation of the banking sector. Among the major reform measures was the free or relaxed entry into the banking system such that as at 1992 there were 121 banks (66 commercial and 55 merchant banks) as against 28 banks which operated in 1985 (Akpan in Mbat 2011, and Ofanson et al 2010).

Other reform measures during this era had to do with strengthening the regulatory framework in the sector. This included the promulgation of the Central Bank of Nigeria Decree No 24 of 1991 (as amended) to give more teeth to Central Bank Nigeria to bite erring financial institutions and operators, Banks and Other Financial Institutions Decree (BOFID) No 25 of 1991 to effectively control the industry and ensure soundness. Nigeria Deposit Insurance Corporation (NDIC) Decree No 22 of 1988 to insure the deposit liabilities of licensed banks and to provide technical and financial assistance to banks by way of complementing the efforts of Central Bank of Nigeria in its regulatory and over sight functions of the industry. Two other major elements of the reform during this era was the bifurcation of the policy thrust into credit and interest rate (Ofanson, Aigbokhaevbolo and Enabulu 2010)

According to this trio, apart from strengthening the regulatory capacity of the regulators, other policy focus concerned interest rate regime and credit. For instance, continued Ofanson et al (2010) during this de-regulation period, all controls of interest rates were removed with Central Bank of Nigeria fixing its minimum rediscount rate (MRR) to indicate its desired direction of interest rates. Equally, the prudential regulations (Prudential Guidelines) were introduced in 1991 to check the quality of risk assets.

Another major element of the reforms of this era in the industry was the prominence which the 'Gap Thesis' gained. The gap thesis explain the financial exclusion which existed (and still exists though gradually being bridged) in the industry. Hence this brought about the introduction of the Peoples Banks and Community Banks to fill some noticeable gaps within the financial system (Akpan in Mbat 2011).

2.4.4 THE ERA OF BANKING DISTRESS (1992-1995)

Financial distress is the inability of banks to function effectively and contribute meaningfully to economic development (Ebhodaghe 2010). A review of this period shows that the banking industry witnessed cut-throat competition with many, especially the new entrants, adopting all kinds of strategies to outwit each other, ostensibly because of the proliferation of banks. For instance, branch network of banks increased astronomically: merchant bank branches increased from 26 in 1985 to 144 in 1994 while commercial bank branches increased from 1,297 to 2,541 during the same period (Ofanson, Aigbokhaevbolo and Enabulu 2010).

Enunciating further, this trio said many banks created risks assets at incredibly low interest rate with or without collateral or adequate cover, some banks generate liabilities (deposits) at incredibly high interest rates, insider abuse manifested in several dimensions (granting of credit to dummy individuals and organizations, high rate of loan repayment default especially by

government and government parastatals, managerial incompetence, unbridled rate of bank frauds and forgeries, coupled with the general economic down-turn and adverse macro-economic conditions, inadequate regulatory and supervisory capacity, all of which led to the distress of many banks during this period.

For instance, in 1995 the distress reached an epidemic proportion when 55 units of the 120 banks were distressed. To curb this financial menace, the Failed Banks (Recovery of Debts) and Financial Malpractices Decree of 1994 was established to restore sanity and confidence in the system (Ofanson, et al 2010, and Akpan in Mbat 2011).

2.4.5 UNIVERSAL BANKING ERA (1996-2004)

Akpan in Mbat (2011) describes universal banking as a system of banking in which there is no restriction for performing commercial or merchant banking activities by banks. He also calls this mix or multi-purpose banking which system was introduced into the Nigerian banking architecture during this period. This banking model also allowed banks to diversify into non-bank financial businesses (Sanusi 2012)

Some major reform measures of this period included:

1. The adoption of universal banking policy in 2001,
2. Upward review of the minimum paid-up capital of banks to #2 billion in 1997
3. Total de-regulation of interest rates in October1996
4. The re-introduction of Dutch Auction System (DAS) in July 2002 to realign the naira exchange rate, enhance transparency and curb capital flight from the country
5. Central Bank of Nigeria also rolled out guidelines for electronic banking (e-banking) in line with global trends in 2004 and banks were encouraged to install Automated Teller Machines (ATMs) for cash withdrawals
6. Central Bank of Nigeria also introduced guidelines for the use of electronic money (e-money) products such as credit cards, debit cards, digital cash, etc, in line with international best practices. The promotion of automated payment system by Central Bank of Nigeria was in order to reduce delays in clearing of payment instruments, reduce cash transactions and enhance monetary policy transmission mechanism.
7. Real Time Gross Settlement (RTGS) system was implemented to eliminate risk in large value payments and increase efficiency of the payment system. Under these arrangements, seven banks that met Central Bank of Nigeria requirements were appointed as Settlement Banks to perform clearing and settlement functions for other banks and National Savings Certificate
8. Variations of Cash Reserve Requirements (CRR) and the Minimum Re discount Rate (MRR) were introduced to enhance liquidity management (Ofanson, Aigbokhaevbolo and Enabulu 2010).

Regarding the nexus between banking reforms and national development challenges, the National Economic Empowerment and Development Strategy (NEEDS) which is the government reform agenda identified the problems confronting the financial sector to include the inability of the sector to play a catalytic role in the real sector, shallowness of the capital market, dependence of the banking system on public sector funds as a significant source of deposit and foreign exchange trading.

Also, inaccurate information, non-harmonization of monetary and fiscal policies, non-prompt repayment of bank loans (National Planning Commission 2004).

According to Ofanson et al (2010), in order to tackle the above identified problems, and hinging the success of NEEDS in part on effective financial intermediation in the economy, the following

measures were to be incorporated into the monetary policy framework and adopted by the regulatory authorities. These include: Comprehensive reform process aimed at substantially improving the financial infrastructure (legal codes, information system); restructuring, strengthening and rationalizing the regulatory and supervisory framework in the financial sector; addressing low capitalization and poor governance practices, collaborating with banks and other financial institutions to work out a structural financing plan that ensures less expensive and more accessible credit to the real sector, and directing government policy towards financial deepening (establishing linkages between rural and urban, banking and non-banking and formal and non-formal financial system) and financial product diversification which requires filling the missing gap for financial services for small and medium size enterprises with new services based on best practice technologies for cash flow financing and leasing.

2.4.6 THE BANKING CONSOLIDATION-ERA (2004-TO DATE)

As a further step towards strengthening the financial system and in particular the banking sector, the Central Bank of Nigeria on July 6th 2004, read out what sounded like a 'riot act' to banks in Nigeria at a Banker's Committee Meeting. These were new reform measures which came in a thirteen point agenda:

(i) Increase in the minimum paid-up capital of banks (unimpaired by loan losses) from ₦2 billion to ₦ 25 billion with a full compliance deadline of 31st December, 2005;
(ii) Phased withdrawal of public sector funds from banks, starting in July 2004;
(iii) Consolidation of banking institutions through mergers and acquisition;
(iv) Adoption of a risk-focus and rule-based regulatory framework;
(v) Adoption of zero-tolerance for non-compliance especially in the area of data/information rendition and reporting;
(vi) Automating the process for the rendition of returns by banks and other financial institutions through the enhanced electronic Financial Analysis and Surveillance System (e-FASS);
(vii) Establishment of a hot line, confidential internet address (Governorcenbank.org) for all those wishing to share any confidential information with the Governor of Central Bank on the operations of banks or the financial system;
(viii) Strict enforcement on the contingency planning framework for systemic bank distress;
(ix) Establishment of Assets Management Company as an important element of distress resolution;
(x) Promotion of the enforcement of dormant laws, especially those relating to the issuance of dud-cheque and the laws relating to the vicarious liability of the Boards of Directors of banks in cases of bank failure;
(xi) Revision and updating of relevant laws, and drafting of new ones relating to effective operations of the banking system;
(xii) Closer collaboration with the Economic and Financial Crimes Commission(EFCC) in the establishment of Financial Intelligence Unit (FIU) and the enforcement of the anti-money laundering and other economic crime measures; and
(xiii) Rehabilitation and effective management of the Nigerian Security Printing and Minting Company (NSPMC) PLC, to meet the security printing needs of Nigeria, including the banking system which constitutes over 90 percent of the NSPMC's business (Ofanson, Aigbokhaevbolo and Enabulu 2010, Akpan in Mbat 2011, Abdullahi 2007, and Ebong 2006).

Corroborating the above stringent financial reform measures of the Central Bank of Nigeria, Ofanson et al, further opined that the operational performance of the banking industry was not in

the best of state prior to the reforms. According to the trio, comparing Nigeria with advanced economies like USA where there had been over 700 cases of bank mergers since 1980, UK which followed similar trend with 203 mergers and acquisitions between 1997 and 1998, developing countries of Korea with only 8 banks after consolidation, and Malaysia that almost flattened her bank size from 80 to 20 banks within one year, both in terms of capitalization, total assets, global competitiveness and so on, Central Bank of Nigeria considered a major overhaul in the banking industry to make it globally competitive as well as help in the development of the domestic economy.
Furthermore, Table 1 below shows the rating of licensed banks by Central Bank of Nigeria using the capital adequacy, asset quality, management proficiency, earnings and liquidity (**CAMEL**) parameters.

TABLE 2.1

CATEGORY	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sound	10	13	11	10	5	10	4	3	1
Satisfactory	63	54	53	51	47	12	17	8	11
Marginal	8	13	14	16	16	3	2	2	3
Unsound	9	14	9	10	18	-	1	1	9
Total	90	90	87	87	86	25	24	24	24

RATING OF NIGERIAN BANKS USING THE CAMEL PARAMETERS

Sources:
1. Central Bank of Nigeria: Annual Report and Statement of Accounts (2009).
2. NDIC Annual Report (2007)

According to the above table, the number of banks in Nigeria reduced from its 2001 figure of 90 to 24 in 2009. Also, in 2007, 2008, 2009, the number of banks rated as “sound” was as low as 4, 3 and 1, bank respectively. Of course it must be noted that banks under the ‘satisfactory’, ‘marginal’ and ‘unsound’ categories offer no guarantee of meaningful contribution to the sector or even the overall economy.

2.5 POST CONSOLIDATION STRUCTURE OF NIGERIAN BANKS: BENEFITS AND CHALLENGES

2.5.1 BENEFITS OF BANKING REFORMS IN NIGERIA:

The Central Bank of Nigeria Banking Supervision Annual Report (2005:36) highlights the following post consolidation immediate and anticipated benefits of the reforms to the Nigerian banking sector, and by implication the overall national economy:
On a general note, as at 31st December, 2005, 25 out of 89 banks emerged from the consolidation exercise. The 25 banks were the only ones that could pass the Central Bank of Nigeria ‘litmus test’, i.e., meeting the stringent conditions under the reforms. This number later further reduced to 24. This also meant these were the only banks that could be issued a clean bill of health by the apex bank, and worthy to enjoy the confidence of the Nigerian banking public. The positive implications of this are indeed manifold enormous. Accordingly, the specific benefits of the 2004 banking sector reforms comprise, among others, the following:

a) Increase in Bank Capitalization:
At the level of the individual banks, each emerging bank increased its paid-up capital unimpaired by loan losses from ₦ 2billion to a minimum of ₦ 25billion, mandatorily. Consequently, at the end of the consolidation exercise, the total capitalization of the 25 successful banks came to ₦ 755billionas against ₦ 324billion before the commencement of the 2004 banking sector reforms. The enormous positive implications that this new capital structure portend for the banking industry in its financial intermediation process can only be imagined than described: superior returns on savings, availability of bank funds for higher ticket transactions, possible spread of risks and investments, employment creation and wealth generation, the much desired financial inclusiveness, among numerous other benefits. Also, the now increased capital capacity of banks by implication expands the banks' single oblige limits thereby enabling them also expand their lending scope to sectors which they could not, hitherto, such as the real sector of the economy. Finally, the injection of additional capital into the sector would address the rampant cases of weak capital base and its attendant crises of confidence in the sector, but now enables banks to play more effective developmental roles in the economy**.**

b) Dilution of Ownership of Banks:
Most banks that were hitherto family businesses with parochial controls now had to open their boardrooms to other non-family members to invest. This greatly improved on the corporate governance of such banks and by implication their efficiency.

c) Reduction of Public Sector Deposits or Government Funds to a Maximum 10 percent in Banks:
This now made banks to sit up and fully explore the financial market for the benefit of all concerned- savers, investors, operators, regulators, etc.

d) Arising from the Reforms, Virtually all the Banks are now quoted on the Nigerian Stock Exchange:
This has also resulted in increased and expanded supervisory and regulatory oversight of the operations of these banks by the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE), in addition to regulatory oversight by other regulatory agencies such as Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation.

e) Deepened Activities of the Capital Market:
The quoting of the banks on the floor of the Nigerian Stock Exchange has deepened the activities and increased the fluidity in terms of the liquidity of the capital market through the activities in the stocks and shares of banks. This has increased the operational capacity and propensity of our capital market making it globally competitive.

f) Global Ratings and Competitiveness:
The post consolidation banks in the country will become more globally compliant in terms of international ratings and competitiveness, and able to attract foreign financial assistance in form of access to credit lines and foreign direct investments (FDIs). This will ultimately lead to a robust local economy with the attendant benefits of overall optimization of factors of production and the resultant improved standard of living of the citizenry.

2.5.2 CHALLENGES OF BANKING REFORMS IN NIGERIA

Much as the reforms would bring about the above enumerated benefits, among others, there are also attendant challenges of the exercise, even though the challenges are not enough to obliterate the benefits.

According to Central Bank of Nigeria Banking Supervision Annual Report (2005), the banking sector will face the challenges of the sustenance of the growth in the system, compliance with international standards of operations, effects of exposure of our volatile financial institutions to a sophisticated globalized business environment and the use of new devices by money launderers which are likely to manifest in the post consolidation era.

The post consolidation era, continued the Central Bank Nigeria report, would also witness the challenge of integrating the merging banks' operations, customers, products and service offerings. The integration process will also involve careful staff selection and synchronization of operational procedures.

Still, the operators have to contend with the alignment of goals, policies, management of different corporate cultures, staff turnover and poaching, and increased competition, among others.

Continuing the report, another great challenge in the post consolidation era would be the issue of corporate governance where the boards and top management of banks will have to exhibit the necessary discipline and oversight in the discharge of their fiduciary functions. In order to ensure this,

Central Bank of Nigeria has issued an exposure draft of the corporate governance code that would guarantee best practices in the boards and top management of the banks, the report also hinted.

Another major challenge for the banks is the issue of capacity building to cope with the management of the increase in their risk profiles. This challenge is equally applicable to the regulators who will also be required to shore up their technical knowhow and overall capacity to cope with the changes which the reforms have thrown up, especially as emphasis is now shifted to risk-based approach to supervision.

Still continuing the Central Bank of Nigeria annual report (2005), the ability to detect and prevent the misuse of wire transfer system by money launderers, terrorists and other related criminals poses a serious challenge to the banking system. The report added that while these challenges will further task the regulatory capabilities in the post consolidation era, individual banks are expected to ensure strict compliance with the "Know Your Customer (KYC)" principles and other anti-money laundering measures already in place.

Worthy of specific mention also is the challenge of lay-offs, down-sizing and or rationalization of staff which the resultant mergers and acquisitions would very likely throw up in the banking sector arising from the banking sector consolidation.

Again, the report highlighted the strong need for a consolidated supervision framework in the industry arising from the recent banking sector reforms. The Central Bank of Nigeria report (2005) observed that the reforms led to the emergence of financial conglomerates and 'mega banks' covering money, capital and insurance markets. Consolidated supervision becomes desirable in group relationships because there may be risks to a regulated firm as a result of its membership of a group.

The primary objective of consolidated supervision is to evaluate the strength of an entire group taking into account all the risks (including those arising from the operations of related entities) that may affect the supervised entity in the group. The main rationale for consolidated supervision is that it provides information on the integrity and adequacy of the capital of the firm and on concentration of risks across different members of the group. Such risks as:

a) The risks taken by other members of the group which may undermine the group as a whole;

b) The financial risks caused by financial linkages with other members of the group (for example, intra-group lending or intra-group guarantees).
c) The reputation risks arising from losses or problems of the activities of other group members.
Concluding the Central Bank of Nigeria Annual Report (2005), another major challenge to the financial regulators is ensuring that banks are more transparent especially in the rendition of timely and accurate returns. The adoption and strict implementation by the Central Bank of the Zero Tolerance policy for incomplete, inaccurate returns and misreporting, as well as the implementation of the newly introduced electronic financial analysis surveillance system (e-FASS) would, however, go a long way in getting banks live up to expectation in this regard.
The report finally noted that despite these teething challenges, a close collaboration and cooperation between the banks and the regulators will help consolidate the gains of the reforms and overcome whatever challenges that may ensue.
According to Odofu (2013) the challenges in ensuring the realization of the objectives of the banking system reforms are enormous. Some of these challenges as observed by Odofu (2013) includes:

- Lack of country experience and technical knowledge on large scale consolidation manifesting partly in paucity of experienced staffs on subject of mergers and acquisitions on both the regulators and operators side.
- Enormous cost of consolidation which widely discouraged the banks.
- Dominant government ownership in some banks and its liquidation for good corporate governance for emergent banks.
- The problem posed by delinquent asset and non-performing loans of banks, which might distort the balance sheet of emergent banks if not well handled. The situation was worsened by the prevalence of falsified records/accounts that were kept by banks.
- The possibility of inflow of launded funds into the system. Supervisory capacity as a result of the plethora or capital verification exercises arising from mass recapitalization by banks.
- Supervision and regulation of mega bank.
- Possible litigations on mergers and acquisitions.
- Operational challenge arising from ICT systems and cultural integration as a result of mergers and acquisition.

2.6 PROSPECT OF THE REFORM AND CONSOLIDATION PROCESS

The Mega banks that evolve through consolidation would have stronger base for big risks and therefore better able to finance key growth sector of the Nigeria economy. The pattern in the past had been that financing for mega and high-risk projects in Nigeria came from external sources, with Nigeria banks either at the periphery or not featuring at all. The income and experience fallout of such projects have invariably gone to the foreign financiers with the current banking system consolidation, the Nigerian Bank will be able to finance large ticket transactions and thus create opportunity for capacity building in Nigeria.
Furthermore, from the work of Bello (2013) the following prospects are to be derived from the current banking system consolidation in Nigeria. These include;

- The initial public offering by banks through the capital market. This likely to increase the level of financial deepening as evidenced in the upsurge in the volume and value of trading in the stock market.

- The current reforms in the banking have been able to attract more foreign investment inflows, especially towards non oil sector.
- As the level of financial intermediation increases, interest rate is likely to fall and increase lending to the real sector that will generate employment and boost growth.
- The consolidation of banks is likely to attract significant level of foreign banks entrance into Nigeria which will become a feature in the industry over time. This will bring about more confidence by the International community of the Banking sector in Nigeria thereby attracting more foreign investment into the country. This invariably will have positive impact on the balance of payment.

3.0 RESSEARCH METHODOLOGY

3.1 Research Design

The research investigates possible cause-and-effect relationship by observing an existing condition and trying to find out possible causes. And similar to Kim and Singal (1993) the researchers adopted an ex-post facto research design.

A situation where the independent variable has already occurred and the researcher starts with the observation of dependent variable on premise that a causal link exists between.

3.2 Nature and Sources of Data

The data used for this research is secondary data got from the CBN annual reports. The data is considered.

Adequately appropriate to draw solve the problem, it is cheaper to collect and is reliable as information needed to achieve the research objectives.

3.3 Model Specification

The model for this study was expressed in line with the hypotheses stated as follows

H_1: The banks credit creation ability before the 2005 banking reforms was significantly greater than after the reforms

H_0: The banks credit creation ability before the 2005 banking reforms was not significantly greater than after the reforms.

A second order linear differential equation is an equation which can be written in the form

$Y + p(x)y + q(x)y = f(x)$ ………………………………………………………… (1)

where p, q, and f are continuous functions on some interval I and Y is the dependent variable and X is the independent variable.

In the E-view statistics the linear equation is re-stated as **Y=C (1) +C (2)*X**

LDr =C(1)+C(2)*MS 2

LDr =C(1)+C(2)*Lr

Where LDr is Loans & Advances ratio, Lr is Liquidity ratio and MS2 is money supply

3.4 Model Assumptions

The assumptions that were adopted for this research were based on the following assumptions

1. The model specification is assumed to be error free having been used as a measure for quantifying data of a secondary nature in previous research of this nature.

2. The parameter estimated has to be commensurate with the quantity of data. If the quantity of data is not appropriate then the analysis would be flawed with problems such as those associated with multicollinearity.

In particular, we will consider the following assumptions.

- Linearity - the relationships between the predictors and the outcome variable should be linear
- Normality - the errors should be normally distributed - technically normality is necessary only for the t-tests to be valid, estimation of the coefficients only requires that the errors be identically and independently distributed
- Homogeneity of variance (homoscedasticity) - the error variance should be constant
- Independence - the errors associated with one observation are not correlated with the errors of any other observation
- Model specification - the model should be properly specified (including all relevant variables, and excluding irrelevant variables)

Additionally, there are issues that can arise during the analysis that, while strictly speaking are not assumptions of regression, are none the less, of great concern to regression analysts.

- Influence - individual observations that exert undue influence on the coefficients
- Collinearity - predictors that are highly collinear, i.e. linearly related, can cause problems in estimating the regression coefficients.

3.6 Variables

The variables used in the models are the dependent and independent variables, the former representing the effects while the latter represents the causes. Given that the model is statistical, the research looked at the dependent variable studied to find out variations caused by the independent variable. The study adopted as proxy to credit creation the loans and advances to deposit ratio (LDr) as its dependent variable since credit creation by banks largely depends on availability of money (liquidity).The proxies for the independent variables are Money Supply (MS2) and Liquidity ratio (Lr) which previous studies such as Onoh (2002) have established positive and significant relationships between liquidity through increased deposits and credit creation.

3.7 Model Justification

Assaf Neto. A (2003) Liquidity and profitability are some of the most studied concepts of financial management within the area of banking. In this case the financial development clearly is represented by the policy on recapitalization which translates to the contribution of banks towards economic growth through their deposits, net profits and credit creation abilities by loans and advances.

3.8 Techniques of Analysis

Regression analysis is used in modeling and analyzing the variables, since the focus is on the relationship between the dependent variable and the independent variable.

4.0 DATA ANALYSIS AND DISCUSSION OF RESULTS
4.1 DATA PRESENTATION

TEN-YEAR SUMMARY OF PRE-REFORMS DATA

	MS 2	Log MS 2	Lr	L/Dr
1996	345.85	0.025389	43.1	72.9
1997	413.28	0.026162	40.2	76.6
1998	488.15	0.026885	46.8	74.4
1999	628.95	0.027986	61.0	54.6
2000	878.46	0.029437	64.1	51.0
2001	1,269.32	0.031036	52.9	65.6
2002	1,505.96	0.031778	52.5	62.8
2003	1,952.92	0.032907	50.9	61.9
2004	2,131.82	0.033288	50.5	68.6
2005	2,637.91	0.034213	50.2	70.8

TEN-YEAR SUMMARY OF POST-REFORMS DATA

	MS 2	log MS 2	Lr	L/Dr
2006	3,797.91	0.035795	55.7	63.6
2007	5,127.40	0.037099	48.8	70.8
2008	8,008.20	0.039035	44.3	80.9
2009	9,411.11	0.039736	30.7	85.7
2010	11,034.94	0.040428	30.4	74.2
2011	12,172.49	0.040854	42.0	44.8
2012	13,895.39	0.041429	49.7	42.3
2013	15,160.29	0.041807	63.2	38.0
2014	17,679.29	0.042475	38.3	61.9
2015	18,901.30	0.042765	39.6	68.6

4.2 ANALYSIS OF DATA

PRE – REFORM ERA (1996-2005)

Dependent Variable: L_DR
Method: Least Squares
Date: 01/02/17 Time: 23:22
Sample: 1996 2005
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG_MS_2	-53.52175	72.23867	-0.740902	0.4867
LR	-1.257648	0.431102	-2.917288	0.0267

SERIES01	1.094456	5.313282	0.205985	0.8436
C	-1866.814	10391.13	-0.179655	0.8633

R-squared	0.686298	Mean dependent var	63.07161
Adjusted R-squared	0.529447	S.D. dependent var	16.46757
S.E. of regression	11.29623	Akaike info criterion	7.975989
Sum squared resid	765.6288	Schwarz criterion	8.097024
Log likelihood	-35.87995	Hannan-Quinn criter.	7.843215
F-statistic	4.375484	Durbin-Watson stat	1.232102
Prob(F-statistic)	0.059009		

Dependent Variable: L_DR
Method: Least Squares (Gauss-Newton / Marquardt steps)
Date: 01/02/17 Time: 23:47
Sample: 1996 2005
Included observations: 10
No d.f. adjustment for standard errors & covariance
L_DR=C(1)+C(2)*LOG_MS_2

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	166.9003	85.63038	1.949079	0.0871
C(2)	-2586.516	2130.074	-1.214285	0.2593

R-squared	0.128501	Mean dependent var	63.07161
Adjusted R-squared	0.019564	S.D. dependent var	16.46757
S.E. of regression	16.30569	Akaike info criterion	8.597761
Sum squared resid	2127.003	Schwarz criterion	8.658278
Log likelihood	-40.98881	Hannan-Quinn criter.	8.531374
F-statistic	1.179590	Durbin-Watson stat	0.943173
Prob(F-statistic)	0.309079		

POST– REFORM ERA (2006-2015)

Dependent Variable: L_DR
Method: Least Squares
Date: 01/02/17 Time: 22:43
Sample: 2006 2015
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG_MS_2	-41.13511	23.39783	-1.758074	0.1292
LR	-1.130441	0.122388	-9.236541	0.0001
SERIES01	4.518331	2.460279	1.836511	0.1159
C	-8792.086	4852.203	-1.811978	0.1199

R-squared	0.939726	Mean dependent var	65.91750
Adjusted R-squared	0.909590	S.D. dependent var	8.453246
S.E. of regression	2.541748	Akaike info criterion	4.992755
Sum squared resid	38.76288	Schwarz criterion	5.113789
Log likelihood	-20.96378	Hannan-Quinn criter.	4.859981
F-statistic	31.18207	Durbin-Watson stat	2.291913
Prob(F-statistic)	0.000468		

Dependent Variable: L_DR
Method: Least Squares (Gauss-Newton / Marquardt steps)
Date: 01/02/17 Time: 23:08
Sample: 2006 2015
Included observations: 10
L_DR=C(1)+C(2)*LR

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	122.5633	6.629398	18.48785	0.0000
C(2)	-1.106147	0.128300	-8.621598	0.0000

R-squared	0.902832	Mean dependent var	65.91750
Adjusted R-squared	0.890686	S.D. dependent var	8.453246
S.E. of regression	2.794863	Akaike info criterion	5.070300
Sum squared resid	62.49008	Schwarz criterion	5.130817
Log likelihood	-23.35150	Hannan-Quinn criter.	5.003913
F-statistic	74.33195	Durbin-Watson stat	1.750060
Prob(F-statistic)	0.000025		

4.3 DISCUSIION OF RESULTS

The analyses of the data measured the effect of liquidity proxied by log of money supply (LOG_MS_2) on Loans and Advance ratio (L_DR) on one hand and the effect of Liquidity proxied by liquidity ratio (Lr) on Loans and Advance ratio (L_DR) on the other hand. These two procedures were applied in analyzing the two hypotheses with the intention of making a decision. The R2 and adjusted R2 for the period after the reforms compared to the R2 and adjusted R2 for the period prior to the reforms apparently indicates that more of the variations in the Loan and Advance ratio are explained by the Independent variables between 2006 -2015 than between 1996 to 2005. The Durbin Watson statistics for the period (2006-2015) showed slight trace of autocorrelation at 2.29 and 1.75 and for the period before the reforms (1996-2005) the Durbin Watson statistics indicate 1.23 and 0.94 showing more positive serial correlation however there is no cause for alarm since none of the Durbin Watson values are less than one. It means that there is a positive relationship money supply, liquidity ratio and loans and advances ratio.

5.0 CONCLUSIONS

The decision to be taken here is to accept the null hypothesis (H_0) that states that banks credit creation ability before the 2005 banking reforms was not significantly greater than after the

reforms. Because it is clear that given the higher liquidity occasioned by the increased bank capital in the post reforms era the effect of credit creation to bank performance was not significantly higher in comparison to the period before the reforms. Deregulation and liberalization of the banking sector increased the performance of the banks and made their portfolio more robust to cope with the world financial meltdown between 2008 and 2010. Obadeyi (2014) in his study of Nigerian banking reforms maintains that the success of financial reform on economic growth depends on the level of financial development achieved in such an economy. A stable macroeconomic policy direction is needed if the effect of market distortions in the system is to be reduced. The banking reforms must be continuous to enable the economy adapt to dynamic realities of global proportions. This study proves that the 2005 reforms increased credit creation capacity for the banks beyond the years prior to the reforms. But given the spiraling growth in inflation, higher unemployment, falling naira and dearth of foreign investments occasioned since 2016 after the period under study the ability for banks to create credit for more economic growth is seriously jeopardized.

6.0 RECOMMENDATIONS

Given the objectives of the research, statement of problem and conclusions arrived; the researchers recommend that the monetary authorities in Nigeria can enhance the credit creation capacity of banks by enhancing credit access. This is because the consumer credit is disproportionally to low at $10 billion dollars to a Gross Domestic Product size of $500 billion (or 2%) compared to 20% and 50% by the United States of America and Brazil in 2016. Economic growth in Nigeria can be accelerated where there is sufficient access to credit but the interest rate is too high to stimulate the private sector and should be reviewed. If this is not done then even the ratio of consumer spending to GDP ratio would also be pale in comparison to other emerging economies.

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